

***Banco Nacional de Crédito, C.A.,  
Banco Universal***

Independent Auditor's Report and  
Financial Statements  
December 31, 2019



## *Independent Auditor's Report*

To the Shareholders and Board of Directors of  
Banco Nacional de Crédito, C.A., Banco Universal

### **Our opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of Banco Nacional de Crédito, C.A., Banco Universal (the Bank) as at December 31, 2019 and its financial performance and its cash flows for the six-month period then ended, in accordance with the rules and instructions of the Superintendency of Banking Sector Institutions (SUDEBAN).

### **What we have audited**

The Bank's financial statements comprise:

- the balance sheet as at December 31, 2019;
- the income statement for the six-month period then ended;
- the statement of changes in equity for the six-month period then ended;
- the cash flow statement for the six-month period then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

### **Basis for our opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs) as applicable in Venezuela. 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Independence**

We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

### **Emphasis on matter**

Without qualifying our opinion, we draw attention to Note 2 of the accompanying financial statements, indicating that rules and instructions of SUDEBAN differ in certain material respects from accounting principles generally accepted in Venezuela (VEN NIF).

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### **Responsibilities of management and those charged with governance for the financial statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the rules and instructions of 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 ISAs applicable in Venezuela 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 these financial statements.

As part of an audit in accordance with ISAs applicable in Venezuela, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

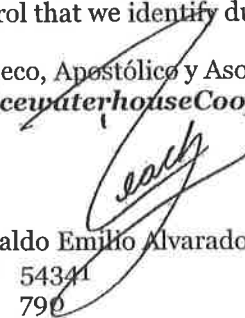
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting 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 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.

Pacheco, Apostólico y Asociados  
*(PricewaterhouseCoopers)*

  
Reinaldo Emilio Alvarado Ch.  
CPC 54341  
CP 790  
SNV 22

February 20, 2020

***Banco Nacional de Crédito, C.A., Banco Universal***  
**Balance sheet**  
**December 31 and June 30, 2019**

	December 31, 2019	June 30, 2019
	(In bolivars)	
<b>Assets</b>		
<b>Cash and due from banks</b>	<u>2,901,981,046,768</u>	<u>515,425,564,254</u>
Cash (Notes 3 and 4)	650,367,652,783	36,051,399,973
Central Bank of Venezuela (Notes 3, 4 and 26)	1,143,882,269,317	204,355,792,481
Venezuelan banks and other financial institutions	8,017,261,645	12,555,026
Foreign and correspondent banks (Note 4)	1,089,528,375,016	273,280,009,845
Pending cash items (Note 3)	10,185,488,007	1,746,154,430
(Provision for cash and due from banks)	-	(20,347,501)
<b>Investment securities</b> (Note 5)	<u>711,979,501,301</u>	<u>131,984,680,209</u>
Deposits with the BCV and overnight deposits	-	35,888,277,752
Investments in available-for-sale securities	163,152,774,689	37,937,083,178
Investments in held-to-maturity securities	386,577,013,500	34,941,128,466
Restricted investments	162,246,043,140	23,214,517,646
Investments in other securities	3,669,972	3,673,167
<b>Loan portfolio</b> (Note 6)	<u>880,651,372,809</u>	<u>84,102,221,566</u>
Current	936,300,544,529	88,239,776,148
Rescheduled	-	90
Overdue	14,057,662,723	9,691,599,490
(Allowance for losses on loan portfolio)	(69,706,834,443)	(13,829,154,162)
<b>Interest and commissions receivable</b> (Note 7)	<u>3,761,907,553</u>	<u>778,899,658</u>
Interest receivable on investment securities	70,741,532,425	1,653,007,201
Interest receivable on loan portfolio	5,131,172,003	634,992,176
Commissions receivable	15,419,900	2,208,273
(Provision for interest receivable and other)	(72,126,216,775)	(1,511,307,992)
<b>Investments in affiliates</b> (Note 9)	<u>5,103,898,941</u>	<u>-</u>
<b>Available-for-sale assets</b>	<u>659</u>	<u>232</u>
<b>Property and equipment</b> (Note 10)	<u>129,912,075,084</u>	<u>11,042,159,857</u>
<b>Other assets</b> (Note 11)	<u>281,786,560,646</u>	<u>25,357,099,049</u>
<b>Total assets</b>	<u><u>4,915,176,363,761</u></u>	<u><u>768,690,624,825</u></u>
<b>Memorandum accounts</b> (Note 20)		
Contingent debtor accounts	38,506,979,448	2,195,666,376
Assets received in trust	18,240,524,452	1,904,890,258
Debtor accounts from other special trust services	187,043,179	89,513,472
Other debtor memorandum accounts	<u>3,027,864,904,684</u>	<u>615,835,059,607</u>
	<u><u>3,084,799,451,763</u></u>	<u><u>620,025,129,713</u></u>

The notes on pages 6 to 62 are an integral part of the financial statements

***Banco Nacional de Crédito, C.A., Banco Universal***  
**Balance sheet**  
**December 31 and June 30, 2019**

	December 31, 2019	June 30, 2019
	(In bolivars)	
<b>Liabilities and Equity</b>		
<b>Customer deposits</b> (Note 12)	<u>3,100,538,878,186</u>	<u>489,328,923,797</u>
Demand deposits	<u>1,844,076,451,366</u>	<u>256,469,523,550</u>
Non-interest-bearing checking accounts	892,714,430,313	179,214,967,135
Checking accounts as per the free convertibility exchange market system	791,793,731,467	-
Interest-bearing checking accounts	93,086,089,598	26,075,383,845
Checking accounts under Exchange Agreement No. 20	45,986,107,367	46,981,923,839
Demand deposits and certificates	20,496,092,621	4,197,248,731
Other demand deposits	22,388,277,328	2,299,218,187
Savings deposits	1,211,755,656,231	199,289,825,321
Time deposits	22,318,493,261	31,270,356,739
<b>Borrowings</b> (Note 13)	<u>107,378,930,892</u>	<u>13,814,140,269</u>
Venezuelan financial institutions, up to one year	107,377,418,194	13,810,897,434
Foreign financial institutions, up to one year	1,512,698	3,242,835
<b>Interest and commissions payable</b> (Note 14)	<u>1,695,003,938</u>	<u>539,202,581</u>
Expenses payable on customer deposits	782,512,243	399,402,581
Expenses payable on borrowings	912,491,695	139,800,000
<b>Accruals and other liabilities</b> (Note 15)	<u>532,029,100,904</u>	<u>83,516,242,581</u>
<b>Total liabilities</b>	<u>3,741,641,913,920</u>	<u>587,198,509,228</u>
<b>Equity</b> (Note 22)		
Capital stock	57,919	57,919
Contributions pending capitalization	387,162	387,162
Capital reserves	59,709	59,419
Retained earnings	98,165,066,305	40,342,612,916
Adjustment from revaluation of property and equipment	463,334	463,334
Exchange gain from holding foreign currency assets and liabilities	1,068,825,150,738	141,522,022,268
Variation of commercial loans granted through UVCC	7,553,267,928	-
Net unrealized loss on investments in available-for-sale securities (Note 5)	<u>(1,010,003,254)</u>	<u>(373,487,421)</u>
<b>Total equity</b>	<u>1,173,534,449,841</u>	<u>181,492,115,597</u>
<b>Total liabilities and equity</b>	<u>4,915,176,363,761</u>	<u>768,690,624,825</u>

The notes on pages 6 to 62 are an integral part of the financial statements

***Banco Nacional de Crédito, C.A., Banco Universal***  
**Income statement**  
**Six-month periods ended December 31 and June 30, 2019**

	December 31, 2019	June 30, 2019
	(In bolivars)	
<b>Interest income</b>	<u>179,340,671,160</u>	<u>33,813,225,420</u>
Income from cash and due from banks	1,832,851,729	66,721,534
Income from investment securities	36,979,018,089	5,445,445,414
Income from loan portfolio	107,930,834,930	23,419,370,350
Income from other accounts receivable (Notes 12 and 21)	30,867,019,161	4,726,959,288
Other interest income	1,730,947,251	154,728,834
<b>Interest expense</b>	<u>(26,667,547,789)</u>	<u>(5,923,101,761)</u>
Expenses from customer deposits	(16,139,947,066)	(2,760,009,106)
Expenses from borrowings	(7,234,054,426)	(2,537,452,410)
Other interest expense (Note 26)	(3,293,546,297)	(625,640,245)
<b>Gross financial margin</b>	<u>152,673,123,371</u>	<u>27,890,123,659</u>
Income from financial assets recovered (Note 5)	978,073,591	34,876,443,034
Expenses from uncollectible loans and other accounts receivable (Notes 6, 7, 11 and 15)	(15,249,161,910)	(11,197,555,568)
Expenses from provision for cash and due from banks	-	(153,326,347)
<b>Net financial margin</b>	<u>138,402,035,052</u>	<u>51,415,684,778</u>
Other operating income (Note 17)	195,757,771,054	33,681,352,254
Other operating expenses (Note 18)	(71,677,280,264)	(15,144,290,369)
<b>Financial intermediation margin</b>	<u>262,482,525,842</u>	<u>69,952,746,663</u>
<b>Operating expenses</b>	<u>(169,230,026,644)</u>	<u>(24,737,280,885)</u>
Salaries and employee benefits (Note 2-j)	(39,930,001,239)	(6,251,913,319)
General and administrative expenses (Note 19)	(124,054,281,517)	(17,756,930,175)
Fees paid to the Social Bank Deposit Protection Fund (Note 24)	(1,652,904,305)	(165,964,048)
Fees paid to the Superintendency of Banking Sector Institutions (Note 25)	(3,592,839,583)	(562,473,343)
<b>Gross operating margin</b>	<u>93,252,499,198</u>	<u>45,215,465,778</u>
Sundry operating income	2,846,120,022	925,328,082
Expenses from available-for-sale assets	(123)	(35,420,678)
Sundry operating expenses (Note 18)	(18,249,941,172)	(3,880,763,784)
<b>Net operating margin</b>	<u>77,848,677,925</u>	<u>42,224,609,398</u>
Extraordinary expenses	(48,184,471)	(10,416,002)
Extraordinary income (Note 10)	63,800,000	7,237,343
<b>Gross income before tax</b>	<u>77,864,293,454</u>	<u>42,221,430,739</u>
Wealth tax (Note 16)	(1,366,673,416)	-
Income tax (Note 16)	<u>(18,675,166,359)</u>	<u>(4,253,776,844)</u>
<b>Net income</b>	<u>57,822,453,679</u>	<u>37,967,653,895</u>
<b>Appropriation of net income</b>		
Legal reserve	-	19,000
Retained earnings	<u>57,822,453,679</u>	<u>37,967,634,895</u>
	<u>57,822,453,679</u>	<u>37,967,653,895</u>
Provision for the Antidrug Law (Notes 1 and 18)	<u>784,609,226</u>	<u>400,000,000</u>

The notes on pages 6 to 62 are an integral part of the financial statements

**Banco Nacional de Crédito, C.A., Banco Universal**  
**Statement of changes in equity**  
**Six-month periods ended December 31 and June 30, 2019**

	Paid-in capital stock	Share premium and contributions pending capitalization	Capital reserves	Retained earnings					Adjustment from revaluation of property and equipment	Exchange gain from holding foreign currency assets and liabilities	Net unrealized loss on investment securities (Note 5)	Variation of commercial loans granted through UVCC	Total equity
				Unappropriated surplus	Restricted surplus	Non-distributable surplus	Cumulative loss	Total					
				(In bolivars)									
<b>Balances at December 31, 2018</b>	38,919	387,162	40,191	1,147,848,238	1,146,222,112	191,029,366	(1,608,504)	2,483,491,212	463,334	11,023,638,858	(53,431,112)	-	13,454,628,564
Capital stock increase through dividends declared (Note 22)	19,000	-	-	(4,750)	(14,250)	-	-	(19,000)	-	-	-	-	-
Adjustment of investments in available-for-sale securities to market value	-	-	-	-	-	-	-	-	-	-	(320,056,309)	-	(320,056,309)
Exchange gain, net (Note 4)	-	-	-	-	-	-	-	-	-	130,498,383,410	-	-	130,498,383,410
Reversal of unrealized benefits, as per SUDEBAN instructions (Note 6)	-	-	-	(108,493,963)	-	-	-	(108,493,963)	-	-	-	-	(108,493,963)
Net income	-	-	-	37,967,653,895	-	-	-	37,967,653,895	-	-	-	-	37,967,653,895
Legal reserve (Note 22)	-	-	19,000	(19,000)	-	-	-	(19,000)	-	-	-	-	-
Creation of the Social Contingency Fund (Note 22)	-	-	228	(228)	-	-	-	(228)	-	-	-	-	-
Reclassification of net income of the Curacao Branch (Notes 8 and 22)	-	-	-	(33,834,087,491)	-	33,834,087,491	-	-	-	-	-	-	-
Reclassification to restricted surplus of 50% of net income for the period (Note 22)	-	-	-	(2,066,773,702)	2,066,773,702	-	-	-	-	-	-	-	-
<b>Balances at June 30, 2019</b>	57,919	387,162	59,419	3,106,122,999	3,212,981,564	34,025,116,857	(1,608,504)	40,342,612,916	463,334	141,522,022,268	(373,487,421)	-	181,492,115,597
Adjustment of investments in available-for-sale securities to market value	-	-	-	-	-	-	-	-	-	-	(636,515,833)	-	(636,515,833)
Exchange gain, net (Note 4)	-	-	-	-	-	-	-	-	-	927,303,128,470	-	-	927,303,128,470
Increase resulting from the variation of principal of commercial loans granted through UVCC (Note 6)	-	-	-	-	-	-	-	-	-	-	-	25,963,094,413	25,963,094,413
Income charged to the income statement from the variation of loans collected and granted through UVCC (Note 6)	-	-	-	-	-	-	-	-	-	-	-	(18,409,826,485)	(18,409,826,485)
Net income	-	-	-	57,822,453,679	-	-	-	57,822,453,679	-	-	-	-	57,822,453,679
Creation of the Social Contingency Fund (Note 22)	-	-	290	(290)	-	-	-	(290)	-	-	-	-	-
Reclassification of net income of the Curacao Branch (Notes 8 and 22)	-	-	-	(23,503,046,109)	-	23,503,046,109	-	-	-	-	-	-	-
Reclassification to restricted surplus of 50% of net income for the period (Note 22)	-	-	-	(17,159,703,785)	17,159,703,785	-	-	-	-	-	-	-	-
<b>Balances at December 31, 2019</b>	57,919	387,162	59,709	20,265,826,494	20,372,685,349	57,528,162,966	(1,608,504)	98,165,066,305	463,334	1,068,825,150,738	(1,010,003,254)	7,553,267,928	1,173,534,449,841

**Net income per share (Note 2-n)**

	Six-month periods ended	
	December 31, 2019	June 30, 2019
Weighted average of outstanding shares	5,791,930,372	4,163,358,571
Income per share	9.983	9.119

The notes on pages 6 to 62 are an integral part of the financial statements



**Banco Nacional de Crédito, C.A., Banco Universal**  
**Cash flow statement**  
**Six-month periods ended December 31 and June 30, 2019**

	December 31, 2019	June 30, 2019
	(In bolivars)	
<b>Cash flows from operating activities</b>		
Net income	57,822,453,679	37,967,653,895
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Loss on impairment of investment securities (Notes 5)	14,929,486,836	2,369,884,462
Allowance for losses on loan portfolio (Note 6)	5,088,700,230	9,658,553,981
Provision for contingent loans (Note 15)	326,297,443	9,000
Release of allowance for losses on loan portfolio (Note 6)	(934,735,998)	(34,727,280,615)
Provision for interest receivable (Notes 7 and 11)	9,834,164,237	1,539,010,587
Provision for other assets (Note 11)	4,065,853,527	37,381,246
Depreciation of property and equipment and amortization of deferred charges (Note 19)	2,263,530,139	243,454,436
Accrual for length-of-service benefits	1,309,066,542	817,866,354
Transfers to trust fund and payment of length-of-service benefits	(972,010,769)	(237,471,390)
Income tax provision (Note 16)	14,181,773,688	4,804,664,306
Deferred income tax (Note 16)	4,493,392,671	(550,887,462)
Net change in		
Overnight deposits	51,427,254,748	(34,362,419,667)
Interest and commissions receivable	8,027,121,992	(8,259,591,177)
Other assets	(277,760,160,531)	(14,631,007,993)
Accruals and other liabilities	<u>270,557,949,174</u>	<u>21,243,282,124</u>
Net cash provided by (used in) operating activities	<u>164,660,137,608</u>	<u>(14,086,897,913)</u>
<b>Cash flows from financing activities</b>		
Contributions pending capitalization		
Net change in		
Customer deposits	1,037,761,912,666	244,560,704,087
Borrowings	93,564,790,623	13,793,941,598
Interest and commissions payable	<u>1,088,177,109</u>	<u>302,822,676</u>
Net cash provided by financing activities	<u>1,132,414,880,398</u>	<u>258,657,468,361</u>
<b>Cash flows from investing activities</b>		
Loans granted during the period	(966,808,561,003)	(193,710,272,158)
Loans collected during the period	491,863,526,558	214,870,548,649
Net change in		
Investments in available-for-sale securities	54,997,976,496	(548,572,187)
Investments in held-to-maturity securities	(97,803,980,755)	(968,228,571)
Restricted investments	(620,358,410)	(507,231,912)
Investments in other securities	3,195	2,366
Investments in affiliates	(5,103,898,941)	-
Property and equipment	<u>(119,475,424,054)</u>	<u>(10,216,402,899)</u>
Net cash provided by (used in) investing activities	<u>(642,950,716,914)</u>	<u>8,919,843,288</u>
<b>Cash and due from banks</b>		
Net change in cash and cash equivalents	654,124,301,092	253,490,413,736
Exchange gain	1,732,431,181,422	232,415,272,413
At the beginning of the period	<u>515,425,564,254</u>	<u>29,519,878,105</u>
At the end of the period	<u>2,901,981,046,768</u>	<u>515,425,564,254</u>
<b>Supplementary information on non-cash activities</b>		
Write-off of uncollectible loans (Note 6)	399,741,821	331,214,138
Write-off of uncollectible loans (interest) (Note 7)	176,421	10,560
Reclassification of excess in (Notes 6, 7 and 11)		
Interest receivable to allowance for losses on loan portfolio	(661,449,398)	(582,328)
Interest receivable to other assets	18,638,097,530	(6,334,866,527)
Change in net unrealized loss on investments in available-for-sale securities (Note 5-b)	(636,515,833)	(320,056,309)
Reversal of unrealized benefits according to SUDEBAN instructions (Note 6)	-	(108,493,963)
Variation of commercial loans receivable granted through UVCC (Note 6)	7,553,267,928	-
Exchange gain, net, recorded in equity	<u>927,303,128,470</u>	<u>130,498,383,410</u>
Cash and due from banks	1,732,431,181,422	232,415,272,413
Loan portfolio	317,543,364,131	59,488,667,809
Investment securities		
Overnight deposits	15,538,976,996	1,525,858,085
Investments in available-for-sale securities	184,992,817,836	33,945,783,037
Investments in held-to-maturity securities	264,618,757,119	32,866,591,401
Restricted investments	138,411,167,084	20,534,461,294
Interest and commissions receivable	2,160,060,137	341,684,341
Other assets	3,097,065,526	2,313,507,740
Property and equipment (Note 8)	641,793,764	109,264,526
Available-for-sale assets	-	99,149
Customer deposits	(1,573,448,041,723)	(201,517,884,415)
Accruals and other liabilities	(158,616,389,574)	(51,285,275,062)
Interest and commissions payable	(67,624,248)	(219,627,255)
Borrowings	-	(20,019,653)

The notes on pages 6 to 62 are an integral part of the financial statements

# ***Banco Nacional de Crédito, C.A, Banco Universal***

## **Notes to the financial statements**

### **December 31 and June 30, 2019**

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#### **1. Activities and regulatory environment**

Banco Nacional de Crédito, C.A., Banco Universal (hereinafter the Bank) was authorized to operate as a commercial bank in the Bolivarian Republic of Venezuela in February 2003 under the name Banco Tequendama, S.A. and as a universal bank on December 2, 2004. Its business objective is to provide financial intermediation consisting in the procurement of funds for the purpose of granting credits or loans and investing in securities.

The Bank is incorporated and domiciled in the Bolivarian Republic of Venezuela and its legal address is Avenida Vollmer, Torre Sur del Centro Empresarial Caracas, Urbanización San Bernardino, ZP 1010, Caracas.

Most of the Bank's assets are located in the Bolivarian Republic of Venezuela. At December 31 and June 30, 2019, the Bank has 159 and 171 agencies and external counters, respectively, a branch in Curacao, a main office and 2,296 and 2,368 employees, respectively.

The Bank's shares are traded on the Caracas Stock Exchange (Note 22).

The Bank conducts transactions with a related company (Note 23).

The Bank's financial statements at December 31 and June 30, 2019 were approved for issue by the Board of Directors on January 8, 2020 and July 10, 2019, respectively.

#### **Branch in Curacao**

In October 2008, the Bank requested authorization from the Superintendency of Banking Sector Institutions (SUDEBAN) to open a branch in Willemstad, Curacao (hereinafter the Branch), SUDEBAN, through Notice SBIF-DSB-II-GGTE-GEE-07154 of May 18, 2009, and the Central Bank of Curacao and St. Maarten, through Communication Lcm/ni/2009-001159 of November 5, 2009, authorized the opening of this branch.

The Branch's activities are ruled by the Law on Banking Sector Institutions and the Law of Banks of Curacao and St. Maarten, regulations issued by the Central Bank of Curacao and St. Maarten, as well as the prudential rules and other instructions of SUDEBAN, the Higher Authority of the National Financial System (OSFIN) and the Central Bank of Venezuela (BCV). The Branch is not an economically independent entity and conducts transactions following the Bank's guidelines. The Branch operates under an offshore license granted by the Central Bank of Curacao and St. Maarten and SUDEBAN in Venezuela. Capital assigned to the Branch has been contributed by the Bank (Note 8).

#### **Trust fund**

In August 2003, SUDEBAN issued Resolution No. 202,03 dated August 4, 2003, published in Official Gazette No. 37,748 on August 7, 2003, authorizing the Bank's fiduciary operations.

#### **Regulatory environment**

The Bank's activities are ruled by the Law on Banking Sector Institutions, the Stock Market Law, the commercial law (the Venezuelan Code of Commerce), the financial law (Law of the National Financial System), any other applicable laws, regulations issued by the Venezuelan government and provisions issued by OSFIN, the BCV and the Venezuelan Securities Superintendency (SNV), as well as the prudential rules and other instructions of SUDEBAN.

OSFIN will establish rules for citizens to participate in the supervision of the financial management and social controllership of the parties to the National Financial System, will protect user rights, and will promote collaboration among the sectors of the productive economy, including the popular and communal sectors.

# ***Banco Nacional de Crédito, C.A, Banco Universal***

## **Notes to the financial statements**

### **December 31 and June 30, 2019**

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#### ***Law on Banking Sector Institutions***

This Law, among other things, considers banking as a public service; defines financial intermediation as fundraising for investment in loan portfolios and securities issued or guaranteed by the Venezuelan government or government agencies; limits the bank's assets and transactions with a single debtor, and defines "debtor" in relation to this limitation; regulates the formation and functions of the Board of Directors; establishes disqualification instances to act as directors; regulates the formation of financial groups; establishes a social contribution to finance projects developed by communal councils and establishes prohibitions.

#### ***Law of the National Financial System***

The Law of the National Financial System is aimed at regulating, supervising, controlling and coordinating the National Financial System in order to ensure that financial resources are used and invested for the public interest and for economic and social development with a view to creating a social and democratic state ruled by law and justice. The National Financial System is formed by the group of public, private and communal financial institutions and any other form of organization operating in the banking sector, the insurance sector, the stock market and any other sector or group of financial institutions that the policy-making body deems should form part of the system. Individuals and corporations that are users of the financial institutions belonging to the system are also included.

#### ***Central Bank of Venezuela (BCV)***

Deposit and lending rates are regulated by the BCV. The BCV sets maximum and minimum interest rates for deposits and credit operations based on reference rates. In this regard, the annual interest rate for credit card transactions shall range from 17% to 40% at December 31 and June 30, 2019; the maximum rate to be charged on amounts overdue from cardholders shall be 3% per annum.

At December 31 and June 30, 2019, annual interest rates on savings deposits, including liquid asset accounts, shall not fall below 21%, calculated on daily balances. Annual interest rates on time deposits and transactions for the issue of certificates of participation shall not fall below 24% (Note 12).

The BCV set at 29.50% the annual interest rate to be charged on discount, rediscount and advance operations, except as regards operations conducted under special regimes.

The BCV has regulated service fees charged by banks to customers in respect of savings and checking accounts, leasing, international, and credit and debit card transactions.

On September 5, 2019, the BCV issued Resolution No. 19-09-01, published in the Official Gazette on October 21, 2019, to establish that as from October 28, 2019 commercial loans granted by banks in local currency must be expressed only through the use of the Commercial Credit Value Unit (UVCC), which results from dividing the amount in bolivars of the loan settled by the investment index in effect at the date of grant; this index shall be determined by the BCV considering the reference exchange rate variation, and shall be published on a daily basis on its web page. At December 31, 2019, the official investment index is Bs 224.28/UVCC1.

Furthermore, the BCV established that banks shall charge their clients for lending operations in local currency through the use of UVCC a minimum and maximum annual interest rate of 4% and 6%, respectively; the flat commission shall not exceed 0.5% of the loan amount. Likewise, if the investment index at the date of loan grant is lower than the one in effect at the settlement date, the amount payable shall be calculated using the investment index in effect at the settlement date.

Excluded from this Resolution are lending operations in respect of credit cards, microcredits, commercial loans in installments to be granted to individuals (payroll loans), and loans granted to employees and directors of banks. Also excluded are financing within regimes regulated by special laws and commercial loans granted prior to the effectiveness of the Resolution, which will be maintained under the conditions agreed upon until full repayment.

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***Law for the Advancement of Science, Technology and Innovation***

This Law establishes that the country's major corporations will annually earmark 0.5% of gross income generated in Venezuela in the prior year to investments in science, technology and innovation, and their applications. Contributions must be paid and declared within the second quarter after the closing of the period in which gross income was generated. During the six-month period ended June 30, 2019, the Bank recorded expenses in this connection of Bs 25 million, included under sundry operating expenses (Note 18).

***Antidrug Law***

This Law requires all private corporations, consortia and business-oriented public entities with 50 or more employees to contribute 1% of their annual operating income to the National Antidrug Fund (FONA) within 60 days of their respective year end. These contributions will be used to finance plans and projects for the prevention of illegal drug trafficking. Companies belonging to economic groups will make contributions on a consolidated basis. During the six-month periods ended December 31 and June 30, 2019, the Bank recorded expenses in this connection of Bs 785 million and Bs 400 million, respectively, included under sundry operating expenses (Note 18).

***Sports and Physical Education Law***

This Law seeks to regulate physical education and the sponsorship, organization and management of sporting activities as public services; companies subject to this Law must contribute 1% of their net or accounting income to the activities contemplated therein. During the six-month periods ended December 31 and June 30, 2019, the Bank recorded expenses in this connection of Bs 350 million and Bs 44 million, respectively, included within sundry operating expenses (Note 18).

***Labor Law (LOTTT)***

The most relevant aspects of this Law include calculation of certain employee benefits, such as vacation bonus, profit sharing, maternity leave, and the retrospective accrual of length-of-service benefits. In addition, the LOTTT reduces working hours and extends job security for parents.

**2. Basis of preparation**

The accompanying financial statements at December 31 and June 30, 2019 have been prepared based on the accounting rules and instructions of SUDEBAN included in the Accounting Manual for Banks (the Accounting Manual), which differ in certain material respects from accounting principles generally accepted in Venezuela (VEN NIF) published by the Venezuelan Federation of Public Accountants (FCCPV), of mandatory application in Venezuela as from January 1, 2008. VEN NIF are mainly based on International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), except for certain criteria concerning adjustments for inflation, the valuation of foreign currency assets and liabilities and recognition of deferred tax liabilities, among others.

Through Resolution No. 648-10 of December 28, 2010, SUDEBAN deferred the presentation of consolidated or combined financial statements prepared under VEN NIF as supplementary information and established that, until otherwise stated, consolidated or combined financial statements and their notes must continue to be presented as supplementary information in accordance with generally accepted accounting principles in effect at December 31, 2007 (VEN GAAP). Through Circular SIB-II-GGR-GNP-14572 of December 27, 2019, SUDEBAN deferred presentation of the supplementary financial statements at December 31, 2019, prepared under generally accepted accounting principles, effective at December 31, 2007 (PCGA-Ven), as well as inflation-adjusted financial statements; this supplementary information will be presented for purposes of comparison with the information at the end of the first semester of 2020.

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At December 31 and June 30, 2019, the main differences identified by management between the accounting rules and instructions of SUDEBAN and VEN NIF that affect the Bank are the following:

**1) Inflation-adjusted financial statements**

In accordance with the Accounting Manual, the financial statements of banking institutions are shown in nominal bolivars. VEN NIF require that the effects of inflation on the financial statements be recognized, provided that inflation for the year exceeds one digit. SUDEBAN has stipulated that inflation-adjusted financial statements must be provided as supplementary information.

**2) Functional and presentation currency**

In accordance with the Accounting Manual, balances in banks' financial statements shall be measured and presented in bolivars. According to VEN NIF, financial statements must be prepared using the banks' functional currency, which is the currency of the primary economic environment in which the entity operates. VEN NIF also require entities to determine functional currency considering, among others, the following elements: a) the currency that mainly influences revenue and costs (frequently, the currency used to collect and pay such revenue and costs, respectively); b) the currency of the country whose competitive forces and regulations determine prices; and c) the currency in which funds from financing activities are generated.

**3) Other comprehensive income**

In accordance with the Accounting Manual, the financial statements comprise the balance sheet, the income statement, the statement of changes in equity, the cash flow statement and the set of notes that include a summary of significant accounting policies and other explanatory information. According to VEN NIF, the statement of other comprehensive income is also shown as part of the financial statements, either as part of the income statement or in the form of a stand-alone section.

**4) Cash equivalents**

For purposes of the cash flow statement, in accordance with the Accounting Manual, the Bank considers as cash equivalents cash and due from banks. VEN NIF consider as cash equivalents investments and deposits maturing within 90 days.

**5) Premium or discount on held-to-maturity investments**

In accordance with the Accounting Manual, discounts or premiums on held-to-maturity investments are amortized over the term of the security with a debit or credit to gains or losses for the period under other income and other operating expenses, respectively. According to VEN NIF, the amortization of the premium or discount of investments carried at amortized cost, is part of income from effective interest of securities; therefore, it would be recorded as part of interest income.

**6) Permanent losses on investment securities**

In accordance with the Accounting Manual, subsequent recoveries of permanent losses arising from impairment in the fair value of investment securities do not affect the new cost basis. For VEN NIF, impairment losses recognize expected credit losses over the life of the assets for all financial instruments in respect of which credit risk has significantly increased since initial recognition; therefore, impairment losses in respect of this financial instrument will be adjusted at an amount equal to credit losses expected over the next 12 months.

**7) Investments in other securities**

Investments in other securities include investment trusts, as well as investments not classified under any of the categories defined in the Accounting Manual. Under VEN-NIF, financial assets are measured at amortized cost or fair value based on the entity's business model to manage financial assets and based on the characteristics of contractual cash flows of financial assets.

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**8) Valuation of reclassified securities**

***a) Reclassification of held-to-maturity securities to available-for-sale securities***

According to VEN NIF, when investments measured at amortized cost are reclassified to investments at fair value and such transfer is due to a change in their original intended use not qualified as an isolated, external, nonrecurring or unusual event affecting the Bank, all investments remaining in this category must be reclassified to investments at fair value. According to SUDEBAN rules, reclassifications of held-to-maturity securities must be approved by SUDEBAN.

***b) Reclassification of available-for-sale securities to held-to-maturity securities***

The Accounting Manual establishes that available-for-sale investments reclassified to the held-to-maturity category must be recorded at their fair value at the reclassification date. Unrealized gains or losses are maintained separately in equity and are amortized over the investment's remaining life as an adjustment to yield. Under VEN NIF, the fair value of the investment at the reclassification date becomes the new amortized cost basis, and any gain or loss previously recognized in equity is accounted for as follows: a) gains or losses on fixed maturity investments, as well as any difference between the new amortized cost and value at maturity, are taken to profit and loss and amortized over the investment's remaining life, and b) gains or losses on non-maturity investments will remain in equity until the asset is sold or otherwise disposed of, when they shall be recognized in profit or loss.

**9) Overdue loan portfolio**

The Accounting Manual establishes that interest earned on overdue or in-litigation loans shall not be recognized as income but shall be recorded under memorandum accounts, as shall all subsequent interest earned. VEN NIF establish that for financial instruments carried at amortized cost, the amount of the impairment is the difference between the instrument's carrying amount and the present value of estimated future cash flows generated by the instrument, discounted at the original effective interest rate. Impairment exists when the present value of an instrument's future cash flows is lower than the carrying amount, in which case interest income shall be recognized in the income statement, taking into account the effective interest rate applied to future cash flows for determining impairment losses.

**10) Rescheduled loan portfolio**

The Accounting Manual establishes that loans whose original repayment schedule, term, or other conditions have been modified at the request of the debtor must be reclassified within rescheduled loans. In addition, the Accounting Manual establishes that loans classified as overdue must be written off within 24 months after inclusion in this category. Loans in litigation must be fully provided for after 24 months in the in-litigation category. In addition, overdue monthly loan installments that have been repaid must be classified to the category to which they pertained before being classified as overdue. Likewise, when a debtor repays pending loan installments of a loan in litigation, thereby terminating the lawsuit, the loan must be reclassified to the category to which it pertained before being classified as in litigation or overdue. VEN NIF do not establish specific accounting criteria; however, any measurement of expected credit losses from a financial instrument shall reflect: a) an unbiased and probability-weighted amount that is determined by evaluating the range of possible outcomes; b) the time value of money; and c) reasonable and supportable information, that is available without undue cost or effort at the reporting date, about past events, current conditions and forecasts of future economic conditions.

**11) Allowance for losses on loan portfolio**

Allowances for losses on the loan portfolio are determined based on a collectibility assessment for individual loans, a global risk assessment for loans not assessed individually and a general allowance of 1% over loan balances at month end, except for microcredits, which are subject to a general 2% allowance. In addition to the minimum general and specific allowances required for the loan portfolio, SUDEBAN established a general countercyclical allowance equivalent to 0.75% of the gross loan portfolio balance. VEN NIF require the allowance for uncollectible loans to be determined based on expected credit losses, considering the fair value of guarantees, and do not provide for a general allowance, which would have to be accounted for as a reduction of retained earnings in the statement of changes in equity.

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**12) Commissions collected and deferred income**

Accounting practices used by banks require commissions receivable on loans to be recorded as income when collected. In addition, interest on current and rescheduled loans collectible after 6 months or more is recorded as deferred income under accruals and other liabilities when earned and as income when collected. According to VEN NIF, these commissions should be initially recognized as part of the loan value and should be amortized as income over the term of the loan forming part of income from effective loan interest.

**13) Property and equipment**

Under SUDEBAN accounting rules, revaluation of property and equipment should be recorded in equity by increasing the value of the asset as an adjustment from revaluation of property and equipment; this value should not exceed the Bank's primary equity (Tier 1). According to VEN NIF, when an item of property and equipment is revalued, all other assets in the same class should also be revalued, and such increase should be recognized in other comprehensive income.

Under VEN NIF, depreciation is recorded in the results based on the remaining useful life of the revalued asset. Depreciation expense may subsequently be reclassified to unappropriated earnings. Under SUDEBAN rules and instructions, depreciation is recorded in the results for the period.

**14) Leases**

The Accounting Manual establishes that leases are classified as either capital or operating leases. Capital leases are those that transfer to the Bank substantially all risks and rewards related to the ownership of assets, which are recorded in the balance sheet at cost, and the related liability, which is equivalent to the present value of future lease payments. Operating leases are recorded as expenses in the results for the period. According to VEN NIF, the lessee shall record leases in the balance sheet as an asset, which conveys the right to control the use of an identified asset, not limited to the right of ownership, except for short-term contracts or those where the underlying asset is of low value.

**15) Leasehold improvements**

Significant leasehold improvements are recorded as amortizable expenses and included under other assets. According to VEN NIF, they must be shown as part of property and equipment. Gains or losses on the sale of personal and real property are shown in the income statement.

**16) Provisions**

The Accounting Manual establishes timeframes to record provisions for bank reconciling items, matured securities, pending items and accounts receivable forming part of other assets, loan portfolio interest suspension, interest receivable and recognition of certain assets, among others. VEN NIF do not establish timeframes for creating provisions for these items; provisions are recorded based on best estimates of collection or recovery.

**17) Deferred tax**

The Bank computes a deferred tax asset or liability in respect of temporary differences between the tax base and carrying amounts in the financial statements, except for provisions for losses on high risk or unrecoverable loans, which generate a deferred tax asset, and surplus from revaluation of property and equipment, exchange gain, and variation of commercial loans granted through UVCC, recorded in equity, since they are recorded according to SUDEBAN rules and instructions. A deferred tax asset is not recognized for any amount exceeding future taxable income. In accordance with VEN NIF, a deferred tax asset is recognized in respect of all temporary differences between the carrying amount of assets and liabilities and their tax bases, provided that its realization is assured beyond any reasonable doubt.

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**18) Foreign currency and UVCC**

Foreign currency transactions and UVCC are recorded at the official exchange rate or investment index, effective at the transaction date, and balances are adjusted at the official exchange rate or investment index, respectively, in effect at each period end. The assets, liabilities and equity of the Branch are translated at the effective exchange rate. Income accounts are translated at the closing official exchange rate. VEN NIF establish two options for measuring foreign currency transactions and balances: a) at the official exchange rates established in the exchange agreements issued by the BCV, or b) on the basis of best estimates of future cash flows in bolivars expected to be obtained using the exchange or settlement mechanisms permitted under Venezuelan law. VEN NIF establish that exchange gains and losses on available-for-sale or held-to-maturity securities must be included in the income statement.

Under SUDEBAN rules and instructions, gains or losses resulting from official exchange rate fluctuations or the investment index for commercial loans granted through UVCC shall be recorded in equity. Under VEN NIF, gains and losses resulting from foreign exchange fluctuations must be recorded in the income statement for the period in which they occur.

**19) Reconciling items**

Under SUDEBAN rules and instructions, debt reconciling items in local and foreign currency over 30 and 60 days old should be recorded under other assets with a credit to an item under accruals and other liabilities when the documentation required to record them is not available. Furthermore, they must be fully provided for 30 and 60 days, respectively, following recording, if the required documentation continues to be unavailable. This provision should be maintained over time until the entity obtains the documentation required for reconciliation purposes. In addition, credit items in local and foreign currency, for which the documentation required to record them is not available, may be recorded under other assets with a credit to an item under accruals and other liabilities. These items should be maintained over time until the entity obtains the documentation required for reconciliation purposes. VEN NIF does not set specific accounting criteria; however, an entity should measure the expected credit losses of a financial instrument.

The accounting policies followed by the Bank are:

**a) Functional currency and foreign currency transactions**

Balances in the Bank's financial statements are measured and presented in bolivars, as per the Accounting Manual. Foreign currency balances and transactions are recorded at the official exchange rate in effect at the transaction date. At December 31 and June 30, 2019, foreign currency balances are shown at the official exchange rate of Bs 46,504.28/US\$1 and Bs 6,716.46/US\$1, respectively.

The Bank does not engage in hedging activities in connection with its foreign currency balances and transactions. The Bank is also exposed to foreign exchange risk.

SUDEBAN established that: a) gains resulting from changes in the official exchange rate must be recorded in equity and may only be used, subject to previous approval, to offset losses, create contingency provisions for assets, offset deferred expenses (including goodwill) and increase capital stock (Note 22), and b) exchange gains and losses arising from exchange fluctuations of the U.S. dollar with respect to other foreign currencies are recorded in net results for the period (Notes 17 and 18).

**b) Integration and translation of Branch's financial statements in foreign currency**

The accompanying financial statements include the accounts of the Bank and the Branch. Assets, liabilities and results of the Branch were integrated with the Bank's financial statements. The capital allocated to the Branch by the Bank is eliminated against the Branch's equity, as well as all other accounts with intra-group balances. The Branch's financial statements are in accordance with SUDEBAN's presentation rules.



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Assets and liabilities, and income accounts of the Branch expressed in U.S. dollars were translated into bolivars at the official exchange rate of Bs 46,504.28/US\$1 and Bs 6,716.46/US\$1 at December 31 and June 30, 2019, respectively (Note 8).

**c) Investment securities**

Investment securities are classified upon acquisition, based on their intended use, as deposits with the BCV and overnight deposits, investments in trading securities, investments in available-for-sale securities, investments in held-to-maturity securities, restricted investments and investments in other securities.

All transfers between different investment categories or sales of investments under circumstances other than those established in the Accounting Manual must be authorized by SUDEBAN.

***Deposits with the BCV and overnight deposits***

Excess liquidity deposited at the BCV, overnight deposits and debt securities issued by Venezuelan financial institutions maturing within 60 days are included in this account (Note 5-a).

***Investments in available-for-sale securities***

Investments in available-for-sale debt and equity securities are recorded at fair value and unrealized gains or losses, net of income tax, resulting from differences in fair value are included in equity. If investments in available-for-sale securities correspond to instruments denominated in foreign currency, the fair value will be determined in foreign currency and then translated at the official exchange rate in effect. Gains or losses from fluctuation in the exchange rate are included in equity. Permanent losses from impairment in the fair value of these investments are recorded in the income statement under other operating expenses for the period in which they occur. Any subsequent recovery in fair value is recognized as an unrealized gain, net of income tax, in equity (Note 5-b).

***Investments in held-to-maturity securities***

Investments in debt securities that the Bank has the firm intention and ability to hold until maturity are recorded at cost, which should be consistent with market value at the time of purchase, subsequently adjusted for amortization of premiums or discounts. Discounts or premiums on acquisition are amortized over the term of the securities as a credit or debit to other operating income and other operating expenses, respectively. The book value of investments denominated in foreign currency is adjusted at the exchange rate in effect at period end. Gain and losses from fluctuation in the exchange rate are included in equity.

The Bank assesses monthly, if circumstances require it, whether there is any objective evidence that a financial asset or group of financial assets is impaired. An impairment in the fair value of held-to-maturity securities is charged to the results for the period when management considers that it is other than temporary. Certain factors identified as indicators of impairment are: 1) a prolonged period where fair value remains substantially below cost; 2) the financial difficulty of the issuer; 3) a fall in the issuer's credit rating; 4) the disappearance of an active market for the security; and 5) the Bank's intention and ability to hold the investment long enough to allow for recovery of fair value, among others. For the six-month periods ended December 31 and June 30, 2019, the Bank has identified no unrecorded permanent impairment in the fair value of its investments (Note 5-c).

Sales or transfers of investments in held-to-maturity securities do not affect the original intention for which these securities were acquired when: a) the sale occurs so close to their maturity date that interest rate risk is extinguished (i.e., changes in market interest rates will not significantly affect the realizable value of the investment), or b) the sale occurs after the entity has collected a substantial portion (more than 85%) of the outstanding principal at the transaction date, in addition to all other conditions established in the Accounting Manual.

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***Restricted investments***

Restricted investments originating from other investment categories are measured using the same criteria used to record those investments from which they are derived. Securities or loans which the Bank contractually sells and commits to repurchase at an agreed date and price, i.e., for which the Bank acts as the reporting entity, are valued using the same criteria as for investments in trading securities (Note 5-d).

***Investments in other securities***

Investments in other securities include investment trusts, as well as investments not classified under any of the aforementioned categories (Note 5-e).

The Bank uses the specific identification method to determine the cost of securities and this same basis to calculate realized gains or losses on the sale of trading or available-for-sale securities.

**d) Loan portfolio**

Commercial loans and term, mortgage and credit card loan installments are classified as overdue if repayment is more than 30 days past due. In conformity with SUDEBAN rules, advances on negotiated letters of credit are classified as overdue if not repaid within 270 days after they were granted by the Bank. Furthermore, when any related installment is more than 90 days past due, the entire principal balance is classified as overdue.

In addition, the entire balance of microcredits, payable in weekly or monthly installments, is considered past due if repayment of at least one weekly installment is 14 days overdue or one monthly installment is 60 days overdue. Rescheduled loans are those whose original repayment schedule, term, or other conditions have been modified based on a refinancing agreement and certain terms and conditions set out in the Accounting Manual. Loans in litigation are those in the legal collection process.

Loans classified as overdue must be written off within 24 months after inclusion in this category. Loans in litigation must be fully provided for after 24 months in the in-litigation category. In addition, overdue monthly loan installments that have been repaid must be reclassified to the category to which they pertained before being classified as overdue. Likewise, when an individual repays pending loan installments of a loan in litigation, thereby terminating the lawsuit, the Bank must reclassify the loan to the category to which it pertained before being classified as in litigation or overdue.

Through Circular SIB-II-GGR-GNP-12161 of October 28, 2019, SUDEBAN modified the Accounting Manual for Banks, establishing that variation of commercial loans granted through UVCC shall be recorded in equity. Furthermore, through Resolution No. 070.19 of December 20, 2019, SUDEBAN established the rules to record benefits obtained from increases in principal of commercial loans as a result of the application of the investment index to measure and record operations in UVCC. According to these rules, these benefits must be used to create general and countercyclical allowances; excess balances not required to be used to create the provisions may be recorded in the income statement (Note 6).

Subsequently, on December 23, 2019, through Circular SIB-II-GGR-GNP-14478, SUDEBAN instructed that once commercial loans through UVCC are overdue, variations in principal resulting from changes in the investment index shall not be recorded under loan portfolio or net benefit under equity. These variations shall be recorded under memorandum accounts.

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**e) Use of estimates in the preparation of financial statements**

The preparation of financial statements, in conformity with SUDEBAN rules, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the amounts of income and expenses during the reporting period. Actual results may differ from those estimates. Below is a summary of the main estimates used in the preparation of the financial statements:

***Investment securities***

The Bank calculates the market value of securities based on prices published by the valuation systems that group the reference prices of the entire financial market. When reference prices are not available in these valuation systems or when prices are 30 continuous-days or older, the Bank applies the present value (yield curve), using the calculation methodologies approved by the Risk Committee and the Board of Directors.

Investment securities and interest not collected 30 days after maturity date are provided for in full.

***Allowance for losses on loan portfolio***

The Bank performs a quarterly review of its loan portfolio and contingent loans to determine the specific allowance for possible losses on each loan. This review takes into account factors such as economic conditions, client credit risk and credit history. Moreover, each quarter the Bank calculates an allowance for losses on loans not individually reviewed, equivalent to the risk percentage resulting from the specific review of loans. In accordance with SUDEBAN rules, the Bank maintains a general 1% allowance of the loan portfolio balance, except for the balance of the microcredit portfolio, for which it maintains a general 2% allowance, and an additional countercyclical allowance of the gross loan portfolio balance of 0.75%. The Bank may set aside any additional general allowances deemed necessary. Allowances may not be released without the authorization of SUDEBAN.

***Provision for other assets***

The Bank assesses collectibility of items recorded under other assets using the same criteria, where applicable, as those applied to the loan portfolio. Furthermore, the Bank sets aside provisions for those items that require them due to their nature or aging.

***Provision for legal and tax claims***

The Bank sets aside a provision for legal and tax claims considered sufficient and reasonably quantifiable based on the opinion of its legal advisors. Based on this opinion, management believes that the outcome of legal and tax claims outstanding at December 31 and June 30, 2019 will be favorable to the Bank (Note 27). However, this opinion is based on events to date; the outcome of these lawsuits could differ from that expected.

***Length-of-service benefit actuarial liabilities***

The length-of-service benefits liability recognized in the balance sheet is the present value at period end of any difference in projected retrospective length-of-service benefits in excess of the value of the projected guarantee fund, together with any adjustments from unrecognized past service costs. The liability in respect of this defined benefit is prepared by an independent actuary using the projected unit credit method. The present value of the defined benefit liability is determined by using discount rate, salary increase rate and turnover rate assumptions. Actuarial gains or losses resulting from future adjustments or changes to actuarial assumptions are recorded in equity net of deferred income tax.

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**f) Available-for-sale assets**

Personal and real property received as payment is recorded at the lower of assigned value, book value, market value or appraisal value not older than 1 year and is amortized using the straight-line method over 1 to 3 years, respectively. The remaining available-for-sale assets are recorded at the lower of cost and realizable value. Gains or losses from the realization of available-for-sale assets are included in the income statement. Other available-for-sale assets and assets idle for more than 24 months are written out of asset accounts.

**g) Property and equipment**

Property and equipment is recorded at cost, construction cost or revalued amount, as applicable, net of accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets and is recognized in the results for the period. Significant leasehold improvements are recorded as amortizable expenses and included under other assets. Gains or losses on the sale of personal and real property are shown in the income statement.

**h) Deferred expenses**

Deferred expenses mainly include start-up, leasehold improvement, and software license costs. These expenses are recorded at cost, net of accumulated amortization. Amortization is calculated using the straight-line method over 4 years.

**i) Income tax**

The Bank's tax year ends on December 31. The Bank records a deferred tax asset when, in the opinion of management, there is reasonable expectation that future tax results will allow its realization. In addition, according to the Accounting Manual, the amount by which the deferred tax asset exceeds tax expense for the year is not recognized. The Bank records deferred tax liability when credit items are maintained resulting from the tax effect of discrepancies regarding the time of recognition of results (temporary differences), according to accounting and tax criteria (Note 16).

**j) Employee benefits**

A new collective labor agreement was signed in June 2017, effective for 3 years until 2020.

***Accrual for length-of-service benefits***

Based on the provisions of the LOTT and the Bank's Collective Labor Agreement, length-of-service benefits are a vested right of employees. Under the LOTT, the Bank transfers guaranteed length-of-service benefits monthly to a trust fund on behalf of each employee. In addition, the LOTT establishes that length-of-service benefits will be calculated retrospectively upon termination of employment considering the last salary earned by the employee and length of service. The LOTT requires the payment to employees at employment termination of the higher of retrospective length-of-service benefits and total amounts accrued in the employee's trust fund.

At December 31 and June 30, 2019, the Bank determined the effect of the retrospective scheme through assumption-based actuarial methods, which include, among others, the discount rate of the obligation, the salary increase rate and the employee turnover rate. This calculation was made at June 30, 2019; assumptions are assessed annually and, in the event of variations, may affect the amount of the obligation. Bank management assessed these premises and the liability at December 31, 2019 and determined no significant impact on its financial statements.

In accordance with the LOTT, the Bank calculates additional length-of-service benefits based on the last salary earned by the employee upon employment termination, using actuarial methods. As from the six-month period ending June 30, 2020, actuarial gains or losses shall be recorded in equity net of deferred income tax as remeasurements for employee benefit plans.

Under the LOTT, if an employee is terminated for reasons other than justified dismissal, the employee will be entitled to receive an additional indemnity equal to his or her accrued length-of-service benefits.

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This amount is recorded within salaries and employee benefits upon termination of employment.

At December 31 and June 30, 2019, the method used by the Bank to calculate length-of-service benefits comply with the provisions set out by SUDEBAN, the LOTTT and the prevailing Collective Labor Agreement.

The Bank does not offer a pension plan or other post-retirement benefit programs for its employees; it does not grant stock purchase options.

***Profit sharing***

Under the Collective Labor Agreement, the Bank is required to pay a share of its annual profits to its employees of up to 150 days of salary. Expenses incurred in this connection during the first six-month period of each year are paid in April and July, and the remaining amount in November. During the six-month periods ended December 31 and June 30, 2019, the Bank recorded expenses of Bs 2,027 million and Bs 424 million, respectively, in this connection, shown under salaries and employee benefits. At June 30, 2019, the Bank maintains an accrual Bs 232 million in this connection (Note 15).

***Vacation leave and vacation bonus***

The LOTTT and the Collective Labor Agreement grant each employee a minimum of 15 days of vacation leave each year and a vacation bonus of 23 days of salary based on length of service. For the six-month periods ended December 31 and June 30, 2019, the Bank recorded expenses of Bs 909 million and Bs 296 million, respectively, in this connection, shown under salaries and employee benefits. At December 31 and June 30, 2019, the Bank maintains accruals of Bs 723 million and Bs 213 million, respectively, to cover expenses in this connection (Note 15).

**k) Recognition of revenue and expenses**

Interest on loans, investments and accounts receivable is recorded as income when earned by the effective interest method, except: a) interest receivable more than 30 days overdue; b) interest on loans overdue or in litigation, or loans classified as real risk, high risk or unrecoverable; and c) overdue interest, all of which are recorded as income when collected.

Interest collected in advance is included under accruals and other liabilities as deferred financial income and recorded as income when earned (Note 15).

Interest on current and rescheduled loan portfolios collectible after 6 months or more is recorded as part of deferred financial income under accruals and other liabilities when earned and as income when collected (Note 15).

Commissions from loans granted are recorded as part of income upon collection under income from loan portfolio.

Service fees are recorded as income or expense when collected or paid, respectively, at the transaction date, and are shown within other operating income and other operating expenses, respectively (Notes 17 and 18).

Income from financial leases and amortization costs of leased property are shown net in the income statement as interest income from the loan portfolio.

Interest on customer deposits, liabilities and borrowings is recorded as interest expense when incurred using the effective interest method.

**l) Investments in affiliates**

Investments in shares of 20% to 50%-owned affiliates are shown using the equity method and are recorded under investments in affiliates (Note 9).

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Investments in companies less than 20% owned that the Bank has the intention of holding, and over whose administration it has significant influence, are recorded under the equity method or at cost.

**m) Assets received in trust**

Assets received in trust are valued using the same parameters used by the Bank to value its own assets, except for investment securities, which are shown at cost and subsequently adjusted for amortization of premiums or discounts. Any permanent impairment in the value of these investments is recorded in trust fund results for the period in which it occurs. During the six-month periods ended December 31 and June 30, 2019, no permanent losses were identified.

The Bank acts as custodian, administrator and manager of third-party investments. As a result, in certain cases, the Bank purchases and sells a wide range of financial instruments. These trust fund assets are not included in the Bank's assets. At December 31, 2019, trust fund assets amount to Bs 18,241 million (Bs 1,905 million at June 30, 2019), shown under memorandum accounts (Note 20).

**n) Net income per share**

Basic net income per share has been determined by dividing net income for the six-month period by the weighted average of shares outstanding during the period.

**o) Cash flows**

For purposes of the cash flow statement, the Bank considers as cash equivalents, cash and due from banks.

**p) Financial risk management**

The Bank is mainly exposed to credit and market risks (price risk, foreign exchange and interest rate risk), liquidity and operational risks. Below is the risk policy used by the Bank for each type of risk:

**Credit risk**

The Bank assumes exposure to credit risk when a counterparty is unable to pay off its debts at maturity. The Bank monitors credit risk exposure by regularly analyzing payment capabilities of its borrowers. The Bank structures the level of credit risk by establishing limits for individual and group borrowers. The Bank requests fiduciary and mortgage guarantees, and collateral on certificates of deposit and other securities after assessing specific borrower characteristics.

The credit quality of the foreign and correspondent banks in which the Bank has cash and due from banks may be assessed based on the following external ratings:

	December 31, 2019	June 30, 2019
	(In bolivars)	
AA+	152,078,392,887	22,370,461,025
AA-	1,373,584,783	198,279,902
A	2,459,333,194	7,845,413,995
BBB+	548,088,851,540	2,634,681,198
BBB	1,337,278,649	198,897,182
BBB-	2,290,974,116	777,113,824
BB	3,318,892,538	464,408,718
BB-	2,795,551,222	3,348,538,156
Unavailable	<u>375,785,516,087</u>	<u>235,442,215,845</u>
	<u>1,089,528,375,016</u>	<u>273,280,009,845</u>

At December 31 and June 30, 2019, amounts in foreign and correspondent banks whose credit risk is unavailable include Bs 363,947 million and Bs 151,569 million, respectively, in the related company BNC International Banking Corporation (Note 23).

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**Market risk**

The Bank assumes exposure to market risk. Market risk arises from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements.

The Bank evaluates market risk on a regular basis and the Board of Directors sets limits on the level of risk concentration that may be assumed, which is regularly supervised.

Market risk comprises mainly three areas: price, foreign exchange and interest rate risk.

**1) Price risk**

The Bank's exposure to price risk arises from investment securities. To manage price risk, management diversifies its investment portfolio following limits set by the Bank and those established in current regulations. A total of 29% of the Bank's investment securities relates mainly to debt securities issued by foreign non-financial public-sector companies and securities issued by the Bolivarian Republic of Venezuela listed on stock exchanges.

Below is a summary of the impact of increases or decreases in the fair value of investment securities by category at December 31, 2019. The analysis is based on the assumption that fair values will increase or decrease by 5% and 3%, respectively, with all other variables remaining constant and that all investment securities will move in line with the indices:

	<b>Increase by 5%</b>	<b>Decrease by 3%</b>
	(In bolivars)	
Debt securities issued by foreign non-financial public-sector entities	297,046,089	4,957,937,552
Securities issued or guaranteed by the Venezuelan government	16,184,467,328	10,332,971,431

**2) Foreign exchange risk**

Foreign exchange risk arises from fluctuations in the value of financial instruments due to changes in foreign currency exchange rates. The Bank's transactions are mainly in bolivars. However, when the Bank identifies short or medium-term market opportunities, investments might be deposited in foreign currency instruments, mainly in U.S. dollars.

**3) Interest rate risk**

The Bank assumes exposure from the effects of fluctuations in market interest rate levels on its financial position and cash flows. Interest margins may increase as a result of such changes but may diminish or lead to losses in the event of unexpected movements.

The Bank analyzes its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration renewal of existing positions, alternative financing and hedging. Based on these scenarios, the Bank calculates the impact on profit and loss of a given interest rate shift.

Simulations are performed regularly. Based on various scenarios, the Bank manages its cash flow interest rate risk.

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The result for the period is affected by interest income derived from financial assets and liabilities as a result of possible changes in interest rates. Below is a summary of the possible effects in the event of an increase of 20% or a decrease of 30% in interest rates:

	<b>Increase by 20%</b>	<b>Decrease by 30%</b>
	(In bolivars)	
<b>Financial instruments - assets</b>		
Investment securities, except securities issued or guaranteed by the Venezuelan government	62,923,916	94,385,874
Loan portfolio	1,026,234,401	1,539,351,601
<b>Financial instruments - liabilities</b>		
Customer deposits	156,502,449	234,753,673
Borrowings	182,498,339	273,747,509

**Liquidity risk**

Liquidity risk is the risk that the Bank may not be able to meet its obligations with clients and financial market counterparties at any time or in any place or currency. To avoid this risk, the Bank conducts a daily review of its available resources.

The Bank reviews on a daily basis its available cash resources, overnight deposits, current accounts, maturing deposits and loans, as well as its guarantees and margins.

The Bank's investment strategy is aimed at guaranteeing an adequate liquidity level. The investment portfolio mainly includes securities issued or guaranteed by the Bolivarian Republic of Venezuela and other highly liquid obligations.

**Operational risk**

The Bank considers exposure to operational risk arising from direct or indirect losses that result from inadequate or defective internal processes, human error, system failures or external events.

The structure used by the Bank to measure operational risk is based on a qualitative and quantitative approach. The first identifies and analyzes risks before related events occur; the second mainly relies on the analysis of events and experiences gained from them.

**3. Cash and due from banks**

The balances with the BCV included in cash and due from banks comprise the following:

	<b>December 31, 2019</b>	<b>June 30, 2019</b>
	(In bolivars)	
Legal reserve (Note 26)	959,005,894,012	179,834,457,139
Banknotes in foreign currency under BCV custody, equivalent to €3,529,800 (€907,500 at June 30, 2019) (Note 4)	183,899,785,457	6,930,832,780
Other deposits with the BCV, equivalent to US\$21,000 (Notes 4 and 15)	976,589,848	141,045,561
Demand deposits	-	17,449,457,001
	<u>1,143,882,269,317</u>	<u>204,355,792,481</u>

At December 31 and June 30, 2019, the Bank has cash and due from banks under foreign and correspondent banks for US\$988,858 and US\$2,610,958, equivalent to Bs 45,986 million and Bs 17,536 million, respectively, deposited at BNC International Banking Corporation, in respect of deposits received in accordance with Exchange Agreement No. 20 (Notes 12 and 23).



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At December 31 and June 30, 2019, pending cash items for Bs 10,185 million and Bs 1,746 million, respectively, relate to clearinghouse operations conducted by the BCV and other banks.

On September 5, 2019, the BCV issued Resolution No. 19-09-03, repealing Resolution No. 19-05-03 issued on May 23, 2019, ratifying that when deemed pertinent, it may conduct foreign currency sale transactions with financial institutions with a charge to the sole account of these financial institutions with the BCV for the amount of bolivars equivalent to foreign currency sold by the BCV. Furthermore, the total foreign currency amount sold should be used in the trading of foreign currencies that are part of the Exchange Market System, private-sector clients, with the exception of those belonging to banking sectors and the stock market, at the official exchange rate in effect at the date of the transaction. The amount in bolivars, equivalent to the amount of the exchange transaction, will be deducted from the legal reserve as from the transaction date until the last day of the following week. This Resolution also establishes that if banks are unable to use all of the currency sold as a result of exchange transactions, the balance not used in purchase and sale transactions will not be deducted from the legal reserve the following week; banks will be required to pay an annual 126% interest rate for each day of deficit in the reserve. At December 31, 2019, the Bank maintains under cash and in custody of the BCV, banknotes for €6,836,725 and €3,529,800, respectively (equivalent to Bs 356,188 million and Bs 183,900 million, respectively) sold to its customers through this mechanism; these amounts are also part of customer deposits included in checking accounts as per the free convertibility exchange market system. At June 30, 2019, banknotes for €2,945,000 and €907,500, respectively (equivalent to Bs 22,492 million and Bs 6,931 million, respectively) are part of customer deposits as per Exchange Agreement No.20 (Note 12). During the six-month periods ended December 31 and June 30, 2019, the Bank charged commissions to its customers for Bs 9,171 million and Bs 872 million, in respect of exchange transactions and transportation of banknotes, respectively (Note 17).

At December 31, 2019, the Bank has cash in foreign currency for US\$3,589,485 (equivalent to Bs 166,926 million) in respect of customer deposits, included in checking accounts as per the free convertibility exchange market system (Notes 4 and 12). At December 31, 2019, the Bank has cash in foreign currency of its own for US\$225,404 and €1,039,468 (equivalent to Bs 64,637 million) (US\$395,677 and €688,686 at June 30, 2019, equivalent to Bs 7,917 million).

#### **4. Foreign currency assets and liabilities**

##### **a) Exchange control regime**

Exchange Agreement No. 1 was published in Extraordinary Official Gazette No. 6,405 on September 7, 2018. This Agreement repeals all previous exchange agreements and establishes the free convertibility of the currency throughout the country based on the following premises:

1. The BCV centralizes all currency purchases and sales in the country.
2. The existence of a single reference floating exchange rate resulting from foreign currency trading by individuals through authorized exchange dealers.
3. The strengthening of the regime for maintaining foreign currency accounts in the national financial system with funds obtained from legal transactions.
4. The flexibilization of the private-sector foreign exchange regime to create favorable conditions to foster foreign investments, export activities, access to financing programs through specialized institutions, and the provision of services for inbound tourism.

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**Transactions through the foreign exchange market system**

On May 2, 2019, the BCV published Resolution No. 19-05-01 in the Official Gazette to establish that banks authorized to act as exchange brokers on the foreign exchange market may negotiate through foreign exchange desks, among their customers or through interbank transactions, foreign currency purchase and sale transactions by individuals and private-sector companies. Those interested in submitting foreign currency bids (supply or demand) through exchange desks may do so without restrictions and must comply with due diligence processes established by exchange brokers; they are also required to be customers of the respective banking institution. Those interested in foreign currency trading must contact exchange brokers directly or use the online banking created for such purpose. The BCV shall publish on its web page, on a daily basis, the weighted average exchange rate of operations transacted on foreign exchange desks.

At December 31, 2019, cash and due from banks include €891,990 and US\$8,100, equivalent to Bs 46,849 million, pending to be sold to the public at the Bank's agencies and counters (Note 15). Other assets include Bs 31,503 million from the purchase and sale of foreign currency (Note 11). Furthermore, during the six-month periods ended December 31 and June 30, 2019, the Bank recorded income from commissions on foreign currency transactions through this system of Bs 6,215 million and Bs 91 million, respectively (Note 17).

**Subsequent events**

At January 31, 2020, the prevailing exchange rate published by the BCV was Bs 73,841.55/US\$1. The accounting effect of measuring foreign currency assets and liabilities at this exchange rate was an increase in equity of Bs 645,112 million to be recorded in the Bank's financial statements for the six-month period ending June 30, 2020.

**b) Applicable exchange rates**

At December 31 and June 30, 2019, the exchange rate for transactions in U.S. dollars is Bs 46,504.28/US\$1 and Bs 6,716.46/US\$1, respectively, for all transactions. At December 31 and June 30, 2019, the exchange rate for transactions in euros is Bs 52,099.21/€1 and Bs 7,637.28/€1, respectively.

During the six-month periods ended December 31 and June 30, 2019, the Bank recorded net exchange gains of Bs 927,303 million and Bs 130,498 million, respectively, arising from exchange rate fluctuations, mainly caused by the variation in the official exchange rate of the U.S. dollar and the euro, which were included in equity under exchange gain from holding foreign currency assets and liabilities.

**c) Net global position in foreign currency**

The Bank's balance sheet includes the following foreign currency balances denominated mainly in U.S. dollars and euros, and stated at the aforementioned official exchange rate (purchase):

	December 31, 2019				Equivalent in bolivars				
	In U.S. dollars			In euros					
	Bank	Curacao Branch	Eliminations	Total	Bank	Curacao Branch	Eliminations	Total	
<b>Assets</b>									
Cash and due from banks									
Cash	3,822,988	-	-	3,822,988	8,768,183	-	-	8,768,183	634,600,693,251
Central Bank of Venezuela (Note 3)	21,000	-	-	21,000	3,529,800	-	-	3,529,800	184,876,375,305
Foreign and correspondent banks	10,577,176	1,194,139	(296,439)	11,474,876	10,654,344	10,225,321	(10,209,683)	10,669,982	1,089,528,375,016
Investment securities (Note 5)	4,217,163	11,087,176	-	15,304,339	-	-	-	-	711,717,289,978
Loan portfolio (Note 6)									
Gross loan portfolio	686,280	11,750,942	-	12,437,222	-	-	-	-	578,384,035,947
(Allowance for losses on loan portfolio)	-	(1,317,346)	-	(1,317,346)	-	-	-	-	(61,262,225,296)
Interest and commissions receivable (Note 7)									
Gross interest and commissions receivable	1,521,209	85,176	-	1,606,385	-	-	-	-	74,703,728,951
(Provision for interest receivable and other)	(1,514,260)	(36,597)	-	(1,550,857)	-	-	-	-	(72,121,485,878)
Investments in subsidiaries, affiliates and branches (Note 8)	11,621,199	-	(11,621,199)	-	97,965	-	-	97,965	5,103,898,941
Property and equipment (Note 10)	-	14,092	-	14,092	-	-	-	-	655,338,293
Other assets (Note 11)									
Other gross assets	1,459,614	108,228	-	1,567,842	21,913	-	-	21,913	74,052,994,583
(Provision for other assets)	(1,436,614)	(20,750)	-	(1,457,364)	-	-	-	-	(67,773,661,366)
<b>Total assets</b>	<b>30,975,755</b>	<b>22,865,060</b>	<b>(11,917,638)</b>	<b>41,923,177</b>	<b>23,072,205</b>	<b>10,225,321</b>	<b>(10,209,683)</b>	<b>23,087,843</b>	<b>3,152,465,357,725</b>



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During the six-month period ended December 31, 2019, the Bank recorded exchange gains and losses of Bs 973 million and Bs 480, respectively (Bs 892 million and Bs 980 million, respectively, during the six-month period ended June 30, 2019), arising from exchange rate fluctuations of the U.S. dollar with respect to other foreign currencies (Notes 17 and 18).

**5. Investment securities**

Investment securities comprise the following:

	December 31, 2019	June 30, 2019
	(In bolivars)	
<b>Investments</b>		
Deposits with the BCV and overnight deposits	-	35,888,277,752
Available for sale	163,152,774,689	37,937,083,178
Held to maturity	386,577,013,500	34,941,128,466
Restricted	162,246,043,140	23,214,517,646
Other securities	<u>3,669,972</u>	<u>3,673,167</u>
	<u>711,979,501,301</u>	<u>131,984,680,209</u>

**a) Deposits with the BCV and overnight deposits**

Deposits with the BCV and overnight deposits at June 30, 2019 comprise the following:

	(In bolivars)
Overnight deposits at Banesco Banco Universal C.A., annual yield between 123% and 125%, maturing in July 2019	8,430,000,000 (1)
Overnight deposits at Banco del Caribe, C.A., Banco Universal, 125% annual yield, maturing in July 2019	1,000,000,000 (1)
Overnight deposits at Banco Caroní C.A., Banco Universal, 125% annual yield, maturing in July 2019	5,000,000,000 (1)
Overnight deposits at Citibank N.A., Venezuelan branch, 125% annual yield, maturing in July 2019	1,100,000,000 (1)
Overnight deposits at Banco Exterior C.A., Banco Universal, 125% annual yield, maturing in July 2019	600,000,000 (1)
Overnight deposits at Mercantil C.A., Banco Universal, 125% annual yield, maturing in July 2019	3,000,000,000 (1)
Overnight deposits at Banco Sofitasa, Banco Universal C.A., 125% annual yield, maturing in July 2019	1,000,000,000 (1)
Overnight deposits at Venezolano de Crédito S.A., Banco Universal, 125% annual yield, maturing in July 2019	3,400,000,000 (1)
Overnight deposits at Banco Multibank, Inc., with a par value of US\$940,000, 2.00% annual yield, maturing in July 2019 (Note 4)	6,313,467,982 (1)
Overnight deposits at Banco Do Brasil, S.A., with a par value of US\$900,000, 1.50% annual yield, maturing in July 2019 (Note 4)	<u>6,044,809,770 (1)</u>
	<u>35,888,277,752</u>

(1) Shown at par value, which is considered as fair value.

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#### b) Investments in available-for-sale securities

Investments in available-for-sale securities comprise the following:

	December 31, 2019			June 30, 2019		
	Acquisition cost	Net unrealized gain (loss)	Book value (equivalent to market value)	Acquisition cost	Net unrealized gain (loss)	Book value (equivalent to market value)
	(In bolivars)					
<b>Debt securities issued by foreign non-financial public-sector entities</b>						
Treasury Notes, issued by the United States of America, equivalent to US\$3,498,613 with a par value of US\$3,500,000, maturing in January 2020 (equivalent to US\$5,298,721, with a par value of US\$5,301,000, maturing in July 2019 at June 30, 2019) (Note 4)	162,537,930,343	162,519,909	162,700,450,252 (1) - (d) and (e)	35,530,123,230	58,496,631	35,588,619,861 (1) - (d) y (e)
<b>Debt securities issued or guaranteed by the Venezuelan government</b>						
Fixed Interest Securities (TIF), with a par value of Bs 21,570, annual yield between 13.25% and 16.5%, maturing between February 2021 and January 2037	23,976	2,726	26,702 (1) - (a)	24,103	2,795	26,898 (1) - (a)
Veponos, with a par value of Bs 202,244,232, annual yield between 17.14% and 26.19%, maturing between January 2020 and August 2037 (Bs 202,244,232, annual yield between 12.08% and 21.07% at June 30, 2019)	202,247,029	40,265,061	242,512,090 (1) - (a)	202,247,029	41,420,086	243,667,115 (1) - (a)
Sovereign Bonds of the Bolivarian Republic of Venezuela, equivalent to US\$298,803 with a par value of US\$1,287,000, 7.75% annual yield, maturing in October 2019 (Notes 4 and 11)	-	-	-	2,372,712,955	(365,817,379)	2,006,895,576 (1) - (b)
Global Bonds, equivalent to US\$211 and US\$185 at December 31 and June 30, 2019, with a par value of US\$800, 9.25% annual yield, maturing in September 2027 (Note 4)	27,344,516	(22,875,455)	4,469,061 (1) - (b)	3,949,276	(2,530,760)	1,418,516 (1) - (b)
	<u>229,615,521</u>	<u>17,392,332</u>	<u>247,007,853</u>	<u>2,578,933,363</u>	<u>(326,925,258)</u>	<u>2,252,008,105</u>
<b>Equity in Venezuelan non-financial private-sector companies</b>						
Common shares						
S.G.R. - SOGATUR, S.A., Sociedad de Garantías Reciprocas para el Sector Turismo S.A., 10,873 shares, with a par value of Bs 0.018 each	196	-	196 (2) - (f)	196	-	196 (2) - (f)
S.G.R. - SOGAMIC, S.A., Sociedad de Garantías Reciprocas del Sector Microfinanciero, 17,500 common shares, with a par value of Bs 0.0001 each, 3.10% owned	2	-	2 (2) - (f)	2	-	2 (2) - (f)
	<u>198</u>	<u>-</u>	<u>198</u>	<u>198</u>	<u>-</u>	<u>198</u>
<b>Debt securities issued by foreign financial private-sector companies</b>						
International Cooperatief UA, equivalent to US\$4,415 and US\$14,361 at December 31 and June 30, 2019, with a par value of US\$100,000, 10.38% annual yield, maturing in September 2020 (Note 4)	1,395,231,881	(1,189,915,495)	205,316,386 (1) - (c)	201,513,808	(105,058,794)	96,455,014 (1) - (c)
	<u>164,162,777,943</u>	<u>(1,010,003,254)</u>	<u>163,152,774,689</u>	<u>38,310,570,599</u>	<u>(373,487,421)</u>	<u>37,937,083,178</u>

(1) Estimated fair value is determined from trading operations on the secondary market per valuation screens or yield curves,  
(2) Shown at par value or acquisition cost, which is considered as fair value.

#### Custodians of investments

- (a) Central Bank of Venezuela.
- (b) Caja Venezolana de Valores, S.A.
- (c) Morgan Stanley Private Wealth Management.
- (d) Pershing LLC.
- (e) Morgan Stanley Smith Barney.
- (f) Shares in custody of private-sector companies, S.G.R. - SOGAMIC, S.A. and S.G.R. - SOGATUR, S.A.

Through Notice SIB-II-GGIBPV2-40535 of December 13, 2012, SUDEBAN informed the Bank that since the Reuters and Bloomberg services which offer reference prices for all key global financial markets do not provide reference prices for the Bank's available-for-sale investments, the Bank must use similar services or, if unavailable, must apply the present value (yield curve) to measure its available-for-sale investments, as required by the Accounting Manual. The Bank used these guidelines to measure its available-for-sale investments at December 31 and June 30, 2019.

Sovereign Bonds of the Bolivarian Republic of Venezuela with a par value of US\$1,287,000 and book value equivalent to fair value of US\$134,981 matured on October 13, 2019. At December 31, 2019, the issuer has not paid the par value of these bonds; therefore, they were reclassified as matured financial instruments receivable under other assets at par value. A provision was set aside for the full amount of the carrying amount of this asset (Note 11). At the date of maturity of these bonds, equity included an unrealized loss on investments in available-for-sale securities for Bs 4,143 million, which was adjusted with a charge to net income as net loss on write-down of matured securities (Note 18).

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At period end, fluctuations in the market value of these investments are recorded in equity under net unrealized loss on investments in available-for-sale securities. These unrealized gains or losses comprise the following:

	December 31, 2019	June 30, 2019
	(In bolivars)	
<b>Unrealized gain</b>		
Securities issued or guaranteed by the Venezuelan government in local currency	40,267,787	41,422,881
Debt securities issued by foreign non-financial public-sector entities	<u>162,519,909</u>	<u>58,496,631</u>
	<u>202,787,696</u>	<u>99,919,512</u>
<b>Unrealized loss</b>		
Securities issued or guaranteed by the Venezuelan government in foreign currency	(22,875,455)	(368,348,139)
Debt securities issued by foreign financial private-sector companies	<u>(1,189,915,495)</u>	<u>(105,058,794)</u>
	<u>(1,212,790,950)</u>	<u>(473,406,933)</u>
	<u>(1,010,003,254)</u>	<u>(373,487,421)</u>

Below is the classification of investments in available-for-sale securities according to maturity:

	Fair value	
	December 31, 2019	June 30, 2019
	(In bolivars)	
Up to 6 months	162,700,450,252	37,595,515,545
6 months to 1 year	205,316,386	-
1 to 5 years	7,699,853	338,607,269
Over 5 years	239,308,000	2,960,166
Without maturity	<u>198</u>	<u>198</u>
	<u>163,152,774,689</u>	<u>37,937,083,178</u>

During the six-month period ended December 31, 2019, the Bank sold investments in available-for-sale securities for US\$34,621,112, equivalent to Bs 1,610,030 million (Bs 4,029 million and US\$32,166,963, equivalent to Bs 216,048 million for the six-month period ended June 30, 2019). As a result of these sales, during the six-month period ended December 31, 2019, the Bank recorded gains of Bs 2,108 million (gains and losses Bs 524 million and Bs 307 million, respectively, for the six-month period ended June 30, 2019), shown under other operating income and other operating expenses, respectively (Notes 17 and 18).

**c) Investments in held-to-maturity securities**

Investments in held-to-maturity securities comprise the following:

	December 31, 2019			June 30, 2019		
	Acquisition cost	Amortized cost	Fair value	Acquisition cost	Amortized cost	Fair value
	(In bolivars)					
<b>Certificates of deposits in foreign financial institutions</b>						
Banco Do Brasil, S.A., with a par value of US\$4,950,000, annual yield between 1.79% and 1.86%, maturing in January 2020 (US\$1,050,000, 2.65% annual yield, maturing in July 2019 at June 30, 2019) (Note 4)	230,196,178,674	230,196,178,674	230,196,178,674 (2) - (d)	7,052,278,043	7,052,278,043	7,052,278,043 (2) - (d)
Itaú Unibanco, S.A., with a par value of US\$1,500,000, 1.79% annual yield, maturing in January 2020 (US\$2,500,000, annual yield between 2.40% and 2.65%, maturing in July 2019 at June 30, 2019) (Note 4)	69,756,417,500	69,756,417,500	69,756,417,500 (2) - (e)	16,791,138,197	16,791,138,197	16,791,138,197 (2) - (e)
CAF, Development Bank of Latin America, with a par value of US\$1,000,000, 1.8% annual yield, maturing in January 2020	<u>46,504,278,520</u>	<u>46,504,278,520</u>	<u>46,504,278,520 (2) - (f)</u>	-	-	-
	<u>346,456,874,694</u>	<u>346,456,874,694</u>	<u>346,456,874,694</u>	<u>23,843,416,240</u>	<u>23,843,416,240</u>	<u>23,843,416,240</u>

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	December 31, 2019			June 30, 2019		
	Acquisition cost	Amortized cost	Fair value	Acquisition cost	Amortized cost	Fair value
	(In bolivars)					
<b>Securities issued or guaranteed by the Venezuelan government</b>						
Global Bonds in foreign currency, equivalent to US\$861,661, with a par value of US\$7,125,000, annual yield between 9.25% and 15.23%, maturing in September 2027 (US\$1,649,228, with a par value of US\$6,625,000 at June 30, 2019) (Note 4)	35,973,268,388	40,070,944,577	39,804,232,723 (1) - (a) y (c)	11,076,962,783	11,076,962,783	11,076,962,783 (1) - (a)
Vebonos, with a par value of Bs 15,957,118, annual yield between 14.42% and 20.34%, maturing between June 2020 and October 2030	15,967,557	15,963,187	21,986,522 (1) - (b)	15,967,557	15,964,231	21,400,000 (1) - (b)
Sovereign Bonds, equivalent to US\$89, with a par value of US\$100, 8.25% annual yield, maturing in October 2024 (Note 4)	3,570,133	4,152,137	543,775 (1) - (c)	515,622	592,156	179,231 (1) - (c)
Fixed Interest Bonds (TIF), with a par value of Bs 7,668, annual yield between 9.88% and 16.25%, maturing between October 2020 and January 2026 (maturing between August 2019 and October 2026 at June 30, 2019)	10,065	8,781	9,824 (1) - (b)	10,328	9,084	10,052 (1) - (b)
	<u>35,992,816,143</u>	<u>40,091,068,682</u>	<u>39,826,772,844</u>	<u>11,093,456,290</u>	<u>11,093,528,254</u>	<u>11,098,552,066</u>
<b>Bonds and debt securities issued by Venezuelan non-financial institutions</b>						
Dematerialized Participation Certificates, issued by Fondo Simón Bolívar para Reconstrucción, S.A. with a par value of Bs 60,868, maturing between June 2023 and November 2024, annual yield between 4.66% and 6.05%	60,868	60,868	60,868 (2) - (b)	60,868	60,868	60,868 (2) - (b)
PDVSA bonds issued by Petróleos de Venezuela, S.A. equivalent to US\$624 and US\$614 at December 31 and June 30, 2019, respectively, with a par value of US\$900, annual yield between 5.38% and 5.50%, maturing between April 2027 and 2037 (Note 4)	21,025,514	29,009,256	3,238,093 (1) - (c)	3,036,644	4,123,104	1,299,016 (1) - (c)
	<u>21,086,382</u>	<u>29,070,124</u>	<u>3,298,961</u>	<u>3,097,512</u>	<u>4,183,972</u>	<u>1,359,884</u>
	<u>382,470,777,219</u>	<u>386,577,013,500</u>	<u>386,286,946,499</u>	<u>34,939,970,042</u>	<u>34,941,128,466</u>	<u>34,943,328,190</u>

(1) Fair value is determined from trading operations on the secondary market per valuation screens or the present value of estimated future cash flows.

(2) Shown at par value, which is considered as fair value.

**Custodians of investments**

- (a) Caja Venezolana de Valores, S.A.
- (b) Central Bank of Venezuela.
- (c) Euroclear Bank, S.A.
- (d) Banco Do Brasil, S.A.
- (e) Itaú Unibanco, S.A.
- (f) CAF - Banca de Desarrollo de América Latina.

During the six-month periods ended December 31 and June 30, 2019, the Bank recorded expenses of US\$876,450 and US\$352,847, equivalent to Bs 10,787 million and Bs 2,370 million, respectively, in respect of permanent write-downs of Global Bonds of the Bolivarian Republic of Venezuela, maturing in September 2027, shown under other operating expenses (Note 18).

During the six-month periods ended December 31 and June 30, 2019, the Bank recorded income from amortization of discounts on held-to-maturity investments of Bs 3,678 million and Bs 788 million, respectively (Note 17).

Below is the classification of held-to-maturity securities according to maturity:

	December 31, 2019		June 30, 2019	
	Amortized cost	Fair value	Amortized cost	Fair value
	(In bolivars)			
Less than 1 year	346,456,874,694	346,456,874,694	23,843,423,365	23,843,423,933
1 to 5 years	4,221,786	614,467	15,161,731	20,270,439
5 to 10 years	40,086,907,764	39,826,219,245	11,079,415,908	11,078,626,941
Over 10 years	<u>29,009,256</u>	<u>3,238,093</u>	<u>3,127,462</u>	<u>1,006,877</u>
	<u>386,577,013,500</u>	<u>386,286,946,499</u>	<u>34,941,128,466</u>	<u>34,943,328,190</u>

The Bank has the ability and intention to hold these securities to maturity.

At December 31 and June 30, 2019, the Bank has an account in the name of the BCV at the Euroclear Bank to hold in custody all foreign currency securities held by other foreign financial institutions, as set out in Article 51 of the Law on Banking Sector Institutions. The custodians Pershing LLC, Morgan Stanley Smith Barney and Morgan Stanley Private Wealth Management only hold securities of the Branch; Banco Do Brasil, S.A., Itaú Unibanco, S.A. and CAF - Banca de Desarrollo de América Latina only hold placements and certificates of deposit.

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**d) Restricted investments**

Restricted investments comprise the following:

	<u>December 31, 2019</u>		<u>June 30, 2019</u>		
	<u>Amortized cost</u>	<u>Fair value</u>	<u>Amortized cost</u>	<u>Fair value</u>	
(In bolivars)					
<b>Certificates of deposit</b>					
Social Contingency Fund (Note 22)	2,193	2,193	1,297	1,297	(1)
PNC Bank, with a par value of US\$1,819,171 (US\$1,803,202 at June 30, 2019) (Note 4)	84,599,233,428	84,599,233,428	12,111,128,719	12,111,128,719	(1)
JP Morgan Chase Bank, with a par value of US\$1,669,670 (US\$1,653,162 at June 30, 2019) (Note 4)	<u>77,646,807,519</u>	<u>77,646,807,519</u>	<u>11,103,387,630</u>	<u>11,103,387,630</u>	(1)
	<u>162,246,043,140</u>	<u>162,246,043,140</u>	<u>23,214,517,646</u>	<u>23,214,517,646</u>	

(1) Par value is used as fair value. Certificates of deposit denominated in foreign currency are shown at the official exchange rate.

At December 31 and June 30, 2019, the certificates of deposit with JP Morgan Chase Bank and PNC Bank are used as collateral to guarantee VISA and MasterCard credit card operations, respectively.

**e) Investments in other securities**

Investments in other securities comprise the following:

	<u>December 31, 2019</u>	<u>June 30, 2019</u>	
(In bolivars)			
BANDES securities, issued by Banco de Desarrollo Económico y Social de Venezuela, with a par value of Bs 3,669,972, 10% annual yield, maturing between December 2022 and August 2024 (with a par value of Bs 3,673,167 at June 30, 2019)	<u>3,669,972</u>	<u>3,673,167</u>	(1) - (a)

(1) Par value is considered as fair value. These securities may be sold to the BCV through a resale agreement at 100% of their par value.

**Custodian of investments**

(a) Central Bank of Venezuela

The Bank has the ability and intention to hold these securities to maturity.

The Bank's control environment includes policies and procedures to determine investment risks by entity and economic sector. At December 31, 2019, the Bank has investment securities issued or guaranteed by the Venezuelan government of Bs 40,371 million, representing 6% of its investment securities portfolio (10% at June 30, 2019).



**Banco Nacional de Crédito, C.A, Banco Universal**  
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**6. Loan portfolio**

The loan portfolio is classified as follows:

	December 31, 2019				June 30, 2019			
	Current	Rescheduled	Overdue	Total	Current	Rescheduled	Overdue	Total
	(In bolivars)							
<b>Economic activity - operations in Venezuela</b>								
Wholesale and retail trade, restaurants and hotels	143,263,456,086	-	262	143,263,456,348	11,281,575,914	-	895,880	11,282,471,794
Communal, social and consumer services, includes US\$271,280 at December 31, 2019 (Note 4)	91,972,012,313	-	106,371,668	92,078,383,981	6,019,349,258	-	326,700	6,019,675,958
Agriculture, fishing and forestry includes US\$390,000 at December 31, 2019 (Note 4)	73,997,328,952	-	-	73,997,328,952	9,123,784,462	-	-	9,123,784,462
Manufacturing	71,214,956,639	-	-	71,214,956,639	18,899,071,277	90	18,624,338	18,917,695,705
Financial businesses, insurance, real estate and services includes US\$25,000 at December 31, 2019 (Note 4)	16,822,230,631	-	5,834	16,822,236,465	7,074,430,404	-	56,940	7,074,487,344
Transportation, warehousing and communications	5,959,452,639	-	-	5,959,452,639	3,219,302,616	-	-	3,219,302,616
Construction	454,526,718	-	1,409	454,528,127	6,341,432,102	-	-	6,341,432,102
Utilities	98,043,750	-	-	98,043,750	186,870,665	-	-	186,870,665
Mining and oil	731,645	-	-	731,645	615,908	-	-	615,908
	<u>403,782,739,373</u>	<u>-</u>	<u>106,379,173</u>	<u>403,889,118,546</u>	<u>62,146,432,606</u>	<u>90</u>	<u>19,903,858</u>	<u>62,166,336,554</u>
<b>Economic activity - operations in the Curacao Branch</b>								
Manufacturing equivalent to US\$5,432,243 (Note 4) (US\$1,958,667 at June 30, 2019) (Note 4)	252,622,573,567	-	-	252,622,573,567	13,155,294,694	-	-	13,155,294,694
Wholesale and retail trade, restaurants and hotels, equivalent to US\$2,758,698 (US\$286,320 at June 30, 2019) (Note 4)	128,291,260,154	-	-	128,291,260,154	1,923,055,475	-	-	1,923,055,475
Communal, social and consumer services, equivalent to US\$2,435,000 (US\$2,180,000 at June 30, 2019) (Note 4)	99,286,634,648	-	13,951,283,550	113,237,918,198	4,970,176,906	-	9,671,695,632	14,641,872,538
Transportation, warehousing and communications equivalent to US\$550,000	25,577,353,188	-	-	25,577,353,188	-	-	-	-
Agriculture, fishing and forestry, equivalent to US\$350,000 (US\$560,000 at June 30, 2019) (Note 4)	16,276,497,483	-	-	16,276,497,483	4,029,873,167	-	-	4,029,873,167
Construction, equivalent to US\$225,001 (US\$2,300,301 at June 30, 2019) (Note 4)	<u>10,463,486,116</u>	<u>-</u>	<u>-</u>	<u>10,463,486,116</u>	<u>2,014,943,300</u>	<u>-</u>	<u>-</u>	<u>2,014,943,300</u>
	<u>532,517,805,156</u>	<u>-</u>	<u>13,951,283,550</u>	<u>546,469,088,706</u>	<u>26,093,343,542</u>	<u>-</u>	<u>9,671,695,632</u>	<u>35,765,039,174</u>
	<u>936,300,544,529</u>	<u>-</u>	<u>14,057,662,723</u>	<u>950,358,207,252</u>	<u>88,239,776,148</u>	<u>90</u>	<u>9,691,599,490</u>	<u>97,931,375,728</u>
Allowance for losses on loan portfolio, includes US\$1,317,347 (US\$1,326,658 at June 30, 2019) (Note 4)				(69,706,834,443)				(13,829,154,162)
				<u>880,651,372,809</u>				<u>84,102,221,566</u>
<b>Guarantee - operations in Venezuela</b>								
Endorsement, includes US\$170,000 at December 31, 2019	198,048,825,633	-	-	198,048,825,633	26,227,117,291	-	-	26,227,117,291
Real property mortgage	3,517,411,702	-	-	3,517,411,702	512,299,759	-	-	512,299,759
Non-possessory pledge	2,849,774,815	-	-	2,849,774,815	115	-	-	115
Collateral	1,750,926,808	-	-	1,750,926,808	165,433	-	-	165,433
Chattel mortgage	15,484,738	-	-	15,484,738	48,465,382	-	-	48,465,382
Pledge	-	-	-	-	102,247,682	-	-	102,247,682
Other guarantees	28	-	-	28	131	-	-	131
Unsecured, includes US\$455,000 at December 31, 2019	<u>197,600,315,649</u>	<u>-</u>	<u>106,379,173</u>	<u>197,706,694,822</u>	<u>35,256,136,813</u>	<u>90</u>	<u>19,903,858</u>	<u>35,276,040,761</u>
	<u>403,782,739,373</u>	<u>-</u>	<u>106,379,173</u>	<u>403,889,118,546</u>	<u>62,146,432,606</u>	<u>90</u>	<u>19,903,858</u>	<u>62,166,336,554</u>
<b>Guarantee - operations in the Curacao Branch</b>								
Unsecured, equivalent to US\$7,665,243 (US\$1,807,000 at June 30, 2019) (Note 4)	342,515,326,012	-	13,951,283,550	356,466,609,562	10,121,693,487	-	2,014,936,614	12,136,630,101
Endorsement, equivalent to US\$3,513,699 (US\$1,386,320 at June 30, 2019) (Note 4)	163,402,031,828	-	-	163,402,031,828	9,311,156,282	-	-	9,311,156,282
Collateral, equivalent to US\$347,000 (US\$1,831,776 at June 30, 2019) (Note 4)	16,136,984,648	-	-	16,136,984,648	4,645,550,473	-	7,656,759,018	12,302,309,491
Pledge, equivalent to US\$225,000 (US\$300,001 at June 30, 2019) (Note 4)	<u>10,463,462,668</u>	<u>-</u>	<u>-</u>	<u>10,463,462,668</u>	<u>2,014,943,300</u>	<u>-</u>	<u>-</u>	<u>2,014,943,300</u>
	<u>532,517,805,156</u>	<u>-</u>	<u>13,951,283,550</u>	<u>546,469,088,706</u>	<u>26,093,343,542</u>	<u>-</u>	<u>9,671,695,632</u>	<u>35,765,039,174</u>
	<u>936,300,544,529</u>	<u>-</u>	<u>14,057,662,723</u>	<u>950,358,207,252</u>	<u>88,239,776,148</u>	<u>90</u>	<u>9,691,599,490</u>	<u>97,931,375,728</u>
<b>Maturity - operations in Venezuela</b>								
Up to 30 days	307,704,538,551	-	103,347,592	307,807,886,143	45,702,493,753	-	19,619,337	45,722,113,090
31 to 60 days	53,133,874,565	-	-	53,133,874,565	6,621,533,952	-	794	6,621,534,746
61 to 90 days	23,695,213,594	-	-	23,695,213,594	1,257,486,116	-	595	1,257,486,711
91 to 180 days	-	-	-	-	633,962	-	161	3,781,762,174
181 to 360 days	8,325,982,853	-	47,067	8,326,029,920	138,683,367	90	-	138,683,457
Over 360 days	<u>10,922,495,828</u>	<u>-</u>	<u>2,984,514</u>	<u>10,925,480,342</u>	<u>4,644,473,405</u>	<u>-</u>	<u>282,971</u>	<u>4,644,756,376</u>
	<u>403,782,739,373</u>	<u>-</u>	<u>106,379,173</u>	<u>403,889,118,546</u>	<u>62,146,432,606</u>	<u>90</u>	<u>19,903,858</u>	<u>62,166,336,554</u>
<b>Maturity - operations in Curacao Branch</b>								
Overdue	11,626,069,631	-	-	11,626,069,631	3,526,134,434	-	-	3,526,134,434
Up to 60 days	157,832,809,642	-	-	157,832,809,642	8,731,391,863	-	-	8,731,391,863
61 to 90 days	139,977,878,356	-	-	139,977,878,356	1,444,037,885	-	-	1,444,037,885
91 to 180 days	74,406,845,638	-	-	74,406,845,638	5,731,285,587	-	7,656,759,048	13,388,044,635
181 to 360 days	109,145,541,427	-	13,951,283,550	123,096,824,977	-	-	2,014,936,584	2,014,936,584
Over 360 days	<u>39,528,660,462</u>	<u>-</u>	<u>-</u>	<u>39,528,660,462</u>	<u>6,660,493,773</u>	<u>-</u>	<u>-</u>	<u>6,660,493,773</u>
	<u>532,517,805,156</u>	<u>-</u>	<u>13,951,283,550</u>	<u>546,469,088,706</u>	<u>26,093,343,542</u>	<u>-</u>	<u>9,671,695,632</u>	<u>35,765,039,174</u>
	<u>936,300,544,529</u>	<u>-</u>	<u>14,057,662,723</u>	<u>950,358,207,252</u>	<u>88,239,776,148</u>	<u>90</u>	<u>9,691,599,490</u>	<u>97,931,375,728</u>

**Banco Nacional de Crédito, C.A, Banco Universal**  
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	December 31, 2019				June 30, 2019			
	Current	Rescheduled	Overdue	Total	Current	Rescheduled	Overdue	Total
	(In bolivars)							
<b>Type of loan - operations in Venezuela</b>								
Loans granted through UVCC	213,306,517,872	-	-	213,306,517,872	-	-	-	-
Manufacturing	66,523,539,399	-	-	66,523,539,399	2,766,712,735	90	-	2,766,712,825
Agriculture	35,565,382,259	-	-	35,565,382,259	8,681,534,111	-	-	8,681,534,111
Loans in foreign currency, equivalent to								
US\$686,280 (Note 4)	31,914,949,071	-	-	31,914,949,071	-	-	-	-
Checking accounts	30,016,284,336	-	103,549,999	30,119,834,335	45,775,465,624	-	19,613,169	45,795,078,793
Employee loans	13,735,463,185	-	219,349	13,735,682,534	1,646,773,134	-	11,718	1,646,784,852
Credit cards	5,307,324,723	-	2,609,825	5,309,934,548	2,613,517,888	-	278,960	2,613,796,848
Tourism	4,512,964,423	-	-	4,512,964,423	15,560,472	-	-	15,560,472
Microcredits	2,865,301,315	-	-	2,865,301,315	611,613,979	-	-	611,613,979
Mortgage	35,012,762	-	-	35,012,762	35,254,545	-	-	35,254,545
Vehicles	28	-	-	28	112	-	-	112
Fixed term	-	-	-	-	6	-	11	17
	<u>403,782,739,373</u>	<u>-</u>	<u>106,379,173</u>	<u>403,889,118,546</u>	<u>62,146,432,606</u>	<u>90</u>	<u>19,903,858</u>	<u>62,166,336,554</u>
<b>Type of loan - operations in the Curacao Branch</b>								
Fixed term, equivalent to US\$11,750,942 (US\$5,324,988 at June 30, 2019) (Note 4)	<u>532,517,805,156</u>	<u>-</u>	<u>13,951,283,550</u>	<u>546,469,088,706</u>	<u>26,093,343,542</u>	<u>-</u>	<u>9,671,695,632</u>	<u>35,765,039,174</u>
	<u>532,517,805,156</u>	<u>-</u>	<u>13,951,283,550</u>	<u>546,469,088,706</u>	<u>26,093,343,542</u>	<u>-</u>	<u>9,671,695,632</u>	<u>35,765,039,174</u>
	<u>936,300,544,529</u>	<u>-</u>	<u>14,057,662,723</u>	<u>950,368,207,252</u>	<u>88,239,776,148</u>	<u>90</u>	<u>9,691,599,490</u>	<u>97,931,375,728</u>

At December 31, 2019, the Bank's loan portfolio includes loans receivable for 951,072,400 UVCC, equivalent to Bs 213,307 million. During the six-month period ended December 31, 2019, net income from variation of principal of these commercial loans amounts to Bs 25,963 million and was recorded in equity. Furthermore, during that same period, the Bank transferred to results for the period Bs 18,410 million of the aforementioned net income in respect of commercial loans through the use of UVCC that had already been collected during the six-month period ended December 31, 2019.

In accordance with SUDEBAN rules, at December 31 and June 30, 2019, the Bank maintains a general allowance of Bs 10,898 million and Bs 985 million, respectively, for losses on the loan portfolio, and a countercyclical allowance of Bs 7,128 million and Bs 734 million, respectively (Note 2-e).

Below is the movement in the allowance for losses on the loan portfolio:

	<u>Six-month periods ended</u>	
	<u>December 31, 2019</u>	<u>June 30, 2019</u>
	(In bolivars)	
Balance at the beginning of the period	13,829,154,162	3,958,751,690
Provided in the period, includes US\$25,115	5,088,700,230	9,658,553,981
Release of allowance, equivalent to US\$20,099 (US\$5,170,478 at June 30, 2019)	(934,735,998)	(34,727,280,615)
Write-offs of uncollectible loans, includes US\$49,294 at June 30, 2019	(399,741,821)	(331,214,138)
Reclassification to provision for interest receivable, include US\$14,329 (Note 7)	(661,449,398)	(582,328)
Adjustment from exchange differences	<u>52,784,907,268</u>	<u>35,270,925,572</u>
Balance at the end of the period	<u>69,706,834,443</u>	<u>13,829,154,162</u>

During the six-month period ended June 30, 2019, the Branch received cash payment of US\$8,617,610, equivalent to Bs 57,878 million in respect of letters of credit, for which an allowance of US\$5,170,478, equivalent to Bs 34,727 million, had been set aside. Accordingly, this allowance was released with a credit to the results for the six-month period ended June 30, 2019, recorded under income from financial assets recovered. On July 25, 2019, management informed SUDEBAN of this release.

At December 31, 2019, overdue loans on which interest is no longer accrued amount to Bs 14,058 million (Bs 9,692 million at June 30, 2019). In addition, at December 31, 2019, memorandum accounts include Bs 713 million (Bs 463 million at June 30, 2019), in respect of interest not recognized as income from loans on which interest is no longer accrued (Note 20).

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During the six-month periods ended December 31 and June 30, 2019, the Bank collected commissions on settlement of loans granted to its customers for Bs 20,781 million and Bs 6,730 million, respectively, in connection with procedures for management and documentation of pledged lines of credit. Furthermore, during the six-month periods ended December 31 and June 30, 2019, the Bank provided financial advisory services to its customers when granting loans and has charged commissions for Bs 59,092 million and Bs 8,388 million, respectively, in this connection (Note 17).

At December 31 and June 30, 2019, interest receivable collected in advance from debtors upon loan settlement amounts to Bs 2,139 million and Bs 797 million, respectively, which are part of deferred income under accruals and other liabilities. Interest is recorded as income upon collection (Note 15).

Through Notice SIB-II-GGIBPV-GIBPV6-01693 of February 8, 2019, SUDEBAN instructed the Bank to reverse from retained earnings in equity, unrealized benefits on loans granted by the Branch for US\$32,937, equivalent to Bs 108,493,963, with a credit to deferred income under accruals and other liabilities, since they were paid by the debtor with resources derived from interest on time deposits at the same financial institution (Note 15). During the six-month period ended December 31, 2019, the Bank collected interest with the debtor's own resources; therefore, the amount maintained by the Bank as deferred income was recorded in the net result for the period as income from loan portfolio.

Universal banks should earmark a minimum nominal percentage to finance loans for agriculture, small businesses, mortgage, manufacturing and tourism as follows:

Activity	December 31, 2019					June 30, 2019					Calculation basis
	Balance maintained in bolivars	Earmarked %	Required %	Number of debtors	Maximum annual interest rate %	Balance maintained in bolivars	Earmarked %	Required %	Number of debtors	Maximum annual interest rate %	
Agriculture (a)	35,565,382,259	26.12	20	78	17	8,681,534,111	20.75	20.00	75	17	Gross loan portfolio from previous quarter
Small businesses (b)	2,865,301,315	4.61	3	22	36	611,613,979	4.66	3.00	32	36	Gross loan portfolio from previous six-month period
Mortgages (c)	35,012,762	0.27	20	224	Between 4.66 and 12.66	35,254,545	0.27	-	177	Between 4.66 and 12.66	Gross loan portfolio from immediate previous year
Tourism (d)	4,512,964,423	27,821.78	5.25	27	Between 2.75 and 15	15,560,472	95.93	2.50	27	5.75	Gross loan portfolio at December 31, 2017
Manufacturing (e)	66,523,539,399	506.99	30	10	22	2,766,712,825	21.09	20	11	22	Gross loan portfolio from immediate previous year

**Percentages required as per:**

- (a) Resolution issued by the Venezuelan government, published in Official Gazette No. 41,637 of May 21, 2019.
- (b) Law on Banking Sector Institutions.
- (c) Decree No. 2,271 of the Presidency of the Bolivarian Republic of Venezuela dated February 14, 2017.
- (d) Resolution issued by the Venezuelan government, published in Official Gazette No. 41,393 of May 9, 2018.
- (e) Resolution issued by the Venezuelan government, published in Official Gazette No. 41,438 of July 12, 2018.

**Subsequent event**

**Single National Productive Portfolio**

The National Constituent Assembly issued a Decree to create the Single National Productive Portfolio to finance the agri-food, manufacturing, tourism, health and mortgage sectors. The minimum and maximum mandatory percentage for this portfolio is 10% and 25%, respectively, of the banks' period-end gross portfolio. This Decree repeals all previous regulations on the different mandatory loan portfolios.

The Bank's control environment includes policies and procedures to determine credit risks by client and economic sector. Concentration of risk is limited since loans are granted to a variety of economic sectors and a large number of clients. At December 31 and June 30, 2019, the Bank's loan portfolio does not have significant risk concentrations in terms of individual clients and groups of related companies.

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**7. Interest and commissions receivable**

Interest and commissions receivable comprise the following:

	December 31, 2019	June 30, 2019
	(In bolivars)	
<b>Interest receivable on investment securities</b>		
Held to maturity, includes US\$1,518,159 (US\$184,282 at June 30, 2019) (Note 4)	70,601,068,306	1,237,856,639
Available for sale, includes US\$2,866 (US\$24,292 at June 30, 2019)	140,363,146	168,601,733
Deposits with the BCV and overnight deposits, includes US\$275 (Note 4)	-	246,449,849
Other securities (Note 4)	<u>100,973</u>	<u>98,980</u>
	<u>70,741,532,425</u>	<u>1,653,007,201</u>
<b>Interest receivable on loan portfolio</b>		
Current, includes US\$49,892 (US\$22,461 at June 30, 2019) (Note 4)	3,455,458,818	480,244,215
Overdue, includes US\$35,466 (US\$21,356 at June 30, 2019) (Note 4)	1,653,867,116	147,451,940
Microcredits	<u>21,846,069</u>	<u>7,296,021</u>
	<u>5,131,172,003</u>	<u>634,992,176</u>
<b>Commissions receivable</b>		
Trust fund (Note 20)	<u>15,419,900</u>	<u>2,208,273</u>
	75,888,124,328	2,290,207,650
Provision for interest receivable and other, includes US\$1,550,857 (US\$224,418 at June 30, 2019) (Note 4)	<u>(72,126,216,775)</u>	<u>(1,511,307,992)</u>
	<u>3,761,907,553</u>	<u>778,899,658</u>

The Bank has provisions for interest and commissions receivable that meet the minimum requirements set by SUDEBAN.

Below is the movement in the provision for interest receivable and other:

	<u>Six-month periods ended</u>	
	December 31, 2019	June 30, 2019
	(In bolivars)	
Balance at the beginning of the period	1,511,307,992	598,032,591
Provided in the period, includes US\$206,279 (US\$228,667 at June 30, 2019)	9,126,578,381	1,539,010,587
Write-offs for uncollectible interest	(176,421)	(10,560)
Reclassification, net of provision for other assets, equivalent to US\$1,182,390 (US\$943,186 at June 30, 2019) (Note 11)	18,638,097,530	(6,334,866,527)
Reclassification from allowance for losses on loan portfolio, includes US\$14,329 at December 31, 2019 (Note 6)	661,449,398	582,328
Adjustment from exchange rate fluctuation	<u>42,188,959,895</u>	<u>5,708,559,573</u>
Balance at the end of the period	<u>72,126,216,775</u>	<u>1,511,307,992</u>

During the six-month period ended June 30, 2019, the Bank reclassified interest receivable on securities, with its respective provision for US\$943,186, equivalent to Bs 6,335 million, to other assets, since these securities were past due. Furthermore, SUDEBAN, through Notice SIB-II-GGIBPV-GIBPV4-10685 of September 24, 2019, instructed the Bank to reclassify this amount to interest and commissions receivable, since securities that earned such interest are not past due. Therefore, in September 2019, the Bank reclassified US\$1,327,316, equivalent to Bs 21,389 million, to interest and commissions receivable (Note 11). Additionally, due to the maturity of Sovereign Bonds of the Bolivarian Republic of Venezuela, on September 13, 2019 (Note 5-b), the Bank reclassified interest receivable for US\$144,926, fully provided for and equivalent to Bs 2,751 million at maturity date, to other assets (Note 11).

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**December 31 and June 30, 2019**

**8. Investment in Branch**

At December 31 and June 30, 2019, the Branch has an assigned capital of US\$7,599,462, which results from Bank contributions approved by the Board of Directors.

Below is a summary of the financial statements of the Branch included in the Bank's financial statements:

**Balance sheet**

	December 31, 2019		June 30, 2019	
	US\$	Equivalent in bolivars	US\$	Equivalent in bolivars
<b>Assets (Note 4)</b>				
Cash and due from banks	12,649,667	588,263,649,276	26,581,648	178,534,450,027
Investment securities	11,087,176	515,601,130,250	10,836,053	72,779,865,373
Loan portfolio	10,433,597	485,206,881,578	3,998,330	26,854,604,635
Interest and commissions receivable	48,579	2,259,138,321	28,248	189,726,429
Property and equipment	14,092	655,349,919	16,135	108,370,006
Other assets	87,478	4,068,108,715	58,782	394,806,674
Total assets	<u>34,320,589</u>	<u>1,596,054,258,059</u>	<u>41,519,196</u>	<u>278,861,823,144</u>
<b>Liabilities and Equity</b>				
<b>Liabilities (Note 4)</b>				
Customer deposits	22,585,373	1,050,316,489,040	30,050,564	201,833,269,207
Interest and commissions payable	1,736	80,749,099	50,862	341,612,348
Accruals and other liabilities	112,281	5,221,544,104	286,805	1,926,312,957
	<u>22,699,390</u>	<u>1,055,618,782,243</u>	<u>30,388,231</u>	<u>204,101,194,512</u>
<b>Equity (Note 4)</b>				
Capital	7,599,462	353,407,497,477	7,599,462	51,041,446,666
Voluntary reserves	2,766,551	128,656,458,253	2,766,551	18,580,156,516
Retained earnings	1,277,279	59,398,938,368	771,885	5,185,590,634
Unrealized loss on investments in available-for-sale securities	(22,093)	(1,027,418,282)	(6,933)	(46,565,184)
Total equity	<u>11,621,199</u>	<u>540,435,475,816</u>	<u>11,130,965</u>	<u>74,760,628,632</u>
Total liabilities and equity	<u>34,320,589</u>	<u>1,596,054,258,059</u>	<u>41,519,196</u>	<u>278,861,823,144</u>

**Income statement**

	Six-month periods ended			
	December 31, 2019		June 30, 2019	
	US\$	Equivalent in bolivars	US\$	Equivalent in bolivars
Interest income	1,291,231	60,047,753,010	1,642,233	11,029,992,255
Interest expense	(17,776)	(826,652,614)	(60,005)	(403,021,182)
Income from financial assets recovered	20,099	934,735,998	5,170,566	34,727,899,716
Expenses from uncollectible loans	(30,303)	(1,409,261,471)	(771,781)	(5,183,668,960)
Other operating income	66,133	3,075,452,569	328,023	2,203,153,359
Other operating expenses	(615,951)	(28,644,375,913)	(1,126,006)	(7,562,774,259)
Operating expenses	(219,536)	(10,209,364,214)	(143,753)	(965,511,274)
Sundry operating income	17,812	828,357,461	399	2,679,868
Sundry operating expenses	(3,051)	(141,825,028)	-	-
Income tax	(3,264)	(151,773,689)	(2,183)	(14,662,032)
Net income	<u>505,394</u>	<u>23,503,046,109</u>	<u>5,037,493</u>	<u>33,834,087,491</u>

The equivalent amounts in bolivars shown in the above financial statements at December 31 and June 30, 2019 have been translated at the official exchange rate of Bs 46,504.28/US\$1 and Bs 6,716.46/US\$1, respectively (Note 2-b).

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**9. Investments in affiliates**

At December 31, 2019, the Bank has an investment recorded at cost of €97,965, equivalent to Bs 5,104 million, in respect of 22 shares, with a par value of €125, acquired in September 2019 from the Society for Worldwide Interbank Financial Telecommunication (SWIFT), an entity domiciled in Belgium; the Bank's equity in SWIFT is below 0.01% of its capital stock.

**10. Property and equipment**

Property and equipment comprises the following:

	Land	Buildings and facilities	Computer hardware	Furniture and equipment	Vehicles (In bolivars)	Equipment for Chip project	Construction in progress	Other property	Total
<b>Balances at December 31, 2018</b>									
Cost (include US\$83,164) (Note 4)	61,341	11,069,850	66,349,923	49,888,665	52,707,510	87	632,003,488	165	812,081,029
Accumulated depreciation (include US\$63,255) (Note 4)	-	(129,545)	(34,069,621)	(7,863,867)	(250,974)	(87)	-	-	(42,314,094)
Net balance	<u>61,341</u>	<u>10,940,305</u>	<u>32,280,302</u>	<u>42,024,798</u>	<u>52,456,536</u>	<u>-</u>	<u>632,003,488</u>	<u>165</u>	<u>769,766,935</u>
<b>Movement for the six-month period ended June 30, 2019</b>									
Opening balance	61,341	10,940,305	32,280,302	42,024,798	52,456,536	-	632,003,488	165	769,766,935
Additions	-	-	6,877,153,028	570,589,495	34,040,000	-	2,722,838,959	-	10,204,621,482
Effect of Branch conversion on cost	-	-	372,282,645	133,351,961	-	-	-	-	505,634,606
Effect of Branch conversion on accumulated depreciation	-	-	(315,089,937)	(69,499,002)	-	-	-	-	(384,588,939)
Depreciation expense	-	(270,607)	(31,807,153)	(12,838,375)	(8,358,368)	-	-	-	(53,274,503)
Withdrawals from accumulated depreciation	-	-	-	276	-	-	-	-	276
Closing balance	<u>61,341</u>	<u>10,669,698</u>	<u>6,934,818,885</u>	<u>663,629,153</u>	<u>78,138,168</u>	<u>-</u>	<u>3,354,842,447</u>	<u>165</u>	<u>11,042,159,857</u>
<b>Balances at June 30, 2019</b>									
Cost (include US\$83,164) (Note 4)	61,341	11,069,800	7,315,781,034	753,826,444	86,747,510	87	3,354,842,447	165	11,522,328,828
Accumulated depreciation (include US\$67,029) (Note 4)	-	(400,102)	(380,962,149)	(90,197,291)	(8,609,342)	(87)	-	-	(480,168,971)
Net balance	<u>61,341</u>	<u>10,669,698</u>	<u>6,934,818,885</u>	<u>663,629,153</u>	<u>78,138,168</u>	<u>-</u>	<u>3,354,842,447</u>	<u>165</u>	<u>11,042,159,857</u>
<b>Movement for the six-month period ended December 31, 2019</b>									
Opening balance	61,341	10,669,698	6,934,818,885	663,629,153	78,138,168	-	3,354,842,447	165	11,042,159,857
Additions (Note 11)	-	59,270,908,369	8,633,356,835	8,702,478,326	-	-	42,868,680,524	-	119,475,424,054
Effect of Branch conversion on cost	-	-	2,436,258,149	872,609,871	-	-	-	-	3,308,868,020
Capitalization	-	43,113,834,175	-	-	-	-	(43,113,834,175)	-	-
Withdrawals	-	-	-	-	(1,490)	-	-	-	(1,490)
Effect of Branch conversion on accumulated depreciation	-	-	(2,167,393,803)	(499,680,453)	-	-	-	-	(2,667,074,256)
Depreciation expense	-	(1,489,338)	(1,132,502,924)	(104,885,780)	(8,424,549)	-	-	-	(1,247,302,591)
Withdrawals from accumulated depreciation	-	-	-	-	1,490	-	-	-	1,490
Closing balance	<u>61,341</u>	<u>102,393,922,904</u>	<u>14,704,537,142</u>	<u>9,634,151,117</u>	<u>69,713,619</u>	<u>-</u>	<u>3,109,688,796</u>	<u>165</u>	<u>129,912,075,084</u>
<b>Balances at December 31, 2019</b>									
Cost (include US\$84,896) (Note 4)	61,341	102,395,812,394	18,385,396,018	10,328,914,641	86,746,020	87	3,109,688,796	165	134,306,619,462
Accumulated depreciation (include US\$70,804) (Note 4)	-	(1,889,490)	(3,680,858,876)	(694,763,524)	(17,032,401)	(87)	-	-	(4,394,544,378)
Net balance	<u>61,341</u>	<u>102,393,922,904</u>	<u>14,704,537,142</u>	<u>9,634,151,117</u>	<u>69,713,619</u>	<u>-</u>	<u>3,109,688,796</u>	<u>165</u>	<u>129,912,075,084</u>

During the six-month period ended December 31, 2019, additions relate mainly to the acquisition and conditioning of the Bank's Corporate Office (El Rosal) located in Avenida Francisco de Miranda, Chacao, Miranda State (technology purchases for the corporate office and agencies to be opened during the six-month period ended June 30, 2019).

At December 31 and June 30, 2019, the balance of construction in progress is in respect of construction and remodeling work to the Bank's main office and to existing and new agencies, which is in compliance with the Accounting Manual.

During the six-month period ended December 31, 2019, the Bank recorded depreciation expense of Bs 1,247 million (Bs 53 million during the six-month period ended June 30, 2019), shown in the income statement under general and administrative expenses (Note 19).

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Below are the useful lives by type of asset:

	Useful life	Average remaining useful life	
		December 31, 2019	June 30, 2019
		(Years)	
Buildings and facilities	40	39.94	39.91
Computer hardware	4	3.69	3.65
Furniture and equipment	8-10	9.08	6.17
Vehicles	5	1.09	1.21

**11. Other assets**

Other assets comprise the following:

	December 31, 2019	June 30, 2019
	(In bolivars)	
<b>Deferred expenses</b>		
Licenses	6,607,945,480	426,647,867
Leasehold improvements, net of amortization, includes US\$13,540	2,905,691,945	1,426,008,063
Operating system (software)	1,876,496,019	436,980,008
Deferred loss on mortgage loans to companies whose real property was subject to intervention from the Venezuelan government	2,943	3,172
	<u>11,390,136,387</u>	<u>2,289,639,110</u>
Pending items	151,101,703,702	7,439,611,026
Matured financial instruments receivable, equivalent to US\$1,457,364 (US\$1,002,855, at June 30, 2019) (Notes 4, 5 and 7)	67,773,648,776	6,735,627,422
Advances on purchase options on premises owned by the Bank	34,829,961,483	6,238,322,636
Advances to suppliers	32,003,961,333	4,669,857,607
International credit card transactions	13,708,891,160	-
Prepaid advertising	11,140,482,930	104,485,159
Other prepaid expenses, includes US\$51 at June 30, 2019 (Note 4)	10,258,907,305	1,385,611,504
Prepaid taxes and subscriptions (Note 16)	4,443,034,575	976,909,833
Bank insurance, includes US\$19,797 (US\$4,590 at June 30, 2019) (Note 4)	3,757,125,150	219,517,677
Other sundry accounts receivable, includes €21,913 (US\$36,389 at June 30, 2019) (Note 4)	3,644,227,880	553,659,425
Accounts receivable in foreign currency, equivalent to US\$49,466 (US\$49,466 at June 30, 2019) (Note 4)	2,300,389,941	332,237,521
Accounts receivable from employees, includes US\$23,000 (US\$20,270 at June 30, 2019) (Note 4)	1,198,389,428	150,747,844
Stationery and sundry supplies	1,196,232,184	208,626,425
Credit card-related accounts receivable and balance offsettings	427,489,731	110,500,778
Guarantee deposits, includes US\$4,675 (Note 4)	406,655,324	37,944,233
Inventories of chip credit and debit cards	4,973,833	7,111,064
Deferred income tax (Note 16)	-	515,373,187
Debt items pending reconciliation, equivalent to US\$19,050 (Note 4)	-	127,945,720
	<u>338,196,074,735</u>	<u>29,814,089,061</u>
	349,586,211,122	32,103,728,171
Provision for other assets, includes US\$1,457,364 (US\$1,002,855 at June 30, 2019) (Note 4)	<u>(67,799,650,476)</u>	<u>(6,746,629,122)</u>
	<u>281,786,560,646</u>	<u>25,357,099,049</u>

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The balance of pending items comprises the following:

	December 31, 2019	June 30, 2019
	(In bolivars)	
<b>Pending items</b>		
Interbank mobile payment transactions receivable	119,282,280,994	7,045,949,329
Exchange desk transactions	31,502,733,774	-
MasterCard credit card	297,442,271	-
Teller machines and remittances in foreign currency	18,446,132	3,692,208
Cash shortages	49,460	174,484
Internet deposit remittances	-	386,607,912
Other pending items	<u>751,071</u>	<u>3,187,093</u>
	<u>151,101,703,702</u>	<u>7,439,611,026</u>

In-transit operations of the interbank mobile payment system relate to cash transfers by Bank customers from deposits to accounts in other financial institutions, which clear the week following period closing. At December 31, 2019, the Bank has operations receivable and payable of Bs 119,282 million and Bs 100,696 million, respectively (Bs 7,046 million and Bs 6,899, respectively, at June 30, 2019) in connection with interbank mobile payment transactions (Note 15). During the six-month periods ended December 31 and June 30, 2019, the Bank recorded income from commissions charged to clients of Bs 6,598 million and Bs 259 million, respectively, in connection with transactions through this system (Note 17).

At December 31, 2019, matured financial instruments receivable comprise mainly the Sovereign Bond issued by the Bolivarian Republic of Venezuela, which matured on October 13, 2019, and is recorded at par value of US\$1,287,000, equivalent to Bs 59,851 million. This account also includes overdue interest receivable for US\$149,614, equivalent to Bs 6,958 million, in respect of this bond. The Bank has set aside a provision for the full amount of these financial instruments under other assets.

During the six-month period ended December 31, 2019, the Bank granted advances of Bs 53,241 million for the acquisition of El Rosal Corporate Office and administrative offices, located at Torre BNC in Avenida Francisco de Miranda, Chacao, Miranda State; these advances were recorded as advances for purchase of premises owned by the Bank. The acquisition of these premises for Bs 59,271 million was completed in December and was capitalized to buildings and facilities under property and equipment (Note 10). At December 31, 2019, advances for purchase of premises owned by the Bank include Bs 34,622 million for future purchase and sale commitments of administrative offices in Centro Empresarial Boleíta, Sucre Municipality, Miranda State.

In-transit operations in respect of the international credit card correspond to the use of Banks' points of sale by customers from other foreign financial institutions. Most of these transactions clear in the month following period closing (Note 15).

Advances to suppliers relate mainly to purchases of equipment, update of technological information systems, teller machines, and remodeling of agencies and headquarters.

The balance of other prepaid expenses comprises the following:

	December 31, 2019	June 30, 2019
	(In bolivars)	
Licenses maturing within one year	4,456,583,875	361,134,551
Improvements to agencies	3,672,007,698	485,225,479
Insurance	1,526,112,146	405,851,992
Bloomberg service	565,327,101	108,627,502
Per diems paid to employees	<u>38,876,485</u>	<u>24,771,980</u>
	<u>10,258,907,305</u>	<u>1,385,611,504</u>



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Deferred expenses comprise the following:

	December 31, 2019			June 30, 2019		
	Cost	Accumulated amortization	Book value	Cost	Accumulated amortization	Book value
	(In bolivars)					
Licenses	7,387,952,368	(780,006,888)	6,607,945,480	511,766,487	(85,118,620)	426,647,867
Leasehold improvements	2,909,675,143	(3,983,198)	2,905,691,945	1,427,142,436	(1,134,373)	1,426,008,063
Operating system (software)	2,248,228,329	(371,732,310)	1,876,496,019	552,218,392	(115,238,384)	436,980,008
Deferred loss on mortgage loans to companies whose real property was subject to intervention from the Venezuelan government	4,586	(1,643)	2,943	4,586	(1,414)	3,172
	<u>12,545,860,426</u>	<u>(1,155,724,039)</u>	<u>11,390,136,387</u>	<u>2,491,131,901</u>	<u>(201,492,791)</u>	<u>2,289,639,110</u>

During the six-month periods ended December 31 and June 30, 2019, the Bank recorded amortization of deferred expenses of Bs 1,016 million and Bs 190 million, respectively, shown in the income statement under general and administrative expenses (Note 19).

Below is the movement in the provision for other assets:

	Six-month periods ended	
	December 31, 2019	June 30, 2019
	(In bolivars)	
Balance at the beginning of the period	6,746,629,122	20,053,507
Provided in the period (Note 18)	4,065,853,527	37,381,246
Provision for uncollectible financial instruments	707,585,855	-
Provision for sovereign bond matured on October 13, 2019, with a charge to matured financial instrument receivable (Note 5-b)	21,862,838,350	-
Reclassification of interest receivable, equivalent to US\$1,182,390 (US\$943,186 at June 30, 2019) (Note 7)	(18,638,097,530)	6,334,866,527
Adjustment from exchange rate fluctuation	<u>53,054,841,152</u>	<u>354,327,842</u>
Balance at the end of the period	<u>67,799,650,476</u>	<u>6,746,629,122</u>

## 12. Customer deposits

Customer deposits comprise the following:

	December 31, 2019	June 30, 2019
	(In bolivars)	
<b>Checking account deposits and certificates</b>		
Non-interest-bearing checking accounts	892,714,430,313	179,214,967,135
Checking accounts as per the free convertibility exchange market system, equivalent to US\$5,309,103 and €10,458,848 (include US\$5,826 for trust fund deposits (Note 20))	791,793,731,467	-
Interest-bearing checking accounts	93,086,089,598	26,075,383,845
Checking accounts under Exchange Agreement No. 20 equivalent to US\$988,858 (US\$2,610,957 and €3,855,500 at June 30, 2019) (Notes 3 and 4)	45,986,107,367	46,981,923,839
Demand deposits and certificates		
Non-negotiable demand deposits, bearing annual interest at between 1% and 9%	11,165,404,414	1,867,609,421
Public, State and Municipal Administration	<u>9,330,688,207</u>	<u>2,329,639,310</u>
	<u>1,844,076,451,366</u>	<u>256,469,523,550</u>

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	December 31, 2019	June 30, 2019
	(In bolivars)	
<b>Other demand deposits</b>		
Cashier's checks	15,897,812,954	2,003,184,648
Trust fund liabilities (Note 20)	6,387,781,552	224,838,877
Advance collections from credit card holders	92,000,644	57,962,076
Housing Savings Fund liabilities (Note 20)	<u>10,682,178</u>	<u>13,232,586</u>
	<u>22,388,277,328</u>	<u>2,299,218,187</u>
Savings deposits, bearing 21% annual interest for saving deposits for individuals and 0.125% for deposits in foreign currency, includes US\$10,845,606 and €9,789,521 (US\$13,754,592 and €10,190,931 at June 30, 2019) (Note 4)	<u>1,211,755,656,231</u>	<u>199,289,825,321</u>
Time deposits, bearing 24% annual interest for deposits in bolivars and between 0.02% and 3.50% for deposits in U.S. dollars, includes US\$476,030 (US\$4,643,000 at June 30, 2019) with the following maturities (Note 4):		
Up to 30 days	38,728,066	5,333,992,317
31 to 60 days	103,624,000	7,457,000
61 to 90 days	15,607,642,698	20,428,598,549
91 to 180 days	6,558,498,400	5,499,258,776
181 to 360 days	<u>10,000,097</u>	<u>1,050,097</u>
	<u>22,318,493,261</u>	<u>31,270,356,739</u>
	<u>3,100,538,878,186</u>	<u>489,328,923,797</u>

At December 31, 2019, checking accounts as per the free convertibility exchange market system correspond to customer deposits in foreign currency, opened in Venezuela, in accordance with Exchange Agreement No. 1 (Note 4). In addition, the Bank charges its clients 2% of the cash amount in foreign currency withdrawn from agencies and counters. During the six-month period ended December 31, 2019, income in this connection amounted to Bs 18,772 million (Note 17).

During the six-month periods ended December 31 and June 30, 2019, the Branch has charged its clients commissions on transfers to other foreign banks for US\$520,703 and US\$506,646, respectively (equivalent to Bs 24,215 million and Bs 3,410 million, respectively), which are part of income from other accounts receivable. During the six-month periods ended December 31 and June 30, 2019, the Bank has paid its foreign correspondent banks US\$451,255 and US\$680,192, respectively (equivalent to Bs 20,985 million and Bs 4,568 million, respectively) (Note 18).

Deposits from the Venezuelan government and government agencies comprise the following:

	December 31, 2019	June 30, 2019
	(In bolivars)	
Non-interest-bearing checking accounts	67,552,375,603	10,353,799,281
Non-negotiable demand deposits	15,743,204,543	5,416,302,435
Interest-bearing checking accounts, at 0.25% annual interest	5,570,640,361	668,992,880
Savings deposits at 12.5% annual interest	9,330,688,207	2,329,639,310
Time deposits at 14.5% annual interest	<u>17,900,000</u>	<u>3,000,000</u>
	<u>98,214,808,714</u>	<u>18,771,733,906</u>

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**13. Borrowings**

Borrowings comprise the following:

	December 31, 2019	June 30, 2019
	(In bolivars)	
<b>Borrowings from Venezuelan financial institutions, up to one year</b>		
Overnight deposits at		
Banesco, Banco Universal S.A., 180% annual yield and maturing in January 2020	78,476,000,000	-
Banco Venezolano de Crédito S.A., 70% annual yield and maturing in January 2020	27,000,000,000	-
Citibank N.A., Sucursal Venezuela, 42.5% annual yield and maturing in January 2020	1,300,000,000	-
Banco de Venezuela C.A. Banco Universal, 122% annual yield and maturing in January 2020	-	10,800,000,000
Banco del Tesoro, C.A., Banco Universal, 120% annual yield and maturing in January 2020	-	<u>3,000,000,000</u>
	<u>106,776,000,000</u>	<u>13,800,000,000</u>
Demand deposits, non-interest-bearing checking accounts with		
Banco del Comercio Exterior C.A.	504,281,379	-
Banco Agrícola de Venezuela C.A.	60,662,988	-
Bancrecer, Banco Microfinanciero, C.A.	36,380,541	361,510
Mi Banco, Banco Microfinanciero, C.A.	56,149	477,840
Banplus, Banco Universal, C.A.	<u>37,137</u>	<u>10,058,084</u>
	<u>601,418,194</u>	<u>10,897,434</u>
	<u>107,377,418,194</u>	<u>13,810,897,434</u>
<b>Borrowings from foreign financial institutions, up to one year</b>		
Demand deposits, interest-bearing checking account		
BNC International Banking Corporation, at 0.25% per annum (Note 23)	103	103
Demand deposits, non-interest bearing checking accounts with		
Arca International Bank, Inc.	1,505,863	3,236,000
Bancaribe Curacao Bank, N.V.	<u>6,732</u>	<u>6,732</u>
	<u>1,512,698</u>	<u>3,242,835</u>
	<u>107,378,930,892</u>	<u>13,814,140,269</u>

Through Resolution No. 113.14 of August 13, 2014, SUDEBAN set interbank deposit limits, which should be the lower amount resulting from comparing 10% of the total equity of the placing financial institution at the previous month end with 10% of the total equity of the receiving financial institution at the previous month end. At December 31 and June 30, 2019, the Bank complies with the requirements of this Resolution.

**14. Interest and commissions payable**

Interest and commissions payable comprise the following:

	December 31, 2019	June 30, 2019
	(In bolivars)	
<b>Expenses payable on customer deposits</b>		
Time deposits, includes US\$1,736 (US\$50,863 at June 30, 2019) (Note 4)		
Non-negotiable demand deposits	84,303,298	343,672,512
	<u>698,208,945</u>	<u>55,730,069</u>
	782,512,243	399,402,581
<b>Expenses payable on borrowings</b>		
Interest payable on overnight deposits	<u>912,491,695</u>	<u>139,800,000</u>
Total expenses payable	<u>1,695,003,938</u>	<u>539,202,581</u>

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**15. Accruals and other liabilities**

Accruals and other liabilities comprise the following:

	<b>December 31, 2019</b>	<b>June 30, 2019</b>
	(In bolivars)	
Pending items, includes US\$200,695 and €892,073 (US\$258,907 at June 30, 2019) (Note 4)	324,949,644,244	48,971,665,297
Accounts payable in foreign currency, equivalent to US\$2,601,612 and €28,958 (US\$2,791,980 and €27,885 at June 30, 2019) (Note 4)	122,494,785,532	18,965,176,771
Income tax provision, includes US\$5,441 (US\$2,178 at June 30, 2019) (Notes 4 and 16)	19,069,023,179	4,800,597,579
Other provisions	14,003,501,521	3,402,971,384
International credit card transactions, equivalent to US\$294,788 (Notes 4 and 11)	13,708,891,159	-
Suppliers and other sundry payables, includes US\$34,515 (US\$16,999 at June 30, 2019) (Note 4)	10,787,738,033	1,211,401,236
Withholding tax (US\$1,402 at June 30, 2019) (Note 4)	8,509,858,926	1,376,373,599
Deferred tax liability (Note 16)	3,978,019,484	-
Commissions on credit and debit card services	2,986,966,173	73,988,922
Tax on economic activities and other taxes payable (Note 16)	2,928,387,494	800,168,104
Deferred interest income, includes US\$21,255 (US\$32,937 at June 30, 2019) (Notes 2-k and 4)	2,138,974,941	905,296,097
Contribution for the prevention of money laundering and terrorism financing	1,303,510,695	423,301,469
Accrual for length-of-service benefits (Note 2-j)	1,053,498,950	716,443,177
Leases	792,102,687	85,403,334
Other personnel expenses	758,987,009	950,262,104
Professional fees payable, includes US\$6,997 (US\$12,500 at June 30, 2019) (Note 4)	744,423,306	130,838,266
Vacations and vacation bonus payable, includes US\$1,599 (Notes 2-j and 4)	723,036,247	212,819,197
Sports and Physical Education Law	390,336,273	40,593,270
Provision for contingent loans (Note 21)	326,306,749	9,306
Labor contributions and withholdings payable, includes US\$1,276 at June 30, 2019 (Note 4)	298,532,112	66,806,962
Cashier's checks	74,598,164	143,729,804
Ezequiel Zamora Fund withholdings	7,978,026	6,222,375
Profit sharing payable, includes US\$3,463 at June 30, 2019 (Notes 2-j and 4)	-	<u>232,174,328</u>
	<u>532,029,100,904</u>	<u>83,516,242,581</u>

The balance of pending items comprises the following:

	<b>December 31, 2019</b>	<b>June 30, 2019</b>
	(In bolivars)	
Interbank mobile transactions payable (Note 11)	100,695,853,403	6,899,124,993
Electronic transfer pending offsetting, includes US\$42,399 (US\$216,049 at June 30, 2019) (Note 4)	95,095,259,327	25,377,774,017
Point-of-sale transactions payable	67,946,493,453	15,911,728,905
Exchange desk transactions, include US\$8,100 and €891,990 (Note 4)	46,848,657,467	-
Collection of government and municipal taxes	7,172,996,730	287,097,186
Exchange desk transactions, include US\$112,997 and €83 (Note 4)	5,258,197,343	-
In-transit operations through SICAD, equivalent to US\$21,000 (Notes 3 and 4)	976,589,849	141,045,561
Free convertibility in-transit transactions, include US\$16,144	750,749,261	-
Commissions to the Central Bank of Venezuela	143,971,256	44,742,024
Other pending items, include US\$76 (US\$21,058 at June 30, 2019) (Note 4)	<u>60,876,155</u>	<u>310,152,611</u>
	<u>324,949,644,244</u>	<u>48,971,665,297</u>

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At December 31 and June 30, 2019, electronic transfers pending offsetting correspond to transfer made by Bank customers to other financial institutions during the last days of December and June 2019, respectively, which cleared the first days of January 2020 and July 2019, respectively. They also include at December 31 and June 30, 2019 US\$42,399 and US\$216,049, equivalent to Bs 1,972 million and Bs 1,451 million, respectively, in connection with transfers made by Branch customers to other foreign financial institutions pending clearance by the correspondent bank. During the six-month periods ended December 31 and June 30, 2019, the Bank charged commissions on interbank electronic transfers for Bs 9,261 million and Bs 2,004 million, respectively, included under other operating income (Note 17).

At December 31 and June 30, 2019, point-of-sale transactions payable correspond to the use of points of sale of other financial institutions by Bank customers. Most of these transactions clear in the month following period closing. During the six-month period ended December 31, 2019, the Bank recorded income and expenses of Bs 44,582 million and Bs 10,083 million, respectively, from commissions charged to stores for the use of points of sales, which are part of commissions for services recorded under other income and other operating expenses, respectively (income and expenses of Bs 8,554 million and Bs 2,149 million, respectively, for the six-month period ended June 30, 2019) (Notes 17 and 18). Furthermore, during the six-month periods ended December 31 and June 30, 2019, the Bank charged commissions for Bs 2,702 million and Bs 1,627 million, respectively, on reimbursement of point-of sale operation costs to stores (Note 17).

At December 31 and June 30, 2019, collection of government and municipal taxes includes national and municipal taxes paid by individuals and corporations to the Tax Authorities between January 3 and 7, 2020, and on July 4 and 8, 2019, respectively.

At December 31 and June 30, 2019, accounts payable in foreign currency include mainly interest payable on customer securities held in custody by the Bank, which, to date, have not been demanded. To date, management is taking the necessary actions to settle this liability with the corresponding beneficiaries.

At December 31 and June 30, 2019, withheld taxes relate mainly to withholdings from third parties in connection with:

	December 31, 2019	June 30, 2019
	(In bolivars)	
Tax on large financial transactions	2,909,211,062	81,859,834
Income tax	3,195,088,169	80,626,249
Value added tax	1,799,689,405	1,698,751
Stamp duty	602,436,660	10,778,801
Other taxes	<u>3,433,630</u>	<u>1,004,667</u>
	<u>8,509,858,926</u>	<u>175,968,302</u>

At December 31 and June 30, 2019, management maintains other provisions of Bs 13,916 million and Bs 3,287 million, respectively, mainly in connection with possible contingent losses. During the six-month periods ended December 31 and June 30, 2019, the Bank recorded expenses of Bs 10,629 million and Bs 3,219 million, respectively, in this connection, shown in the income statement within sundry operating expenses (Note 18).

At December 31 and June 30, 2019, suppliers and other sundry payables correspond mainly to accounts payable of Bs 8,125 million and Bs 893 million, respectively, for contracted services.

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Below is the movement in the provision for contingent loans:

	<u>Six-month periods ended</u>	
	December 31, 2019	June 30, 2019
	(In bolivars)	
Balance at the beginning of the period	9,306	306
Provided for the period	<u>326,297,443</u>	<u>9,000</u>
Balance at the end of the period	<u>326,306,749</u>	<u>9,306</u>

At December 31 and June 30, 2019, Bank management determined retrospective length-of-service liabilities according to the LOTT using actuarial methods and recorded at that date an accrual of Bs 1,053 million and Bs 716 million, respectively, in this connection. Additionally, management analyzed assumptions and estimates used in the actuarial calculation and determined that variations have no significant effects on the financial statements at December 31, 2019.

Below are the assumptions used for the actuarial obligation in respect of the retrospective accrual of length-of-service benefits at June 30, 2019:

	%
Turnover rate	22,12
Discount rate	2,066,80
Salary increase rate	1,983,46
Inflation rate (value expected in the long term)	500,000,00

The assumption related to the future mortality rate of the population is based on actuarial assumptions that use the GAM83 (Group Annuitant Mortality 1983) mortality table, a turnover rate for employees in the area where the Bank operates, and an average length of employment of 4 years.

A hypothetical increase or decrease of 1% in the discount rate would result in a decrease or increase in the value of the projected length-of-service benefit obligation by Bs 8 million and Bs 9 million, respectively.

## 16. Taxes

### a) Income tax

The Bank's tax year ends on December 31. The main differences between income/loss recognized for accounting and tax purposes arise from provisions and accruals that are normally tax deductible in subsequent periods, tax-exempt income from National Public Debt Bonds and other securities issued by the Venezuelan government.

The current Income Tax Law establishes, among other things, a 40% proportional income tax for institutions engaged in banking and financial activities; these institutions are excluded from the inflation adjustment for tax purposes set forth in this Law. The Law also establishes that net operating losses may be carried forward for 3 years and offset up to a maximum of 25% of annual income.

### **Income tax advance regime**

On August 21, 2018, the Venezuelan government published a Constituent Decree to establish a temporary regime for the payment of income tax advances applicable to special taxpayers engaged in economic activities other than exploitation of mines, hydrocarbons and related activities, who do not receive royalties from such exploitations. The advance referred to in this Decree shall be determined based on gross income from the sale of goods and services obtained in the tax period of the previous

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month within the country and shall range from 0.5% to 2%. The Venezuelan government may establish different tax rates but may not exceed the limits set. The percentage of the advance has been set at:

- 2% for financial institutions, banking sector, insurance and reinsurance entities.
- 1% for the remaining taxpayers.

These advances may be deducted in the final income tax return. The advance regime established in this Decree will be effective until fully or partially repealed by the Venezuelan government.

Below is the reconciliation between book income and net taxable income for the year ended December 31, 2019:

	(In bolivars)
Statutory tax rate (%)	<u>40</u>
Book income before tax	120,085,724,193
<b>Difference between book income and taxable income</b>	
Other provisions	29,666,752,557
Loan portfolio, net	(51,329,410,262)
Interest on loan portfolio	961,426,256
Tax-exempt income, net of related expenses	(14,259,079,397)
Social contributions	1,387,877,928
Municipal taxes	2,893,425,718
Deferred charges	(31,720,082,656)
Income not available at period closing	(48,853,543,783)
Impairment of investments issued by the Bolivarian Republic of Venezuela	13,156,737,300
Non-deductible expenses from travels abroad	2,018,166,682
Income from foreign sources	17,510,828,855
Non-deductible extraterritorial loss	4,718,346,890
Other effects, net	<u>812,829,719</u>
Tax debt in Venezuela	<u>47,050,000,000</u>
Current income tax expense in Venezuela	<u>18,820,000,000</u>

During the six-month period ended December 31, 2019, the Branch recorded estimated income tax expense of US\$3,264, equivalent to Bs 152 million (US\$2,183, equivalent to Bs 15 million, during the six-month period ended June 30, 2019). On June 27, 2013, the Curacao Tax Authorities approved Tax Ruling No. UR 19-0115 until December 31, 2021, which is an extension of Tax Ruling No. UR 15-1483, which was in effect until December 31, 2018. According to this Ruling, the Branch must calculate tax payable on the basis of 7% of the costs of its activities since the commencement of Branch operations, except for disbursement costs and interest on debt. Disbursements include costs of services provided by third parties which are not considered part of the Branch's activities, except for service fees, office and equipment leasing and telecommunication expenses, among others (Note 8).

At December 31 and June 30, 2019, the Bank maintains an income tax provision of Bs 19,069 million and Bs 4,801 million, respectively, which includes US\$5,441 and US\$2,178, respectively, in connection with the Branch (Note 15). In addition, at December 31 and June 30, 2019, the Bank has prepaid income tax amounting to Bs 4,423 million and Bs 941 million, respectively, which are part of other assets and are shown within prepaid taxes and subscriptions (Note 11).

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The tax expense comprises the following:

	<u>Six-month periods ended</u>	
	<u>December 31,</u> <u>2019</u>	<u>June 30,</u> <u>2019</u>
	(In bolivars)	
<b>Income tax</b>		
Current	(14,181,773,688)	(4,804,664,306)
Deferred asset (liability)	<u>(4,493,392,671)</u>	<u>550,887,462</u>
	(18,675,166,359)	(4,253,776,844)

**b) Deferred income tax**

Bank management recognizes a deferred tax asset in its financial statements when there is reasonable expectation that future tax results will allow its realization. Furthermore, the Accounting Manual establishes, among other things, that the Bank may not recognize a deferred tax for any amount exceeding taxable income (Note 2-i).

Bank management determined and evaluated the deferred tax recorded. The main differences between the tax base and the carrying amount at December 31 and June 30, 2019 relate to the provision for high-risk and uncollectible loans, actuarial obligation for length-of-service benefits, prepaid expenses and sundry provisions. At December 31, 2019, the Bank has net deferred tax liabilities of Bs 3,978 million as part of accruals and other liabilities (Note 15) (net deferred tax assets of Bs 515 million as part of other assets at June 30, 2019) (Note 11).

The components of the net deferred tax asset (liability) are as follows:

	<u>December 31,</u> <u>2019</u>	<u>June 30,</u> <u>2019</u>
	(In bolivars)	
<b>Assets</b>		
Other provisions and accruals	663,829,532	287,262,752
Allowance for losses on loan portfolio and provision for interest receivable	<u>6,229,825</u>	<u>645,164,964</u>
	<u>670,059,357</u>	<u>932,427,716</u>
<b>Liabilities</b>		
Actuarial obligation for length-of-service benefits	81,518,127	81,518,127
Prepaid expenses	<u>4,566,560,714</u>	<u>335,536,402</u>
	<u>4,648,078,841</u>	<u>417,054,529</u>
Deferred income tax asset (liability)	(3,978,019,484)	515,373,187

The movements in the deferred income tax liability accounts for the six-month periods ended December 31 and June 30, 2019 are summarized below:

	Other provisions and accruals	Allowance for losses on loan portfolio and provision for interest receivable	Prepaid expenses	Actuarial obligation for length-of- service benefits	Total deferred tax asset (liability)
	(In bolivars)				
At December 31, 2018	5,660,500	332,516	(41,507,291)	-	(35,514,275)
Charged (credited) to the income statement	<u>281,602,252</u>	<u>644,832,448</u>	<u>(294,029,111)</u>	<u>(81,518,127)</u>	<u>550,887,462</u>
At June 30, 2019	287,262,752	645,164,964	(335,536,402)	(81,518,127)	515,373,187
Charged (credited) to the income statement	<u>376,566,780</u>	<u>(638,935,139)</u>	<u>(4,231,024,312)</u>	<u>-</u>	<u>(4,493,392,671)</u>
At December 31, 2019	<u>663,829,532</u>	<u>6,229,825</u>	<u>(4,566,560,714)</u>	<u>(81,518,127)</u>	<u>(3,978,019,484)</u>



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**c) Transfer pricing**

According to transfer-pricing regulations, taxpayers that conduct transactions with related parties abroad are required to calculate income, costs and deductions applying the methodology set out in the Law. The Bank conducts transactions with related parties abroad. At December 31, 2018, the Bank made the transfer-pricing study and determined no impact on taxable income for the year then ended; the transfer-pricing study for the six-month period ending December 31, 2019 is underway. Bank management expects no impact on taxable income for the year ended December 31, 2019, since there have been no changes in the operating conditions with its related company abroad.

**d) Tax on economic activities**

The Constitution of the Bolivarian Republic of Venezuela and the Municipal Public Power Law set the tax on economic activities that levies gross income from any for-profit economic, industrial and commercial activities or similar services regularly or occasionally performed in the jurisdiction of a municipality in a business establishment, office or physical location.

At December 31 and June 30, 2019, the Bank recorded a tax expense of Bs 7,224 million and Bs 1,506 million, respectively, in connection with the economic activities conducted in its offices nationwide, shown under general and administrative expenses (Note 19). At December 31, 2019, the balance pending payment in this connection amounts to Bs 2,926 million (Bs 721 million at June 30, 2019), and is shown under accruals and other liabilities within tax on economic activities and other taxes payable (Note 15).

**e) Law on Tax on Large Financial Transactions**

On December 30, 2015, the Venezuelan government enacted the Law on Tax on Large Financial Transactions, whose tax rate is 0.75% applicable to operations made by incorporated and unincorporated entities that have been qualified by SENIAT's System for Liquidation and Self-liquidation of Customs Duties as special taxpayers and by incorporated and unincorporated entities legally bound to them or that make payments on their behalf. Similarly, Venezuelan banks and financial institutions also pay this tax based on the transactions laid down in the aforementioned Law that give rise to such payment.

The Reform to the Law on Tax on Large Financial Transactions was published on August 21, 2018 in the Extraordinary Official Gazette to establish that the tax rate may be modified by the Venezuelan government and may be set at a maximum of 2%.

During the six-month period ended December 31, 2019, the Bank recorded expenses of Bs 6,467 million shown under general and administrative expenses (Bs 774 million during the six-month period ended June 30, 2019) (Note 19).

**f) Law on Wealth Tax**

The Law on Wealth Tax was published in Official Gazette No. 41,667 on July 3, 2019. This law establishes that special taxpayers whose wealth is equal to or greater than 36,000,000 tax units for individuals and 100,000,000 tax units for corporations are required to pay between 0.25% and 1.50% for the portion of net equity exceeding these amounts. Payment of this tax must be made under the terms and conditions established by Tax Authorities. This constitutional law became effective upon its publication in the Official Gazette. During the six-month period ended December 31, 2019, the Bank recorded expenses of Bs 1,367 million in this connection in the net results for the period.

**g) Subsequent event**

In January 2020, the Venezuelan government announced a series of tax measures, which will be effective as from their publication in the Official Gazette. Management considers that these new measures, as established in the accounting standards, are events that do not require adjustments in the financial statements at December 31, 2019.

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**17. Other operating income**

Other operating income comprises the following:

	<u>Six-month periods ended</u>	
	<u>December 31,</u> <u>2019</u>	<u>June 30,</u> <u>2019</u>
	(In bolivars)	
Service fees	74,918,277,674	15,388,942,133
Commission on financial advisory (Note 6)	59,091,947,065	8,388,110,164
Commission for documentation of promissory notes and lines of credit (Note 6)	20,781,370,407	6,730,140,353
Commission on withdrawal of cash in foreign currency (Note 12)	18,772,078,237	-
Commission on bank intervention transactions (Note 3)	9,171,274,679	871,788,853
Income from amortization of discount on held-to-maturity investments (Note 5-c)	3,677,689,271	787,634,014
Gain on sale of investment securities (Note 5-b)	2,108,335,875	523,789,789
Commission on transactions through the foreign exchange system (Note 4)	6,214,533,112	91,255,204
Exchange gain (Note 4)	973,202,925	892,124,593
Commissions on trust funds (Note 20)	<u>49,061,809</u>	<u>7,567,151</u>
	<u>195,757,771,054</u>	<u>33,681,352,254</u>

Service fees comprise the following:

	<u>Six-month periods ended</u>	
	<u>December 31,</u> <u>2019</u>	<u>June 30,</u> <u>2019</u>
	(In bolivars)	
Point-of-sale transactions (Note 15)	44,581,582,342	8,553,755,761
Interbank transfers (Note 15)	9,260,968,669	2,004,082,433
Interbank mobile payment (Note 11)	6,597,889,441	258,621,048
Services to social security pensioners	3,577,957,867	687,649,330
Reimbursement of point-of-sale operation costs to stores (Note 15)	2,702,461,384	1,626,552,957
Commission on phone recharge	867,968,614	143,343,598
Issue of cashier's checks	779,262,176	491,864,665
Commission on checking account overdraft	679,893,983	84,101,752
Minimum balances of customer deposits	313,561,995	209,891,462
Returned checks	153,623,566	225,681,083
Other	<u>5,403,107,637</u>	<u>1,103,398,044</u>
	<u>74,918,277,674</u>	<u>15,388,942,133</u>

**18. Other operating expenses**

Other operating expenses comprise the following:

	<u>Six-month periods ended</u>	
	<u>December 31,</u> <u>2019</u>	<u>June 30,</u> <u>2019</u>
	(In bolivars)	
Service fees (Notes 2-k and 15)	56,268,114,771	11,487,964,346
Loss on impairment of investment securities (Note 5-c)	10,786,852,840	2,369,884,462
Loss on write-down of matured securities (Note 5-b)	4,142,633,996	-
Exchange loss (Note 4)	479,664,660	979,918,873
Loss on sale of investment securities (Note 5-b)	3,208	306,520,181
Amortization of premiums on held-to-maturity investments	<u>10,789</u>	<u>2,507</u>
	<u>71,677,280,264</u>	<u>15,144,290,369</u>

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Service fees comprise the following:

	<u>Six-month periods ended</u>	
	<u>December 31,</u>	<u>June 30,</u>
	<u>2019</u>	<u>2019</u>
	(In bolivars)	
Transfers through correspondent banks (Note 12)	20,985,310,048	4,568,475,752
Commissions to credit card processor vendors (VISA and MasterCard)	22,805,241,246	4,288,545,819
Pont-of-sale transactions (Note 15)	10,083,297,156	2,149,455,501
Interbank mobile payment	1,456,770,367	59,795,799
Other expenses for service fees	<u>937,495,954</u>	<u>421,691,475</u>
	<u>56,268,114,771</u>	<u>11,487,964,346</u>

Sundry operating expenses comprise the following:

	<u>Six-month periods ended</u>	
	<u>December 31,</u>	<u>June 30,</u>
	<u>2019</u>	<u>2019</u>
	(In bolivars)	
Possible contingent losses (Note 15)	10,629,146,558	3,218,521,191
Provision for other assets (Note 11)	4,065,853,527	37,381,246
Contribution to the National Fund for Communal Councils	2,110,338,322	127,587,982
Contribution for the Antidrug Law (Note 1)	784,609,226	400,000,000
Contribution for the Sports and Physical Education Law (Note 1)	349,743,003	43,795,849
Contribution for the Law for the Advancement of Science, Technology and Innovation (Note 1)	-	25,571,216
Other	<u>310,250,536</u>	<u>27,906,300</u>
	<u>18,249,941,172</u>	<u>3,880,763,784</u>

**19. General and administrative expenses**

General and administrative expenses comprise the following:

	<u>Six-month periods ended</u>	
	<u>December 31,</u>	<u>June 30,</u>
	<u>2019</u>	<u>2019</u>
	(In bolivars)	
Maintenance and repairs	27,536,955,158	4,424,598,193
Transportation and communication expenses	19,677,061,718	1,832,028,487
Transportation of valuables and surveillance	11,484,110,469	2,414,399,745
Consulting and external audit	10,728,769,423	1,825,509,724
Outsourced services	10,260,240,251	1,531,869,231
Leases	9,406,828,727	1,055,671,960
Tax on economic activities (Note 16)	7,223,986,974	1,506,376,500
Sundry general expenses	6,691,202,124	1,054,106,658
Tax on Large Financial Transactions (Note 16)	6,466,946,842	774,010,111
Insurance	5,198,482,911	188,012,183
Legal advice	2,641,403,057	435,021,195
Advertising	1,957,819,563	200,646,735
Amortization of deferred expenses (Note 11)	1,016,227,548	190,179,933
Depreciation and impairment of property and equipment (Note 10)	1,247,302,591	53,274,503
Infrastructure expenses	1,001,786,925	9,889,428
Stationery and office supplies	299,413,462	67,922,250
Legal expenses	373,283,023	8,013,235
Utilities	324,631,286	15,978,949
Other taxes and contributions	142,665,241	26,911,936
Public relations	130,695,741	114,122,279
Other	<u>244,468,483</u>	<u>28,386,940</u>
	<u>124,054,281,517</u>	<u>17,756,930,175</u>

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**20. Memorandum accounts**

Memorandum accounts comprise the following:

	December 31, 2019	June 30, 2019
	(In bolivars)	
<b>Contingent debtor accounts</b>		
Guarantees granted, equivalent to US\$701,650 (Note 21)	32,630,674,871	930,581
Credit card lines of credit (Note 21)	5,875,039,258	2,193,532,326
Lines of credit for discounts and factoring (Note 21)	<u>1,265,319</u>	<u>1,203,469</u>
	<u>38,506,979,448</u>	<u>2,195,666,376</u>
<b>Assets received in trust, includes US\$5,826 (Notes 2-m and 4)</b>	<u>18,240,524,452</u>	<u>1,904,890,258</u>
<b>Debtor accounts from other special trust services (Housing Loan System)</b>	<u>187,043,179</u>	<u>89,513,472</u>
<b>Other debtor memorandum accounts</b>		
Guarantees received, includes US\$21,506,329 (US\$26,060,566 at June 30, 2019) (Note 4)	1,370,675,521,240	329,267,450,815
Lines of credit available but not negotiated	602,442,021,104	133,180,764,709
Assets held in custody, includes US\$10,950,796 (Note 4)	513,925,501,321	73,702,249,433
Securities held by other financial institutions, equivalent to US\$9,746,800 (US\$9,926,800 at June 30, 2019) (Note 4)	453,267,901,684	66,672,908,472
Collections in foreign currency, equivalent to US\$1,664,007 (Note 4)	77,383,443,559	11,176,228,433
Debt reconciling and written off items, includes US\$168,606 (Note 4)	7,840,940,978	1,372,409,632
Currency awarded through SICAD, equivalent to US\$21,000 (Note 4)	976,589,849	2
Deferred interest receivable on loans overdue and in litigation, includes US\$15,327 (US\$68,770 at June 30, 2019) (Notes 4 and 6)	713,003,955	462,903,475
Uncollectible accounts written off	400,007,777	139,610
Performance bonds from suppliers	4,888	4,889
Personal and real property written off	117	117
Taxes receivable	16	16
Guarantees on collateral granted	4	4
Other	<u>239,968,192</u>	<u>-</u>
	<u>3,027,864,904,684</u>	<u>615,835,059,607</u>
	<u>3,084,799,451,763</u>	<u>620,025,129,713</u>

At December 31 and June 30, 2019, securities in custody of other financial institutions are held in Euroclear Bank, Pershing LLC, and Morgan Stanley Smith Barney, respectively.

**a) Assets received in trust**

Combined trust fund accounts include the following balances, according to the financial statements of the trust:

	December 31, 2019	June 30, 2019
	(In bolivars)	
<b>Assets</b>		
Cash and due from banks, includes US\$5,826 at December 31, 2019 (Note 12)	6,658,697,436	224,838,877
Investment securities	6,666,416,161	1,125,138,883
Loan portfolio	4,440,663,933	454,151,854
Interest receivable on investment securities	474,745,542	24,063,726
Other assets	<u>1,380</u>	<u>76,696,918</u>
Total assets	<u>18,240,524,452</u>	<u>1,904,890,258</u>
<b>Liabilities and Equity</b>		
<b>Liabilities</b>		
Other liabilities	<u>15,471,779</u>	<u>2,259,540</u>
<b>Equity</b>		
Capital assigned to trusts	16,446,238,734	1,835,344,098
Retained earnings	<u>1,778,813,939</u>	<u>67,286,620</u>
Total equity	<u>18,225,052,673</u>	<u>1,902,630,718</u>
Total liabilities and equity	<u>18,240,524,452</u>	<u>1,904,890,258</u>

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Below is a breakdown of assets received in trust:

	December 31, 2019	June 30, 2019
	(In bolivars)	
<b>Assets received in trust</b>		
Length-of-service benefits	18,186,033,960	1,711,405,323
Administration	17,443,880	189,245,139
Investment	<u>37,046,612</u>	<u>4,239,796</u>
	<u>18,240,524,452</u>	<u>1,904,890,258</u>

At December 31 and June 30, 2019, cash and due from banks includes Bs 6,659 million and Bs 224 million, respectively, related to funds received from trust fund operations that are managed through checking accounts with the Bank and are used to receive or pay all funds; they earn 6% annual interest (Note 12). During the six-month periods ended December 31 and June 30, 2019, the Bank's trust fund earned income of Bs 31 million and Bs 4 million, respectively, from cash and due from banks.

Investment securities included in trust fund accounts, recorded at amortized cost, comprise the following:

	December 31, 2019			June 30, 2019		
	Acquisition cost	Amortized cost	Fair value	Acquisition cost	Amortized cost	Fair value
	(In bolivars)					
<b>Securities issued by Venezuelan financial private-sector companies</b>						
Banco Exterior, C.A., Banco Universal, 100% annual yield, maturing in January 2020 (28% annual yield, maturing in July 2019 at June 30, 2019)	975,000,000	975,000,000	975,000,000 (1) - (a)	80,658,863	80,658,863	80,658,863 (1) - (a)
Del Sur Banco Universal, C.A., annual yield between 90% and 100%, maturing in January 2020 (55% annual yield, maturing in July 2019 at June 30, 2019)	730,000,000	730,000,000	730,000,000 (1) - (a)	140,000,000	140,000,000	140,000,000 (1) - (a)
Banco Caroni, C.A., Banco Universal, 88% annual yield, maturing in January 2020 (55% annual yield, maturing in July 2019 at June 30, 2019)	600,000,000	600,000,000	600,000,000 (1) - (a)	140,000,000	140,000,000	140,000,000 (1) - (a)
Banco Sofitasa, Banco Universal, C.A., annual yield between 28% and 45%, maturing in July 2019	-	-	-	370,930,417	370,930,417	370,930,417 (1) - (a)
Banco Activo, C.A., Banco Universal, 50% annual yield, maturing in July 2019	-	-	-	152,376,444	152,376,444	152,376,444 (1) - (a)
Banco Occidental de Descuento, Banco Universal, C.A., 40% annual yield, maturing in July 2019	-	-	-	<u>90,000,000</u>	<u>90,000,000</u>	<u>90,000,000 (1) - (a)</u>
	<u>2,305,000,000</u>	<u>2,305,000,000</u>	<u>2,305,000,000</u>	<u>973,965,724</u>	<u>973,965,724</u>	<u>973,965,724</u>
<b>Debt securities issued by Venezuelan non-financial private-sector companies</b>						
<b>Asset-backed securities</b>						
C.A. Ron Santa Teresa, with a par value of Bs 201,000,000, 27.27% annual yield, maturing in March 2021 (with a par value of Bs 51,000,000, 36% annual yield at June 30, 2019)	<u>157,957,000</u>	<u>166,150,565</u>	<u>166,150,565 (1) - (b)</u>	<u>51,000,000</u>	<u>51,000,000</u>	<u>51,000,000 (1) - (b)</u>
<b>Commercial paper</b>						
Inversiones Simbi, C.A., with a par value of Bs 500,000,000, annual yield between 40% and 75%, maturing between February and June 2020	454,500,000	482,145,570	482,145,570 (1) - (b)	-	-	-
Alimentos Difresca, with a par value of Bs 400,000,000, 75% annual yield, maturing in February 2020	354,813,300	380,477,911	380,477,911 (1) - (b)	-	-	-
Dominquez & Cia, S.A., with a par value of Bs 400,000,000, 75% annual yield, maturing in March 2020	352,645,200	363,920,152	363,920,152 (1) - (b)	-	-	-
Inversiones Selva, C.A., with a par value of Bs 400,000,000, 75% annual yield, maturing in March 2020	349,120,000	360,553,709	360,553,709 (1) - (b)	-	-	-
Dayco Telecom, C.A., with a par value of Bs 350,000,000, 75% annual yield, maturing in May 2020	307,125,000	317,367,361	317,367,361 (1) - (b)	-	-	-
Netuno, C.A., with a par value of Bs 350,000,000, annual yield between 60% and 75%, maturing in January and February 2020 (with a par value of Bs 50,000 maturing in October 2019, at June 30, 2019)	318,083,850	342,648,357	342,648,357 (1) - (b)	50,000	50,000	50,000 (1) - (b)
Central Madeirense, C.A., with a par value of Bs 300,000,000, 75% annual yield, maturing in January 2020	270,000,000	288,545,455	288,545,455 (1) - (b)	-	-	-
S.A. Nacional Farmacéutica (SANFAR), with a par value of Bs 300,000,000, 75% annual yield, maturing in February 2020	264,000,000	276,413,792	276,413,792 (1) - (b)	-	-	-
Cargill de Venezuela, with a par value of Bs 300,000,000, 75% annual yield, maturing in April 2020	262,966,200	269,406,861	269,406,861 (1) - (b)	-	-	-
Agribands Purina Venezuela, S.A., with a par value of Bs 300,000,000, 75% annual yield, maturing in April 2020	262,966,200	269,406,861	269,406,861 (1) - (b)	-	-	-
Automercados Plaza, C.A., with a par value of Bs 250,000,000, 75% annual yield, maturing in February 2020	225,000,000	234,433,962	234,433,962 (1) - (b)	-	-	-
Preparados Alimenticios Interna, with a par value of Bs 200,000,000, 75% annual yield, maturing in January 2020	173,799,000	194,342,966	194,342,966 (1) - (b)	-	-	-
Alice Neumáticos de Venezuela, C.A., with a par value of Bs 150,000,000, 40% annual yield, maturing in July 2020	150,000,000	150,000,000	150,000,000 (1) - (b)	-	-	-
Charcutería Venezolana, C.A., with a par value of Bs 150,000,000, 42% annual yield, maturing in July 2020	150,000,000	150,000,000	150,000,000 (1) - (b)	-	-	-
Pasteurizadora Táchira, C.A., with a par value of Bs 50,000,000, 40% annual yield, maturing in April 2020	50,000,000	50,000,000	50,000,000 (1) - (b)	-	-	-
Alimentación Balanceada Alibal, C.A., with a par value of Bs 35,000,000, maturing in July 2019	-	-	-	<u>32,132,835</u>	<u>34,488,659</u>	<u>35,000,000 (1) - (b)</u>
	<u>3,945,018,750</u>	<u>4,129,662,957</u>	<u>4,129,662,957</u>	<u>32,182,835</u>	<u>34,538,659</u>	<u>35,050,000</u>

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	Acquisition cost	Amortized cost	Fair value	Acquisition cost	Amortized cost	Fair value
	(In bolivars)					
<b>Debtenture bonds</b>						
Alimentación Balanceada Albal, C.A., with a par value of 35,000,000, 26.50% annual yield, maturing in January 2021	35,000,000	35,000,000	35,000,000 (1) - (b)	35,000,000	35,000,000	35,000,000 (1) - (b)
Automercados Plaza's, C.A., with a par value of Bs 2,402,000, annual yield between 25.20% and 26.34%, maturing between March and August 2020	2,402,000	2,402,000	2,402,000 (1) - (b)	2,402,000	2,402,000	2,402,000 (1) - (b)
F.V.I. Fondo de Valores Inmobiliarios, S.A.C.A., with a par value of Bs 2,000,000, 22% annual yield, maturing in December 2021	2,000,000	2,000,000	2,000,000 (1) - (b)	2,000,000	2,000,000	2,000,000 (1) - (b)
Compañía Venezolana de Cerámica, C.A., with a par value of Bs 1,500,000, 25% annual yield, maturing in December 2021	1,500,000	1,500,000	1,500,000 (1) - (b)	1,500,000	1,500,000	1,500,000 (1) - (b)
Dominguez & Cia., S.A., with a par value of Bs 64,000, 29.29% annual yield, maturing in August 2021 (26% annual yield, at June 30, 2019)	64,000	64,000	64,000 (1) - (b)	64,000	64,000	64,000 (1) - (b)
C.A. Ron Santa Teresa, with a par value of Bs 24,000, 25% annual yield, maturing in December 2020 (par value of Bs 40,000 at June 30, 2019)	24,000	24,000	24,000 (1) - (b)	40,000	40,000	40,000 (1) - (b)
Alice Neumáticos de Venezuela, C.A., with a par value of Bs 30,000, 26% annual yield, maturing in May 2021	30,000	30,000	30,000 (1) - (b)	30,000	30,000	30,000 (1) - (b)
Cerámica Carabobo, S.A.C.A., with a par value of Bs 30,000, 25% annual yield, maturing in June 2021	30,000	30,000	30,000 (1) - (b)	30,000	30,000	30,000 (1) - (b)
Inversiones Selva, C.A., with a par value of Bs 10,000, 29.35% annual yield, maturing in March 2021 (24% annual yield at June 30, 2019)	10,000	10,000	10,000 (1) - (b)	10,000	10,000	10,000 (1) - (b)
Desarrollo Forestales San Carlos II, C.A., with a par value of Bs 10,000, 24.50% annual yield, maturing in March 2021	10,000	10,000	10,000 (1) - (b)	10,000	10,000	10,000 (1) - (b)
Inelectra, S.A.C.A., with a par value of Bs 10,000, 29.35% annual yield, maturing in June 2021 (24% annual yield at June 30, 2019)	10,000	10,000	10,000 (1) - (b)	10,000	10,000	10,000 (1) - (b)
Montana Gráfica, C.A., with a par value of Bs 5,770, 19.55% annual yield, maturing in June 2020 (27.58% annual yield at June 30, 2019)	5,770	5,770	5,770 (1) - (b)	5,770	5,770	5,770 (1) - (b)
La Montserratina, C.A., with a par value of Bs 5,000, 21% annual yield, maturing in May 2021	5,000	5,000	5,000 (1) - (b)	5,000	5,000	5,000 (1) - (b)
Corporación Grupo Químico, C.A., with a par value of Bs 3,600, 23.50% annual yield, maturing in November 2020 (with a par value of Bs 9,500, annual yield between 22.24% and 23.50%, maturing between September 2019 and November 2020 at June 30, 2019)	3,600	3,600	3,600 (1) - (b)	9,500	9,500	9,500 (1) - (b)
Agropecuaria INSA de Venezuela AGROINSA, C.A., with a par value of Bs 3,334, 26.5% annual yield, maturing in September 2021 (with a par value of Bs 5,000 at June 30, 2019)	3,334	3,334	3,334 (1) - (b)	5,000	5,000	5,000 (1) - (b)
Venezolana de Frutas, C.A., with a par value of Bs 3,000, 22.5% annual yield, maturing in October 2020	3,000	3,000	3,000 (1) - (b)	3,000	3,000	3,000 (1) - (b)
	<u>41,100,704</u>	<u>41,100,704</u>	<u>41,100,704</u>	<u>41,124,270</u>	<u>41,124,270</u>	<u>41,124,270</u>
<b>Sundry obligations</b>						
Netuno, C.A., with a par value of Bs 10,000, annual yield between 22% and 24%, maturing between July and November 2020	10,000	10,000	10,000 (1) - (b)	10,000	10,000	10,000 (1) - (b)
C.A. Ron Santa Teresa, with a par value of Bs 4,000, 22% annual yield, maturing in February 2021	4,000	4,000	4,000 (1) - (b)	4,000	4,000	4,000 (1) - (b)
Mercantil Servicios Financieros, C.A., with a par value of Bs 8,000, annual yield between 16.03% and 16.25%, maturing in April 2020	-	-	-	8,000	8,000	8,000 (1) - (b)
	<u>14,000</u>	<u>14,000</u>	<u>14,000</u>	<u>22,000</u>	<u>22,000</u>	<u>22,000</u>
	<u>4,144,090,454</u>	<u>4,336,928,226</u>	<u>4,336,928,226</u>	<u>124,329,105</u>	<u>126,684,929</u>	<u>127,196,270</u>
<b>Securities issued or guaranteed by the Venezuelan government</b>						
Vebonos, with a par value of Bs 24,402,806, annual yield between 13.44 and 26.19%, maturing between June 2020 and August 2037 (annual yield between 12.03% and 21.08% at June 30, 2019)	24,405,755	24,404,830	24,404,830 (2) - (c)	24,405,755	24,404,965	29,233,036 (2) - (c)
Fixed Interest Bonds (TIF), with a par value of Bs 8,937, annual yield between 8.25% and 16.50 %, maturing between February 2021 and January 2037	83,937	83,105	74,241 (2) - (c)	83,937	83,265	74,090 (2) - (c)
	<u>24,489,692</u>	<u>24,487,935</u>	<u>24,479,071</u>	<u>24,489,692</u>	<u>24,488,230</u>	<u>29,307,126</u>
	<u>6,473,580,146</u>	<u>6,666,416,161</u>	<u>6,666,407,297</u>	<u>1,122,784,521</u>	<u>1,125,138,883</u>	<u>1,130,469,120</u>

(1) Corresponds to par value, which is considered as fair market value.

(2) Fair value determined from trading operations on the secondary market or from the present value of estimated future cash flows.

**Custodians of investments**

(a) Deposits in custody of the respective banking institutions.

(b) Caja Venezolana de Valores, S.A.

(c) Central Bank of Venezuela.

Below is the classification of investment securities according to maturity:

	December 31, 2019		June 30, 2019	
	Amortized cost	Fair value	Amortized cost	Fair value
	(In bolivars)			
Up to 6 months	5,652,523,157	5,652,523,157	1,008,508,483	1,009,019,824
6 months to 1 year	784,588,170	784,588,170	15,989	16,118
1 to 5 years	204,816,899	204,816,899	92,133,169	92,134,083
Over 5 years	<u>24,487,935</u>	<u>24,479,071</u>	<u>24,481,242</u>	<u>29,299,095</u>
	<u>6,666,416,161</u>	<u>6,666,407,297</u>	<u>1,125,138,883</u>	<u>1,130,469,120</u>

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At December 31, 2019, interest receivable on investment securities amounts to Bs 475 million (Bs 24 million at June 30, 2019).

At December 31 and June 30, 2019, the loan portfolio includes loans and advances granted to employees guaranteed by their length-of-service benefits deposited in the trust fund. These interest-free and short-term loans are in respect of length-of-service benefit trust fund plans of public and private-sector companies.

At December 31, 2019, loans and advances to beneficiaries of length-of-service benefits recorded in the loan portfolio include Bs 103 million from Bank employees (Bs 15 million at June 30, 2019); Bs 4,603 million from private length-of-service benefit trust funds; and Bs 275 million from government agencies (Bs 389 million and Bs 50 million, respectively, at June 30, 2019).

At December 31 and June 30, 2019, other liabilities include fiduciary remuneration payable for Bs 15 million and Bs 2 million, respectively, which relates to commissions payable to the Bank as set out in the trust fund agreements signed by trustors and the Bank as trustee. It is calculated on the monthly average capital of the trust fund and is deducted from the product or capital, depending on the terms of the contract (Note 7). Furthermore, the commission paid by the trust fund and the trustors to the Bank during the six-month period ended December 31, 2019 amounted to Bs 49 million (Bs 8 million during the six-month period ended June 30, 2019) (Note 17).

At December 31, 2019, length-of-service benefit trust funds in favor of Bank employees amount to Bs 847 million (Bs 178 million at June 30, 2019).

The National Treasury Office published in Official Gazette No. 40,172 of May 22, 2013, Resolution No. 0010 "Administrative Ruling regulating the refund to the Treasury of amounts credited to trust funds set up by the Venezuelan government and its decentralized agencies that have been inactive for over 4 months." This Resolution establishes that bodies and agencies of the Venezuelan government that have set up trust funds with budgetary resources at public or private banks without having made the corresponding disbursements or payments for periods equal or over 4 months, with the exception of labor trust funds, shall refund to the National Treasury account both the trust fund capital and the dividends generated. At December 31 and June 30, 2019, trust funds set up by the Venezuelan government or its decentralized agencies correspond mainly to length-of-service benefit and administration trust funds, which have been mobilized over the last 4 months.

**b) Debtor accounts from other special trust services (Housing Loan System) and Housing Savings Fund**

Debtor accounts from other special trust services (Housing Loan System) and Housing Savings Fund comprise the following:

	December 31, 2019	June 30, 2019
	(In bolivars)	
<b>Assets</b>		
Cash and due from banks (Note 12)	10,682,175	13,232,585
Investment securities	176,360,996	76,280,879
Other assets	<u>8</u>	<u>8</u>
Total assets	<u>187,043,179</u>	<u>89,513,472</u>
<b>Liabilities</b>		
Contributions to the Housing Savings Fund	187,040,157	89,510,450
Liabilities to BANAVIH	<u>2,437</u>	<u>2,437</u>
Total liabilities	<u>187,042,594</u>	<u>89,512,887</u>
Income	<u>585</u>	<u>585</u>
Total liabilities and income	<u>187,043,179</u>	<u>89,513,472</u>

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Housing programs, direct subsidies, eligibility schemes, the Guarantee Fund and the Rescue Fund are subject to the Housing Loan Law. They are aimed mostly at families applying for housing loans through the Housing Mutual Fund. Financial institutions authorized by Banco Nacional de Vivienda y Hábitat (BANAVIH) to act as financial operators receive monthly contributions from employers, employees and workers in the private and public sectors to be deposited in a Housing Mutual Fund account on behalf of each employee. These funds will be used to grant short and long-term mortgages for acquisition, construction or improvement of primary residences.

At December 31, 2019, the Bank has an investment trust in BANAVIH for Bs 176 million (Bs 76 million at June 30, 2019), in respect of funds from deposits under the Housing Loan Law collected and transferred by the Bank, shown as investment securities in conformity with the Accounting Manual.

According to the Housing Loan Law, monthly mortgage loan repayments will represent between 5% and 20% of the monthly family income. In addition, these loans will bear interest at the social interest rate set by the People's Power Ministry for Housing.

**21. Financial instruments with off-balance sheet risk**

**Credit-related financial instruments**

The Bank has outstanding commitments related to letters of credit, guarantees granted and lines of credit to meet the needs of its customers. Since many of its credit commitments may expire without being drawn upon, total commitment amounts do not necessarily represent future cash requirements. Commitments to extend credit, letters of credit and guarantees granted by the Bank are recorded under memorandum accounts.

**a) Guarantees granted**

After conducting a credit risk analysis, the Bank provides guarantees to certain customers within their line of credit; they are issued to a beneficiary who may execute the guarantee if the customer fails to comply with the terms of the agreement. At December 31 and June 30, 2019, these guarantees earned annual commissions of 5%. These commissions are recorded monthly while the guarantees are in force and are generated during the term of the guarantee. During the six-month period ended December 31, 2019, the Bank recorded income of Bs 1,678 million in this connection recorded as part of income from other accounts receivable.

At December 31, 2019, the Bank guarantees Bs 32,631 million (Note 20). The Bank maintains a provision for contingent loans equivalent to 1% of guaranteed amounts under accruals and other liabilities (Note 15).

**b) Credit limits**

Credit limit contractual agreements are granted to customers subject to prior credit risk assessments and, if needed, obtention of any guarantee required by the Bank to cover risk for each customer. These agreements are for specific periods, provided that customers do not default on the terms set forth therein (Note 20). The Bank may exercise its option to cancel a credit commitment with a particular customer. At December 31 and June 30, 2019, the Bank has no negotiated lines of credit unused by customers.

The Bank's exposure to credit loss in the event of noncompliance by customers with terms for extended credit and written guarantees is represented by the notional contractual amounts of these credit-related instruments. The credit policies applied by the Bank for these commitments are the same as those for granting loans.

In general, the Bank evaluates customer eligibility before granting credit. The amount of collateral provided, if required by the Bank, is based on customer credit assessment. The type of collateral varies, but may include, among others, accounts receivable, mortgages on property, equipment or warranties on investment securities.



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**22. Equity**

**a) Capital stock and authorized capital**

At December 31 and June 30, 2019, the Bank's paid-in capital amounts to Bs 57,919, represented by 5,791,930,372 non-convertible common shares of the same class with a par value of Bs 0.00001 each, fully subscribed and paid-in. The Bank complies with the minimum capital required under the current legislation.

At a Regular Shareholders' Meeting held on March 29, 2017, it was resolved to declare and pay dividends for Bs 19,000, to be distributed as follows: Bs 4,750, payable in cash with a charge to unappropriated surplus, and Bs 14,250 through a stock dividend payable with a charge to restricted surplus. On December 21, 2018, through Notice SIB-II-GGR-GA-40488, SUDEBAN authorized the capital increase through dividends declared. The SNV, through Resolution No. 038 of April 1, 2019, authorized the capital increase.

Below are the capital increases approved at Shareholders' Meetings which are pending approval by the regulatory entities:

Meeting date	Type of increase	Amount of the increase (In bolivars)	Increase method	Regulatory entities pending authorization
September 27, 2017	Stock dividends	56,000	25% with a charge to unappropriated surplus and 75% with a charge to restricted surplus	SNV (+)
December 20, 2017	Premium capitalization on capital contributions	65,555	With a charge to share premiums pending capitalization	SNV (+)
March 18, 2018	Stock dividends	195,000	With a charge to unappropriated surplus	SNV (+)
September 26, 2018	Stock dividends	3,110,000	With a charge to unappropriated surplus	SNV (+)
March 20, 2019	Stock dividends	1,141,000,000	With a charge to unappropriated surplus	SNV (+)
September 25, 2019	Stock dividends	3,900,000,000	76.92% with a charge to unappropriated surplus and 23.08% with a charge to restricted surplus	SUDEBAN and SNV

(+) Approved by this regulatory entity in January 2020.

At a Regular Shareholders' Meeting of September 27, 2017, it was resolved to declare and pay dividends for Bs 56,000, to be distributed as follows: Bs 14,000, payable in cash with a charge to unappropriated surplus, and Bs 42,000 through a stock dividend payable with a charge to restricted surplus. On November 6, 2019, through Notice SIB-II-GGR-GA-12488, SUDEBAN authorized this capital increase through dividends declared. The SNV authorized this capital increase through Resolution No. 006 of January 17, 2020.

At a Special Shareholders' Meeting of December 20, 2017, it was resolved to increase the Bank's subscribed and paid-in capital by Bs 65,555 with a charge to paid-in surplus, through the issue of 6,555,451,276 shares, with a par value of Bs 0.00001 each. On September 13, 2019, through Notice SIB-II-GGR-GA-10329, SUDEBAN authorized this capital increase. The SNV authorized this capital increase through Resolution No. 007 of January 17, 2020.

At a Regular Shareholders' Meeting of March 18, 2018, it was resolved to declare and pay dividends for Bs 195,000, payable in cash with a charge to unappropriated surplus. Furthermore, at the aforementioned Meeting, the shareholders unanimously approved to increase capital stock to up to Bs 195,000, by subscribing and paying shares at a par value of Bs 0.00001. On November 7, 2019, through Notice SIB-II-GGR-GA-12590, SUDEBAN authorized this capital increase through dividends declared. The SNV authorized this capital increase through Resolution No. 004 of January 17, 2020.

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At a Regular Shareholders' Meeting of September 26, 2018, it was resolved to declare dividends of Bs 3,110,000 fully payable in shares through the distribution of 311,000,000,000 non-convertible common shares of the same class with a par value of Bs 0.00001, payable with a charge to unappropriated surplus. On November 6, 2019, through Notice SIB-II-GGR-GA-12487, SUDEBAN authorized this capital increase through dividends declared. The SNV authorized this capital increase through Resolution No. 008 of January 17, 2020.

At a Regular Shareholders' Meeting of March 20, 2019, it was resolved to declare dividends of Bs 1,141,000,000 fully payable in shares through the distribution of 114,100,000,000,000 non-convertible common shares of the same class with a par value of Bs 0.00001, payable with a charge to unappropriated surplus. On November 6, 2019, through Notice SIB-II-GGR-GA-12489, SUDEBAN authorized this capital increase through dividends declared. The SNV authorized this capital increase through Resolution No. 005 of January 17, 2020.

At a Regular Shareholders' Meeting of September 25, 2019, it was resolved to declare dividends of Bs 3,900,000,000 fully payable in shares through the distribution of 390,000,000,000,000 non-convertible common shares of the same class with a par value of Bs 0.00001; Bs 3,000,000,000 payable with a charge to unappropriated surplus and Bs 900,000,000 with a charge to restricted surplus. To date, the Bank is awaiting authorization from SUDEBAN to subsequently request SNV authorization.

Shares subscribed by shareholders for the six-month periods ended December 31 and June 30, 2019 are identified as non-convertible common shares as follows:

	<u>December 31, 2019</u>		<u>June 30, 2019</u>	
	<u>Number of shares</u>	<u>Equity %</u>	<u>Number of shares</u>	<u>Equity %</u>
<b>Shareholders</b>				
Nogueroles García, Jorge Luis	564,313,138	9.74	553,866,036	9.56
Valores Torre Casa, C.A.	416,041,332	7.18	412,118,057	7.12
Halabi Harb, Anuar	349,899,089	6.04	339,451,986	5.86
Sociedad Financiera Intercontinental, Ltd.	306,404,593	5.29	711,775	0.01
Alintio International, S.L.	287,134,247	4.96	287,134,247	4.96
Curbelo Pérez, Juan Ramón	228,690,908	3.95	228,690,908	3.95
Zasuma Inversiones, C.A.	222,456,886	3.84	222,456,886	3.84
Castellana Investments Fund, Limited, S.C.C.	180,368,740	3.11	178,971,058	3.09
Inversiones Clatal, C.A.	178,721,058	3.09	180,368,740	3.11
Corporación Friport, C.A.	177,978,958	3.07	-	-
Osio Montiel, Carmen Inés	150,440,008	2.60	150,440,008	2.60
Inversiones Grial, C.A.	124,459,223	2.15	114,012,121	1.97
Kozma Solymosy, Nicolás A.	124,068,420	2.14	124,068,420	2.14
Inversiones Tosuman, C.A.	107,999,164	1.86	107,999,164	1.86
Tamayo Degwitz, Carlos Enrique	106,806,886	1.84	107,780,729	1.86
Teleacción A.C., C.A.	103,756,963	1.79	103,756,963	1.79
García Arroyo, Sagrario	99,183,005	1.71	99,183,005	1.71
Somoza Mosquera, David	93,311,011	1.61	79,849,405	1.38
Puig Miret, Jaime	80,887,215	1.40	80,887,215	1.40
Consorcio Toyomarca, S.A. (Toyomarca, S.A.)	80,766,467	1.39	80,766,467	1.39
Nogueroles López, José María	80,000,000	1.38	380,692,818	6.57
Kozma Ingenuo, Alejandro Nicolás	73,342,454	1.27	73,342,454	1.27
Kozma Ingenuo, Carolina María	73,342,454	1.27	73,342,454	1.27
Chaar, Mouada	65,881,714	1.14	65,881,714	1.14
Nogueroles García, María Monstserrat	63,922,281	1.10	63,922,281	1.10
Eurobuilding Internacional, C.A.	54,913,775	0.95	54,913,775	0.95
Valores Agropecuarios La Florida, C.A.	53,604,655	0.93	53,604,655	0.93
Tracto Agro Valencia, C.A.	53,183,574	0.92	58,686,762	1.01
Pembrokepines Investments LLC Sucursal Venezuela	48,933,231	0.84	30,645,116	0.53
Benacerraf Herrera, Mercedes Cecilia	44,949,782	0.78	44,949,782	0.78
Other	<u>1,196,169,141</u>	<u>20.66</u>	<u>1,439,435,371</u>	<u>24.85</u>
	<u>5,791,930,372</u>	<u>100.00</u>	<u>5,791,930,372</u>	<u>100.00</u>

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**b) Capital reserves**

**1) Legal reserve**

Based on the provisions set out in its bylaws and the Law on Banking Sector Institutions, the Bank makes an appropriation to the legal reserve every 6 months equivalent to 20% of its biannual net income until the reserve reaches 50% of its capital stock. Once the legal reserve reaches this amount, the Bank's appropriation to the legal reserve will be 10% of its biannual net income until the reserve covers 100% of its capital stock. At December 31 and June 30, 2019, capital reserves include Bs 57,919 in connection with the legal reserve.

**2) Social Contingency Fund**

Resolution No. 305-11 issued by SUDEBAN on November 28, 2011 was published in the Official Gazette No. 39,820 on December 14, 2011. This Resolution relates to the "Regulations Governing the Social Contingency Fund" and establishes the guidelines to account for the social fund, in conformity with Article No. 45 of the Law on Banking Sector Institutions.

On March 23, 2012, the Bank created the social fund through an investment trust fund with Banco Exterior, C.A. Banco Universal, in conformity with Resolution No. 305-11. The Bank made the respective accounting entries with a charge to restricted investments (Note 5-d) and a credit to cash maintained with the BCV.

At December 31 and June 30, 2019, the Bank recorded the Social Contingency Fund of Bs 290 and Bs 228, respectively, which includes capital and interest, with a charge to unappropriated surplus and a credit to capital reserves. At December 31 and June 30, 2019, capital reserves include Bs 1,780 and Bs 1,490, in respect of the Social Contingency Fund (Note 5-d).

**3) Voluntary reserves**

At December 31 and June 30, 2019, capital reserves include Bs 10 in respect of voluntary reserves.

**c) Retained earnings**

**1) Non-distributable surplus**

On March 30, 2011, through Notice SIB-II-GGIBPV-GIBPV2-07778, SUDEBAN informed the Bank that income from Branch operations should be considered non-distributable surplus.

**2) Restricted surplus**

In compliance with SUDEBAN Resolution No. 329-99, during the six-month period ended December 31, 2019, the Bank reclassified Bs 17,160 million (Bs 2,067 million during the six-month period ended June 30, 2019) to restricted surplus, equivalent to 50% of income for the six-month period, net of appropriations to reserves and income from Branch operations. At December 31 and June 30, 2019, restricted surplus amounts to Bs 20,266 million and Bs 3,213 million, respectively. These amounts may be used for capital stock increase, but not for cash dividend distribution.

**d) Risk-based capital ratio**

Ratios required and maintained by the Bank, in accordance with SUDEBAN rules and instructions, have been calculated based on its published financial statements, as indicated below:

	Required %	Maintained %	
		December 31, 2019	June 30, 2019
Total risk-based capital	12	54.88	94.81
Equity-to-total assets	9	30.33	52.73

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The Law on Banking Sector Institutions requires banks to calculate total risk-based capital, which under no circumstances should be lower than 12% of their assets and risk-weighted contingent operations, according to Resolution No. 305-09 of July 9, 2009. This Resolution also establishes that banks and financial institutions shall calculate on a monthly basis, equity-to-total assets ratio by dividing the amount of equity-to-total assets plus operating results by the value of total assets, which according to Resolution No. 117,14 of August 25, 2014, shall not be less than 9%.

Through Resolution No. 004,18 of January 25, 2018, SUDEBAN decreased the equity-to-total assets ratio to 7% and total risk-based capital ratio to 11% and modified the parameters to determine primary equity (Tier I), reducing the risk-weighting of certain assets. These exceptional measures were effective until the July 2019 month end.

At December 31 and June 30, 2019, the Bank calculates the total risk-based capital ratio and capital to risk asset ratio in conformity with current regulations.

**23. Balances and transactions with related companies**

In the ordinary course of business, the Bank conducts commercial transactions with a related company, the effects of which are included in the financial statements. Because of those relationships, certain transactions may have taken place on terms other than those that would characterize transactions between unrelated companies.

A breakdown of the Bank's balances and transactions with its related company BNC International Banking Corporation is provided below:

	December 31, 2019	June 30, 2019
	(In bolivars)	
<b>Assets</b>		
Cash and due from banks		
Foreign and correspondent banks for US\$6,837,246 (US\$19,969,327 at June 30, 2019)	317,961,173,578	134,122,990,330
Exchange Agreement No. 20 for US\$988,858 (US\$2,610,958 at June 30, 2019) (Note 3)	<u>45,986,107,367</u>	<u>17,536,385,787</u>
	<u>363,947,280,945</u>	<u>151,659,376,117</u>
<b>Liabilities</b>		
Borrowings (Note 13)		
Interest-bearing checking accounts, with 0.25% annual interest	<u>103</u>	<u>103</u>

**24. Social Bank Deposit Protection Fund**

The Social Bank Deposit Protection Fund (FOGADE), among other things, aims to guarantee customer deposits with Venezuelan financial institutions up to a given amount per depositor.

The Law on Banking Sector Institutions requires private banks regulated by this Law to pay a special fee to support FOGADE operations.

The biannual fee is equivalent to 0.75% of the total amount of customer deposits at the end of each semester prior to the payment date, calculated in accordance with instructions issued by FOGADE and paid to FOGADE through monthly premiums equivalent to one-sixth of 0.75%. This fee is shown under operating expenses.

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**25. Special fee paid to the Superintendency of Banking Sector Institutions**

The Law on Banking Sector Institutions requires Venezuelan banks and financial institutions regulated by this Law to pay a special fee to support SUDEBAN operations.

Through Resolution No. 033,19 of July 9, 2019, SUDEBAN set the fee at 0.1% of the average of the Bank's assets for the two months prior to the bimonthly period when payment is due.

At December 31 and June 30, 2019, the biannual fee is 0.1% of the average of the Bank's assets; it is payable at ½ of the resulting amount. This fee is shown under operating expenses.

**26. Legal reserve**

The Law on Banking Sector Institutions requires financial institutions to maintain a minimum legal reserve deposit and the BCV is in charge of monitoring compliance, setting the legal reserve rate and the rules for its constitution, as well as imposing sanctions for noncompliance.

Resolution No. 19-09-02 of September 5, 2019, which repeals Resolution No. 19-04-02 of April 11, 2019, requires the creation of a minimum reserve of 57% of net liabilities and 100% of the regular reserve for marginal increases, deposited at the BCV, and calculated on the basis of all deposits, liabilities and investments assigned, excluding liabilities with the BCV, FOGADE and other financial institutions; liabilities arising from funds received from the Venezuelan government, local or foreign entities to finance special programs in the country (once these funds have been allocated); liabilities arising from funds received from financial institutions to finance and promote exports as required by Law (once these funds have been allocated) and; liabilities in foreign currency resulting from its offices abroad and those resulting from transactions with other banks and financial institutions for which the latter have, in turn, created a reserve pursuant to the legal reserve regulations. Liabilities arising from resources provided by Mandatory Housing Savings Funds required under the Venezuelan Housing Loan Law and managed by financial institutions in trust funds will not be computed.

In addition, according to Resolution No. 19-09-02, banks with a reserve deficit equal to or lower than the initial global deficit, shall pay to the BCV an annual interest rate of 126% on the reserve deficit amount. If the reserve deficit is greater than the initial global deficit, banks shall pay to the BCV a supplementary financial cost on the uncovered additional amount, to be calculated on a daily basis by the BCV; however, the financial cost shall not be lower than 126%. During the six-month periods ended December 31 and June 30, 2019, the Bank paid interest on reserve deficit to the BCV of Bs 3,267 million and Bs 622 million, respectively, shown as part of net income under other interest expense.

The legal reserve must be maintained in legal tender, regardless of the currency of the transactions from which it originated. At December 31, 2019, the legal reserve required is Bs 995 billion (Note 3).

**27. Contingencies**

At December 31 and June 30, 2019, the Bank is defendant in certain legal proceedings pending final ruling. Management is not aware of any other pending tax, labor or other claim that may have a significant effect on the Bank's financial position or result of operations.

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**Notes to the financial statements**  
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**28. Maturity of financial assets and liabilities**

Below is a breakdown of the estimated maturity of financial assets and liabilities:

	December 31, 2019							Total
	June 30, 2019	December 31, 2020	June 30, 2021	December 31, 2021	June 30, 2022	December 31, 2022	Beyond to December 31, 2022	
	Maturity							
	(In bolivars)							
<b>Assets</b>								
Cash and due from banks	2,901,981,046,768	-	-	-	-	-	-	2,901,981,046,768
Investment securities	509,157,332,538	205,317,700	24,415	252,571	-	-	202,616,574,077	711,979,501,301
Loan portfolio	768,481,211,552	131,422,855,173	10,682,545,950	2,332,094,768	303,878,043	35,574,824	37,100,046,942	950,358,207,252
Interest and commissions receivable	75,888,124,328	-	-	-	-	-	-	75,888,124,328
	<u>4,255,507,715,186</u>	<u>131,628,172,873</u>	<u>10,682,570,365</u>	<u>2,332,347,339</u>	<u>303,878,043</u>	<u>35,574,824</u>	<u>239,716,621,019</u>	<u>4,640,206,879,649</u>
<b>Liabilities</b>								
Customer deposits	3,100,528,878,089	10,000,097	-	-	-	-	-	3,100,538,878,186
Borrowings	107,378,930,892	-	-	-	-	-	-	107,378,930,892
Interest and commissions payable	1,695,003,938	-	-	-	-	-	-	1,695,003,938
	<u>3,209,602,812,919</u>	<u>10,000,097</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,209,612,813,016</u>

	June 30, 2019							Total
	December 31, 2019	June 30, 2020	December 31, 2020	June 30, 2021	December 31, 2021	June 30, 2022	Beyond to June 30, 2022	
	Maturity							
	(In bolivars)							
<b>Assets</b>								
Cash and due from banks	515,425,564,254	-	-	-	-	-	-	515,425,564,254
Investment securities	49,869,954,379	35,685,083,507	6,128	4,588	7,145	-	46,429,624,462	131,984,680,209
Loan portfolio	84,472,503,555	2,153,620,041	4,745,338,449	2,183,824,012	16,986,865	409,305,652	3,949,797,154	97,931,375,728
Interest and commissions receivable	2,290,207,650	-	-	-	-	-	-	2,290,207,650
	<u>652,058,229,838</u>	<u>37,838,703,548</u>	<u>4,745,344,577</u>	<u>2,183,828,600</u>	<u>16,994,010</u>	<u>409,305,652</u>	<u>50,379,421,616</u>	<u>747,631,827,841</u>
<b>Liabilities</b>								
Customer deposits	489,327,873,700	1,050,097	-	-	-	-	-	489,328,923,797
Borrowings	13,814,140,269	-	-	-	-	-	-	13,814,140,269
Interest and commissions payable	539,202,581	-	-	-	-	-	-	539,202,581
	<u>503,681,216,550</u>	<u>1,050,097</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>503,682,266,647</u>

**29. Fair value of financial instruments**

The estimated fair value of the Bank's financial instruments, their book value, and the main assumptions and methodology used to estimate their fair values are shown below:

	December 31, 2019		June 30, 2019	
	Book value	Estimated fair value	Book value	Estimated fair value
	(In bolivars)			
<b>Assets</b>				
Cash and due from banks	2,901,981,046,768	2,901,981,046,768	515,425,564,254	515,425,564,254
Investment securities	711,979,501,301	711,689,434,300	131,984,680,209	131,986,879,933
Loan portfolio	880,651,372,809	880,651,372,809	84,102,221,566	84,102,221,566
Interest and commissions receivable	3,761,907,553	3,761,907,553	778,899,658	778,899,658
	<u>4,498,373,828,431</u>	<u>4,498,083,761,430</u>	<u>732,291,365,687</u>	<u>732,293,565,411</u>
<b>Liabilities</b>				
Customer deposits	3,100,538,878,186	3,100,538,878,186	489,328,923,797	489,328,923,797
Borrowings	107,378,930,892	107,378,930,892	13,814,140,269	13,814,140,269
Interest and commissions payable	1,695,003,938	1,695,003,938	539,202,581	539,202,581
	<u>3,209,612,813,016</u>	<u>3,209,612,813,016</u>	<u>503,682,266,647</u>	<u>503,682,266,647</u>

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**December 31 and June 30, 2019**

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**Short-term financial instruments**

Short-term financial instruments, both assets and liabilities, are shown in the balance sheet at book value, which does not significantly differ from fair value due to their short-term maturity. These instruments include cash and due from banks, customer deposits with no fixed maturity and short-term maturity, short-term borrowings, other liabilities from financial intermediation with short-term maturity, and interest receivable and payable.

**Investment securities**

The fair value of investments in available-for-sale and held-to-maturity securities was determined using quoted market prices, reference prices determined from trading operations on the secondary market, the present value of estimated future cash flows and quoted market prices of financial instruments with similar characteristics (Notes 5-b and c). Investments in other securities are shown at par value, which is considered as fair value (Note 5-e). The equivalent fair value in bolivars of securities in foreign currency is calculated using the official exchange rate.

**Loan portfolio**

The Bank's loan portfolio earns interest at variable rates that are reviewed regularly. In addition, allowances are made for loans with some risk of recovery. Therefore, in management's opinion, the book value of the loan portfolio approximates its fair value.

**Customer deposits and long-term liabilities**

Customer deposits and long-term liabilities bear interest at variable rates, which are reviewed regularly. Therefore, management considers fair value to be equivalent to book value.

**30. Investments and loans granted in excess of legal limits**

At December 31 and June 30, 2019, except for two loans of US\$2,734,000, equivalent to Bs 127,143 million maintained by the Branch with a client, the Bank does not have loans with other debtors that individually exceed 10% of its equity or with economic groups exceeding 20% of the Bank's equity, and does not maintain investments or loans exceeding the limits established in the Law on Banking Sector Institutions.

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**31. Integration schedule of the Bank's financial statements**

The integration schedule used for the preparation of the Bank's financial statements is shown below for purposes of additional analysis. This schedule shows a breakdown of Bank operations in Venezuela and Branch operations with their respective elimination entries expressed in bolivars (Notes 2-c and 8):

**Integration schedule - Balance sheet**  
**December 31 and June 30, 2019**

	December 31, 2019			June 30, 2019				
	Operations in Venezuela	Branch operations in Curacao	Elimination entry	Total Bank, including Branch operations	Operations in Venezuela	Branch operations in Curacao	Elimination entry	Total Bank, including Branch operations
	(In bolivars)							
<b>Assets</b>								
Cash and due from banks	2,859,419,491,867	588,263,649,276	(545,702,094,375)	2,901,981,046,768	349,157,912,352	178,534,450,391	(12,266,798,489)	515,425,564,254
Cash	650,367,652,783	-	-	650,367,652,783	36,051,399,973	-	-	36,051,399,973
Central Bank of Venezuela	1,143,882,269,317	-	-	1,143,882,269,317	204,355,792,481	-	-	204,355,792,481
Venezuelan banks and other financial institutions	8,017,261,645	-	-	8,017,261,645	12,555,026	-	-	12,555,026
Foreign and correspondent banks	1,046,966,820,115	588,263,649,276	(545,702,094,375)	1,089,528,375,016	107,012,357,943	178,534,450,391	(12,266,798,489)	273,280,009,845
Pending cash items (Provision for cash and due from banks)	10,185,488,007	-	-	10,185,488,007	1,746,154,430	-	-	1,746,154,430
-	-	-	-	-	(20,347,501)	-	-	(20,347,501)
<b>Investment securities</b>	196,378,371,052	515,601,130,249	-	711,979,501,301	59,204,816,352	72,779,863,857	-	131,984,680,209
Deposits with the BCV and overnight deposits	-	-	-	-	23,530,000,000	12,358,277,752	-	35,888,277,752
Investments in available-for-sale securities	247,008,236	162,905,766,453	-	163,152,774,689	2,252,008,308	35,685,074,870	-	37,937,083,178
Investments in held-to-maturity securities	40,120,138,675	346,456,874,825	-	386,577,013,500	11,097,712,151	23,843,416,315	-	34,941,128,466
Restricted investments	156,007,554,169	6,238,488,971	-	162,246,043,140	22,321,422,726	893,094,920	-	23,214,517,646
Investments in other securities	3,669,972	-	-	3,669,972	3,673,167	-	-	3,673,167
<b>Loan portfolio</b>	395,444,491,231	485,206,881,578	-	880,651,372,809	57,247,622,958	26,854,598,608	-	84,102,221,566
Current	403,782,739,373	532,517,805,156	-	936,300,544,529	62,146,432,606	26,093,343,542	-	88,239,776,148
Rescheduled	106,379,173	13,951,283,550	-	14,057,662,723	90	-	-	90
Overdue	(8,444,627,315)	(61,262,207,128)	-	(69,706,834,443)	(4,918,713,596)	(8,910,440,566)	-	(13,829,154,162)
(Allowance for losses on loan portfolio)	-	-	-	-	-	-	-	-
<b>Interest and commissions receivable</b>	1,502,769,232	2,259,138,321	-	3,761,907,553	589,175,647	189,724,011	-	778,899,658
Interest receivable on investment securities	70,426,912,845	314,619,580	-	70,741,532,425	1,608,016,219	44,990,982	-	1,653,007,201
Interest receivable on loan portfolio	1,484,749,203	3,646,422,800	-	5,131,172,003	340,699,068	294,293,108	-	634,992,176
Commissions receivable	15,419,900	-	-	15,419,900	2,208,273	-	-	2,208,273
(Provision for interest receivable and other)	(70,424,312,716)	(1,701,904,059)	-	(72,126,216,775)	(1,361,747,913)	(149,560,079)	-	(1,511,307,992)
<b>Investments in subsidiaries, affiliates and branches</b>	545,539,374,671	-	(540,435,475,730)	5,103,898,941	74,760,619,599	-	(74,760,619,599)	-
<b>Available-for-sale assets</b>	659	-	-	659	232	-	-	232
<b>Property and equipment</b>	129,256,725,165	655,349,919	-	129,912,075,084	10,933,790,993	108,368,864	-	11,042,159,857
<b>Other assets</b>	277,718,451,931	4,068,108,715	-	281,786,560,646	24,962,295,665	394,803,384	-	25,357,099,049
<b>Total assets</b>	4,405,259,675,808	1,596,054,258,058	(1,086,137,570,105)	4,915,176,363,761	576,856,233,798	278,861,809,115	(87,027,418,088)	768,690,624,825
<b>Memorandum accounts</b>								
Contingent debtor accounts	38,506,979,448	-	-	38,506,979,448	2,195,666,376	-	-	2,195,666,376
Assets received in trust	18,240,524,452	-	-	18,240,524,452	1,904,890,258	-	-	1,904,890,258
Debtor accounts from other special trust services	187,043,179	-	-	187,043,179	89,513,472	-	-	89,513,472
Other debtor memorandum accounts	1,983,798,698,100	1,044,066,206,584	-	3,027,864,904,684	471,577,846,346	144,257,213,261	-	615,835,059,607
	2,040,733,245,179	1,044,066,206,584	-	3,084,799,451,763	475,767,916,452	144,257,213,261	-	620,025,129,713



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**Integration schedule - Balance sheet**  
**December 31 and June 30, 2019**

	December 31, 2019			Total Bank, including Branch operations (In bolivars)	June 30, 2019			Total Bank, including Branch operations
	Operations in Venezuela	Branch operations in Curacao	Elimination entry		Operations in Venezuela	Branch operations in Curacao	Elimination entry	
<b>Liabilities and Equity</b>								
<b>Customer deposits</b>	<u>2,064,008,073,285</u>	<u>1,050,316,489,041</u>	<u>(13,785,684,140)</u>	<u>3,100,538,878,186</u>	<u>287,931,316,824</u>	<u>201,833,270,383</u>	<u>(435,663,410)</u>	<u>489,328,923,797</u>
Demand deposits	<u>1,844,076,451,366</u>	-	-	<u>1,844,076,451,366</u>	<u>256,469,523,550</u>	-	-	<u>256,469,523,550</u>
Non-interest-bearing checking accounts	892,714,430,313	-	-	892,714,430,313	179,214,967,135	-	-	179,214,967,135
Checking accounts as per the free convertibility exchange market system	791,793,731,467	-	-	791,793,731,467	-	-	-	-
Interest-bearing checking accounts	93,086,089,598	-	-	93,086,089,598	26,075,383,845	-	-	26,075,383,845
Checking accounts under Exchange Agreement No. 20	45,986,107,367	-	-	45,986,107,367	46,981,923,839	-	-	46,981,923,839
Demand deposits and certificates	20,496,092,621	-	-	20,496,092,621	4,197,248,731	-	-	4,197,248,731
Other demand deposits	22,388,277,328	-	-	22,388,277,328	2,299,218,187	-	-	2,299,218,187
Savings deposits	197,362,283,025	1,028,179,057,346	(13,785,684,140)	1,211,755,656,231	29,076,720,306	170,648,768,425	(435,663,410)	199,289,825,321
Time deposits	181,061,566	22,137,431,695	-	22,318,493,261	85,854,781	31,184,501,958	-	31,270,356,739
<b>Borrowings</b>	<u>107,378,930,892</u>	-	-	<u>107,378,930,892</u>	<u>13,814,140,269</u>	-	-	<u>13,814,140,269</u>
Venezuelan financial institutions, up to one year	107,377,418,194	-	-	107,377,418,194	13,810,897,434	-	-	13,810,897,434
Foreign financial institutions, up to one year	1,512,698	-	-	1,512,698	3,242,835	-	-	3,242,835
<b>Interest and commissions payable</b>	<u>1,614,254,839</u>	<u>80,749,099</u>	-	<u>1,695,003,938</u>	<u>197,593,120</u>	<u>341,609,461</u>	-	<u>539,202,581</u>
Expenses payable on customer deposits	701,763,144	80,749,099	-	782,512,243	57,793,120	341,609,461	-	399,402,581
Expenses payable on borrowings	912,491,695	-	-	912,491,695	139,800,000	-	-	139,800,000
<b>Accruals and other liabilities</b>	<u>1,058,723,966,951</u>	<u>5,221,544,104</u>	<u>(531,916,410,151)</u>	<u>532,029,100,904</u>	<u>93,421,067,988</u>	<u>1,926,309,672</u>	<u>(11,831,135,079)</u>	<u>83,516,242,581</u>
<b>Total liabilities</b>	<u>3,231,725,225,967</u>	<u>1,055,618,782,244</u>	<u>(545,702,094,291)</u>	<u>3,741,641,913,920</u>	<u>395,364,118,201</u>	<u>204,101,189,516</u>	<u>(12,266,798,489)</u>	<u>587,198,509,228</u>
<b>Equity</b>								
Capital stock	57,919	353,407,497,477	(353,407,497,477)	57,919	57,919	51,041,446,934	(51,041,446,934)	57,919
Contributions pending capitalization	387,162	-	-	387,162	387,162	-	-	387,162
Capital reserves	59,709	128,656,458,251	(128,656,458,251)	59,709	59,419	58,196,675	(58,196,675)	59,419
Retained earnings	98,165,066,305	59,398,938,368	(59,398,938,368)	98,165,066,305	40,342,612,916	23,707,538,152	(23,707,538,152)	40,342,612,916
Adjustment from revaluation of property and equipment	463,334	-	-	463,334	463,334	-	-	463,334
Exchange gain from holding foreign currency assets and liabilities	1,068,825,150,738	-	-	1,068,825,150,738	141,522,022,268	-	-	141,522,022,268
Gain from exchange fluctuation - UVCC	7,553,267,928	-	-	7,553,267,928	-	-	-	-
Net unrealized loss on investments in available-for-sale securities	(1,010,003,254)	(1,027,418,282)	1,027,418,282	(1,010,003,254)	(373,487,421)	(46,562,162)	46,562,162	(373,487,421)
<b>Total equity</b>	<u>1,173,534,449,841</u>	<u>540,435,475,814</u>	<u>(540,435,475,814)</u>	<u>1,173,534,449,841</u>	<u>181,492,115,597</u>	<u>74,760,619,599</u>	<u>(74,760,619,599)</u>	<u>181,492,115,597</u>
<b>Total liabilities and equity</b>	<u>4,405,259,675,808</u>	<u>1,596,054,258,058</u>	<u>(1,086,137,570,105)</u>	<u>4,915,176,363,761</u>	<u>576,856,233,798</u>	<u>278,861,809,115</u>	<u>(87,027,418,088)</u>	<u>768,690,624,825</u>

**Banco Nacional de Crédito, C.A, Banco Universal**  
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**Integration schedule - Income statement**  
**Six-month periods ended December 31 and June 30, 2019**

	December 31, 2019				June 30, 2019			
	Operations in Venezuela	Branch operations in Curacao	Elimination entry	Total Bank, including Branch operations	Operations in Venezuela	Branch operations in Curacao	Elimination entry	Total Bank, including Branch operations
	(In bolivars)							
<b>Interest income</b>	<u>119,292,918,150</u>	<u>60,047,753,010</u>	-	<u>179,340,671,160</u>	<u>22,783,244,107</u>	<u>11,029,981,313</u>	-	<u>33,813,225,420</u>
Income from cash and due from banks	24,088,279	1,808,763,450	-	1,832,851,729	49,226,713	17,494,821	-	66,721,534
Income from investment securities	33,951,743,488	3,027,274,601	-	36,979,018,089	4,190,782,616	1,254,662,798	-	5,445,445,414
Income from loan portfolio	81,907,027,660	26,023,807,270	-	107,930,834,930	18,387,814,765	5,031,555,585	-	23,419,370,350
Income from other accounts receivable	1,679,111,472	29,187,907,669	-	30,867,019,161	691,179	4,726,268,109	-	4,726,959,288
Other interest income	1,730,947,251	-	-	1,730,947,251	154,728,834	-	-	154,728,834
<b>Interest expense</b>	<u>(25,840,895,175)</u>	<u>(826,652,614)</u>	-	<u>(26,667,547,789)</u>	<u>(5,520,082,472)</u>	<u>(403,019,289)</u>	-	<u>(5,923,101,761)</u>
Expenses from customer deposits	(15,313,294,452)	(826,652,614)	-	(16,139,947,066)	(2,356,989,817)	(403,019,289)	-	(2,760,009,106)
Expenses from borrowings	(7,234,054,426)	-	-	(7,234,054,426)	(2,537,452,410)	-	-	(2,537,452,410)
Other interest expense	(3,293,546,297)	-	-	(3,293,546,297)	(625,640,245)	-	-	(625,640,245)
<b>Gross financial margin</b>	<u>93,452,022,975</u>	<u>59,221,100,396</u>	-	<u>152,673,123,371</u>	<u>17,263,161,635</u>	<u>10,626,962,024</u>	-	<u>27,890,123,659</u>
Income from financial assets recovered	43,337,593	934,735,998	-	978,073,591	148,571,448	34,727,871,586	-	34,876,443,034
Expenses from uncollectible loans and other accounts receivable	(13,839,900,439)	(1,409,261,471)	-	(15,249,161,910)	(6,013,919,891)	(5,183,635,677)	-	(11,197,555,568)
Expenses from provision for cash and due from banks	-	-	-	-	(153,326,347)	-	-	(153,326,347)
<b>Net financial margin</b>	<u>79,655,460,129</u>	<u>58,746,574,923</u>	-	<u>138,402,035,052</u>	<u>11,244,486,845</u>	<u>40,171,197,933</u>	-	<u>51,415,684,778</u>
Other operating income	257,568,617,523	3,075,452,569	(64,886,299,038)	195,757,771,054	79,441,886,094	2,203,149,600	(47,963,683,440)	33,681,352,254
Other operating expenses	(84,416,157,280)	(28,644,375,913)	41,383,252,929	(71,677,280,264)	(21,738,991,984)	(7,534,894,334)	14,129,595,949	(15,144,290,369)
<b>Financial intermediation margin</b>	<u>252,807,920,372</u>	<u>33,177,651,579</u>	<u>(23,503,046,109)</u>	<u>262,482,525,842</u>	<u>68,947,380,955</u>	<u>34,839,453,199</u>	<u>(33,834,087,491)</u>	<u>69,952,746,663</u>
<b>Operating expenses</b>	<u>(159,020,662,430)</u>	<u>(10,209,364,214)</u>	-	<u>(169,230,026,644)</u>	<u>(23,771,771,833)</u>	<u>(965,509,052)</u>	-	<u>(24,737,280,885)</u>
Salaries and employee benefits	(38,024,583,762)	(1,905,417,477)	-	(39,930,001,239)	(5,945,463,361)	(306,449,958)	-	(6,251,913,319)
General and administrative expenses	(115,750,334,780)	(8,303,946,737)	-	(124,054,281,517)	(17,097,871,081)	(659,059,094)	-	(17,756,930,175)
Fees paid to the Social Bank Deposit Protection Fund	(1,652,904,305)	-	-	(1,652,904,305)	(165,964,048)	-	-	(165,964,048)
Fees paid to the Superintendency of Banking Sector Institutions	(3,592,839,583)	-	-	(3,592,839,583)	(562,473,343)	-	-	(562,473,343)
<b>Gross operating margin</b>	<u>93,787,257,942</u>	<u>22,968,287,365</u>	<u>(23,503,046,109)</u>	<u>93,252,499,198</u>	<u>45,175,609,122</u>	<u>33,873,944,147</u>	<u>(33,834,087,491)</u>	<u>45,215,465,778</u>
Sundry operating income	2,017,762,561	828,357,461	-	2,846,120,022	922,647,142	2,680,940	-	925,328,082
Expenses from available-for-sale assets	(123)	-	-	(123)	(35,420,678)	-	-	(35,420,678)
Sundry operating expenses	(18,108,116,144)	(141,825,028)	-	(18,249,941,172)	(3,852,890,494)	(27,873,290)	-	(3,880,763,784)
<b>Net operating margin</b>	<u>77,696,904,236</u>	<u>23,654,819,798</u>	<u>(23,503,046,109)</u>	<u>77,848,677,925</u>	<u>42,209,945,092</u>	<u>33,848,751,797</u>	<u>(33,834,087,491)</u>	<u>42,224,609,398</u>
Extraordinary expenses	(48,184,471)	-	-	(48,184,471)	(10,416,002)	-	-	(10,416,002)
Extraordinary income	63,800,000	-	-	63,800,000	7,237,343	-	-	7,237,343
<b>Gross income before tax</b>	<u>77,712,519,765</u>	<u>23,654,819,798</u>	<u>(23,503,046,109)</u>	<u>77,864,293,454</u>	<u>42,206,766,433</u>	<u>33,848,751,797</u>	<u>(33,834,087,491)</u>	<u>42,221,430,739</u>
Income tax	(18,523,392,670)	(151,773,689)	-	(18,675,166,359)	(4,239,112,538)	(14,664,306)	-	(4,253,776,844)
Wealth tax	(1,366,673,416)	-	-	(1,366,673,416)	-	-	-	-
<b>Net income</b>	<u>57,822,453,679</u>	<u>23,503,046,109</u>	<u>(23,503,046,109)</u>	<u>57,822,453,679</u>	<u>37,967,653,895</u>	<u>33,834,087,491</u>	<u>(33,834,087,491)</u>	<u>37,967,653,895</u>