

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

Independent Auditor's Report and Financial Statements  
December 31, 2020

## **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, 2020 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, 2020;
- 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.

### **Key audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the current semester. These matters were addressed within the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### Key audit matter

#### Allowance for losses on loan portfolio

The estimate of the allowance for losses on loan portfolio requires management's judgment in the preparation of the financial statements at December 31, 2020.

In accordance with the accounting rules and instructions of the SUDEBAN, the Bank maintains a minimum general 1% allowance of the loan portfolio balance, and an additional countercyclical allowance equivalent to 0.75% of the gross loan portfolio balance. The Bank may set aside any additional general allowances deemed necessary.

Similarly, a specific provision is determined for debtors with certain characteristics, which is calculated based on SUDEBAN accounting rules and instructions.

As indicated in Note 2-e, the Bank performs a monthly 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 month, the Bank calculates an allowance for losses on loans not individually reviewed, equivalent to the risk percentage resulting from the specific review of loans.

#### Information systems

The Bank's financial information is highly dependent on information systems; therefore, adequate control of these systems is key to ensure the correct processing of information.

Bank management has defined an information technology structure responsible for the internal control of operations conducted through the information technology systems.

### How our audit addressed the key audit matter

Our main audit procedures were focused on gaining an understanding and assessing the process conducted by Bank management to estimate the allowance for losses on loan portfolio.

Regarding internal control, we have focused on the design and operability of the following processes:

- We assessed the design and tested the operating effectiveness of key controls associated with the loan portfolio cycle.
- We assessed the Bank's methodology used to determine the allowance for losses on loan portfolio, considering SUDEBAN requirements.

For the allowance for losses of the assessed loan portfolio we:

- Conducted a detailed review of the 500 largest debtors (99% of total loans at December 31, 2020), including financial and credit quality information of each debtor, and analysis and quality of guarantees granted on loans.
- Assessed and recalculated the sufficiency of the countercyclical, general and specific allowances in accordance with SUDEBAN rules and instructions.

The results of our audit procedures did not reveal any difference or error out of an established reasonable range.

Our work consisted in assessing general controls considered in the areas of technology and information security. We also assessed internal control in connection with automated processing through the use of information systems, servers and applications supporting relevant business processes, with a material impact on the Bank's financial information.

To this end, we conducted internal control procedures related to:

- Access control and segregation of functions on applications and servers that process and generate relevant financial information, as well as segregation of development, testing and production environments.
- Change management and software development.
- Effective operation of the technological infrastructure and assessment of availability, integrity and safeguarding of financial information.
- Assessment of automated controls on relevant processes through control tests and support with computer assisted audit tests (CAAT).

The results of our audit procedures did not reveal any relevant observation on these matters.

**Emphasis on matters**

We draw attention to Note 2 of the accompanying financial statements, indicating that the rules and instructions of the SUDEBAN differ in certain material respects from accounting principles generally accepted in Venezuela (VEN NIF).

We draw attention to Note 27 of the accompanying financial statements, indicating that in accordance with the Central Bank of Venezuela (BCV) at December 31, 2020, banks are required to maintain a minimum legal reserve on net obligations and investments assigned. This measure may limit the Bank's financial intermediation.

We draw attention to Note 1 of the accompanying financial statements, indicating that due to the current global pandemic declared by the World Health Organization (WHO), the Bank is unable to assess the possible effects and impact that measures taken by local and foreign authorities to contain the spread of COVID-19 may have on its future financial position or results of operations.

These matters have no impact on our audit opinion.

**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 skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Pacheco, Apostólico y Asociados  
(PricewaterhouseCoopers)

Reinaldo Emilio Alvarado Ch.  
CPC 54341  
CP 790  
SNV 22

February 19, 2021

**Banco Nacional de Crédito, C.A., Banco Universal**  
**Balance sheet**  
**December 31 and June 30, 2020**

	<b>December 31, 2020</b>	<b>June 30, 2020</b>
	(In bolivars)	
<b>Assets</b>		
<b>Cash and due from banks</b>	<u>134,577,695,899,424</u>	<u>17,194,990,315,044</u>
Cash (Notes 3 and 4)	88,818,603,881,193	8,588,653,125,988
Central Bank of Venezuela (Notes 3, 4 and 26)	14,182,720,964,050	3,544,001,214,117
Venezuelan banks and other financial institutions	67,348,951,762	12,892,551,100
Foreign and correspondent banks (Note 4)	31,489,236,812,716	5,067,648,930,897
Pending cash items (Note 3)	19,785,289,703	1,165,624,445
(Provision for cash and due from banks)	-	(19,371,131,503)
<b>Investment securities</b> (Note 5)	<u>5,386,582,609,384</u>	<u>1,635,605,352,981</u>
Deposits with the BCV and overnight deposits	72,090,000,000	355,300,000,000
Investments in available-for-sale securities	288,728,757	258,590,987
Investments in held-to-maturity securities	1,446,330,807,814	566,032,819,563
Restricted investments	3,867,869,415,816	714,010,278,550
Investments in other securities	3,656,997	3,663,881
<b>Loan portfolio</b> (Note 6)	<u>42,831,945,429,406</u>	<u>4,507,311,042,457</u>
Current	43,073,775,237,950	4,544,937,926,608
Overdue	1,656,678,076,717	305,918,601,637
(Allowance for losses on loan portfolio)	(1,898,507,885,261)	(343,545,485,788)
<b>Interest and commissions receivable</b> (Note 7)	<u>161,486,347,643</u>	<u>32,567,662,523</u>
Interest receivable on investment securities	2,400,937,440,915	378,248,786,014
Interest receivable on loan portfolio	180,187,658,261	35,081,960,318
Commissions receivable	507,745,375	128,231,650
(Provision for interest receivable and other)	(2,420,146,496,908)	(380,891,315,459)
<b>Investments in affiliates</b> (Note 9)	<u>132,850,060,719</u>	<u>22,438,720,334</u>
<b>Available-for-sale assets</b> (Note 10)	<u>303,718,411,746</u>	<u>490</u>
<b>Property and equipment</b> (Note 11)	<u>4,547,738,379,444</u>	<u>299,324,608,049</u>
<b>Other assets</b> (Note 12)	<u>9,633,687,930,256</u>	<u>1,253,767,633,614</u>
<b>Total assets</b>	<u><b>197,575,705,068,022</b></u>	<u><b>24,946,005,335,492</b></u>
<b>Memorandum accounts</b> (Note 21)		
Contingent debtor accounts	815,592,463,530	161,428,307,449
Assets received in trust	310,239,524,117	76,276,952,128
Debtor accounts from other special trust services	788,960,732	701,228,128
Other debtor memorandum accounts	<u>129,396,594,463,543</u>	<u>13,711,418,309,827</u>
	<u><b>130,523,215,411,922</b></u>	<u><b>13,949,824,797,532</b></u>

The notes on pages 6 to 61 are an integral part of the financial statements

**Banco Nacional de Crédito, C.A., Banco Universal**  
**Balance sheet**  
**December 31 and June 30, 2020**

	December 31, 2020	June 30, 2020
	(In bolivars)	
<b>Liabilities and Equity</b>		
Customer deposits (Note 13)	<u>136,209,579,630,509</u>	<u>16,713,319,455,211</u>
Demand deposits	<u>104,762,621,339,653</u>	<u>11,656,079,008,373</u>
Non-interest-bearing checking accounts	12,955,777,192,163	2,479,342,033,612
Checking accounts as per the free convertibility exchange market system	89,602,895,601,303	8,585,997,053,578
Interest-bearing checking accounts	1,872,964,194,584	493,356,256,143
Checking accounts under Exchange Agreement No. 20	4,216,296,298	778,438,095
Demand deposits and certificates	326,768,055,305	96,605,226,945
Other demand deposits	220,509,619,489	69,699,540,388
Savings deposits	25,604,745,363,735	4,294,879,204,042
Time deposits	325,985,281,833	692,661,702,408
Restricted customer deposits	5,295,718,025,799	-
Borrowings (Note 14)	<u>1,898,623,811,486</u>	<u>191,241,473,127</u>
Venezuelan financial institutions, up to one year	1,840,091,376,821	154,949,101,157
Foreign financial institutions, up to one year	58,532,434,665	36,292,371,970
Interest and commissions payable (Note 15)	<u>22,503,068,685</u>	<u>4,860,551,311</u>
Expenses payable on customer deposits	9,996,402,018	4,344,217,978
Expenses payable on borrowings	12,506,666,667	516,333,333
<b>Accruals and other liabilities</b> (Note 16)	<u>17,092,773,615,291</u>	<u>2,149,808,648,511</u>
<b>Total liabilities</b>	<u>155,223,480,125,971</u>	<u>19,059,230,128,160</u>
<b>Equity</b> (Note 23)		
Capital stock	5,791,930,000	57,919
Contributions pending capitalization	321,608	387,162
Capital reserves	5,820,891,791	59,999
Retained earnings	3,116,489,536,930	399,421,235,564
Adjustment from revaluation of property and equipment	463,334	463,334
Exchange gain from holding foreign currency assets and liabilities	37,755,177,723,550	5,261,434,989,438
Net unrealized loss on investments in available-for-sale securities (Note 5-b)	(562,946,490)	(6,181,387,325)
Variation of commercial loans granted through UVCC and UVCP (Note 6)	<u>1,469,507,021,328</u>	<u>232,099,401,241</u>
<b>Total equity</b>	<u>42,352,224,942,051</u>	<u>5,886,775,207,332</u>
<b>Total liabilities and equity</b>	<u>197,575,705,068,022</u>	<u>24,946,005,335,492</u>

The notes on pages 6 to 61 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, 2020**

	December 31, 2020	June 30, 2020
	(In bolivars)	
<b>Interest income</b>	<u>4,825,961,459,138</u>	<u>758,616,951,788</u>
Income from cash and due from banks	1,277,125,100	460,134,344
Income from investment securities (Note 5-a)	555,240,972,587	151,942,611,008
Income from loan portfolio (Note 6)	3,931,968,301,011	570,297,596,657
Income from other accounts receivable (Note 13)	337,475,060,440	35,916,609,779
<b>Interest expense</b>	<u>(519,529,678,557)</u>	<u>(155,943,957,707)</u>
Expenses from customer deposits	(273,100,398,794)	(79,458,645,901)
Expenses from borrowings	(204,843,598,389)	(38,892,153,635)
Other interest expense (Note 27)	(41,585,681,374)	(37,593,158,171)
<b>Gross financial margin</b>	<u>4,306,431,780,581</u>	<u>602,672,994,081</u>
Income from financial assets recovered (Note 5)	104,928,146,455	265,276
Expenses from uncollectible loans and other accounts receivable (Notes 6, 7, 12 and 16)	(448,998,364,016)	(110,388,714,421)
Expenses from provision for cash and due from banks	-	(19,371,131,503)
<b>Net financial margin</b>	<u>3,962,361,563,020</u>	<u>472,913,413,433</u>
Other operating income (Note 18)	5,632,000,208,070	734,527,422,221
Other operating expenses (Note 19)	(911,484,501,681)	(173,890,098,083)
<b>Financial intermediation margin</b>	<u>8,682,877,269,409</u>	<u>1,033,550,737,571</u>
<b>Operating expenses</b>	<u>(4,172,687,672,726)</u>	<u>(684,630,579,526)</u>
Salaries and employee benefits (Note 2-j)	(996,572,913,526)	(167,965,734,714)
General and administrative expenses (Note 20)	(3,033,326,513,908)	(485,971,677,910)
Fees paid to the Social Bank Deposit Protection Fund (Note 25)	(24,959,070,917)	(8,540,248,448)
Fees paid to the Superintendency of Banking Sector Institutions (Note 26)	(117,829,174,375)	(22,152,918,454)
<b>Gross operating margin</b>	<u>4,510,189,596,683</u>	<u>348,920,158,045</u>
Sundry operating income	93,002,639,134	2,770,122,316
Expenses from available-for-sale assets	(2,087,531,958)	(1,583,106,614)
Sundry operating expenses (Note 19)	(701,592,621,917)	(12,686,027,942)
<b>Net operating margin</b>	<u>3,899,512,081,942</u>	<u>337,421,145,805</u>
Extraordinary expenses	(4,285,151,735)	(61,155,723)
Extraordinary income (Note 10)	3,254,420,142	54,514,567
<b>Gross income before tax</b>	<u>3,898,481,350,349</u>	<u>337,414,504,649</u>
Wealth tax (Note 17)	(20,000,000,000)	(30,000,000,000)
Income tax (Note 17)	(1,149,796,541,864)	(6,158,335,100)
<b>Net income</b>	<u>2,728,684,808,485</u>	<u>301,256,169,549</u>
<b>Appropriation of net income</b>		
Legal reserve	5,791,872,081	-
Retained earnings	<u>2,722,892,936,404</u>	<u>301,256,169,549</u>
	<u>2,728,684,808,485</u>	<u>301,256,169,549</u>
Provision for the Antidrug Law (Notes 1 and 19)	<u>38,600,000,000</u>	<u>3,763,227,362</u>

The notes on pages 6 to 61 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, 2020

	Paid-in capital stock	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 investments in available-for-sale securities (Note 5-b)	Variation of loans granted through UVCC and UVCP (Note 6)	Total equity	
				Unappropriated surplus	Restricted surplus	Non-distributable surplus	Cumulative loss (In bolivars)						Total
<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
Adjustment of investments in available-for-sale securities to market value	-	-	-	-	-	-	-	-	-	-	(5,171,384,071)	-	(5,171,384,071)
Exchange gain, net (Note 4)	-	-	-	-	-	-	-	-	-	4,192,609,838,700	-	-	4,192,609,838,700
Increase resulting from the variation of principal of commercial loans granted through UVCC and UVCP (Note 6)	-	-	-	-	-	-	-	-	-	-	-	626,915,665,524	626,915,665,524
Income charged to the income statement from the variation of loans collected and granted through UVCC and UVCP (Note 6)	-	-	-	-	-	-	-	-	-	-	-	(402,369,532,211)	(402,369,532,211)
Net income	-	-	-	301,256,169,549	-	-	-	301,256,169,549	-	-	-	-	301,256,169,549
Creation of the Social Contingency Fund (Note 23)	-	-	290	(290)	-	-	-	(290)	-	-	-	-	-
Reclassification of net income of the Curacao Branch (Notes 8 and 23)	-	-	-	(16,368,383,862)	-	16,368,383,862	-	-	-	-	-	-	-
Reclassification to restricted surplus of 50% of net income for the period (Note 23)	-	-	-	<u>(142,443,892,844)</u>	<u>142,443,892,844</u>	-	-	-	-	-	-	-	-
<b>Balances at June 30, 2020</b>	57,919	387,162	59,999	162,709,719,047	162,816,578,193	73,896,546,828	(1,608,504)	399,421,235,564	463,334	5,261,434,989,438	(6,181,387,325)	232,099,401,241	5,886,775,207,332
Capital stock increase (Note 23)	5,791,872,081	(65,554)	-	(3,000,237,000)	(2,791,569,527)	-	-	(5,791,806,527)	-	-	-	-	-
Adjustment of investments in available-for-sale securities to market value	-	-	-	-	-	-	-	-	-	-	-	-	-
Exchange gain, net (Note 4)	-	-	-	-	-	-	-	-	-	32,493,742,734,112	-	-	32,493,742,734,112
Increase resulting from the variation of principal of commercial loans granted through UVCC and UVCP (Note 6)	-	-	-	-	-	-	-	-	-	-	-	3,867,772,748,046	3,867,772,748,046
Income charged to the income statement from the variation of loans collected and granted through UVCC and UVCP (Note 6)	-	-	-	-	-	-	-	-	-	-	-	(2,630,365,127,959)	(2,630,365,127,959)
Payment to shareholder for dividend withdrawal	-	-	-	(3,868,800)	-	-	-	(3,868,800)	-	-	-	-	(3,868,800)
Net income	-	-	-	2,728,684,808,485	-	-	-	2,728,684,808,485	-	-	-	-	2,728,684,808,485
Legal reserve increase	-	-	5,791,872,081	(5,791,872,081)	-	-	-	(5,791,872,081)	-	-	-	-	-
Creation of the Social Contingency Fund (Note 23)	-	-	28,959,711	(28,959,711)	-	-	-	(28,959,711)	-	-	-	-	-
Reclassification of net income of the Curacao Branch (Notes 8 and 23)	-	-	-	(441,841,007,693)	-	441,841,007,693	-	-	-	-	-	-	-
Reclassification to restricted surplus of 50% of net income for the period (Note 23)	-	-	-	<u>(1,140,525,964,356)</u>	<u>1,140,525,964,356</u>	-	-	-	-	-	-	-	-
<b>Balances at December 31, 2020</b>	<u>5,791,930,000</u>	<u>321,608</u>	<u>5,820,891,791</u>	<u>1,300,202,617,891</u>	<u>1,300,550,973,022</u>	<u>515,737,554,521</u>	<u>(1,608,504)</u>	<u>3,116,489,536,930</u>	<u>463,334</u>	<u>37,755,177,723,550</u>	<u>(562,946,490)</u>	<u>1,469,507,021,328</u>	<u>42,352,224,942,051</u>

Net income per share (Note 2-n)

	Six-month periods ended	
	December 31, 2020	June 30, 2020
Weighted average of outstanding shares	<u>5,791,930,000</u>	<u>5,791,930,372</u>
Income per share	<u>471.118</u>	<u>52.013</u>

The notes on pages 6 to 61 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, 2020

	December 31, 2020	June 30, 2020
	(In bolivars)	
<b>Cash flows from operating activities</b>		
Net income	2,728,684,808,485	301,256,169,549
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Loss on impairment of investment securities (Notes 5-c and 12)	33,092,053,679	26,724,841,076
Income from amortization of discounts on investments in held-to-maturity securities (Note 5-c)	(223,475,454,049)	(35,562,268,911)
Provision for cash and due from banks	-	19,371,131,503
Allowance for losses on loan portfolio (Note 6)	203,039,060,467	63,942,944,823
Provision for contingent loans (Note 16)	6,318,526,572	1,104,501,130
Provision for interest receivable (Notes 7 and 12)	206,548,723,298	45,341,268,468
Provision for other assets (Note 12)	20,000,000	15,000,000
Depreciation of property and equipment (Note 11)	25,639,483,151	5,589,478,197
Amortization of deferred charges (Note 12)	38,579,874,875	6,482,771,986
Accrual for length-of-service benefits	34,285,555,279	14,290,191,288
Transfers to trust fund and payment of length-of-service benefits	(6,899,494,555)	(2,489,205,011)
Income tax provision (Note 17)	779,206,011,985	32,136,354,584
Deferred income tax (Note 17)	370,590,529,879	(25,978,019,484)
Law on Wealth Tax (Note 1)	20,000,000,000	30,000,000,000
Net change in		
Overnight deposits	283,210,000,000	(355,300,000,000)
Interest and commissions receivable	(206,745,435,328)	(59,210,755,637)
Other assets	264,834,672,035	(715,152,577,624)
Accruals and other liabilities	280,853,368,454	(600,323,974,238)
Net cash provided by (used in) operating activities	<u>4,837,782,284,227</u>	<u>(1,247,762,148,301)</u>
<b>Cash flows from financing activities</b>		
Payment of dividends to shareholders	(3,868,800)	-
Net change in		
Customer deposits	32,655,469,837,343	5,998,343,626,112
Borrowings	1,356,723,574,477	81,446,026,514
Interest and commissions payable	16,783,513,970	2,931,626,226
Net cash provided by financing activities	<u>34,028,973,056,990</u>	<u>6,082,721,278,852</u>
<b>Cash flows from investing activities</b>		
Loans granted during the period	(64,763,021,830,124)	(4,844,928,387,990)
Loans collected during the period	54,871,665,879,732	3,814,816,291,060
Net change in		
Investments in available-for-sale securities	(27,432,961,040)	271,584,338,416
Investments in held-to-maturity securities	410,913,949,532	1,329,284,077,347
Restricted investments	(790,238,111,386)	(877,473,706)
Investments in other securities	6,884	6,091
Investments in affiliates	(5,422,722,589)	-
Property and equipment (Note 11)	(4,218,727,918,969)	(173,069,134,391)
Net cash provided by (used in) investing activities	<u>(14,522,263,707,960)</u>	<u>396,809,716,827</u>
<b>Cash and due from banks</b>		
Net change in cash and cash equivalents	24,344,491,633,257	5,231,768,847,378
Provision for cash and due from banks	-	(19,371,131,503)
Exchange gain	93,038,213,951,123	9,080,611,552,401
At the beginning of the period	<u>17,194,990,315,044</u>	<u>2,901,981,046,768</u>
At the end of the period	<u>134,577,695,899,424</u>	<u>17,194,990,315,044</u>
<b>Supplementary information on non-cash activities</b>		
Write-off of uncollectible loans (Note 6)	10,310,252,230	8,182,882
Write-off of uncollectible loans (interest) (Note 7)	4,283,804	1,427,149
Reclassification of excess in (Notes 6, 7, 12 and 16)		
Interest receivable to allowance for losses on loan portfolio	6,835,320,903	2,550,499,956
Interest receivable to other assets	5,773,410,893	(1,042,892,332)
Interest receivable to contingent loans	5,737,674	-
Loan portfolio to contingent loans	(6,754,174,546)	-
Change in net unrealized loss on investments in available-for-sale securities (Note 5-b)	5,618,440,835	(5,171,384,071)
Increase from measurement of commercial loans receivable granted through UVCC and UVCP	3,867,772,748,046	626,915,665,524
Decrease from collection of commercial loans receivable granted through UVCC and UVCP	(2,630,365,127,959)	(402,369,532,211)
Exchange gain, net, recorded in equity	<u>32,493,742,734,112</u>	<u>4,192,609,838,700</u>
Cash and due from banks	93,038,213,951,123	9,080,611,552,401
Loan portfolio	27,683,066,636,905	2,435,944,384,059
Investment securities		
Investments in available-for-sale securities	70,789,574	113,861,538,785
Investments in held-to-maturity securities	1,067,736,483,734	1,499,902,455,575
Restricted investments	2,363,621,025,880	550,886,761,704
Investments in affiliates	104,988,617,796	17,334,821,393
Interest and commissions receivable	128,721,973,090	14,936,267,801
Other assets	8,683,354,843,552	263,326,267,330
Property and equipment (Note 11)	55,325,335,577	1,932,876,771
Available-for-sale assets	19,561,651,288	-
Customer deposits	(86,840,790,337,955)	(7,614,436,950,913)
Accruals and other liabilities	(13,458,610,469,166)	(2,169,039,699,338)
Interest and commissions payable	(859,003,404)	(233,921,147)
Borrowings	(350,658,763,882)	(2,416,515,721)

The notes on pages 6 to 61 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, 2020**

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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, 2020, the Bank has 149 and 153 agencies and external counters, a branch in Curacao, a main office, and 1,543 and 2,010 employees, respectively.

The Bank's shares are traded on the Caracas Stock Exchange (Note 23).

The Bank conducts transactions with a related company (Note 24).

The Bank's financial statements at December 31 and June 30, 2020 were approved for issue by the Board of Directors on January 13, 2021 and July 8, 2020, 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 of the Bolivarian Republic of Venezuela 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, 2020**

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#### **Law on Bank 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.

#### **Single National Productive Portfolio**

On January 29, 2020, the National Constituent Assembly issued a Decree to create the single national productive portfolio to finance the agrifood, manufacturing, tourism, health and mortgage sectors. A Steering Committee for the Single National Productive Portfolio was also created, which will be responsible for approving the policy, allocation, regulation and assessment of resources available to finance the portfolio, and its impact on the materialization of productive plans and establishment of performance requirements. Furthermore, this committee shall set the value and other parameters for calculating the monthly single national productive portfolio, which will be equivalent to a minimum and maximum mandatory percentage of 10% and 25%, respectively, as well as performance requirements, conditions, terms and amounts. This Decree repeals all previous regulations on mandatory loan portfolios, except for the microcredit portfolio.

#### **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 38% at December 31 and June 30, 2020, the maximum rate to be charged on amounts overdue from cardholders shall be 3% per annum.

At December 31 and June 30, 2020, 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 13).

The BCV set at 10% the annual interest rate to be charged on discount, rediscount and advance operations, except as regards operations conducted under special regimes.

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

The BCV established that as from March 2020, loans granted by banking institutions in local currency within the framework of the Single National Productive Portfolio shall be expressed only in terms of the Productive Credit Value Unit (UVCP) and shall not charge interest. This type of loan has a special 20% charge upon loan settlement, which will also be expressed in terms of UVCP, and will be deducted from the debtor balance upon loan settlement.

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

## **Notes to the financial statements**

### **December 31 and June 30, 2020**

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In addition, commercial loans and microcredits to be granted in local currency shall be expressed only in terms of the Commercial Credit Value Unit (UVCC). Annual interest rates for UVCC loans shall not exceed 6% or fall below 4%; the flat commission shall not exceed 0.5% of the loan amount.

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.

At December 31 and June 30, 2020, the official investment index is Bs 5,324.35/IDI1 and Bs 989.19/IDI1, respectively.

#### **Subsequent event**

On January 7, 2021, the BCV issued Resolution No. 21-01-02, which repeals Resolution No. 20-02-01. The main changes established in this Resolution include:

- Loans formerly expressed in terms of UVCC and UVCP shall be expressed in terms of the Credit Value Unit (UVC), thereby unifying the value unit for all loan portfolios.
- The annual interest rate for loans granted within the framework of the Single National Productive Portfolio shall be 2% on the resulting balance in UVC.
- Annual interest rates for commercial loans and microcredits shall not exceed 10% or fall below 4%.
- A uniform interest rate is set for loans to employees and directors of banking institutions, which is equivalent to 90% of the credit card interest rate.
- The maximum default rates for UVC loans was increased to 0.8%.
- Consumer and commercial loans in installments granted to individuals (payroll loans and credit card loans) below 20,400 UVC are excluded from this resolution.
- Annual interest rates on savings and time deposits were increased to 32% and 36%, respectively.
- The annual interest rate to be charged by the BCV on discount, rediscount and advance operations was increased to 12%.

#### **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, 2020, the Bank recorded expenses in this connection of Bs 2,411 million, included under sundry operating expenses (Note 19).

#### **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,

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

## **Notes to the financial statements**

### **December 31 and June 30, 2020**

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2020, the Bank recorded expenses in this connection of Bs 38,600 million and Bs 3,763 million, respectively, included under sundry operating expenses (Note 19).

#### **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, 2020, the Bank recorded expenses in this connection of Bs 23,107 million and Bs 2,611 million, respectively, included within sundry operating expenses (Note 19).

#### **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.

#### **Global pandemic**

At the end of 2019, news from China reported a new disease caused by a virus (COVID-19). By the end of that year, a limited number of cases infected by an unknown virus had been reported to the World Health Organization (WHO). In the first months of 2020, the virus spread worldwide, and the WHO declared a global pandemic. This situation has affected economic activities worldwide and locally, representing potential economic impacts on entities' financial statements. Venezuela has also been affected and in March 2020, the Venezuelan government decreed a state of alarm in response to the COVID-19 health emergency. The Bank is currently unable to assess the impact that measures taken by local and foreign authorities to contain the spread of COVID-19 may have on its future financial position or results of operations. However, Bank management is aware of the future negative impact that this event may have on its financial statements.

On March 23, 2020, within the framework of the state of alarm in response to the COVID-19 health emergency, the Venezuelan government enacted economic protection measures. These measures include the implementation of a special regime for repayment of current loans in the national banking system that allows debtors to alleviate their financial situation to confront the extraordinary impact resulting from the world crisis generated by the COVID-19 spread. This regime will be developed on the following bases:

- a. It will apply to all types of loans granted by banking sector institutions, current and fully or partially settled at March 13, 2020.
- b. It extends to all payments of principal and interest, restructuring terms and any other clause contained in the loan agreements.
- c. It may order the suspension of payments, which includes the suspension of enforceability of payments and compliance with any other condition related to the suspended payments, for periods of up to 180 days.
- d. Certain special conditions may be established for specific loan categories.
- e. Parties may not establish late payment interest or immediate enforceability of full or partial loan payment at the end of the suspension term.
- f. Loans granted under UVCC or UVCP will maintain their principal calculation method during the suspension term, but will be payable under the new conditions.

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

## **Notes to the financial statements**

### **December 31 and June 30, 2020**

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SUDEBAN Resolution No. 008.20 establishes the rules in connection with the special conditions for loans granted before the economic measures, taken within the framework of the COVID-19 health emergency, took effect. This resolution establishes:

1. Beneficiaries of current commercial loans, as well as those of the single national productive portfolio, expressed in UVCC and UVCP, respectively, fully or partially settled until March 13, 2020, who are affected by the suspension of their commercial activities and have not generated sufficient income from the sale of goods or provision of services, may request restructuring of principal and interest payments for up to six months as from the issue of this Resolution. Debtors may address to the bank a justified request for debt restructuring, together with a payment plan based on their financial capacity.
2. Loans restructured within the framework of this Resolution may continue to be recorded under current loan portfolio, together with their corresponding interest receivable.

At June 30, 2020, the Bank maintained four loans for Bs 126,000 million granted through UVCC, which were restructured on the basis of this Resolution, which were collected during the six-month period ended December 31, 2020.

## **2. Basis of preparation**

The accompanying financial statements at December 31 and June 30, 2020 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 until December 31, 2007 (VEN GAAP). Through Circular SIB-II-GGR-GNP-07363 of December 23, 2020, SUDEBAN deferred presentation of the supplementary financial statements at December 31, 2020, prepared under generally accepted accounting principles, effective at December 31, 2007 (PCGA-Ven), and 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 2021.

At December 31 and June 30, 2020, 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) 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.

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

## **Notes to the financial statements**

### **December 31 and June 30, 2020**

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#### **2) 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.

#### **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.

#### **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

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

## **Notes to the financial statements**

### **December 31 and June 30, 2020**

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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.

#### **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.

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## **Notes to the financial statements**

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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 and UVCP, 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 any deductible temporary difference between the carrying amount of assets and liabilities and their tax bases, provided that its realization is assured beyond any reasonable doubt. Furthermore, a deferred tax liability is recognized in respect of any taxable temporary difference, unless such difference arises from:

- a. The initial recognition of a goodwill; or
- b. The initial recognition of an asset or a liability in a transaction that:
  - i. Is not a business combination, and
  - ii. At the time of the transaction affects neither gross accounting profit or loss, nor taxable income (loss).

#### **18) Foreign currency, UVCC and UVCP**

Foreign currency transactions and UVCC and UVCP loans are recorded at the 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

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

## **Notes to the financial statements**

### **December 31 and June 30, 2020**

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of best estimates of future cash flows in bolivars expected to be obtained using the exchange or settlement mechanisms permitted under Venezuelan law.

Under SUDEBAN rules and instructions, gains or losses resulting from official exchange rate fluctuations or the investment index for loans expressed in terms of UVCC and UVCP upon measurement at period end 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) Presentation 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. Foreign currency balances are shown at the official exchange rates shown below:

	<b>December 31, 2020</b>	<b>June 30, 2020</b>
	(In bolivars)	
US\$1	1,104,430.59	203,906.65
€1	1,356,097.18	229,048.34

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 23), 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 18 and 19).

#### **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.

The Branch's assets and liabilities and income statement accounts, expressed in U.S. dollars, were translated into bolivars at the official exchange rate at period end (Note 8).

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

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#### **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, 2020, 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.

#### **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

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

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### **December 31 and June 30, 2020**

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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.

SUDEBAN established that variation of commercial loans and the Single National Productive Portfolio expressed in terms of UVCC and UVCP, respectively, shall be recorded in equity. It also 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 and UVCP. 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).

Furthermore, SUDEBAN instructed that once commercial loans expressed in terms of 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.

SUDEBAN established the guidelines to record loans of the Single National Productive Portfolio expressed in terms of UVCP. These loans must be recorded within the loan portfolio under their different categories. An additional 20% of the loan must also be recorded upon loan settlement, as per Resolution No. 20-02-02, issued by the BCV, under loan portfolio with a credit to income from loan portfolio in the income statement.

#### **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

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

## **Notes to the financial statements**

### **December 31 and June 30, 2020**

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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 monthly 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 month 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 collectability 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 experience and 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, 2020 will be favorable to the Bank (Note 28). However, this opinion is based on events to date; the outcome of these lawsuits could differ from that expected.

#### **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.

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#### **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, except for the allowance for losses on loan portfolio, for which only the provisions for losses on high risk or unrecoverable loans generate a deferred tax asset and surplus from revaluation of property and equipment, exchange gain, and variation of commercial loans granted through UVCC and UVCP, recorded in equity (Note 17).

#### **j) Employee benefits**

A new collective labor agreement was signed in June 2017, effective for 3 years until July 1, 2020. This agreement was renewed on November 13, 2020, with the review and extension of the clauses of the collective agreement effective until July 2020; this agreement will be effective until a new agreement is entered into between the parties.

#### **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. During the six-month periods ended December 31 and June 30, 2020, the effect of the retrospective scheme was determined using a non-actuarial calculation, which consisted in determining length-of-service benefits according to Article 142 b) of the LOTT. An additional expense and an additional liability were recognized for employees whose benefits in the guarantee fund are less than the amount calculated using the retrospective scheme.

Employees' last salary at termination date and total amounts to be accrued in connection with each employee are all uncertainties at each period end. At December 31 and June 30, 2020, employee salaries may differ from future salaries due to changes in salaries, bonuses and other payments.

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

At December 31 and June 30, 2020, the method used by the Bank to calculate length-of-service benefits comply with the provisions set out by SUDEBAN, the LOTT 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

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

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### **December 31 and June 30, 2020**

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period of each year are paid in April and July, and the remaining amount in November of every year. During the six-month periods ended December 31 and June 30, 2020, the Bank recorded expenses of Bs 50,139 million and Bs 5,200 million, respectively, in this connection, shown under salaries and employee benefits. At June 30, 2020, the Bank had an accrual of Bs 3,159 million in this connection. The share of annual profits was paid to employees at December 31, 2020; therefore, at that date there are no liabilities in this connection (Note 16).

#### **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, 2020, the Bank recorded expenses of Bs 27,155 million and Bs 3,600 million, respectively, in this connection, shown under salaries and employee benefits. At December 31 and June 30, 2020, the Bank maintains accruals of Bs 27,209 million and Bs 3,984 million, respectively, to cover expenses in this connection (Note 16).

#### **k) Recognition of revenue and expenses**

The variation of commercial loans and the Single National Productive Portfolio granted and expressed in terms of UVCC and UVCP is recorded as interest income upon loan collection, considering the increases in principal of commercial loans as a result of the variation of the investment index (Note 2-d). Interest on loans, investments and accounts receivable is recorded as income when earned by the effective interest method, except: a) yield from the variation of UVCC and UVCP loans, which are recorded as income when collected; b) interest receivable more than 30 days overdue; c) interest on loans overdue or in litigation, or loans classified as real risk, high risk or unrecoverable; and d) overdue interest, all of which is 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 16).

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 16).

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 18 and 19).

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).

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.

Investments in shares denominated in foreign currency will be adjusted at the closing exchange rate.

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**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, 2020, 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, 2020, trust fund assets amount to Bs 310,240 million (Bs 76,277 million at June 30, 2020), shown under memorandum accounts (Note 21).

**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, 2020	June 30, 2020
	(In bolivars)	
AA+	3,697,908,917,702	688,692,124,700
A	53,499,755,199	20,324,403,357
BBB+	-	1,481,230,239,728
BBB	8,943,668,293,375	36,303,695,135
BBB-	2,863,240,149,277	363,100,431,467
BB	-	15,098,848,051
BB-	6,281,405,747,359	939,328,781,516
Unavailable	<u>9,649,513,949,804</u>	<u>1,523,570,406,943</u>
	<u>31,489,236,812,716</u>	<u>5,067,648,930,897</u>

At December 31 and June 30, 2020, amounts in foreign and correspondent banks whose credit risk is unavailable includes Bs 9,397,845 million and Bs 1,517,426 million, respectively, in the related company BNC International Banking Corporation (Note 24).

**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.

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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 27% of the Bank's investment securities relates mainly to securities issued or guaranteed 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, 2020. 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 millions of bolivars)	
Securities issued or guaranteed by the Venezuelan government	39,351	236,105

#### 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 has significant transactions in U.S. dollars. Furthermore, 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.

The result for the period is affected by interest income and expenses derived from financial assets and liabilities, respectively, 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 millions of bolivars)	
<b>Financial instruments - assets</b>		
Investment securities, except securities issued or guaranteed by the Venezuelan government	480,187	720,281
Loan portfolio	13,401	20,104
<b>Financial instruments - liabilities</b>		
Customer deposits	1,813	2,720
Borrowings	368,018	552,027

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**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:

	December 31, 2020	June 30, 2020
	(In bolivars)	
Legal reserve (Note 27)	13,335,366,730,060	3,033,424,776,638
Banknotes in foreign currency under BCV custody, equivalent to US\$736,400 (US\$2,481,200 at June 30, 2020) (Note 4)	813,302,684,267	505,933,173,529
Other deposits with the BCV, equivalent to US\$21,000 (Notes 4 and 16)	23,193,042,327	4,282,039,595
Demand deposits	<u>10,858,507,396</u>	<u>361,224,355</u>
	<u>14,182,720,964,050</u>	<u>3,544,001,214,117</u>

At December 31 and June 30, 2020, the Bank has cash and due from banks under foreign and correspondent banks for US\$3,818, equivalent to Bs 4,216 million and Bs 778 million, respectively, deposited at BNC International Banking Corporation, in respect of deposits received in accordance with Exchange Agreement No. 20 (Notes 13 and 24).

At December 31 and June 30, 2020, pending cash items for Bs 19,785 million and Bs 1,166 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, establishing 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 138% interest rate for each day of deficit in the reserve. At December 31 and June 30, 2020, the Bank

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maintains in custody of the BCV, banknotes for US\$736,400 and US\$2,481,200, respectively (equivalent to Bs 813,303 million and Bs 505,933 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 (Note 13). During the six-month periods ended December 31 and June 30, 2020, the Bank charged commissions to its customers for Bs 237,810 million and Bs 17,707 million, in respect of exchange transactions and transportation of banknotes, respectively, recorded under other operating income (Note 18).

In addition, at December 31 and June 30, 2020, the Bank maintains cash in foreign currency mainly in connection with customer deposits, included in checking accounts as per the free convertibility exchange market system (Notes 4 and 13), as shown below:

	In U.S. dollars	In euros	Total in millions of bolivars
<b>Cash in foreign currency</b>			
December 31, 2020	64,346,361	13,046,287	88,758,123
June 30, 2020	33,569,757	7,410,814	8,542,531

**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.

**Transactions through the foreign exchange market system**

On May 2, 2019, the BCV published Resolution No. 19-05-01 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.

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### December 31 and June 30, 2020

At December 31 and June 30, 2020, the Bank maintains foreign currency purchase and sale in-transit operations under accruals and other liabilities (Note 16), resulting from transactions conducted through foreign exchange desks and from retail transactions being negotiated with customers, as follows:

	In U.S. dollars	In euros	Total in millions of bolivars
<b>Exchange desk transactions</b>			
December 31, 2020	2,020,597	60,388	2,313,499
June 30, 2020	1,715,385	109,279	374,809
<b>Retail transactions</b>			
December 31, 2020	64,075	958,390	1,370,436
June 30, 2020	13,040	168,865	41,337

These transactions were recorded with a charge to other assets (Note 12).

During the six-month periods ended December 31 and June 30, 2020, the Bank recorded income from commissions of Bs 666,006 million and Bs 50,416 million, respectively, for transactions through this system (Note 18).

#### b) 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, 2020								
	In U.S. dollars				In euros				Equivalent in bolivars
	Bank	Curacao Branch	Eliminations	Total	Bank	Curacao Branch	Eliminations	Total	
<b>Assets</b>									
Cash and due from banks									
Cash (Note 3)	64,346,361	-	-	64,346,361	13,046,287	-	-	13,046,287	88,758,122,608,860
Central Bank of Venezuela (Note 3)	757,400	-	-	757,400	-	-	-	-	836,495,726,594
Foreign and correspondent banks	11,864,782	13,463,773	(7,378,498)	17,950,057	8,585,937	6,124,075	(6,108,383)	8,601,629	31,489,236,812,716
Investment securities (Note 5)	4,677,159	134,615	-	4,811,774	-	-	-	-	5,314,270,383,530
Loan portfolio (Note 6)									
Gross loan portfolio	15,138,789	18,856,679	-	33,995,468	-	-	-	-	37,545,634,679,982
(Allowance for losses on loan portfolio)	(264,929)	(1,336,099)	-	(1,601,028)	-	-	-	-	(1,768,224,293,909)
Interest and commissions receivable (Note 7)									
Gross interest and commissions receivable	2,232,571	102,475	-	2,335,046	-	-	-	-	2,578,896,224,548
(Provision for interest receivable and other)	(2,173,454)	(17,843)	-	(2,191,297)	-	-	-	-	(2,420,135,432,092)
Investments in subsidiaries, affiliates and branches (Notes 8 and 9)	12,123,627	-	(12,123,627)	-	97,966	-	-	97,966	132,850,060,719
Property and equipment (Note 11)	-	44,838	-	44,838	-	-	-	-	49,520,458,661
Available-for-sale assets (Note 10)	-	275,000	-	275,000	-	-	-	-	303,718,411,746
Other assets (Note 12)									
Other gross assets	3,274,311	190,112	-	3,464,423	65,296	-	-	65,296	3,914,760,667,370
(Provision for other assets)	-	(131,125)	-	(131,125)	-	-	-	-	(144,818,460,727)
<b>Total assets</b>	<b>111,976,617</b>	<b>31,582,425</b>	<b>(19,502,125)</b>	<b>124,056,917</b>	<b>21,795,486</b>	<b>6,124,075</b>	<b>(6,108,383)</b>	<b>21,811,178</b>	<b>166,590,327,847,998</b>
<b>Liabilities and Equity</b>									
<b>Liabilities</b>									
Customer deposits (Note 13)	73,155,528	18,706,414	(7,061,999)	84,799,943	12,531,639	5,564,563	(282,224)	17,813,978	125,359,224,498,204
Interest and commissions payable (Note 15)	-	843	-	843	-	-	-	-	931,034,985
Accruals and other liabilities (Note 16)	5,768,520	1,069,053	-	6,837,573	6,857,732	-	(5,826,159)	1,031,573	8,950,538,003,657
Borrowings (Note 14)	-	369,496	(316,499)	52,997	-	-	-	-	58,531,596,175
<b>Total liabilities</b>	<b>78,924,048</b>	<b>20,145,806</b>	<b>(7,378,498)</b>	<b>91,691,356</b>	<b>19,389,371</b>	<b>5,564,563</b>	<b>(6,108,383)</b>	<b>18,845,551</b>	<b>134,369,225,133,021</b>
<b>Equity (Note 23)</b>									
Assigned capital	-	7,599,462	(7,599,462)	-	-	-	-	-	-
Capital reserves	-	2,766,551	(2,766,551)	-	-	-	-	-	-
Retained earnings	-	1,757,614	(1,757,614)	-	-	-	-	-	-
Net unrealized loss on available-for-sale securities	(510)	-	-	(510)	-	-	-	-	(563,259,599)
<b>Total equity</b>	<b>(510)</b>	<b>12,123,627</b>	<b>(12,123,627)</b>	<b>(510)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(563,259,599)</b>
<b>Total liabilities and equity</b>	<b>78,923,538</b>	<b>32,269,433</b>	<b>(19,502,125)</b>	<b>91,960,846</b>	<b>19,389,371</b>	<b>5,564,563</b>	<b>(6,108,383)</b>	<b>18,845,551</b>	<b>134,369,661,873,422</b>
Contingent accounts (Note 21)	701,650	-	-	701,650	-	-	-	-	774,923,721,397
Memorandum accounts (Note 21)	59,977,042	52,389,505	-	112,366,547	419,364	-	-	419,364	124,669,749,806,857

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

## Notes to the financial statements

### December 31 and June 30, 2020

	In U.S. dollars				June 30, 2020				
	Bank	Curacao Branch	Eliminations	Total	In euros				Equivalent in bolivars
					Bank	Curacao Branch	Eliminations	Total	
<b>Assets</b>									
Cash and due from banks									
Cash (Notes 3 and 4)	33,569,757	-	-	33,569,757	7,410,814	-	-	7,410,814	8,542,531,335,933
Central Bank of Venezuela (Note 3)	2,502,200	-	-	2,502,200	-	-	-	-	510,215,213,124
Foreign and correspondent banks (Allowance for cash and due from banks)	5,950,442	12,825,570	(3,089,577)	15,686,435	8,144,565	7,273,788	(7,258,021)	8,160,332	5,067,648,930,897
Investment securities (Note 5)	(95,000)	-	-	(95,000)	-	-	-	-	(19,371,131,503)
Loan portfolio (Note 6)	4,242,987	2,034,619	-	6,277,606	-	-	-	-	1,280,045,609,480
Gross loan portfolio (Allowance for losses on loan portfolio)	6,028,283	11,604,691	-	17,632,974	1,856,400	-	-	1,856,400	4,020,685,792,346
Gross interest and commissions receivable (Provision for interest receivable and other)	-	(1,329,910)	-	(1,329,910)	-	-	-	-	(271,177,492,902)
Investments in subsidiaries, affiliates and branches (Note 8)	1,890,119	66,078	-	1,956,197	55,073	-	-	55,073	411,495,956,239
Property and equipment (Note 11)	(1,843,857)	(24,032)	-	(1,867,889)	-	-	-	-	(380,874,988,562)
Other assets (Note 12)	11,693,602	10,832	(11,693,602)	10,832	97,966	-	-	97,966	22,438,720,334
Other gross assets (Provision for other assets)	1,437,444	76,450	-	1,513,894	200	-	-	200	308,738,725,148
	(1,436,614)	(25,938)	-	(1,462,552)	-	-	-	-	(298,224,078,771)
<b>Total assets</b>	<b>63,939,363</b>	<b>25,238,360</b>	<b>(14,783,179)</b>	<b>74,394,544</b>	<b>17,565,018</b>	<b>7,273,788</b>	<b>(7,258,021)</b>	<b>17,580,785</b>	<b>19,196,361,308,596</b>
<b>Liabilities and Equity</b>									
<b>Liabilities</b>									
Customer deposits (Note 13)	35,936,998	13,462,091	(2,883,456)	46,515,633	8,460,532	6,840,591	(397,000)	14,904,123	12,898,611,499,379
Borrowings (Note 14)	-	384,102	(206,121)	177,981	-	-	-	-	36,290,081,763
Interest and commissions payable (Note 15)	-	2,945	-	2,945	-	-	-	-	600,505,084
Accruals and other liabilities (Note 16)	4,576,701	182,219	-	4,758,920	7,152,229	-	(6,861,021)	291,208	1,037,076,070,461
<b>Total liabilities</b>	<b>40,513,699</b>	<b>14,031,357</b>	<b>(3,089,577)</b>	<b>51,455,479</b>	<b>15,612,761</b>	<b>6,840,591</b>	<b>(7,258,021)</b>	<b>15,195,331</b>	<b>13,972,578,156,687</b>
<b>Equity (Note 23)</b>									
Assigned capital	-	7,599,462	(7,599,462)	-	-	-	-	-	-
Capital reserves	-	2,766,551	(2,766,551)	-	-	-	-	-	-
Retained earnings	-	1,357,552	(1,357,552)	-	-	-	-	-	-
Net unrealized loss on available-for-sale securities	-	(29,963)	29,963	-	-	-	-	-	-
<b>Total equity</b>	<b>-</b>	<b>11,693,602</b>	<b>(11,693,602)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total liabilities and equity</b>	<b>40,513,699</b>	<b>25,724,959</b>	<b>(14,783,179)</b>	<b>51,455,479</b>	<b>15,612,761</b>	<b>6,840,591</b>	<b>(7,258,021)</b>	<b>15,195,331</b>	<b>13,972,578,156,687</b>
Memorandum accounts (Note 21)	26,780,762	31,658,673	-	58,439,435	329,400	-	-	329,400	11,991,638,111,745

On April 8, 2019, the BCV issued Resolution VOI-GOC-DNPC-004 indicating that: a) the maximum limit will be considered exceeded in the event of a net global liability position in foreign currency; the amount in excess will be subject to the corresponding rate; b) all foreign currency assets and liabilities are part of the net global position; and c) the net global asset position in foreign currency will not temporarily be subject to the maximum limit.

During the six-month periods ended December 31 and June 30, 2020, the Bank recorded exchange gains of Bs 32,493,743 million and Bs 4,192,610 million, respectively, arising mainly from 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.

During the six-month period ended December 31, 2020, the Bank recorded exchange gains and losses of Bs 60,275 million and Bs 11,754 million, respectively (Bs 7,305 million and Bs 4,144 million, respectively, during the six-month period ended June 30, 2020), arising from exchange rate fluctuations of the U.S. dollar with respect to other foreign currencies (Notes 18 and 19).

#### Subsequent event

At February 16, 2021, the prevailing exchange rate published by the BCV was Bs 1,728,296/US\$1 and Bs 2,088,767/€1. The accounting effect of measuring foreign currency assets and liabilities, maintained by the Bank at December 31, 2020, at this exchange rate would be an increase in equity of Bs 22,366,590 million that would be recorded in the Bank's financial statements for the six-month period ending June 30, 2021.

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

## Notes to the financial statements

### December 31 and June 30, 2020

#### 5. Investment securities

Investment securities comprise the following:

	December 31, 2020	June 30, 2020
	(In bolivars)	
<b>Investments</b>		
Deposits with the BCV and overnight deposits	72,090,000,000	355,300,000,000
Available for sale	288,728,757	258,590,987
Held to maturity	1,446,330,807,814	566,032,819,563
Restricted	3,867,869,415,816	714,010,278,550
Other securities	3,656,997	3,663,881
	<u>5,386,582,609,384</u>	<u>1,635,605,352,981</u>

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

Deposits with the BCV and overnight deposits comprise the following:

	December 31, 2020	June 30, 2020
	(In bolivars)	
<b>Overnight deposits</b>		
Banco Plaza, C.A., Banco Universal, 125% annual yield, maturing in January 2021	72,090,000,000	-
Banesco Banco Universal C.A., 180% annual yield, maturing in July 2020	-	150,000,000,000
Banco Bicentenario, Banco Universal, annual yield between 130% and 145%, maturing in July 2020	-	205,300,000,000
	<u>72,090,000,000</u>	<u>355,300,000,000</u>

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

During the six-month periods ended December 31 and June 30, 2020, the Bank has collected and earned yield from overnight deposits of Bs 382,283 million and Bs 98,684 million, respectively, included in the income statement as part of income from investment securities.

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

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

	December 31, 2020			June 30, 2020		
	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>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	(2,406)	21,570 (1) - (a)	23,976	1,236	25,212 (1) - (a)
Vebonos, with a par value of Bs 202,243,327, annual yield between 17.14% and 26.19%, maturing between January 2021 and August 2037	202,245,888	(2,561)	202,243,327 (1) - (a)	202,245,888	37,811,490	240,057,378 (1) - (a)
Global Bonds, equivalent to US\$78, with a par value of US\$800, 9.25% annual yield, maturing in September 2027 (equivalent to US\$53 at June 30, 2020) (Note 4)	<u>649,405,185</u>	<u>(562,941,523)</u>	<u>86,463,662 (1) - (b)</u>	<u>119,897,109</u>	<u>(109,544,768)</u>	<u>10,352,341 (1) - (b)</u>
	<u>851,675,049</u>	<u>(562,946,490)</u>	<u>288,728,559</u>	<u>322,166,973</u>	<u>(71,732,042)</u>	<u>250,434,931</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) - (d)	196	-	196 (2) - (d)
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	<u>2</u>	<u>-</u>	<u>2 (2) - (d)</u>	<u>2</u>	<u>-</u>	<u>2 (2) - (d)</u>
	<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\$40 with a par value of US\$100,000, 10.38% annual yield, maturing in September 2020 (Notes 4 and 12)	-	-	-	6,117,811,141	(6,109,655,283)	8,155,858 (1) - (c)
	<u>851,675,247</u>	<u>(562,946,490)</u>	<u>288,728,757</u>	<u>6,439,978,312</u>	<u>(6,181,387,325)</u>	<u>258,590,987</u>

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

## Notes to the financial statements

### December 31 and June 30, 2020

(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) 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, 2020.

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, 2020	June 30, 2020
	(In bolivars)	
<b>Unrealized gain</b>		
Securities issued or guaranteed by the Venezuelan government in local currency	-	<u>37,812,726</u>
<b>Unrealized loss</b>		
Securities issued or guaranteed by the Venezuelan government in foreign currency	(562,941,524)	(109,544,768)
Securities issued or guaranteed by the Venezuelan government in local currency	(4,966)	-
Debt securities issued by foreign financial private-sector companies	-	<u>(6,109,655,283)</u>
	<u>(562,946,490)</u>	<u>(6,181,387,325)</u>

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

	<u>Fair value</u>	
	<u>December 31, 2020</u>	<u>June 30, 2020</u>
	(In bolivars)	
Up to 6 months	86,471,274	8,156,057
6 months to 1 year	1,502	5,965
1 to 5 years	200,722,355	237,939,462
Over 5 years	<u>1,533,626</u>	<u>12,489,503</u>
	<u>288,728,757</u>	<u>258,590,987</u>

During the six-month period ended June 30, 2020, the Bank sold investments in available-for-sale securities for US\$10,096,585, equivalent to Bs 2,059,000 million. As a result of these sales, during the six-month period ended June 30, 2020, the Bank recorded gains of Bs 3,164 million, shown under other operating income (Note 18).

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

## Notes to the financial statements

### December 31 and June 30, 2020

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

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

	December 31, 2020			June 30, 2020		
	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\$1,900,000, 0.63% annual yield, maturing in July 2020 (Note 4)	-	-	-	387,422,630,003	387,422,630,003	387,422,630,003 (2) - (d)
<b>Securities issued or guaranteed by the Venezuelan government</b>						
Global Bonds in foreign currency, equivalent to US\$1,308,824, with a par value of US\$7,125,000, 9.25% annual yield, maturing in September 2027 (US\$875,138 at June 30, 2020) (Note 4)	848,841,880,018	1,445,502,850,941	770,066,987,862 (1) - (a) y (c)	156,718,316,175	178,446,511,330	92,196,900,389 (1) - (a) y (c)
Vebonos, with a par value of Bs 15,950,814, annual yield between 14.42% and 20.34%, maturing between December 2023 and October 2030 (annual yield between 9.27% and 15.23%, maturing between July 2020 and October 2030 at June 30, 2020)	15,959,848	15,955,289	15,950,814 (1) - (b)	15,959,848	15,955,962	21,997,219 (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)	84,787,136	101,087,786	10,823,420 (1) - (c)	15,653,913	18,434,196	1,288,078 (1) - (c)
Fixed Interest Bonds (TIF), with a par value of Bs 7,668, annual yield between 15% and 16.25%, maturing between March 2022 and January 2026	9,657	8,272	7,368 (1) - (b)	10,065	8,676	9,313 (1) - (b)
	<u>848,942,636,659</u>	<u>1,445,619,902,288</u>	<u>770,093,769,464</u>	<u>156,749,940,001</u>	<u>178,480,910,164</u>	<u>92,220,194,999</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\$644, with a par value of US\$900, annual yield between 5.38% and 5.50%, maturing between April 2027 and 2037 (equivalent to US\$634 at June 30, 2020) (Note 4)	499,335,157	710,844,658	38,206,672	92,190,273	129,218,528	5,356,424 (1) - (c)
	<u>499,396,025</u>	<u>710,905,526</u>	<u>38,267,540</u>	<u>92,251,141</u>	<u>129,279,396</u>	<u>5,417,292</u>
	<u>849,442,032,684</u>	<u>1,446,330,807,814</u>	<u>770,132,037,004</u>	<u>544,264,821,145</u>	<u>566,032,819,563</u>	<u>479,648,242,294</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.
- (b) Central Bank of Venezuela.
- (c) Euroclear Bank, S.A.
- (d) Banco Do Brasil, S.A.

During the six-month period ended June 30, 2020, the Bank recorded expenses of US\$330,985 equivalent to Bs 26,725 million 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 19).

During the six-month periods ended December 31 and June 30, 2020, the Bank recorded income from amortization of discounts on held-to-maturity investments of Bs 223,475 million and Bs 35,562 million, respectively (Note 18).

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

	December 31, 2020		June 30, 2020	
	Amortized cost	Fair value	Amortized cost	Fair value
	(In bolivars)			
Less than 1 month	115,655,049	25,386,502	387,422,630,305	387,422,630,318
1 month to 5 years	176,200,173	29,759,328	32,311,577	20,043,740
5 to 10 years	1,446,038,952,592	770,076,891,174	178,480,092,573	92,200,949,528
Over 10 years	-	-	97,785,108	4,618,708
	<u>1,446,330,807,814</u>	<u>770,132,037,004</u>	<u>566,032,819,563</u>	<u>479,648,242,294</u>

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

At December 31 and June 30, 2020, the Bank has an account in the name of the BCV at the Euroclear Bank to hold in custody all foreign currency securities held in other foreign financial institutions at June 30, 2020, as set out in Article 51 of the Law on Banking Sector Institutions. The custodian Morgan Stanley Private Wealth Management only held securities of the Branch; Banco Do Brasil, only holds placements and certificates of deposit.

**Banco Nacional de Crédito, C.A, Banco Universal**  
**Notes to the financial statements**  
**December 31 and June 30, 2020**

At December 31, 2020, the market value of held-to-maturity securities issued or guaranteed by the Bolivarian Republic of Venezuela are below their amortized cost. This decrease is considered temporary since management believes there are legal grounds that allow their recoverability at maturity through payment of taxes. Furthermore, the Bank has the ability and intention to hold these securities to maturity. Accordingly, at December 31, 2020, the Bank has recognized no impairment on these investments.

**d) Restricted investments**

Restricted investments comprise the following:

	December 31, 2020		June 30, 2020		
	Amortized cost	Fair value	Amortized cost	Fair value	
(In bolivars)					
<b>Certificates of deposit</b>					
Social Contingency Fund (Note 23)	6,380	6,380	3,653	3,653	(1)
PNC Bank, with a par value of US\$1,825,497 (US\$1,825,010 at June 30, 2020) (Note 4)	2,016,134,292,549	2,016,134,292,549	372,131,750,095	372,131,750,095	(1)
JP Morgan Chase Bank, with a par value of US\$1,676,642 (Note 4)	<u>1,851,735,116,887</u>	<u>1,851,735,116,887</u>	<u>341,878,524,802</u>	<u>341,878,524,802</u>	(1)
	<u>3,867,869,415,816</u>	<u>3,867,869,415,816</u>	<u>714,010,278,550</u>	<u>714,010,278,550</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, 2020, 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:

	December 31, 2020	June 30, 2020	
	(In bolivars)		
BANDES securities, issued by Banco de Desarrollo Económico y Social de Venezuela, with a par value of Bs 3,603,683, 10% annual yield, maturing between December 2022 and August 2024	3,603,683	3,603,683	(1)-(a)
Valores Bolivarianos para la Vivienda, issued by Fondo Simón Bolívar para la Reconstrucción, S.A., with a par value of Bs 53,314, annual interest at between 4.66% and 6.48%, maturing between February 2021 and 2028 (par value of Bs 60,198 at June 30, 2020)	<u>53,314</u>	<u>60,198</u>	
	<u>3,656,997</u>	<u>3,663,881</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, 2020, the Bank has investment securities issued or guaranteed by the Venezuelan government of Bs 1,445,619 million, representing 27% of its investment securities portfolio (Bs 178,731 million at June 30, 2020, representing 11%).

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

## Notes to the financial statements

### December 31 and June 30, 2020

#### 6. Loan portfolio

The loan portfolio is classified as follows:

	December 31, 2020			June 30, 2020		
	Current	Overdue	Total	Current	Overdue	Total
	(In bolivars)					
<b>Economic activity - operations in Venezuela</b>						
Agriculture, fishing and forestry, includes US\$6,470,913 (US\$3,064,000 at June 30, 2020) (Note 4)	7,886,796,389,825	-	7,886,796,389,825	794,533,571,452	18,630	794,533,590,082
Manufacturing, includes US\$4,447,048 (US\$367,500 at June 30, 2020) (Note 4)	6,452,683,932,199	-	6,452,683,932,199	251,395,482,486	72,027	251,395,554,513
Wholesale and retail trade, restaurants and hotels, includes US\$2,111,923 (US\$1,823,333 at June 30, 2020) (Note 4)	4,548,719,776,625	1,889,598	4,548,721,666,223	600,098,786,740	5,435,084	600,104,221,824
Financial businesses, insurance, real estate and services, includes US\$935,100 (Note 4)	2,854,812,774,114	-	2,854,812,774,114	35,254,014,795	293,235	35,254,308,030
Communal, social and consumer services, includes US\$379,000 (US\$828,450 and €1,856,400 at June 30, 2020) (Note 4)	931,101,122,021	30,306,619	931,131,428,640	703,454,464,778	52,511,623	703,506,976,401
Transportation, warehousing and communications, includes US\$116,055 (US\$45,000 at June 30, 2020) (Note 4)	446,104,490,284	-	446,104,490,284	27,462,841,144	299,938	27,463,141,082
Construction, includes US\$332,500 (US\$100,000 at June 30, 2020) (Note 4)	401,900,862,607	-	401,900,862,607	72,325,345,078	-	72,325,345,078
Utilities, includes US\$250,000	276,107,822,150	-	276,107,822,150	-	-	-
Mining and oil, includes US\$96,250	106,301,443,999	-	106,301,443,999	-	-	-
	<u>23,904,528,613,824</u>	<u>32,196,217</u>	<u>23,904,560,810,041</u>	<u>2,484,524,506,473</u>	<u>58,630,537</u>	<u>2,484,583,137,010</u>
<b>Economic activity - operations in the Curacao Branch</b>						
Manufacturing, equivalent to US\$11,919,664 (US\$2,751,206 at June 30, 2020) (Note 4)	11,839,124,803,689	1,325,316,704,388	13,164,441,508,077	316,301,010,891	244,687,976,889	560,988,987,780
Wholesale and retail trade, restaurants and hotels, equivalent to US\$2,410,243 (US\$428,022 at June 30, 2020) (Note 4)	2,661,946,091,402	-	2,661,946,091,402	87,276,531,021	-	87,276,531,021
Mining and oil, includes US\$1,300,000	1,435,759,763,154	-	1,435,759,763,154	-	-	-
Communal, social and consumer services, equivalent to US\$805,939 (US\$1,855,463 at June 30, 2020) (Note 4)	890,103,130,674	-	890,103,130,674	317,169,245,440	61,171,994,211	378,341,239,651
Agriculture, fishing and forestry, equivalent to US\$500,000 (US\$4,700,000 at June 30, 2020) (Note 4)	552,215,293,521	-	552,215,293,521	958,361,202,198	-	958,361,202,198
Financial businesses, insurance, real estate and services, equivalent to US\$883,333 (US\$1,500,000 at June 30, 2020) (Note 4)	975,579,983,743	-	975,579,983,743	305,859,971,057	-	305,859,971,057
Utilities, includes US\$482,500	532,887,758,247	-	532,887,758,247	-	-	-
Construction, equivalent to US\$255,000 (US\$150,000 at June 30, 2020) (Note 4)	281,629,799,696	-	281,629,799,696	30,585,997,106	-	30,585,997,106
Transportation, warehousing and communications, equivalent to US\$300,000 (US\$220,000 at June 30, 2020)	-	-	-	-	-	-
	<u>19,169,246,624,126</u>	<u>1,656,645,880,500</u>	<u>20,825,892,504,626</u>	<u>2,060,413,420,135</u>	<u>305,859,971,100</u>	<u>2,366,273,391,235</u>
	<u>43,073,775,237,950</u>	<u>1,656,678,076,717</u>	<u>44,730,453,314,667</u>	<u>4,544,937,926,608</u>	<u>305,918,601,637</u>	<u>4,850,856,528,245</u>
Allowance for losses on loan portfolio, includes US\$1,601,028 (US\$1,329,910 at June 30, 2020) (Note 4)			(1,898,507,885,261)			(343,545,485,788)
			<u>42,831,945,429,406</u>	<u>44,859,462,422</u>	<u>-</u>	<u>44,859,462,422</u>
<b>Guarantee - operations in Venezuela</b>						
Collateral, includes US\$7,564,412 (US\$1,955,166 at June 30, 2020) (Note 4)	9,262,328,506,547	-	9,262,328,506,547	524,845,156,396	-	524,845,156,396
Pledge, includes US\$5,575,347 (US\$1,050,000 at June 30, 2020) (Note 4)	6,316,931,171,802	-	6,316,931,171,802	215,304,099,842	-	215,304,099,842
Unsecured, includes US\$1,402,780 (US\$195,117 and €1,856,400 at June 30, 2020) (Note 4)	5,193,553,066,096	32,196,217	5,193,585,262,313	764,361,227,549	58,630,537	764,419,858,086
Endorsement, includes US\$475,000 (US\$2,828,000 at June 30, 2020) (Note 4)	2,920,388,433,718	-	2,920,388,433,718	977,209,633,481	-	977,209,633,481
Chattel mortgage includes US\$96,250 at December 31, 2020 (Note 4)	106,301,443,999	-	106,301,443,999	15,468,339	-	15,468,339
Real property mortgage includes US\$25,000 at December 31, 2020 (Note 4)	105,025,991,662	-	105,025,991,662	2,788,920,866	-	2,788,920,866
	<u>23,904,528,613,824</u>	<u>32,196,217</u>	<u>23,904,560,810,041</u>	<u>2,484,524,506,473</u>	<u>58,630,537</u>	<u>2,484,583,137,010</u>
<b>Guarantee - operations in the Curacao Branch</b>						
Pledge, equivalent to US\$8,064,976 (US\$2,150,000 at June 30, 2020) (Note 4)	8,907,207,281,869	-	8,907,207,281,869	438,399,361,176	-	438,399,361,176
Endorsement, equivalent to US\$4,642,743 (US\$1,819,414 at June 30, 2020) (Note 4)	3,802,270,672,522	1,325,316,704,388	5,127,587,376,910	126,302,428,168	244,687,976,845	370,990,405,013
Collateral, equivalent to US\$3,024,688 (US\$6,109,814 at June 30, 2020) (Note 4)	3,340,557,943,457	-	3,340,557,943,457	1,245,831,578,691	-	1,245,831,578,691
Unsecured, equivalent to US\$2,494,272 (US\$1,325,463 at June 30, 2020) (Note 4)	2,423,421,113,088	331,329,176,112	2,754,750,289,200	209,098,722,626	61,171,994,255	270,270,716,881
Other guarantees, equivalent to US\$630,000	695,789,613,190	-	695,789,613,190	-	-	-
Mortgage, equivalent to US\$200,000 (Note 4)	-	-	-	40,781,329,474	-	40,781,329,474
	<u>19,169,246,624,126</u>	<u>1,656,645,880,500</u>	<u>20,825,892,504,626</u>	<u>2,060,413,420,135</u>	<u>305,859,971,100</u>	<u>2,366,273,391,235</u>
	<u>43,073,775,237,950</u>	<u>1,656,678,076,717</u>	<u>44,730,453,314,667</u>	<u>4,544,937,926,608</u>	<u>305,918,601,637</u>	<u>4,850,856,528,245</u>

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

## Notes to the financial statements

### December 31 and June 30, 2020

	December 31, 2020			June 30, 2020		
	Current	Overdue	Total	Current	Overdue	Total
	(In bolivars)					
<b>Maturity - operations in Venezuela</b>						
Overdue	5,774,754	4,291,260	10,066,014	293,032	58,630,537	58,923,569
Up to 30 days	4,890,482,626,126	5,359,833	4,890,487,985,959	779,006,083,822	-	779,006,083,822
31 to 60 days	5,976,173,385,731	2,441	5,976,173,388,172	177,679,854,132	-	177,679,854,132
61 to 90 days	3,309,461,121,775	-	3,309,461,121,775	149,206,539,137	-	149,206,539,137
91 to 180 days	3,515,618,936,408	6,217	3,515,618,942,625	560,570,547,097	-	560,570,547,097
181 to 360 days	5,660,732,495,960	-	5,660,732,495,960	258,519,947,083	-	258,519,947,083
Over 360 days	552,054,273,070	22,536,466	552,076,809,536	559,541,242,170	-	559,541,242,170
	<u>23,904,528,613,824</u>	<u>32,196,217</u>	<u>23,904,560,810,041</u>	<u>2,484,524,506,473</u>	<u>58,630,537</u>	<u>2,484,583,137,010</u>
<b>Maturity - operations in Curacao Branch</b>						
Overdue	-	1,656,645,880,500	1,656,645,880,500	-	305,859,971,100	305,859,971,100
Up to 30 days	4,274,117,103,723	-	4,274,117,103,723	102,364,136,980	-	102,364,136,980
Up to 60 days	773,101,410,929	-	773,101,410,929	448,594,624,216	-	448,594,624,216
61 to 90 days	1,767,088,939,266	-	1,767,088,939,266	262,930,077,239	-	262,930,077,239
91 to 180 days	7,612,212,719,902	-	7,612,212,719,902	693,303,195,633	-	693,303,195,633
181 to 360 days	2,744,723,163,901	-	2,744,723,163,901	69,328,260,106	-	69,328,260,106
Over 360 days	1,998,003,286,405	-	1,998,003,286,405	483,893,125,961	-	483,893,125,961
	<u>19,169,246,624,126</u>	<u>1,656,645,880,500</u>	<u>20,825,892,504,626</u>	<u>2,060,413,420,135</u>	<u>305,859,971,100</u>	<u>2,366,273,391,235</u>
	<u>43,073,775,237,950</u>	<u>1,656,678,076,717</u>	<u>44,730,453,314,667</u>	<u>4,544,937,926,608</u>	<u>305,918,601,637</u>	<u>4,850,856,528,245</u>
<b>Type of loan - operations in Venezuela</b>						
Loans in foreign currency, equivalent to US\$15,138,789 (US\$6,028,283 and €1,856,400 at June 30, 2020) (Note 4)	16,719,741,157,878	-	16,719,741,157,878	1,654,412,380,283	-	1,654,412,380,283
Loans granted through UVCC	6,466,197,293,702	-	6,466,197,293,702	783,851,155,051	-	783,851,155,051
Employee loans	430,962,805,494	-	430,962,805,494	16,050,151,381	287,418	16,050,438,799
Microcredits	135,325,491,583	-	135,325,491,583	87,866,667	-	87,866,667
Loans granted through UVCP (Note 1)	119,414,521,800	-	119,414,521,800	12,442,826,209	-	12,442,826,209
Credit cards	25,796,697,596	13,278,745	25,809,976,341	11,751,971,337	32,291,323	11,784,262,660
Tourism	5,407,189,600	-	5,407,189,600	5,417,439,520	-	5,417,439,520
Checking accounts	1,536,229,643	18,917,472	1,555,147,115	490,776,854	26,051,796	516,828,650
Mortgage	147,226,528	-	147,226,528	19,939,171	-	19,939,171
	<u>23,904,528,613,824</u>	<u>32,196,217</u>	<u>23,904,560,810,041</u>	<u>2,484,524,506,473</u>	<u>58,630,537</u>	<u>2,484,583,137,010</u>
<b>Type of loan - operations in the Curacao Branch</b>						
Fixed term, equivalent to US\$18,283,748 (US\$11,604,691 at June 30, 2020) (Note 4)	18,536,484,102,684	1,656,645,880,500	20,193,129,983,184	2,060,413,420,135	305,859,971,100	2,366,273,391,235
Syndicated loans, equivalent to US\$500,000	552,215,294,298	-	552,215,294,298	-	-	-
Employee loans, equivalent to US\$72,931	80,547,227,144	-	80,547,227,144	-	-	-
	<u>19,169,246,624,126</u>	<u>1,656,645,880,500</u>	<u>20,825,892,504,626</u>	<u>2,060,413,420,135</u>	<u>305,859,971,100</u>	<u>2,366,273,391,235</u>
	<u>43,073,775,237,950</u>	<u>1,656,678,076,717</u>	<u>44,730,453,314,667</u>	<u>4,544,937,926,608</u>	<u>305,918,601,637</u>	<u>4,850,856,528,245</u>

At December 31, 2020, overdue loans resulting from Branch transactions include a loan for US\$1,200,000 (equivalent to Bs 1,325,317 million), in respect of which in February 2021, the Branch agreed with the debtor and its guarantor to receive as payment three business premises located in Parque Cristal, Urbanización Los Palos Grandes, Municipio Chacao, Estado Miranda, with a market value of US\$1,424,110 (equivalent to Bs 1,572,831 million at December 31, 2020). Although as a result of the dation in payment agreed between the parties the ownership of the property is transferred to the Branch, the latter may not dispose of the premises for two years, unless otherwise negotiated by the parties. At December 31, 2020, a provision of US\$240,000 (equivalent to Bs 265,063 million) has been set aside in connection with this loan.

At December 31 and June 30, 2020, the Bank's loan portfolio includes loans receivable for 1,214,457,595 UVCC (equivalent to Bs 6,466,197 million) and 792,419,408 UVCC (equivalent to Bs 783,851 million), respectively.

At December 31 and June 30, 2020, the Bank has loans receivable for 22,428,000 UVCP (equivalent to Bs 119,415 million) and 12,578,803 UVCP (equivalent to Bs 12,443 million), respectively (Note 1).

**Banco Nacional de Crédito, C.A, Banco Universal**  
**Notes to the financial statements**  
**December 31 and June 30, 2020**

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During the six-month periods ended December 31 and June 30, 2020, income from the loan portfolio comprises the following:

	<u>Six-month periods ended</u>	
	<u>December 31,</u> <u>2020</u>	<u>June 30,</u> <u>2020</u>
	(In bolivars)	
Increase in the investment index of UVCC and UVCP loans collected	2,630,365,127,959	402,369,532,211
Financial interest	1,157,195,093,325	137,819,793,875
Flat commission	<u>144,408,079,727</u>	<u>30,108,270,571</u>
	<u>3,931,968,301,011</u>	<u>570,297,596,657</u>

During the six-month periods ended December 31 and June 30, 2020, net income from variation of principal of UVCC and UVCP loans amounts to Bs 3,867,773 million and Bs 626,916 million, respectively, which was recorded in equity. Furthermore, the Bank transferred to results for the periods ended December 31 and June 30, 2020, Bs 2,630,365 million and Bs 402,370 million, respectively, of the aforementioned net income in respect of commercial loans through the use of UVCC and UVCP that had already been collected during the six-month periods ended December 31 and June 30, 2020, which are part of income from loan portfolio.

In accordance with SUDEBAN rules, at December 31 and June 30, 2020, the Bank maintains a general allowance of Bs 499,369 million and Bs 54,425 million, respectively, for losses on the loan portfolio, and a countercyclical allowance of Bs 335,478 million and Bs 36,405 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,</u> <u>2020</u>	<u>June 30,</u> <u>2020</u>
	(In bolivars)	
Balance at the beginning of the period	343,545,485,788	69,706,834,443
Provided in the period	203,039,060,467	63,942,944,823
Write-offs of uncollectible loans	(10,310,252,230)	(8,182,882)
Reclassification to provision for interest receivable (Note 7)	6,835,320,903	2,550,499,956
Reclassification to provision for contingent loans (Note 16)	(6,754,174,546)	-
Adjustment from exchange differences	<u>1,362,152,444,879</u>	<u>207,353,389,448</u>
Balance at the end of the period	<u>1,898,507,885,261</u>	<u>343,545,485,788</u>

At December 31, 2020, overdue loans on which interest is no longer accrued amount to Bs 1,656,678 million (Bs 305,919 million at June 30, 2020). In addition, at December 31, 2020, memorandum accounts include Bs 59,155 million (Bs 5,628 million at June 30, 2020), in respect of interest not recognized as income from loans on which interest is no longer accrued (Note 21).

During the six-month period ended December 31, 2020, the Bank collected commissions from its customers for Bs 158,994 million on documentation of loans granted in foreign currency through the use of UVCC (Note 18).

During the six-month period ended June 30, 2020, the Bank collected commissions on settlement of loans granted to its customers for Bs 10,347 million in connection with procedures for management and documentation of pledged lines of credit. Furthermore, during the six-month period ended June 30, 2020, the Bank provided financial advisory services to its customers when granting loans and has charged commissions for Bs 15,334 million (Note 18). Upon SUDEBAN request, received in March 2020, the Bank suspended collection of these commissions.

**Banco Nacional de Crédito, C.A, Banco Universal**  
**Notes to the financial statements**  
**December 31 and June 30, 2020**

At December 31 and June 30, 2020, interest receivable collected in advance from debtors upon loan settlement amounts to Bs 1,228 million and Bs 3,278 million, respectively, which are part of deferred income under accruals and other liabilities. Interest is recorded as income upon collection (Note 16).

The Bank's control environment includes policies and procedures to determine credit risks by client and economic sector.

At December 31, 2020, the Bank's loan portfolio has risk concentration in ten individual clients, representing 52% of the loan portfolio (6 individual clients, representing 58% of the loan portfolio at June 30, 2020). At December 31, 2020, the Bank's loan portfolio has risk concentration in three groups of related companies, representing 24% of the loan portfolio (3 groups of related companies, representing 21% of the loan portfolio at June 30, 2020).

**Subsequent event**

On January 21, 2021, SUDEBAN, through Circular SIB-DSB-CJ-OD-00317, established that banking institutions may only grant loans in foreign currency using the resources obtained from customer deposits in foreign currency or any other form, prior authorization from the BCV and SUDEBAN. At December 31 and June 30, 2020, the Bank has not granted loans in foreign currency with resources obtained from customer deposits.

**7. Interest and commissions receivable**

Interest and commissions receivable comprise the following:

	December 31, 2020	June 30, 2020
	(In bolivars)	
<b>Interest receivable on investment securities</b>		
Held to maturity, includes US\$2,173,135 (US\$1,844,574 at June 30, 2020) (Note 4)	2,400,579,002,864	377,649,601,513
Available for sale, includes US\$318 (US\$2,903 at June 30, 2020) (Note 4)	358,335,178	599,083,580
Other securities (Note 4)	<u>102,873</u>	<u>100,921</u>
	<u>2,400,937,440,915</u>	<u>378,248,786,014</u>
<b>Interest receivable on loan portfolio</b>		
Current, includes US\$144,031 (US\$85,307 and €55,073 at June 30, 2020) (Note 4)	160,781,928,138	30,295,222,235
Overdue, includes US\$17,562 (US\$23,413 at June 30, 2020) (Note 4)	19,405,730,123	4,786,386,616
Microcredits	<u>-</u>	<u>351,467</u>
	<u>180,187,658,261</u>	<u>35,081,960,318</u>
<b>Commissions receivable</b>		
Trust fund	<u>507,745,375</u>	<u>128,231,650</u>
	2,581,632,844,551	413,458,977,982
Provision for interest receivable and other, includes US\$2,191,297 (US\$1,867,889 at June 30, 2020) (Note 4)	<u>(2,420,146,496,908)</u>	<u>(380,891,315,459)</u>
	<u>161,486,347,643</u>	<u>32,567,662,523</u>

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

**Banco Nacional de Crédito, C.A, Banco Universal**  
**Notes to the financial statements**  
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Below is the movement in the provision for interest receivable and other:

	<u>Six-month periods ended</u>	
	<u>December 31, 2020</u>	<u>June 30, 2020</u>
	(In bolivars)	
Balance at the beginning of the period	380,891,315,459	72,126,216,775
Provided in the period	206,548,723,298	45,341,268,468
Write-offs for uncollectible interest	(4,283,804)	(1,427,149)
Reclassification to allowance for losses on loan portfolio (Note 6)	(6,835,320,903)	(2,550,499,956)
Reclassification to provision for other assets (Note 12)	(5,773,410,893)	(1,042,892,332)
Reclassification to allowance for contingent loans (Note 16)	(5,737,674)	-
Adjustment from exchange rate fluctuation	<u>1,845,325,211,425</u>	<u>267,018,649,653</u>
Balance at the end of the period	<u>2,420,146,496,908</u>	<u>380,891,315,459</u>

**8. Investment in Branch**

At December 31 and June 30, 2020, 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**

	<u>December 31, 2020</u>		<u>June 30, 2020</u>	
	<u>US\$</u>	<u>Equivalent in bolivars</u>	<u>US\$</u>	<u>Equivalent in bolivars</u>
<b>Assets (Note 4)</b>				
Cash and due from banks	20,983,340	23,174,643,680,801	20,996,070	4,281,238,086,905
Investment securities	134,615	148,672,923,873	2,034,619	414,872,323,970
Loan portfolio	17,520,580	19,350,264,506,542	10,274,780	2,095,095,866,539
Interest and commissions receivable	84,633	93,470,169,693	42,046	8,573,458,585
Available-for-sale assets	275,000	303,718,412,250	-	-
Property and equipment	44,838	49,520,458,794	10,832	2,208,716,724
Other assets	58,987	65,147,047,212	50,512	10,299,732,200
Total assets	<u>39,101,993</u>	<u>43,185,437,199,165</u>	<u>33,408,859</u>	<u>6,812,288,184,923</u>
<b>Liabilities and Equity</b>				
<b>Liabilities (Note 4)</b>				
Customer deposits	25,538,974	28,206,024,122,815	21,145,991	4,311,807,974,280
Borrowings	369,496	408,082,685,283	384,102	78,320,948,237
Interest and commissions payable	843	931,034,986	2,945	600,505,054
Accruals and other liabilities	<u>1,069,053</u>	<u>1,180,694,835,531</u>	<u>182,219</u>	<u>37,155,664,034</u>
	<u>26,978,366</u>	<u>29,795,732,678,615</u>	<u>21,715,257</u>	<u>4,427,885,091,605</u>
<b>Equity (Note 4)</b>				
Capital	7,599,462	8,393,078,300,343	7,599,462	1,549,580,762,228
Voluntary reserves	2,766,551	3,055,463,545,010	2,766,551	564,118,118,799
Retained earnings	1,757,614	1,941,162,675,197	1,357,552	276,813,866,945
Unrealized loss on investments in available-for-sale securities	-	-	(29,963)	(6,109,654,654)
Total equity	<u>12,123,627</u>	<u>13,389,704,520,550</u>	<u>11,693,602</u>	<u>2,384,403,093,318</u>
Total liabilities and equity	<u>39,101,993</u>	<u>43,185,437,199,165</u>	<u>33,408,859</u>	<u>6,812,288,184,923</u>

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

	Six-month periods ended			
	December 31, 2020		June 30, 2020	
	US\$	Equivalent in bolivars	US\$	Equivalent in bolivars
Interest income	957,553	1,057,550,909,680	620,631	126,550,741,623
Interest expense	(9,533)	(10,528,447,173)	(10,596)	(2,160,505,116)
Expenses from uncollectible loans	(35,191)	(38,865,914,978)	(5,188)	(1,057,765,733)
Other operating income	54,576	60,275,485,822	51,301	10,460,696,481
Other operating expenses	(180,920)	(199,813,581,808)	(245,806)	(50,121,381,535)
Operating expenses	(430,543)	(475,504,858,237)	(324,944)	(66,258,317,079)
Sundry operating income	52,396	57,867,745,194	-	-
Sundry operating expenses	(1,751)	(1,933,857,958)	-	-
Income tax	(6,525)	(7,206,472,849)	(5,125)	(1,045,084,779)
Net income	<u>400,062</u>	<u>441,841,007,693</u>	<u>80,273</u>	<u>16,368,383,862</u>

The equivalent amounts in bolivars shown in the above financial statements at December 31 and June 30, 2020 have been translated at the official exchange rate of Bs 1,104,431.59/US\$1 and Bs 203,906.64/US\$1, respectively (Note 2-b).

**9. Investments in affiliates**

At December 31 and June 30, 2020, the Bank has an investment recorded at cost of €97,966, equivalent to Bs 132,850 million and Bs 22,439 million (Note 4), respectively, in connection with 22 shares, with a par value of €125, acquired in September 2019 from Society for Worldwide Interbank Financial Telecommunication (SWIFT), an entity domiciled in Belgium, over which the Bank's equity is less than 0.01% of its capital stock; therefore, the Bank's influence over such entity is not significant. The acquisition of these shares was related to the provision of services.

**10. Available-for-sale assets**

Available-for-sale assets comprise the following:

	December 31, 2020	June 30, 2020
	(In bolivars)	
Real property received as payment	303,718,411,746	-
Personal property received as payment	-	490
	<u>303,718,411,746</u>	<u>490</u>

During the six-month period ended December 31, 2020, the Branch recorded real property received as payment for US\$275,000, equivalent to Bs 303,718 million (Note 4), for collection of loan and interest receivable from a customer for US\$110,000 and US\$8,070, respectively. Furthermore, and since the fair value of the real property received as payment exceeds the amount of the loan and interest receivable, the Branch deposited the difference of US\$151,174 in the debtor's account, after collection of legal fees and documentation for US\$5,756 borne by the debtor.

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

## Notes to the financial statements

### December 31 and June 30, 2020

#### 11. Property and equipment

Property and equipment comprise the following:

	Land	Buildings and facilities	Computer hardware	Furniture and equipment	Vehicles	Construction in progress	Other property	Total
				(In bolivars)				
<b>Balances at December 31, 2019</b>								
Cost (includes US\$84,896)	61,341	102,395,812,394	18,385,396,018	10,328,914,641	86,746,020	3,109,688,796	165	134,306,619,375
Accumulated depreciation (includes US\$70,804)	-	(1,889,490)	(3,680,858,876)	(694,763,524)	(17,032,401)	-	-	(4,394,544,291)
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>3,109,688,796</u>	<u>165</u>	<u>129,912,075,084</u>
<b>Movement for the six-month period ended June 30, 2020</b>								
Opening balance	61,341	102,393,922,904	14,704,537,142	9,634,151,117	69,713,619	3,109,688,796	165	129,912,075,084
Additions	-	102,506,451,919	16,888,849,302	11,655,433,123	14,516,000	42,003,884,047	-	173,069,134,391
Effect of Branch conversion on cost	-	-	9,638,061,849	4,078,139,876	-	-	-	13,716,201,725
Withdrawals	-	-	(20)	(19,594,746)	-	-	-	(19,594,766)
Effect of Branch conversion on accumulated depreciation	-	-	(9,356,626,827)	(2,426,698,127)	-	-	-	(11,783,324,954)
Depreciation expense (Note 20)	-	(1,678,129,592)	(2,602,488,841)	(1,293,221,052)	(15,638,712)	-	-	(5,589,478,197)
Withdrawals from accumulated depreciation	-	-	20	19,594,746	-	-	-	19,594,766
Closing balance	<u>61,341</u>	<u>203,222,245,231</u>	<u>29,272,332,625</u>	<u>21,647,804,937</u>	<u>68,590,907</u>	<u>45,113,572,843</u>	<u>165</u>	<u>299,324,608,049</u>
<b>Balances at June 30, 2020</b>								
Cost (includes US\$86,629) (Note 4)	61,341	204,902,134,768	44,820,392,804	25,495,625,388	101,262,020	45,113,572,843	165	320,433,049,329
Accumulated depreciation (includes US\$75,797) (Note 4)	-	(1,679,889,537)	(15,548,060,179)	(3,847,820,451)	(32,671,113)	-	-	(21,108,441,280)
Net balance	<u>61,341</u>	<u>203,222,245,231</u>	<u>29,272,332,625</u>	<u>21,647,804,937</u>	<u>68,590,907</u>	<u>45,113,572,843</u>	<u>165</u>	<u>299,324,608,049</u>
<b>Movement for the six-month period ended December 31, 2020</b>								
Opening balance	61,341	203,222,245,231	29,272,332,625	21,647,804,937	68,590,907	45,113,572,843	165	299,324,608,049
Additions (Note 12)	-	3,506,667,635,015	96,112,015,473	121,639,454,179	-	479,256,263,074	15,053,389,890	4,218,728,757,631
Effect of Branch conversion on cost	-	-	88,605,128,661	34,976,270,160	-	-	-	123,581,398,821
Capitalization	-	115,543,118,117	-	11,025,053,527	-	(126,568,171,644)	-	-
Withdrawals	-	-	-	-	(10,296,002)	-	-	(10,296,002)
Effect of Branch conversion on accumulated depreciation	-	-	(55,337,245,415)	(12,918,817,829)	-	-	-	(68,256,063,244)
Depreciation expense (Note 20)	-	(4,888,085,783)	(13,165,903,313)	(7,569,341,612)	(16,152,443)	-	-	(25,639,483,151)
Withdrawals from accumulated depreciation	-	-	-	-	9,457,340	-	-	9,457,340
Closing balance	<u>61,341</u>	<u>3,820,544,912,580</u>	<u>145,486,328,031</u>	<u>168,800,423,362</u>	<u>51,599,802</u>	<u>397,801,664,273</u>	<u>15,053,390,055</u>	<u>4,547,738,379,444</u>
<b>Balances at December 31, 2020</b>								
Cost (includes US\$127,889) (Note 4)	61,341	3,825,432,998,363	213,989,476,759	189,288,582,803	68,590,907	397,801,664,273	15,053,390,055	4,641,634,764,501
Accumulated depreciation (includes US\$83,051) (Note 4)	-	(4,888,085,783)	(68,503,148,728)	(20,488,159,441)	(16,991,105)	-	-	(93,896,385,057)
Net balance	<u>61,341</u>	<u>3,820,544,912,580</u>	<u>145,486,328,031</u>	<u>168,800,423,362</u>	<u>51,599,802</u>	<u>397,801,664,273</u>	<u>15,053,390,055</u>	<u>4,547,738,379,444</u>

During the six-month periods ended December 31 and June 30, 2020, 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, which began operations in December 2020.

At December 31 and June 30, 2020, 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.

Below are the useful lives by type of asset:

	Useful life	Average remaining useful life	
		December 31, 2020	June 30, 2020
		(Years)	
Buildings and facilities	40	39.98	39.70
Computer hardware	4	2.08	3.48
Furniture and equipment	8-10	9.30	9.52
Vehicles	5	0.94	3.11

#### 12. Other assets

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Other assets comprise the following:

	<b>December 31, 2020</b>	<b>June 30, 2020</b>
	(In bolivars)	
<b>Deferred expenses</b>		
Licenses	120,602,057,622	15,875,047,069
Leasehold improvements, net of amortization, includes US\$3,982 (US\$8,761 at June 30, 2020) (Note 4)	178,613,445,988	4,059,651,637
Operating system (software)	-	852,999,382
Deferred loss on mortgage loans to companies whose real property was subject to intervention from the Venezuelan government	<u>2,484</u>	<u>2,713</u>
	<u>299,215,506,094</u>	<u>20,787,700,801</u>
Pending items, includes US\$3,261,450 and €60,388 (US\$830 and €200 at June 30, 2020) (Note 4)	6,425,543,833,813	884,136,460,116
Advances on purchase options on premises owned by the Bank	1,110,299,570,235	67,101,461,482
Advances to suppliers	557,590,722,338	104,198,592,070
International credit card transactions (Note 16)	449,775,899,688	40,437,573,458
Other prepaid expenses	263,553,860,644	49,617,849,543
Prepaid advertising	184,895,508,687	6,361,817,267
Prepaid taxes and subscriptions, includes US\$24 at June 30, 2020 (Notes 4 and 17)	158,411,901,962	24,506,385,695
Matured financial instruments receivable, equivalent to US\$131,125 (US\$1,462,552 at June 30, 2020) (Note 4)	144,818,460,720	298,223,917,960
Stationery and sundry supplies	50,693,476,882	4,999,684,494
Other sundry accounts receivable, includes US\$2,861 and €4,908 (Note 4)	44,816,848,334	12,613,459,307
Accounts receivable in foreign currency, equivalent to US\$25,361 (US\$25,466 at June 30, 2020) (Note 4)	28,008,956,079	5,192,727,464
Guarantee deposits, includes US\$24,955 (US\$3,333 at June 30, 2020) (Note 4)	28,000,523,652	868,800,351
Bank insurance, includes US\$4,689 (US\$12,928 at June 30, 2020) (Note 4)	23,754,324,980	9,825,568,196
Inventories of chip credit and debit cards	5,056,426,240	45,682,251
Accounts receivable from employees, includes US\$23,000 at June 30, 2020 (Note 4)	2,205,537,697	431,786,596
Credit card-related accounts receivable and balance offsettings	1,913,538,663	683,086,221
Deferred income tax (Note 17)	-	22,000,000,000
	<u>9,479,339,390,614</u>	<u>1,531,244,852,471</u>
	9,778,554,896,708	1,552,032,553,272
Provision for other assets, includes US\$131,125 (US\$1,462,552 at June 30, 2020) (Note 4)	<u>(144,866,966,452)</u>	<u>(298,264,919,658)</u>
	<u>9,633,687,930,256</u>	<u>1,253,767,633,614</u>

The balance of pending items comprises the following:

	<b>December 31, 2020</b>	<b>June 30, 2020</b>
	(In bolivars)	
<b>Pending items</b>		
Interbank mobile payment transactions receivable	2,617,025,511,525	466,784,330,348
Exchange desk transactions equivalent to US\$2,020,597 and €60,388 (Note 4)	2,313,498,981,058	374,808,548,128
Retail transactions equivalent to US\$64,075 and €958,390 (Note 4)	1,370,436,370,911	41,337,190,110
Sale of foreign currency - exporters	124,567,477,901	701,438,867
Internet deposit remittances, includes US\$620 at June 30, 2020	-	126,422,121
Cash shortages, includes US\$210 and €200 at June 30, 2020	43,925	89,335,988
Teller machines and remittances in foreign currency	-	25,975,762
Other pending items	<u>15,448,493</u>	<u>263,218,792</u>
	<u>6,425,543,833,813</u>	<u>884,136,460,116</u>

In-transit operations of the interbank mobile payment system relate to cash transfers by Bank customers

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## **Notes to the financial statements**

### **December 31 and June 30, 2020**

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from deposits to accounts in other financial institutions. In-transit operations payable in connection with interbank mobile payment transactions relate to cash transfers by Bank customers to accounts in other financial institutions and are recorded under accruals and other liabilities (Note 16). These transactions clear the week following period closing. At December 31, 2020, the Bank has operations receivable and payable of Bs 2,617,026 million and Bs 1,963,563 million, respectively (Bs 466,784 million and Bs 418,287 million, respectively, at June 30, 2020) in connection with interbank mobile payment transactions (Note 16). During the six-month periods ended December 31 and June 30, 2020, the Bank recorded income from commissions charged to customers of Bs 184,127 million and Bs 31,123 million, respectively, in connection with transactions through this system (Note 18).

During the six-month period ended December 31, 2020, investment securities held by the Branch in debt securities issued by the foreign financial private-sector company International Cooperatief UA matured, and were reclassified from available-for-sale investments to other assets at their par value of US\$100,000, equivalent to Bs 110,440 million. A total of Bs 33,092 million was recorded in the income statement within expenses from uncollectible loans and other accounts receivable, in connection with unrealized losses on investment securities recorded by the Bank within equity. In addition at December 31, 2020, overdue interest receivable in respect of these financial instruments amount to US\$31,125, equivalent to Bs 34,378 million. At December 31, 2020, a provision was set aside for the full amount of principal and related interest of these financial instruments.

At June 30, 2020, matured financial instruments receivable comprised 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 262,427 million. This account also includes overdue interest receivable for US\$149,614 in respect of this bond, equivalent to Bs 30,507 million. At June 30, 2020, the Bank set aside a provision under other assets for the full amount of principal and interest of these financial instruments. In addition, during the six-month period ended December 31, 2020, one year after the maturity of this bond, management resolved to write off the full amount of the bond and related interest receivable from the Bank's financial statements, recording write-offs against the provision for other assets for Bs 725,898 million.

At December 31 and June 30, 2020, advances for purchase of premises owned by the Bank include Bs 1,110,300 million and Bs 67,101 million, respectively, for future purchase and sale commitments of administrative offices in Centro Empresarial Boleíta, Sucre Municipality, Miranda State. During the six-month period ended December 31, 2020, the Bank recorded as additions under property and equipment advances for purchase of premises for Bs 2,869,799 million, since the acquisition of the corporate office at El Rosal and administrative offices at Torre BNC, Avenida Francisco de Miranda, Chacao, Miranda State, was completed (Note 11).

In-transit operations in respect of the international credit card correspond to the use of Banks' points of sale by customers from foreign financial institutions. Most of these transactions clear in the month following period closing (Note 16).

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

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The balance of other prepaid expenses comprises the following:

	December 31, 2020	June 30, 2020
	(In bolivars)	
Licenses maturing within one year	117,857,142,700	20,506,763,663
Insurance	101,806,781,379	16,024,852,361
Bloomberg service	20,192,383,575	2,521,838,052
Improvements to agencies	18,966,869,905	5,476,301,053
Per diems paid to employees	4,730,683,085	658,746,485
Swift service	-	4,419,954,285
Prepaid subscriptions	-	9,393,644
	<u>263,553,860,644</u>	<u>49,617,849,543</u>

Deferred expenses comprise the following:

	December 31, 2020			June 30, 2020		
	Cost	Accumulated amortization	Book Value	Cost	Accumulated amortization	Book value
	(In bolivars)					
Licenses	161,584,376,493	(40,982,318,871)	120,602,057,622	21,943,917,252	(6,068,870,183)	15,875,047,069
Leasehold improvements	178,623,126,169	(9,680,181)	178,613,445,988	4,066,484,316	(6,832,679)	4,059,651,637
Operating system (software)	1,704,144,400	(1,704,144,400)	-	2,046,993,276	(1,193,993,894)	852,999,382
Deferred loss on mortgage loans to companies whose real property was subject to intervention from the Venezuelan government	4,586	(2,102)	2,484	4,586	(1,873)	2,713
	<u>341,911,651,648</u>	<u>(42,696,145,554)</u>	<u>299,215,506,094</u>	<u>28,057,399,430</u>	<u>(7,269,698,629)</u>	<u>20,787,700,801</u>

During the six-month periods ended December 31 and June 30, 2020, the Bank recorded amortization of deferred expenses of Bs 38,580 million and Bs 6,483 million, respectively, shown in the income statement under general and administrative expenses (Note 20).

Below is the movement in the provision for other assets:

	December 31, 2020	June 30, 2020
	(In bolivars)	
Balance at the beginning of the period	298,264,919,658	67,799,650,473
Provision for other assets (Note 19)	20,000,000	15,000,000
Matured financial instruments written off	(725,898,111,682)	
Reclassification from (to) interest receivable (Note 7)	5,773,410,893	1,042,892,332
Adjustment from exchange rate fluctuation	<u>566,706,747,583</u>	<u>229,407,376,853</u>
Balance at the end of the period	<u>144,866,966,452</u>	<u>298,264,919,658</u>

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**13. Customer deposits**

Customer deposits comprise the following:

	December 31, 2020	June 30, 2020
	(In bolivars)	
<b>Checking account deposits and certificates</b>		
Non-interest-bearing checking accounts	12,955,777,192,163	2,479,342,033,612
Checking accounts as per the free convertibility exchange market system, equivalent to US\$66,089,711 and €12,249,415 (includes US\$2,739 and €864 for trust fund deposits) (US\$33,049,724 and €8,063,532 and includes US\$15,349 and €2,400 for trust fund deposits at June 30, 2020) (Notes 4 and 21)	89,602,895,601,303	8,585,997,053,578
Interest-bearing checking accounts	1,872,964,194,584	493,356,256,143
Checking accounts under Exchange Agreement No. 20 equivalent to US\$3,818 (Notes 3 and 4)	4,216,296,298	778,438,095
Demand deposits and certificates		
Non-negotiable demand deposits, bearing annual interest at between 1% and 9%	314,624,628,274	64,693,112,747
Public, State and Municipal Administration	<u>12,143,427,031</u>	<u>31,912,114,198</u>
	<u>104,762,621,339,653</u>	<u>11,656,079,008,373</u>
<b>Other demand deposits</b>		
Cashier's checks	134,092,012,651	53,914,185,683
Trust fund liabilities (Note 21)	84,848,646,390	15,349,982,421
Advance collections from credit card holders	1,241,238,324	409,590,943
Housing Savings Fund liabilities (Note 21)	<u>327,722,124</u>	<u>25,781,341</u>
	<u>220,509,619,489</u>	<u>69,699,540,388</u>
Savings deposits, bearing 21% annual interest for saving deposits for individuals and 0.125% for deposits in foreign currency, includes US\$13,616,438 and €5,564,563 (US\$10,067,091 and €6,840,591 at June 30, 2020) (Note 4)	<u>25,604,745,363,735</u>	<u>4,294,879,204,042</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\$295,000 (US\$3,395,000 at June 30, 2020) with the following maturities (Note 4):		
Overdue	-	60,152,461,073
Up to 30 days	20,705,000	611,939,942,113
31 to 60 days	-	20,523,664,737
61 to 90 days	325,807,023,165	-
91 to 180 days	<u>157,553,668</u>	<u>45,634,485</u>
	<u>325,985,281,833</u>	<u>692,661,702,408</u>
Restricted customer deposits, equivalent to US\$4,794,976	<u>5,295,718,025,799</u>	-
	<u>136,209,579,630,509</u>	<u>16,713,319,455,211</u>

At December 31 and June 30, 2020, 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 customers 2% to 5% of the cash amount in foreign currency withdrawn from agencies and counters. During the six-month period ended December 31 and June 30, 2020, income in this connection amounted to Bs 2,503,656 million and Bs 270,400 million, respectively, shown under other operating income (Note 18).

At December 31, 2020, restricted customer deposits were in respect of guarantee deposits for loans granted by the Branch, on which there are properly constituted guarantees.

During the six-month periods ended December 31 and June 30, 2020, the Branch has charged its customers commissions on transfers to foreign banks for US\$90,381 and US\$121,795, respectively (equivalent to Bs 99,820 million and Bs 24,835 million, respectively), which are part of income from other

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accounts receivable. During the six-month periods ended December 31 and June 30, 2020, the Bank has paid its foreign correspondent banks US\$170,174 and US\$225,453, respectively (equivalent to Bs 187,946 million and Bs 45,971 million, respectively) (Note 19).

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

	December 31, 2020	June 30, 2020
	(In bolivars)	
Non-interest-bearing checking accounts	747,629,994,336	210,509,958,245
Non-negotiable demand deposits	455,695,095,798	187,344,622,143
Interest-bearing checking accounts, at 0.25% annual interest	78,631,768,600	29,667,804,081
Savings deposits at 12.5% annual interest	<u>12,143,427,031</u>	<u>31,912,114,198</u>
	<u>1,294,100,285,765</u>	<u>459,434,498,667</u>

**14. Borrowings**

Borrowings comprise the following:

	December 31, 2020	June 30, 2020
	(In bolivars)	
<b>Borrowings from Venezuelan financial institutions, up to one year</b>		
Overnight deposits at		
BBVA Banco Provincial, S.A., 123% annual yield, maturing in January 2021	800,000,000,000	-
Banco de Venezuela, S.A. Banco Universal, 123% annual yield, maturing in January 2021	600,000,000,000	-
Banco de la Fuerza Armada Nacional Bolivariana, Banco Universal, S.A., 120% annual yield, maturing in January 2021	400,000,000,000	-
BanPlus Banco Universal, S.A., 123% annual yield, maturing in January 2021	40,000,000,000	-
Banco Venezolano de Crédito S.A., 120% annual yield, maturing in July 2020	-	139,000,000,000
Banco del Sur, Banco Universal, 120% annual yield, maturing in July 2020	-	10,100,000,000
Citibank N.A., Venezuelan Branch, 120% annual yield, maturing in July 2020	-	<u>5,800,000,000</u>
	<u>1,840,000,000,000</u>	<u>154,900,000,000</u>
Demand deposits, non-interest-bearing checking accounts with		
Bancrecer, Banco Microfinanciero, C.A.	91,228,586	48,952,922
Mi Banco, Banco Microfinanciero, C.A.	111,098	111,098
Banplus, Banco Universal, C.A.	<u>37,137</u>	<u>37,137</u>
	<u>91,376,821</u>	<u>49,101,157</u>
	<u>1,840,091,376,821</u>	<u>154,949,101,157</u>
<b>Borrowings from foreign financial institutions, up to one year</b>		
Demand deposits, non-interest bearing checking accounts with		
BNC International Bank, N.V., equivalent to US\$124,997 at June 30, 2020 (Note 4)	103	25,487,107,585
BNC International Banking Corporation, equivalent to US\$52,997 (US\$2,984 at June 30, 2020) (Notes 4 and 24)	58,531,596,175	10,802,974,178
Arca International Bank, Inc.	831,655	2,283,475
Bancaribe Curacao Bank, N.V.	<u>6,732</u>	<u>6,732</u>
	<u>58,532,434,665</u>	<u>36,292,371,970</u>
	<u>1,898,623,811,486</u>	<u>191,241,473,127</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, 2020, the Bank complies with the requirements of this Resolution.

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**15. Interest and commissions payable**

Interest and commissions payable comprise the following:

	December 31, 2020	June 30, 2020
	(In bolivars)	
<b>Expenses payable on customer deposits</b>		
Non-negotiable demand deposits	9,063,367,719	3,736,657,558
Time deposits, includes US\$843 (US\$2,945 at June 30, 2020) (Note 4)	<u>933,034,299</u>	<u>607,560,420</u>
	<u>9,996,402,018</u>	<u>4,344,217,978</u>
<b>Expenses payable on borrowings</b>		
Interest payable on overnight deposits	<u>12,506,666,667</u>	<u>516,333,333</u>
Total expenses payable	<u>22,503,068,685</u>	<u>4,860,551,311</u>

**16. Accruals and other liabilities**

Accruals and other liabilities comprise the following:

	December 31, 2020	June 30, 2020
	(In bolivars)	
Pending items, includes US\$2,329,227 and €1,018,778 (US\$1,769,624 and €278,144 at June 30, 2020) (Note 4)	9,440,488,441,448	1,335,812,918,194
Accounts payable in foreign currency, equivalent to US\$2,457,184 and €12,795 (US\$2,522,515 and €13,064 at June 30, 2020) (Note 4)	2,731,140,540,723	517,349,862,605
Cashier's checks, includes US\$951,020	1,051,217,670,023	4,411,617,968
Income tax provision, includes US\$11,528 (US\$5,004 at June 30, 2020) (Notes 4 and 17)	831,628,522,696	32,020,283,613
Other provisions	638,670,257,192	14,907,483,028
Bank insurance policies, equivalent to US\$483,043 (US\$131,207 at June 30, 2020) (Note 4)	533,487,408,815	26,753,926,470
International credit card transactions, equivalent to US\$407,247 (US\$201,754 at June 30, 2020) (Notes 4 and 12)	449,775,899,688	40,437,573,458
Deferred income tax (Note 17)	348,590,529,879	-
Withholding tax	285,079,182,500	22,804,857,035
Suppliers and other sundry accounts payable, include US\$63,239 (US\$107,701 at June 30, 2020) (Note 4)	195,197,803,646	49,788,399,054
Sale of foreign currency to exporters, equivalent to US\$112,789 (US\$3,440 at June 30, 2020)	124,567,477,901	701,438,867
Tax on economic activities and other taxes payable (Note 17)	120,018,755,419	12,524,268,311
Commissions on credit and debit card services	79,542,220,089	15,382,751,395
Contribution for the prevention of money laundering and terrorism financing	50,322,201,680	3,866,005,184
Leases	47,028,352,767	6,156,600,102
Accrual for length-of-service benefits (Note 2-j)	40,240,545,952	12,854,485,227
Professional fees payable, includes US\$8,223 (US\$10,720 at June 30, 2020) (Note 4)	39,061,636,856	4,198,510,366
Vacations and vacation bonus payable, includes US\$13,554 (US\$3,517 at June 30, 2020) (Notes 2-j and 4)	27,208,816,296	3,984,080,043
Sports and Physical Education Law	25,641,364,419	2,534,364,419
Provision for contingent loans (Note 22)	14,509,246,671	1,430,807,879
Labor contributions and withholdings payable	13,333,827,760	780,382,516
Other personnel expenses	4,794,125,844	4,669,297,044
Deferred interest income, includes US\$519 (US\$6,301 at June 30, 2020) (Notes 4 and 6)	1,228,787,027	3,278,926,906
Provision for wealth tax (Note 17)	-	30,000,000,000
Profit sharing payable, includes US\$577 (Notes 2-j and 4)	-	<u>3,159,808,827</u>
	<u>17,092,773,615,291</u>	<u>2,149,808,648,511</u>

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The balance of pending items comprises the following:

	December 31, 2020	June 30, 2020
	(In bolivars)	
Exchange desk transactions, include US\$2,020,597 and €60,388 (US\$1,715,385 and €109,279 at June 30, 2020) (Note 4)	2.313.498.981.058	374,808,548,128
Interbank mobile transactions payable (Note 12)	1.963.562.779.163	418,286,958,472
Point-of-sale transactions payable	1.951.149.927.440	173,367,985,590
Electronic transfer pending offsetting	1.505.878.089.966	307,825,270,465
Retail transactions, include US\$64,075 and €958,390 (US\$13,040 and €168,865 at June 30, 2020) (Note 4)	1.370.436.370.898	41,337,190,110
Other pending items, include US\$223,555 (US\$18,399 at June 30, 2020) (Note 4)	251.571.773.575	4,164,246,342
Collection of government and municipal taxes	56.001.792.573	6,184,867,845
Transactions through SICAD, equivalent to US\$21,000 (Notes 3 and 4)	23.193.042.327	4,282,039,595
Commissions to the Central Bank of Venezuela	5.195.684.448	5,188,800,072
Free convertibility in-transit transactions, include US\$1,800 (Note 4)	-	367,011,575
	<u>9,440,488,441,448</u>	<u>1,335,812,918,194</u>

At December 31 and June 30, 2020, electronic transfers pending offsetting correspond to transfers made by Bank customers to other financial institutions during the last days of December and June 2020, respectively, which cleared the first days of January 2021 and July 2020, respectively. During the six-month periods ended December 31 and June 30, 2020, the Bank charged commissions on interbank electronic transfers for Bs 176,046 million and Bs 34,400 million, respectively, included under other operating income (Note 18).

At December 31 and June 30, 2020, 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, 2020, the Bank recorded income and expenses of Bs 1,054,216 million and Bs 144,367 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 177,111 million and Bs 40,645 million, respectively, for the six-month period ended June 30, 2020) (Notes 18 and 19). Furthermore, during the six-month periods ended December 31 and June 30, 2020, the Bank charged commissions for Bs 71,771 million and Bs 30,539 million, respectively, on reimbursement of point-of sale operation costs to stores, included under other operating income (Note 18).

At December 31, 2020, cashier's checks are mainly in respect of a check pending withdrawal and deposit in another financial institution for closure of an account by a Branch customer.

At December 31 and June 30, 2020, 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, 2020, withheld taxes relate mainly to withholdings from third parties in connection with:

	December 31, 2020	June 30, 2020
	(In bolivars)	
Income tax	100,476,298,510	8,564,255,486
Value added tax	89,488,405,415	3,976,565,013
Tax on large financial transactions	57,499,510,795	9,310,777,039
Stamp duty	37,443,545,863	923,767,372
Other taxes	171,421,917	29,492,125
	<u>285,079,182,500</u>	<u>22,804,857,035</u>

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At December 31 and June 30, 2020, management maintains other provisions of Bs 638,670 million and Bs 14,907 million, respectively, mainly in connection with possible contingent losses. During the six-month period ended December 31, 2020, the Bank recorded expenses of Bs 620,000 million, shown in the income statement within sundry operating expenses (Note 19).

At December 31 and June 30, 2020, suppliers and other sundry payables correspond mainly to accounts payable of Bs 192,242 million and Bs 45,461 million, respectively, for contracted services.

Below is the movement in the provision for contingent loans:

	<u>Six-month periods ended</u>	
	<u>December 31,</u> <u>2020</u>	<u>June 30,</u> <u>2020</u>
	(In bolivars)	
Balance at the beginning of the period	1,430,807,879	326,306,749
Provided for the period	6,318,526,572	1,104,501,130
Reclassification to loan portfolio (Note 6)	6,754,174,546	-
Reclassification to provision for interest receivable (Note 7)	<u>5,737,674</u>	<u>-</u>
Balance at the end of the period	<u>14,509,246,671</u>	<u>1,430,807,879</u>

**17. 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 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.

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Below is the reconciliation between book income and net taxable income for the year ended December 31, 2020:

Statutory tax rate (%)	<u>40</u>
	(In bolivars)
Book income before tax	4,235,895,854,998
Difference between book income and taxable income	
Other provisions	718,820,252,680
Loan portfolio, net	529,527,623,905
Interest on loan portfolio	142,868,553,599
Tax-exempt income, net of related expenses	(451,382,826,903)
Social contributions	46,234,546,794
Municipal taxes	116,393,520,529
Deferred charges	(613,331,767,747)
Income not available at period closing	(1,823,658,077,413)
Impairment of investment securities	26,724,841,076
Matured financial instruments written off	(725,898,111,682)
Non-deductible expenses from travels abroad	20,685,131,826
Income from foreign sources	(278,876,403,574)
Other effects, net	<u>63,725,036,423</u>
Tax debt in Venezuela	<u>2,007,728,174,511</u>
Current income tax expense in Venezuela	<u>803,091,269,804</u>

During the six-month period ended December 31, 2020, the Branch recorded estimated income tax expense of US\$6,525, equivalent to Bs 7,206 million (US\$5,125, equivalent to Bs 1,045 million, during the six-month period ended June 30, 2020). On June 27, 2019, the Curacao Tax Authorities approved Tax Ruling No. UR 19-0115 until December 31, 2021. 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, 2020, the Bank maintains an income tax provision of Bs 831,629 million and Bs 32,020 million, respectively, which includes US\$11,528 and US\$5,004, respectively, in connection with the Branch (Note 16). In addition, at December 31 and June 30, 2020, the Bank has prepaid income tax amounting to Bs 158,412 million and Bs 24,506 million, respectively, which are part of other assets and are shown within prepaid taxes and subscriptions (Note 12).

The tax expense comprises the following:

	<u>Six-month periods ended</u>	
	<u>December 31,</u> <u>2020</u>	<u>June 30,</u> <u>2020</u>
	(In bolivars)	
<b>Income tax</b>		
Current	(779,206,011,985)	(32,136,354,584)
Deferred asset (liability)	<u>(370,590,529,879)</u>	<u>25,978,019,484</u>
	<u>(1,149,796,541,864)</u>	<u>(6,158,335,100)</u>

**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).

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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, 2020, relate to prepaid expenses, provision for other assets, and sundry provisions. At December 31, 2020, the Bank has a net deferred tax liability of Bs 348,591 million as part of accruals and other liabilities (Note 16) (net deferred tax asset of Bs 22,000 million as part of other assets at June 30, 2020) (Note 12).

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

	December 31, 2020	June 30, 2020
	(In bolivars)	
<b>Assets</b>		
Provision for matured financial instruments	-	23,618,506,968
Other provisions and accruals	<u>51,756,577,358</u>	<u>3,121,890,563</u>
	<u>51,756,577,358</u>	<u>26,740,397,531</u>
<b>Liabilities</b>		
Prepaid expenses	131,263,220,135	4,740,397,531
Realized exchange gain on advances capitalized as property and equipment	<u>269,083,887,102</u>	-
	<u>400,347,107,237</u>	<u>4,740,397,531</u>
Deferred income tax asset (liability)	<u>(348,590,529,879)</u>	<u>22,000,000,000</u>

The movements in the deferred income tax liability accounts for the six-month periods ended December 31 and June 30, 2020, are summarized below:

	Provisions and accruals	Provision for matured financial instruments	Prepaid expenses	Actuarial obligation for length-of- service benefits	Revaluation of property and equipment	Total deferred tax asset (liability)
	(In bolivars)					
At December 31, 2019	663,829,532	6,229,825	(4,566,560,714)	(81,518,127)	-	(3,978,019,484)
Charged (credited) to the income statement	<u>2,458,061,031</u>	<u>23,612,277,143</u>	<u>(173,836,817)</u>	<u>81,518,127</u>	-	<u>25,978,019,484</u>
At June 30, 2020	3,121,890,563	23,618,506,968	(4,740,397,531)	-	-	22,000,000,000
Charged (credited) to the income statement	<u>48,634,686,795</u>	<u>(23,618,506,968)</u>	<u>(126,522,822,604)</u>	-	<u>(269,083,887,102)</u>	<u>(370,590,529,879)</u>
At December 31, 2020	<u>51,756,577,358</u>	-	<u>(131,263,220,135)</u>	-	<u>(269,083,887,102)</u>	<u>(348,590,529,879)</u>

**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, 2019, 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, 2020 is underway. Bank management expects no impact on taxable income for the year ended December 31, 2020, 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.

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For the six-month periods ended December 31 and June 30, 2020, the Bank recorded a tax expense of Bs 234,511 million and Bs 31,575 million, respectively, in connection with economic activities conducted in its offices nationwide, shown under general and administrative expenses (Note 20). At December 31, 2020, the balance pending payment in this connection amounts to Bs 120,019 million (Bs 12,524 million at June 30, 2020), and is shown under accruals and other liabilities within tax on economic activities and other taxes payable (Note 16).

#### **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%. The Venezuelan government set the tax rate at 2% as from November 2018.

During the six-month period ended December 31, 2020, the Bank recorded expenses of Bs 159,000 million in this connection, shown under general and administrative expenses (Bs 17,697 million during the six-month period ended June 30, 2020) (Note 20).

#### **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 periods ended December 31 and June 30, 2020, the Bank recorded expenses of Bs 20,000 million and 30,000 million, respectively, in this connection, shown in the net results for the period.

#### **g) Master Tax Code**

A reform to the Master Tax Code was published on January 29, 2020 in Official Gazette No. 6,507 to establish changes to the calculation of fines, which were previously set in tax units and will now be expressed at the official exchange rate of the highest-value currency published by the BCV, using the exchange rate in effect at the payment date. It also establishes that fines expressed in percentage terms will be calculated at the official exchange rate of the highest-value currency published by the BCV in effect at the date of the offense, and will be paid using the exchange rate in effect at the payment date. Furthermore, those who pay amounts withheld or received out of the term established in the regulations, undergoing verification and scrutiny procedures, will be subject to a fine equivalent to 1,000% of taxes withheld or received, regardless of the delay time. This reform became effective as from February 29, 2020.

In addition, on March 13, 2020, SENIAT published in the Official Gazette the adjustment of the tax unit from Bs 50 to Bs 1,500.

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**18. Other operating income**

Other operating income comprises the following:

	<b>Six-month periods ended</b>	
	<b>December 31, 2020</b>	<b>June 30, 2020</b>
	(In bolivars)	
Service fees	1,779,910,516,408	323,633,879,603
Commission on withdrawal of cash in foreign currency (Note 13)	2,503,655,942,284	270,399,815,061
Commission on transactions through the foreign exchange system (Note 4)	666,006,265,250	50,416,534,693
Commission on exchange transactions (Note 3)	237,809,633,432	17,707,497,546
Income from amortization of discount on held-to-maturity investments (Note 5-c)	223,475,454,049	35,562,268,911
Commission on financial advisory (Note 6)	-	15,333,657,012
Commission on documentation of loans in foreign currency and loans granted through UVCC (Note 6)	158,993,580,979	-
Commission for documentation of promissory notes and lines of credit (Note 6)	-	10,346,812,431
Exchange gain (Note 4)	60,274,851,501	7,305,402,916
Commissions on trust funds (Note 21)	1,873,953,123	657,155,895
Gain on sale of investment securities (Note 5-b)	11,044	3,164,398,153
	<u>5,632,000,208,070</u>	<u>734,527,422,221</u>

Service fees comprise the following:

	<b>Six-month periods ended</b>	
	<b>December 31, 2020</b>	<b>June 30, 2020</b>
	(In bolivars)	
Point-of-sale transactions (Note 16)	1,054,216,238,124	177,111,418,685
Interbank mobile payment (Note 12)	184,126,950,219	31,122,553,503
Interbank transfers (Note 16)	176,045,721,198	34,339,968,040
Reimbursement of point-of-sale operation costs to stores (Note 16)	71,770,578,000	30,538,743,452
Commission on P2P SUICHE 7B service	56,321,248,634	7,907,658,589
Commission on technical consulting	41,582,072,086	-
Commission on phone recharge	38,961,263,529	3,852,709,352
Commission MasterCard	32,297,631,922	5,889,944,784
Services to social security pensioners	26,774,482,245	7,596,434,513
Commission on checking account overdraft	22,297,765,495	2,525,368,891
Payroll account affiliation	15,845,571,923	2,710,262,939
Commission on high-value bank transfers	15,790,724,184	11,228,101,686
Other non-financial commissions	11,273,715,829	3,412,958,429
Issue of cashier's checks	1,880,074,395	488,493,355
Minimum balances of customer deposits	329,247,758	327,190,325
Returned checks	206,333,846	417,919,394
Other	30,190,897,021	4,164,153,666
	<u>1,779,910,516,408</u>	<u>323,633,879,603</u>

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**19. Other operating expenses**

Other operating expenses comprise the following:

	<u>Six-month periods ended</u>	
	<u>December 31,</u> <u>2020</u>	<u>June 30,</u> <u>2020</u>
	(In bolivars)	
Service fees (Notes 2-k and 15)	899,730,657,184	143,020,901,095
Loss on impairment of investment securities (Note 5-c)	-	26,724,841,076
Exchange loss (Note 4)	11,753,604,326	4,144,308,811
Other	<u>240,171</u>	<u>47,101</u>
	<u><b>911,484,501,681</b></u>	<u><b>173,890,098,083</b></u>

Service fees comprise the following:

	<u>Six-month periods ended</u>	
	<u>December 31,</u> <u>2020</u>	<u>June 30,</u> <u>2020</u>
	(In bolivars)	
Commissions to credit card processor vendors (VISA and MasterCard)	496,213,226,738	41,333,005,306
Transfers through correspondent banks (Note 13)	187,945,878,750	45,971,440,822
Point-of-sale transactions (Note 16)	144,366,937,823	40,645,123,818
Interbank mobile payment	42,358,502,017	7,000,707,152
Other expenses for service fees	<u>28,846,111,856</u>	<u>8,070,623,997</u>
	<u><b>899,730,657,184</b></u>	<u><b>143,020,901,095</b></u>

Sundry operating expenses comprise the following:

	<u>Six-month periods ended</u>	
	<u>December 31,</u> <u>2020</u>	<u>June 30,</u> <u>2020</u>
	(In bolivars)	
Possible contingent losses (Note 16)	620,000,000,000	-
Contribution for the Antidrug Law (Note 1)	38,600,000,000	3,763,227,362
Contribution for the Sports and Physical Education Law (Note 1)	23,107,000,000	2,610,979,901
Contribution to the National Fund for Communal Councils	16,818,803,051	3,884,845,218
Provision for other assets (Note 11)	20,000,000	15,000,000
Contribution for the Law for the Advancement of Science, Technology and Innovation (Note 1)	-	2,411,450,110
Other	<u>3,046,818,866</u>	<u>525,351</u>
	<u><b>701,592,621,917</b></u>	<u><b>12,686,027,942</b></u>

**Banco Nacional de Crédito, C.A, Banco Universal**  
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**20. General and administrative expenses**

General and administrative expenses comprise the following:

	<b>Six-month periods ended</b>	
	<b>December 31, 2020</b>	<b>June 30, 2020</b>
	(In bolivars)	
Maintenance and repairs of property and equipment	718,887,877,344	83,258,454,600
Transportation and communication expenses	325,868,268,978	74,127,542,747
Transportation of valuables and surveillance	296,349,792,583	51,361,544,419
Consulting and external audit	351,181,017,014	49,366,712,884
Outsourced services	226,720,136,567	47,615,234,792
Leases	307,790,573,565	48,258,398,800
Tax on economic activities (Note 17)	234,510,909,188	31,574,972,140
Sundry general expenses	102,879,267,966	21,349,939,904
Tax on large financial transactions (Note 17)	159,000,453,790	17,696,775,083
Insurance	59,454,498,665	20,366,513,562
Legal advice	83,429,092,173	5,896,362,068
Advertising	22,539,111,504	9,423,618,613
Amortization of deferred expenses (Note 12)	38,579,874,875	6,482,771,986
Depreciation and impairment of property and equipment (Note 11)	25,639,483,151	5,589,478,197
Infrastructure expenses	8,525,672,381	1,908,746,216
Stationery and office supplies	8,502,871,317	3,197,168,920
Legal fees	5,629,125,835	1,553,720,658
Utilities	6,318,685,655	1,949,707,346
Other taxes and contributions	12,200,806,847	605,294,570
Public relations	8,167,312,720	378,803,930
Other	<u>31,151,681,790</u>	<u>4,009,916,475</u>
	<u>3,033,326,513,908</u>	<u>485,971,677,910</u>

**21. Memorandum accounts**

Memorandum accounts comprise the following:

	<b>December 31, 2020</b>	<b>June 30, 2020</b>
	(In bolivars)	
<b>Contingent debtor accounts</b>		
Guarantees granted, equivalent to US\$701,650 (Note 22)	774,933,445,039	143,080,789,710
Credit card lines of credit (Note 22)	40,656,677,458	18,345,320,838
Lines of credit for discounts and factoring (Note 22)	<u>2,341,033</u>	<u>2,196,901</u>
	<u>815,592,463,530</u>	<u>161,428,307,449</u>
<b>Assets received in trust, includes US\$2,739 and €864 (US\$15,349 and €2,400 at June 30, 2020) (Notes 2-m and 4)</b>	<u>310,239,524,117</u>	<u>76,276,952,128</u>
<b>Debtor accounts from other special trust services (Housing Loan System)</b>	<u>788,960,732</u>	<u>701,228,128</u>
<b>Other debtor memorandum accounts</b>		
Guarantees received, includes US\$80,893,140 and €418,500 (US\$35,143,665 and €327,000 at June 30, 2020) (Note 4)	94,476,177,455,556	7,900,960,749,395
Assets held in custody, includes US\$10,950,796 (Note 4)	12,218,513,372,380	2,255,647,848,605
Securities held in custody by other financial institutions, includes US\$13,886,090 (US\$9,746,800 at June 30, 2020) (Note 4)	15,336,223,634,265	1,987,437,310,878
Lines of credit available but not negotiated includes US\$3,260,000	3,602,254,796,976	1,183,130,591,394
Collections in foreign currency, equivalent to US\$1,664,007 (Note 4)	1,837,780,194,649	339,302,082,503
Financial instruments written off, equivalent to US\$1,436,614 (Note 4)	1,586,640,145,116	-
Debt reconciling and written off items, includes US\$168,607 (Note 4)	255,985,023,069	34,380,058,581
Deferred interest receivable on loans overdue, includes US\$53,554 (Notes 4 and 6)	59,154,733,193	5,628,161,108

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	December 31, 2020	June 30, 2020
	(In bolivars)	
Currency awarded through SICAD, equivalent to US\$21,000 (Note 4)	23,193,042,327	4,282,039,595
Uncollectible accounts written off	432,092,331	409,494,549
Performance bonds from suppliers	4,888	4,888
Personal and real property written off	580	117
Taxes receivable	16	16
Guarantees on collateral granted	4	4
Other	<u>239,968,193</u>	<u>239,968,194</u>
	<u>129,396,594,463,543</u>	<u>13,711,418,309,827</u>
	<u>130,523,215,411,922</u>	<u>13,949,824,797,532</u>

At December 31 and June 30, 2020, 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, 2020	June 30, 2020
	(In bolivars)	
<b>Assets</b>		
Cash and due from banks, includes US\$2,739 and €864 (US\$15,349 and €2,400 June 30, 2020) (Note 13)	89,045,460,179	19,029,481,953
Investment securities	113,817,813,900	28,039,631,502
Loan portfolio	91,304,189,559	19,134,696,830
Interest receivable on investment securities	12,269,211,107	1,829,944,545
Other assets	<u>3,802,849,372</u>	<u>8,243,197,298</u>
Total assets	<u>310,239,524,117</u>	<u>76,276,952,128</u>
<b>Liabilities and Equity</b>		
<b>Liabilities</b>		
Other liabilities	<u>955,629,240</u>	<u>519,371,158</u>
<b>Equity</b>		
Capital assigned to trusts	238,621,110,770	63,763,057,519
Retained earnings	<u>70,662,784,107</u>	<u>11,994,523,451</u>
Total equity	<u>309,283,894,877</u>	<u>75,757,580,970</u>
Total liabilities and equity	<u>310,239,524,117</u>	<u>76,276,952,128</u>

Below is a breakdown of assets received in trust:

	December 31, 2020	June 30, 2020
	(In bolivars)	
<b>Assets received in trust</b>		
Length-of-service benefits	299,998,907,531	61,760,027,486
Administration	10,098,059,774	14,470,508,286
Investment	<u>142,556,812</u>	<u>46,416,356</u>
	<u>310,239,524,117</u>	<u>76,276,952,128</u>

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

## Notes to the financial statements

### December 31 and June 30, 2020

At December 31, 2020, cash and due from banks comprises Bs 84,849 million, and includes US\$2,739 and €864 (equivalent to Bs 4,196 million) (Bs 15,350 million and US\$15,349 and €2,400, equivalent to Bs 3,680 million at June 30, 2020), in connection with 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 13).

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

	December 31, 2020			June 30, 2020		
	Acquisition cost	Amortized cost	Fair value	Acquisition cost	Amortized cost	Fair Value
	(In bolivars)					
<b>Time deposits with Venezuelan financial private-sector companies</b>						
Banco Caroni, C.A., Banco Universal, 90% annual yield, maturing in January 2021 (annual yield between 80% and 93%, maturing in July 2020 at June 30, 2020)	1,934,734,109	1,934,734,109	1,934,734,109 (1)-(a)	2,174,321,147	2,174,321,147	2,174,321,147 (1)-(a)
Banco Exterior, C.A., Banco Universal, annual yield between 60% and 70%, maturing in January 2021 (annual yield between 80% and 120%, maturing in July 2020 at June 30, 2020)	1,387,670,527	1,387,670,527	1,387,670,527 (1)-(a)	2,800,892,811	2,800,892,811	2,800,892,811 (1)-(a)
Del Sur Banco Universal, C.A., 80% annual yield, maturing in January 2021 (annual yield between 80% and 85%, maturing in July 2020 at June 30, 2020)	<u>183,143,862</u>	<u>183,143,862</u>	<u>183,143,862 (1)-(a)</u>	<u>2,898,484,680</u>	<u>2,898,484,680</u>	<u>2,898,484,680 (1)-(a)</u>
	<u>3,505,548,498</u>	<u>3,505,548,498</u>	<u>3,505,548,498</u>	<u>7,873,698,638</u>	<u>7,873,698,638</u>	<u>7,873,698,638</u>
<b>Debt securities issued by Venezuelan private-sector companies</b>						
<b>Commercial paper</b>						
Calox Internacional C.A., with a par value of Bs 18,000,000,000, annual yield between 87% and 97%, maturing between January and February 2021 (par value of Bs 5,000,000,000, 85% annual yield maturing in November 2020 at June 30, 2020)	14,477,000,000	16,390,224,444	16,390,224,444 (1)-(b)	4,268,000,000	4,434,733,331	4,434,733,331 (1)-(b)
Dayco Telecom, C.A., with a par value of Bs 18,500,000,000, 95% annual yield, maturing between January and March 2021 (par value of Bs 2,500,000,000, 85% annual yield, maturing between September and December 2020 at June 30, 2020)	14,669,500,000	16,389,169,788	16,389,169,788 (1)-(b)	2,031,850,000	2,212,412,302	2,212,412,302 (1)-(b)
Mercantil Servicios Financieros, C.A., with a par value of Bs 18,500,000,000, annual yield between 88% and 95%, maturing between January and March 2021	14,625,187,000	15,890,549,546	15,890,549,546 (1)-(b)	-	-	-
Galaxia Médica, C.A., with a par value of Bs 13,028,000,000, 95% annual yield, maturing between February and March 2021 (par value of Bs 2,000,000,000, 85% annual yield, maturing in August 2020 at June 30, 2020)	10,281,337,200	11,248,975,836	11,248,975,836 (1)-(b)	1,701,800,000	1,844,273,333	1,844,273,333 (1)-(b)
Steritex, C.A., with a par value of Bs 11,233,992,671, annual yield between 85% and 95%, maturing between January and February 2021	8,927,644,137	10,499,437,009	10,499,437,009 (1)-(b)	-	-	-
Coca Cola Femsa, C.A., with a par value of Bs 10,000,000,000, 88% annual yield, maturing in February 2021 (par value of Bs 1,000,000,000, 80% annual yield, maturing in October 2020 at June 30, 2020)	7,500,000,000	9,250,000,000	9,250,000,000 (1)-(b)	871,300,000	931,311,798	931,311,798 (1)-(b)
Agribands Purina Venezuela, S.R.L., with a par value of Bs 7,000,000,000, annual yield between 88% and 95%, maturing between January and February 2021	5,546,990,000	6,476,241,556	6,476,241,556 (1)-(b)	-	-	-
F.V.I., Fondo de Valores Inmobiliarios, S.A.C.A., with a par value of Bs 6,000,000,000, 95% annual yield, maturing in May 2021	4,541,400,000	4,881,740,000	4,881,740,000 (1)-(b)	-	-	-
Cargill de Venezuela, C.A., with a par value of Bs 5,000,000,000, 88% annual yield, maturing in January 2021 (par value of Bs 1,000,000,000, 85% annual yield, maturing in October 2020 at June 30, 2020)	3,967,475,000	4,701,715,000	4,701,715,000 (1)-(b)	888,250,000	912,079,044	912,079,044 (1)-(b)
Novaro Foods, S.A., with a par value of Bs 5,000,000,000, 90% annual yield, maturing in February 2021	3,900,000,000	4,300,000,000	4,300,000,000 (1)-(b)	-	-	-
Taurel & Cia., Sucursal, C.A., with a par value of Bs 4,416,000,000, annual yield between 90% and 95%, maturing between January and March 2021 (par value of Bs 1,000,000,000, 85% annual yield, maturing in July 2020 at June 30, 2020)	3,506,500,800	3,967,424,648	3,967,424,648 (1)-(b)	869,600,000	964,436,364	964,436,364 (1)-(b)
Pasteurizadora Táchira, C.A., with a par value of Bs 3,120,000,000, 95% annual yield, maturing in March 2021 (par value of Bs 1,000,000,000, 85% annual yield, maturing in August 2020 at June 30, 2020)	2,451,384,000	2,626,967,133	2,626,967,133 (1)-(b)	849,400,000	899,600,000	899,600,000 (1)-(b)
Papeles Venezolanos, C.A., with a par value of Bs 2,000,000,000, 95% annual yield, maturing in March 2021 (par value of Bs 2,000,000,000, 85% annual yield, maturing in November 2020 at June 30, 2020)	1,571,428,000	1,633,332,844	1,633,332,844 (1)-(b)	1,780,000,000	1,787,534,245	1,787,534,245 (1)-(b)
Alice Neumáticos de Venezuela, with a par value of Bs 1,000,000,000, 95% annual yield, maturing in March 2021 (par value of Bs 150,000,000, 40% annual yield, maturing in July 2020 at June 30, 2020)	785,700,000	819,035,556	819,035,556 (1)-(b)	150,000,000	150,000,000	150,000,000 (1)-(b)
Automercados Plaza's, C.A., with a par value of Bs 3,000,000,000, 85% annual yield, maturing in September 2020	-	-	-	2,460,000,000	2,490,000,000	2,490,000,000 (1)-(b)
S.A. Nacional Farmacéutica (SANFAR), with a par value of Bs 1,000,000,000, 88% annual yield, maturing in July 2020	-	-	-	850,000,000	930,555,556	930,555,556 (1)-(b)
Netuno, C.A., with a par value of Bs 400,000,000, 85% annual yield, maturing in July 2020	-	-	-	334,482,800	384,712,655	384,712,655 (1)-(b)
Genia Care, C.A., with a par value of Bs 250,000,000, 85% annual yield, maturing in September 2020	-	-	-	202,500,000	205,892,857	205,892,857
Charcutería Venezolana, C.A., with a par value of Bs 150,000,000, 42% annual yield, maturing in July 2020	-	-	-	<u>150,000,000</u>	<u>150,000,000</u>	<u>150,000,000 (1)-(b)</u>
	<u>96,751,546,137</u>	<u>109,074,813,360</u>	<u>109,074,813,360</u>	<u>17,407,182,800</u>	<u>18,297,541,485</u>	<u>18,297,541,485</u>

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### December 31 and June 30, 2020

	December 31, 2020			June 30, 2020		
	Acquisition cost	Amortized cost	Fair value	Acquisition cost	Amortized cost	Fair Value
(In bolivars)						
<b>Asset-backed securities</b>						
Titularizadora Nuevovvalor, C.A., with a par value of Bs 833,333,250, 85% annual yield, maturing in March 2021 (par value of Bs 2,000,000,000 at June 30, 2020)	708,333,263	794,034,593	794,034,593 (1)-(b)	1,275,000,000	1,313,915,864	1,313,915,864 (1)-(b)
Inversiones Tivalca, C.A., with a par value of Bs 201,000,000, 32.53% annual yield, maturing in March 2021 (33.80% annual yield at June 30, 2020)	157,965,000	195,326,836	195,326,836 (1)-(b)	157,965,000	180,738,701	180,738,701 (1)-(b)
	<u>866,298,263</u>	<u>989,361,429</u>	<u>989,361,429</u>	<u>1,432,965,000</u>	<u>1,494,654,565</u>	<u>1,494,654,565</u>
<b>Debenture bonds</b>						
Venezolana de Proyectos Integrados Vepica, C.A., with a par value of Bs 250,000,000, 85% annual yield, maturing in May 2021 (par value of Bs 500,000,000 at June 30, 2020)	150,000,000	211,290,323	211,290,323 (1)-(b)	300,000,000	317,008,798	317,008,798
Alimentación Balanceada Alibal, C.A., with a par value of Bs 8,750,000, 26.50% annual yield, maturing in January 2021 (par value of Bs 25,250,000 at June 30, 2020)	8,750,000	8,750,000	8,750,000 (1)-(b)	26,250,000	26,250,000	26,250,000 (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)
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)
La Montserratina, C.A., with a par value of Bs 3,750, 21% annual yield, maturing in May 2021	3,750	3,750	3,750 (1)-(b)	3,750	3,750	3,750 (1)-(b)
Automercados Plaza's, C.A., with a par value of Bs 2,400,000, 22.79% annual yield, maturing in August 2020	-	-	-	2,400,000	2,400,000	2,400,000 (1)-(b)
Inversiones Selva, C.A., with a par value of Bs 10,000, 20.70% annual yield, maturing in March 2021	-	-	-	10,000	10,000	10,000 (1)-(b)
Desarrollo Forestales San Carlos II, C.A., with a par value of Bs 6,000, 24.50% annual yield, maturing in March 2021	-	-	-	6,000	6,000	6,000 (1)-(b)
Corporación Grupo Químico, C.A., with a par value of Bs 6,000, 23.50% annual yield, maturing in November 2020	-	-	-	3,600	3,600	3,600 (1)-(b)
Agropecuaria INSA de Venezuela AGROINSA, C.A., with a par value of Bs 5,000, 26.5% annual yield, maturing in September 2021	-	-	-	3,334	3,334	3,334 (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)
	<u>162,313,750</u>	<u>223,604,073</u>	<u>223,604,073</u>	<u>332,239,684</u>	<u>349,248,482</u>	<u>349,248,482</u>
<b>Sundry obligations</b>						
Netuno, C.A., with a par value of Bs 1,500, 22% annual yield, maturing in July 2020	-	-	-	1,500	1,500	1,500 (1)-(b)
	<u>97,780,158,150</u>	<u>110,287,778,862</u>	<u>110,287,778,862</u>	<u>19,172,388,984</u>	<u>20,141,446,032</u>	<u>20,141,446,032</u>
<b>Securities issued or guaranteed by the Venezuelan Government</b>						
Vebonos, with a par value of Bs 24,201,998, annual yield between 13.44 and 26.19%, maturing between January 2021 and August 2037	24,404,878	24,403,758	24,403,758 (2)-(c)	24,404,879	24,403,888	24,403,888 (2)-(c)
Fixed Interest Bonds (TIF), with a par value of Bs 79,953, annual yield between 8.25% and 16.50%, maturing between February 2021 and January 2037	83,937	82,782	82,782 (2)-(c)	83,937	82,944	82,944 (2)-(c)
	<u>24,488,815</u>	<u>24,486,540</u>	<u>24,486,540</u>	<u>24,488,816</u>	<u>24,486,832</u>	<u>24,486,832</u>
	<u>101,310,195,463</u>	<u>113,817,813,900</u>	<u>113,817,813,900</u>	<u>27,070,576,438</u>	<u>28,039,631,502</u>	<u>28,039,631,502</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.

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Below is the classification of investment securities according to maturity:

	<u>December 31, 2020</u>		<u>June 30, 2020</u>	
	<u>Amortized cost</u>	<u>Fair value</u>	<u>Amortized cost</u>	<u>Fair value</u>
	(In bolivars)			
Up to 6 months	113,789,830,222	113,789,830,222	26,173,497,144	26,173,497,144
6 months to 1 year	3,500,173	3,500,173	1,838,147,087	1,838,147,087
1 to 5 years	522	522	3,517,490	3,517,490
Over 5 years	<u>24,482,983</u>	<u>24,482,983</u>	<u>24,469,781</u>	<u>24,469,781</u>
	<u>113,817,813,900</u>	<u>113,817,813,900</u>	<u>28,039,631,502</u>	<u>28,039,631,502</u>

At December 31, 2020, interest receivable on investment securities amounts to Bs 12,269 million (Bs 1,830 million at June 30, 2020).

At December 31 and June 30, 2020, 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, 2020, loans and advances to beneficiaries of length-of-service benefits recorded in the loan portfolio include Bs 331 million from Bank employees; Bs 80,876 million from private length-of-service benefit trust funds; and Bs 10,097 million from government agencies (Bs 258 million, Bs 16,550 million and Bs 2,327 million, respectively, at June 30, 2020).

Advances to beneficiaries of works relate to advances granted to suppliers contracted mainly by the Carabobo State government, in conformity with the Public Works Contract Law, which will be amortized in each appraisal submitted for payment, until work completion. These advances relate to administration trust funds, are executed within one year and do not represent a loan granted; they are not included under the loan portfolio, which imply a third-party obligation for future payment and collection of interest on the amount borrowed, as there is no commitment by the beneficiary to reimburse the funds granted or pay interest thereon.

At December 31, 2020, length-of-service benefit trust funds in favor of Bank employees amount to Bs 5,585 million (Bs 2,767 million at June 30, 2020).

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, 2020, 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.

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**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, 2020	June 30, 2020
	(In bolivars)	
<b>Assets</b>		
Cash and due from banks (Note 13)	327,722,123	25,781,341
Investment securities	461,238,603	675,446,781
Other assets	<u>6</u>	<u>6</u>
Total assets	<u>788,960,732</u>	<u>701,228,128</u>
<b>Liabilities</b>		
Contributions to the Housing Savings Fund	788,957,710	701,225,106
Liabilities to BANAVIH	<u>2,437</u>	<u>2,437</u>
Total liabilities	<u>788,960,147</u>	<u>701,227,543</u>
Income	<u>585</u>	<u>585</u>
Total liabilities and income	<u>788,960,732</u>	<u>701,228,128</u>

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, 2020, the Bank has an investment trust in BANAVIH for Bs 461 million (Bs 675 million at June 30, 2020), 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.

**22. 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, 2020, these guarantees earned annual commissions of 5%.

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At December 31 and June 30, 2020, amounts guaranteed by the Bank are Bs 774,933 million and Bs 143,081 million (Note 21). The Bank maintains a provision for contingent loans equivalent to 1% of guaranteed amounts under accruals and other liabilities (Note 16).

#### **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 21). The Bank may exercise its option to cancel a credit commitment with a particular customer. At December 31 and June 30, 2020, 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.

### **23. Equity**

#### **a) Capital stock and authorized capital**

At December 31 and June 30, 2020, the Bank's paid-in capital amounts to Bs 5,791,930,000 and Bs 57,919, respectively, represented by 5,791,930,000 and 5,791,930,372 non-convertible common shares of the same class with a par value of Bs 1 and Bs 0.00001 each, fully subscribed and paid-in. The Bank complies with the minimum capital required under the current legislation.

At a Special Shareholders' Meeting of March 18, 2020, it was resolved to:

- Increase capital stock by Bs 747,445,526 with a charge to restricted surplus through the distribution of 74,744,552,600,000 non-convertible common shares of the same class with a par value of Bs 0.00001, payable with a charge to restricted surplus.
- Increase the par value of shares to Bs 1 by proportionally reducing the number of outstanding shares issued, fully subscribed and paid-in, upon completion of the capitalization process.
- Carry out the capitalization process of all authorized capital increases, as well as those pending approval, provided that they are authorized, so as to take the Bank's capital stock to Bs 5,791,930,000, and the increase of the par value of shares to Bs 1, simultaneously, on the same date and act.

On November 10, 2020, SUDEBAN, through Notice SIB-II-GGR-GA-0620, and the SNV, through Resolution No. 208 of December 2, 2020, authorized the increase approved by the aforementioned Special Shareholders' Meeting for Bs 747,445,526, and the increase of the par value of shares to Bs 1. Furthermore, to continue with the resolutions of the Special Shareholders' Meeting of March 18, 2020, the Bank capitalized all capital stock increases authorized and approved for Bs 5,791,872,081 to take the Bank's capital stock to Bs 5,791,930,000, and the increase of the par value of shares to Bs 1.

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Below are the capital increases approved at Shareholders' Meetings and authorized by SUDEBAN and the SNV, which are part of the aforementioned capital increase:

Meeting date	Type of increase	Amount of the increase (In bolivars)	Increase method
September 27, 2017	Stock dividends	14,000	With a charge to unappropriated surplus
		42,000	With a charge to restricted surplus
December 20, 2017	Premium capitalization on capital contributions	65,554	With a charge to share premiums pending capitalization
March 18, 2018	Stock dividends	195,000	With a charge to unappropriated surplus
September 26, 2018	Stock dividends	3,110,000	With a charge to unappropriated surplus
March 20, 2019	Stock dividends	1,141,000,000	With a charge to restricted surplus
September 25, 2019	Stock dividends	2,996,918,000	With a charge to unappropriated surplus
		903,082,000	With a charge to restricted surplus
March 18, 2020	Capital increase	<u>747,445,527</u>	With a charge to restricted surplus
		<u>5,791,872,081</u>	

At a General Shareholders' Meeting of March 18, 2020, it was resolved to declare dividends of Bs 23,167,720,000 to be fully paid in non-convertible common shares, payable with a charge to unappropriated surplus for Bs 17,000,000,000 and restricted surplus for Bs 6,167,720,000. On February 3, 2021, and upon a favorable pronouncement from the Higher Authority of the National Financial System (OSFIN), SUDEBAN issued Notice SIB-II-GGR-GA-00508 authorizing the Bank to increase capital stock for the aforementioned amount. To date, the Bank is awaiting authorization from the SNV.

At a General Shareholders' Meeting of September 16, 2020, it was resolved to declare dividends of Bs 115,838,600.000 to be fully paid in non-convertible common shares, payable with a charge to restricted surplus. To date, the Bank is awaiting authorization from SUDEBAN and the SNV for the increase.

Shares subscribed by shareholders are identified as non-convertible common shares distributed as follows:

Shareholders	December 31, 2020		June 30, 2020	
	Number of shares	Equity %	Number of shares	Equity %
Nogueroles García, Jorge Luis	564,313,138	9.74	564,313,138	9.74
Valores Torre Casa, C.A.	416,041,332	7.18	416,041,332	7.18
Sociedad Financiera Intercontinental, Ltd.	388,239,305	6.70	306,404,593	5.29
Halabi Harb, Anuar	349,899,089	6.04	349,899,089	6.04
Alintio Internacional, 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.	179,396,172	3.10	180,416,502	3.11
Inversiones Clatal, C.A.	178,721,058	3.09	178,721,058	3.09
Corporación Friport, C.A.	177,978,958	3.07	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	124,459,223	2.15
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	106,636,886	1.84	106,636,886	1.84
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	93,311,011	1.61
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
Pembrokepines Investments LLC Sucursal Venezuela	77,528,798	1.34	75,865,684	1.31
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	53,183,574	0.92
Benacerraf Herrera, Mercedes Cecilia	44,949,782	0.78	44,949,782	0.78
Other	<u>1,166,881,058</u>	<u>20.14</u>	<u>1,169,358,926</u>	<u>21.57</u>
	<u>5,791,930,000</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, 2020, capital reserves include Bs 5,792 million and Bs 57,919 million in connection with the legal reserve.

**2) Social Contingency Fund**

Resolution No. 305-11 issued by SUDEBAN on November 28, 2011 was published in 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.

During the six-month periods ended December 31 and June 30, 2020, the Bank recorded the Social Contingency Fund of Bs 29 million and Bs 290 million, respectively, which includes capital and interest, with a charge to unappropriated surplus and a credit to capital reserves. At December 31 and June 30, 2020, capital reserves include Bs 29 million and Bs 2,070 million, in respect of the Social Contingency Fund (Note 5-d).

**3) Voluntary reserves**

At December 31 and June 30, 2020, 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, 2020, the Bank reclassified Bs 1,140,526 million (Bs 142,444 million during the six-month period ended June 30, 2020) 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, 2020, restricted surplus amounts to Bs 1,300,551 million and Bs 162,817 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, 2020	June 30, 2020
Total risk-based capital	12	62.58	71.48
Equity-to-total assets	9	23.21	27.80

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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%.

At December 31 and June 30, 2020, the Bank calculates the total risk-based capital ratio and capital to risk asset ratio in conformity with current regulations.

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

In the ordinary course of business, the Bank conducts commercial transactions with its related company BNC International Banking Corporation, an entity domiciled in Puerto Rico, 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 is provided below.

	December 31, 2020	June 30, 2020
	(In bolivars)	
<b>Assets</b>		
Cash and due from banks at BNC International Banking Corporation		
Foreign and correspondent banks for US\$8,505,404 (US\$7,437,949 at June 30, 2020)	9,393,628,376,647	1,516,647,254,171
Exchange Agreement No. 20, equivalent to US\$3,818 (Note 3)	<u>4,216,296,298</u>	<u>778,438,095</u>
	<u>9,397,844,672,945</u>	<u>1,517,425,692,266</u>
<b>Liabilities</b>		
Borrowings from BNC International Banking Corporation		
Non-interest bearing demand deposits of US\$52,997 (US\$52,980 at June 30, 2020) (Note 14)	<u>58,531,596,175</u>	<u>10,802,974,178</u>

**25. 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.

**26. 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.

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For the six-month periods ended December 31 and June 30, 2020, 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. This fee is shown under operating expenses.

#### **27. 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, 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.

Subsequently, the BCV, through Resolution No. 20-03-01 of March 29, 2020, which repeals Resolution No. 19-09-02 of September 5, 2019, establishes that banks are required to maintain a minimum legal reserve of 93% on net obligations and investments assigned. Furthermore, the minimum interest rate to be paid by banks with legal reserve deficit was set at 138% per annum.

During the six-month periods ended December 31 and June 30, 2020, the Bank paid interest on reserve deficit to the BCV of Bs 34,790 million and Bs 37,593 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 and June 30, 2020, the legal reserve required is Bs 13,335,367 million and Bs 3,033,425 million, respectively (Note 3).

#### **Subsequent event**

Through Resolution No. 21-21-01 of January 19, 2021, the BCV repeals Resolution No. 20-03-01 of March 29, 2020, establishing that banks are required to maintain a minimum legal reserve of 85% on net obligations and investments assigned, and sets at 31% the reserve for deposits in foreign currency. Furthermore, the minimum interest rate to be paid by banks with legal reserve deficit will be 138% per annum.

#### **28. Contingencies**

At December 31 and June 30, 2020, 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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**29. Maturity of financial assets and liabilities**

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

	December 31, 2020							Total
	Maturity							
	June 30, 2021	December 31, 2021	June 30, 2022	December 31, 2022	June 30, 2023	December 31, 2023	Beyond December 31, 2023	
	(In bolivars)							
<b>Assets</b>								
Cash and due from banks	134,577,695,899,424	-	-	-	-	-	-	134,577,695,899,424
Investment securities	3,939,959,421,993	1,739	10,628	304,512	3,958	13,812,140	1,446,609,054,414	5,386,582,609,384
Loan portfolio	33,774,940,095,332	8,405,455,659,861	2,129,317,007,625	420,740,551,849	-	-	-	44,730,453,314,667
Interest and commissions receivable	<u>2,581,632,844,552</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,581,632,844,552</u>
	<u>174,874,228,261,301</u>	<u>8,405,455,661,600</u>	<u>2,129,317,018,253</u>	<u>420,740,856,361</u>	<u>3,958</u>	<u>13,812,140</u>	<u>1,446,609,054,414</u>	<u>187,276,364,668,027</u>
<b>Liabilities</b>								
Customer deposits	136,209,579,630,509	-	-	-	-	-	-	136,209,579,630,509
Borrowings	1,898,623,811,486	-	-	-	-	-	-	1,898,623,811,486
Interest and commissions payable	<u>22,503,068,685</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>22,503,068,685</u>
	<u>138,130,706,510,680</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>138,130,706,510,680</u>

  

	June 30, 2020							Total
	Maturity							
	December 31, 2020	June 30, 2021	December 31, 2021	June 30, 2022	December 31, 2022	June 30, 2023	Beyond June 30, 2023	
	(In bolivars)							
<b>Assets</b>								
Cash and due from banks	17,194,990,315,044	-	-	-	-	-	-	17,194,990,315,044
Investment securities	1,456,741,065,681	9,024	2,588	12,750	3,609,323	5,983	178,860,647,632	1,635,605,352,981
Loan portfolio	3,479,534,461,349	327,848,651,529	472,729,320,642	570,744,094,725	-	-	-	4,850,856,528,245
Interest and commissions receivable	<u>413,458,977,982</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>413,458,977,982</u>
	<u>22,544,724,820,056</u>	<u>327,848,660,553</u>	<u>472,729,323,230</u>	<u>570,744,107,475</u>	<u>3,609,323</u>	<u>5,983</u>	<u>178,860,647,632</u>	<u>24,094,911,174,252</u>
<b>Liabilities</b>								
Customer deposits	16,713,319,455,211	-	-	-	-	-	-	16,713,319,455,211
Borrowings	191,241,473,127	-	-	-	-	-	-	191,241,473,127
Interest and commissions payable	<u>4,860,551,311</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,860,551,311</u>
	<u>16,909,421,479,649</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,909,421,479,649</u>

**30. 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, 2020		June 30, 2020	
	Book value	Fair value	Book value	Fair value
	(In bolivars)			
<b>Assets</b>				
Cash and due from banks	134,577,695,899,424	134,577,695,899,424	17,194,990,315,044	17,194,990,315,044
Investment securities	5,386,582,609,384	4,710,383,874,574	1,635,605,352,981	1,549,220,775,712
Loan portfolio	42,831,945,429,406	42,831,945,429,406	4,507,311,042,457	4,507,311,042,457
Interest and commissions receivable	<u>161,486,347,643</u>	<u>161,486,347,643</u>	<u>32,567,662,523</u>	<u>32,567,662,523</u>
	<u>182,957,710,285,857</u>	<u>182,281,511,551,047</u>	<u>23,370,474,373,005</u>	<u>23,284,089,795,736</u>
<b>Liabilities</b>				
Customer deposits	136,209,579,630,509	136,209,579,630,509	16,713,319,455,211	16,713,319,455,211
Borrowings	1,898,623,811,486	1,898,623,811,486	191,241,473,127	191,241,473,127
Interest and commissions payable	<u>22,503,068,685</u>	<u>22,503,068,685</u>	<u>4,860,551,311</u>	<u>4,860,551,311</u>
	<u>138,130,706,510,680</u>	<u>138,130,706,510,680</u>	<u>16,909,421,479,649</u>	<u>16,909,421,479,649</u>

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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 (Note 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, long-term liabilities and borrowings**

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

### **31. Investments and loans granted in excess of legal limits**

At December 31 and June 30, 2020, 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.