2019

ANUAL REPORT

BANCO FAMILIAR

LETTER OF THE PRESIDENT

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DEAR SHAREHOLDERS:

I have the pleasure of addressing you in order to present the Annual Report for the fiscal year ended on December 31st of 2019.

This is a very special shareholders' meeting because, due to the quarantine we find ourselves living in, we are meeting both physically –with all the due safety measures –and virtually for those of you who are joining us from home.

On the other hand, along with the traditional content that is delivered each year, informing on the performance of the previous year, this year in which the entire world is suffering the pounding of the Coronavirus pandemic, we cannot fail to share with you our vision on the impacts that it will have on Paraguay´s economy in general and on our bank in particular.

In the year 2019, Paraguay suffered what is usually called "a perfect storm", receiving numerous shocks to its economy, both internal and external.

At the international level, the commercial war between the two big world powers, the United States and China, reduced the growth of the world economy from 3,6 percent to 2,9 percent in 2019.

This commercial war caused a reduction in the volume of international commerce, a reduction in the price of the commodities, among them that of soy and meat, and an increase in uncertainty and volatility.

At the regional level, the end of the commodities boom and the grave political mistakes made by our two big neighbors -Argentina and Brazil- have resulted for some years now in a long and profound depression of their economies.

Argentina´s economy started to fall since the year 2014 and Macri´s government was able to spur slight growth in 2018, thanks to enormous foreign financing.

The year 2019 was catastrophic for Argentina, because foreign financing was cut off, in turn forcing it to make internal adjustments which lead to a recession with a drop in GDP of 3,1 percent.

This crisis in Argentina profoundly impacted commerce and tourism in Paraguay, especially in Encarnación and Asunción, where big investments in hotels, shopping centers and restaurants had been made, motivated by the early boom.

Brazil, in turn, which in the years 2015 and 2016 had an enormous drop of 7 percent in its economy, since then has not been able to bounce back, growing very modestly in the following years. The year 2019 was not the exception, since it had begun with an optimistic outlook of growth of 2,5 percent but ended the year with a modest 1,2 percent growth.

This stagnant Brazilian economy has also strongly affected the immense shopping tourism that takes place in the border cities of Ciudad del Este, Salto del Guairá and Pedro Juan Caballero.

These shocks coming from abroad -reduced soy prices and reduced border commerce- were joined by important internal shocks, such as the deep drought, with reduced soy production by 17 percent and the production of the hydroelectric plants by 8 percent.

This reduction in the production of soy by approximately 1,7 million tons, has translated into reduced activity of the industries which process 40 percent of these raw materials , the trucks which transport it and the fuel which is used.

Due to the aforementioned, Paraguay had "a perfect storm" in 2019, which caused our economy to remain stagnant, growing barely at 0,2 percent.

Despite such a bad year, the financial sector was very active, refinancing the debts of clients in trouble and giving out new loans.

The loan portfolio of the financial sector grew by 10,3 percent, while deposits grew by 10,6 percent, both increasing way above GDP growth, which shows the support given by the banks to the businesses and individuals in our country during a tough year.

In a year of economic stagnation and heavy competition within the financial sector, Banco Familiar had a very good commercial performance and consolidated its strategy of diversification and growth.

Within this diversification, the act that stands out was the creation of our insurance company: Familiar Seguros opened its doors in April of 2019 with a first-class professional staff and sharing the same values which made possible the sustained growth of the Bank.

Within the growth exhibited, we can highlight the 21 percent increase in the loan portfolio of the bank, very much above the market average. The lion´s share of this growth came from the corporate portfolio which exhibited growth of 42 percent.

This growth is attributed to a very good performance in following the strategy of accelerated growth within the medium and large enterprises sector in which the bank-traditionally focused on the retail sector-had a very low share.

It is important to highlight that the growth in this portfolio was attained in an atomized fashion in segments, maturities and currencies.

The portfolio of SME and Personal banking for individuals with medium incomes grew by 10 percent, similarly to the previous year. Despite being a moderate increase it is important to note that it is consolidating a recovery after years of decrease due to the changes done to the credit technology.

The retail portfolio, which has historically been the bank´s main portfolio, has modestly grown at 6%, yet this has been the result of the adoption of prudential credit policies given the weakness of the economy and the vulnerability of this segment.

Such a disadvantageous economic scenario forced us, on one hand to focus our efforts in the recovery or refinancing of loans, and on the other it made us increase our bad loans provisions in order to be covered against possible credit issues.

The result of this great effort has been the attainment of a net profit of Guaranies 135 billion, a number that is slightly lower than last year´s income, despite the growth in assets.

These results would not have been possible without the important support of our staff. Here, we can highlight the enormous effort and the important investment made to keep us technologically updated, in a business which becomes more digital by the day.

We have invested more than 2,4 million US dollars in the replacement of our banking core system and in the engine of our database. It demanded that we hire national and international experts to carry out the process.

Everything we have done would not have been possible without the talent and effort of our people.

We believe that the quality of our bank depends fully on the quality of our associates, which is why in 2019 we have invested in their technical training and in the transmission of values through more than 24 thousand class hours, both in-person and virtual.

The year 2020 has provided us with an absolutely unexpected scenario for all. People and businesses will be tremendously affected by the sanitary crisis, in proportions which are not yet clear. A drop in the economic activity and an increase in poverty should be expected.

Nevertheless, we can say that fortunately, both our country and our Banco Familiar find themselves very well prepared for the situation. The disciplined macroeconomic behavior shown by Paraguay, has allowed us to have international reserves and the capacity to issue debt, and the authorities are currently taking the appropriate measures. Also, Banco Familiar has the best solvency and liquidity ratios of the industry and that gives us serenity and confidence. The new scenario, which will reveal itself at the end of this crisis, will be more demanding of all of us, yet at Banco Familiar we are more than prepared to redirect ourselves towards a new and better future.

To conclude, in the name of the Board of Directors I would like to extend our gratitude to those who contributed to the building of the bank that we have today.

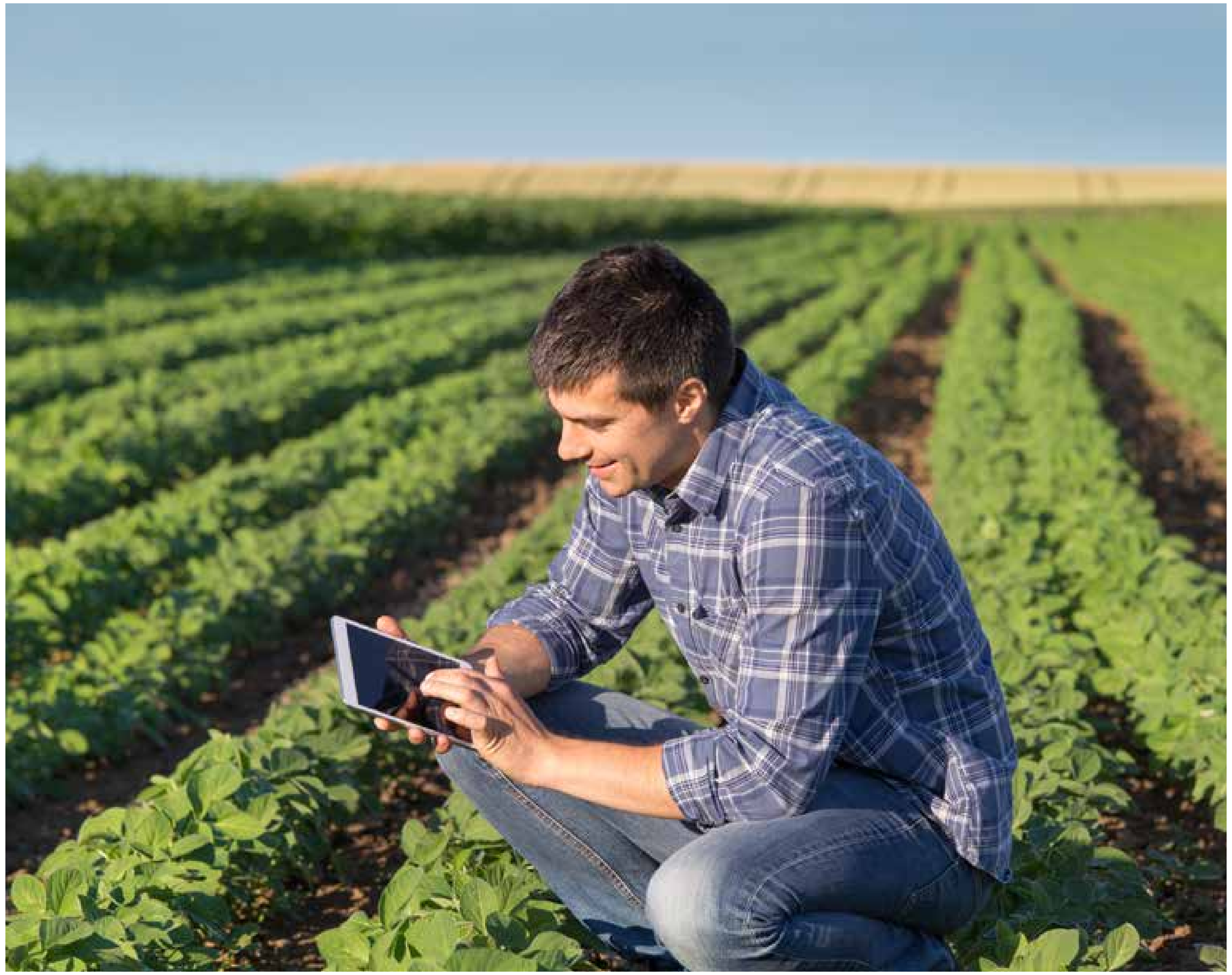
I would like to thank our associates and our clients, without whom nothing of what we have achieved would have been possible.

I want to especially thank you, our shareholders, for your support and trust which fills us with pride and strengthens us.

And I would like to remember in a very special way our founding shareholders who are no longer here with us but have given us the example and the values, which today guide our actions.

Many thanks to all.

ALBERTO ACOSTA GARBARINO
President of the Board
Banco Familiar



OUR COMMITMENT

INTERNATIONAL CONTEXT WITHIN A PERIOD OF LOW GROWTH

AT THE INTERNATIONAL LEVEL, 2019 WAS AFFECTED BY THE CONTINUITY OF PROTECTIONIST POLICIES WHICH STALLED, GROWTH, EMPLOYMENT AND COMMERCE..

WORLD ECONOMY

The commercial war between USA and China continued into 2019 and took new shapes beyond tariffs to commerce, with conflicts on the field of technology and accusations of currency manipulation. The war has stalled worldwide growth, resulted in high volatility within the financial markets and commodity prices, and created disruptions in international commerce, directly affecting producers and consumers of raw materials, limiting growth to 2,9% in 2019 after growing at 3,6% in 2018. A preliminary Phase 1 deal between the parties at year´s end, has resulted in momentary relief. The United States, meanwhile, through expansive monetary policy by the Federal Reserve which has lowered interest rates three times in 2019, continues adding jobs to the economy, challenging the historic relationship between unemployment and inflation.

In this troubled scenario, central banks respond to stalled growth with extraordinarily expansive monetary policies with interest rates in a range that go from negative like in the European Union and Japan, to close to zero like in the US. Yet, they remain less effective in terms of achieving and sustaining a recovery in expenditure, investment and economic activity.

The collateral effect of this monetary policy is an important inflation in the prices of all financial and non-financial assets, stocks, bonds, real state, etc. Stock indexes remain at all-time highs and highly volatile in this environment of low worldwide growth. Due to this, there are increasing risks of provoking or deepening financial bubbles, originated by the lower weighting of risks by investors as they assign resources, searching bigger returns in a world of extremely low or non-existent return of low risk assets.

On the other hand, this monetary policy of developed countries creates at the same time financial conditions of wide access to financing in extraordinary advantageous conditions for developing countries such as ours. These conditions, according to the implicit rates of US treasury bonds of 10 or 30 years of maturity, tend to remain still for a relatively long period of time.

To all this, the fact that Europe has been locked away in negotiations for the exit of Great Britain should be added. This situation keeps creating uncertainty and lack of focus in the old continent. 2019 has ended with less likelihood of a no deal Brexit. Yet, the negotiations continue to foster uncertainty.

REGIONAL ECONOMY

In 2019, Latin America and the Caribbean have grown only by 0,1%. The region has experienced spots of political and socioeconomic instability: the humanitarian crisis in Venezuela has become more acute with time and in Chile the middle class, frustrated by the growing inequality and privileges of the political class, has taken to the streets to demand reforms.

In **Brazil,** the recovery of the economy was much slower than expected. The GDP growth projections for 2019 by the IMF and local consultants were lowered from approximately 2,5% at the beginning of the year to 1,1%, as reported by the Brazilian government at year´s end. Uncertainty surrounding the advancement of the necessary economic reforms and the impact of the Argentinian recession in the manufacturing exports and stalled production of minerals, negatively affected GDP in the first semester of 2019. Towards mid-year, the Brazilian central bank started to implement an expansive monetary policy with successive reduction in interest rates. This, plus other reforms within the banking sector, helped to push forward investment and private consumption through more liquidity and a lesser cost of financing by the third quarter of 2019 and the economy is in process of consolidating a recovery close to the level of potential growth within the next months. The Brazilian monetary policy favors a cheaper real versus the US dollar, which has profound consequences for Paraguay, affecting the border commerce and the prices of some agricultural products.

Despite de unprecedented financial support received from the IMF, **Argentina** defaulted on its sovereign debt once again because the electorate did not support the late fiscal and monetary adjustment program pushed by Mauricio Macri´s government which had begun to be implemented in 2018. In the primary elections, the results showed a clear defeat of Macri for the general elections handed by the Peronismo-Kirchnerismo, with a populist orientation and a position against the adjustment programs which precipitated a flight of capital, a devaluation run on the peso and a suspension of the financial support by the IMF. This situation forced Macri´s government to establish capital controls and currency controls when faced by a massive devaluation on the peso. By year´s end, Alberto Fernandez assumed the presidency of the Argentinian government after winning the general elections on the first round, he implemented tax reforms, tightened the currency control and started a process of public debt restructuring. In consequence, the Argentinian economy continues in recession and in 2019 GDP showed a fall of 3,1%. According to projections, Argentina will not grow in 2020. In 2019, the peso continued to devalue vs the US dollar losing 58% of its value. Inflation, at levels of 54% in 2019, and the negative FX effect which reduced the Paraguayan internal consumption and that of Argentinian consumers in our country, have directly affected our economy and fosters the consumption of Paraguayans in Argentina, which in turn exacerbates this effect.

Furthermore, the ideological differences of the current Brazilian and Argentinian governments obscure the possibility of the region acting as a block in negotiations which could benefit Paraguay, such as the free trade agreement with the European Union.

GDP Growth: Countries

Location	2018	2019	2020 (*)
World	3,6%	2,9%	3,3%
USA	2,9%	2,3%	2,0%
China	6,6%	6,1%	6,0%
Brazil	1,3%	1,2%	2,2%
Argentina	-2,5%	-3,1%	-1,4%

Source: IMF - WEO January 2020
(*) projection before the effects of COVID-19

LOCAL ECONOMY

The Paraguayan economy received a series of successive external and internal shocks which affected in a significant way the economic activity in 2019.

First, a severe drought very negatively affected the soy beans harvest and the generation of electricity by the two hydroelectric plants. These two sectors represent around 15% of GDP and almost two thirds of exports registered by the country, thus severely conditioning the country´s economic performance.
On second place, the escalation of the commercial war between the US and China impacted the price of our main export products: the FOB price in US dollars of soy bean exports fell by 12,1% and that of beef by 4,2% throughout the year. Despite being relatively mitigated by a drop in oil prices, the country´s most important imported input, the international foreign currency credit and debit accounts saw an important deficit this year.

The lower inflow of foreign currencies from international commerce, combined with the depreciation of the region´s currencies impacted in the price of the US dollar in our country, causing the guarani to depreciate by 9% vs the US dollar, reaching levels similar to those observed at the beginning of the previous decade, prior to the commodities boom. However, this depreciation in the guarani mitigated the impact the the fall in prices of exports had in the local currency income of producers and in its impact in the prices of imports for consumers was mitigated by the depreciation of the currencies of neighboring countries, main source of provision of massive consumer products in our country. Despite all of this, the presence of the Central Bank was important in the currency market in order to avoid a higher depreciation of the guaraní.

On third place, after a drought period, excessive rain followed in the second quarter of the year, making it impossible to execute the public infrastructure projects which had been already delayed by the government transitions and the usual bureaucratic processes related to the change in authorities.

Lastly, the crisis in Argentina, the devaluation of the peso and the following FX controls established by the Argentinian government reduced to practically zero the influx of shopping tourism by the Argentinians which had been instrumental in previous year and has impacted the commercial and services sectors in the cities of Asunción and Encarnación very negatively. A difficult first semester for Brazilians had a similar impact in the border commerce with Brazil.

The series of external and internal shocks negatively affected the economic activity in our country. The first semester ended with a drop in GDP higher than 3% annually and the government´s economic team started to implement fiscal and monetary measures to counter this trend and push for an economic recovery.

The most important measures comprised the easing of some regulations in order to facilitate the refinancing of debts of the agro sector and thus guarantee access to credit and ensure a good sowing for the next harvest. Also, successive reductions in the monetary policy interest rate, which was lowered from 5,25% to 4,00% through December of 2019, accompanied by a reduction in reserve requirements in foreign currency to ensure liquidity for the refinancing processes and new loans for the new sowing. Also, increased speed in the execution of the infrastructure investment programs in order to bolster the construction sector and job creating within, for which the government requested Congress´ approval to raise the ceiling of the fiscal deficit from 1,5% to 3% of GDP mandated by the Law of Fiscal Responsibility. Congress approved and the year finished with a fiscal deficit of 2,83%, with an additional fiscal injection of 1,53% of GDP compared to 2018.

As these economic measures were implemented, a positive impact was felt in the economic activity and consequently, a recovery took place gradually starting at the beginning of July. Sales and revenues of all sectors began to recuperate gradually positively impacting in the generation of jobs and household incomes and the recovery of GDP was similar to the fall in the first part of the year, wrapping the year at levels similar to 2018, with 0% growth but with a recovery process underway looking forward to a good soy beans harvest which would allow the country to once again grow at its potential levels starting in 2020.

Also, consumer price inflation closed the year at levels of 2,8%, below 2018 levels of 3,2%, reflecting on one hand the impact of the recession of the first semester and on the other hand the diminished demand for consumer products which prevented the translation of the higher costs of imports into higher consumer prices. The depreciation of the guarani against the US dollar, which finished the year at 8,8%, was not fully reflected into higher inflation, resulting in a slight real depreciation of our currency against the US dollar.

LOCAL FINANCIAL SECTOR

The financial sector has remained solid and with a positive outlook in 2019, despite the headwinds endured by the economy. The interannual variation in loans has been positive by 10%, although lower than the 14,5% growth in 2018. This increase is explained by the 12,6% growth of loans denominated in guarani and by the depreciation of the guarani against the dollar, taking into account that in real terms, loans in US dollars decreased by 0,3%.

The levels of loan quality remain constant compared to previous years, finishing 2019 with a default ratio of 2,6%, a slight increase of 0,10% compared to 2018. The levels of credit renewals, refinancing and restructuring over total loans portfolio remained around 15%. On the other hand, the growth in deposits from the public grew by levels similar to that of loans, same as 2018, thus not allowing a net increase or decrease in the liquidity levels that could affect financial margins, as experienced in previous years. In terms of profitability levels, the financial system as a whole was managed to increase net profits by 16%.

OUTLOOK 2020

The Light commercial deal reached between China and the US at the end of 2019 had created a clearer outlook for international commerce, at least until the US general elections, by reducing the commercial tension which impacted the world economy in 2019 severely.

However, the accelerated spread of the COVID-19 virus in China at the end of December, a situation which has been declared a pandemic by the World Health Organization (WHO) in March of 2020, has severely shocked the world and its impact in the economic activity and world commerce are difficult to estimate and are dependent on the length of the pandemic. The uncertainty surrounding COVID-19 has increased volatility of capital and commodities markets. Central banks, governments and multilateral organizations such as the IMF and the World Bank are implementing measures to mitigate the impact of the global economy. At any rate, in this new scenario, the world economy will experience growth which will be lower than that originally forecasted by the IMF.

The good news is that the weather has favored the production of soy beans in this first harvest in our country. The harvest is very advanced and the returns obtained so far indicate that the production will be higher than 10 million tons, in line with the assumptions which we had used in October of 2019 for the projections of GDP growth, exports and influx of foreign currency during this year. Likewise, the data on economic activity in January of this year indicate that the other economic sectors—industry,

Paraguay Economic and financial data	2016	2017	2018	2019(e)
Nominal GDP (USD million)	36.345	39.406	40.853	38.649
Per capita GDP (USD)	5.302	5.667	5.792	5.404
Total GDP growth (%)	4,3	5,0	3,4	0,2
Inflation (%)	3,9	4,5	3,2	2,8
Change in nominal exchange rate (PYG/USD)	(0,3)	(27,0)	5,3	8,8
International Reserves (USD million)	7.144	8.146	8.010	7.996
External Debt (% of GDP)	13,3	14,2	15,7	18,5
Fiscal Deficit (% of GDP)	(1,5)	(1,1)	(1,3)	(2,8)
Financial Sector				
Interannual Loan Portfolio change	0,3	5,5	14,5	10,3
Loans / GDP (%)	40,0	40,2	44,5	49,0
Interannual Deposits change	6,9	7,6	6,4	10,6
Deposits / GDP (%)	42,4	43,5	44,8	49,4
ROE (%)	18,3	18,6	17,7	18,4
Average non-performing loans ratio (%)	2,9	2,8	2,5	2,6

Source: Central Bank of Paraguay

construction, commerce and services—have continued to expand.

Nonetheless, the sanitary measures taken by the authorities to curtain the contagion and spread of the COVID-19 virus at the local level will have negative impact in the economic activity, mainly in the commerce and services sector, which will be added to the negative impact that eventually the pandemic will have at the international level in the price of the commodities.

The main challenge that the authorities face this year is to mitigate the effects to the still feeble and weak recovery process of the economic and commercial activity in our country. The prudent macroeconomic policies of the last decade allow us to have enough instruments at our disposal which, when correctly applied, can allow the country´s economy to avert the crisis and keep growing at a healthy pace in the following years.

The conditions of the loan market will also reflect stagnation; the financial entities will have to support their clients with appropriate programs to allow them to function within this new reality of revenues flows that the crisis will bring about. We estimate that the loan portfolio will become stagnant or it might even fall slightly. Finally, considering the impact of the pandemic COVID-19, we estimate that the GDP could fall by 1,5% given that the good production and export of soy beans and electric energy compensates the recession in the remaining sectors. The application of accommodative economic measures in the shape of transfer programs and public infrastructure programs should also be added.

Given the larger fiscal expenditure in the scenario, the public deficit would crawl up to 7,5% in 2020, and then gradually decreasing from there with the application of tax collection and public expenditure control measures. Thus, the public debt will increase significantly above 30% of GDP, which it is still tolerable given this scenario.

The inflationary measures are bearable and we estimate that the inflation rate will be in the range of 3,5% to 4%, within the objective range of the Central Bank of Paraguay, and with a stable US dollar exchange rate between 6.500 and 6.750 guaranies.

BANCO FAMILIAR: GROWTH IN NUMBERS, NEW OPERATIONS AND RELATIONS

Despite the external difficulties aforementioned; the strategy and efforts undertaken have led to observed growth well above the market average.

DEPOSITS

Banco Familiar´s funding grew by a total of 18%. The search for medium and long term funding needed to match the growth in the intermediation business was required. Due to this, we observed a more dynamic growth in long term funding. The fixed term Certificate of Deposit (CD) of portfolio has grown by 28%, focused on large strategic clients, which account for 65% of this growth.

However, the fixed term CDs, due to their nature, have average maturities between 550 and 720 days. In order to leverage growth, it was necessary to search for other instruments offering longer terms:

a) Familiar has issued bonds in the local market. This is the bank´s second bond issuance, after the first which was a private placing in 2018. The issuance was of guaranies 40 billion, with a maturity of 4 years. The issuance, done in May, was fully subscribed on the first day. This, apart from the quantitative benefit of the funding, has had qualitative significance since it was the first public issuance through the capital markets. We highlight the trust that investors have placed in the bank, as full demand for the bonds on the day of the issuance was clear. .

b) In the international markets, Familiar has received a loan of 26 million US dollars with 5 years of maturity by the World Bank. Historically, this is the biggest loan received by Familiar. It is also the first syndicated loan operation that the World Bank has completed in Paraguay, as the operation includes two other entities that facilitated the funds. This has allowed to foster new relationships with an important multilateral institution such as the WB, and also create new ones with other entities that could provide direct funding in the future.

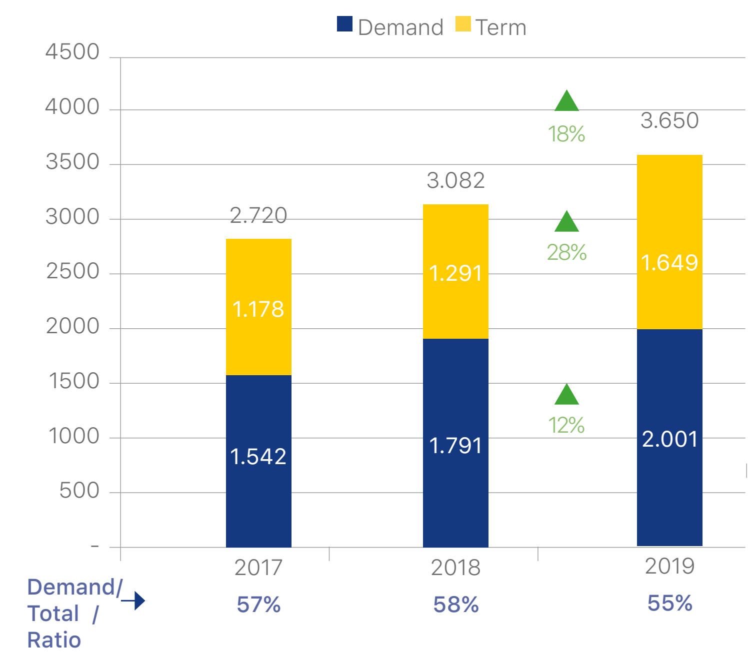
El dinero a la vista, dado en las carteras de cuenta corriente y de caja de ahorro, ha crecido menos que proporcional a los demás fondeos a plazo mencionados, siendo su dinamismo observado del 13%. No obstante, el crecimiento de dichas carteras se ha dado en clientes de porte minoristas y/o pymes lo que implica que el gran volumen de clientes ha incrementado su preferencia por nuestros servicios de depósitos a la vista, y por la creciente oferta de facilidad para transacciones que venimos desarrollando, principalmente vía banca web. En términos absolutos el incremental de vista observado es de Gs. 149 mil millones.

These two structured funding operations, added to the other existing relations with financiers such as the Agencia Financiera de Desarrollo (AFD), the IDB, Citi, among others; have allowed for growth in direct loans of 17%. In the total funding structure, direct loans represent a minor proportion of 15%.
The current account funding structure, divided in savings accounts and checking accounts, have increased proportionally less than the fixed term financing aforementioned, by 13%. However, this growth in deposits has occurred within the retail and small enterprises segments which implies that a great number of clients has increased their preferences for our services of current accounts, and for the increasing offer of digital transactions that the bank continues to develop, mainly through digital banking. In absolute terms, the increase in current accounts was of guaranies 149 billion.

The fact that fixed term deposits grew at 28% and current account deposits grew at 12% results in a reduction in the proportion of current account deposits over total deposits, from 58% to 55%. The observed levels, however, at the end of 2019 are in line with the industry and within the common ranges. The weighted cost of funds, expressed in percentages, which could have increased with the decreased proportion of current account deposits, has been compensated by the continuous reduction in the fixed term rates, which seems to continue a downward tendency towards 2020 given the lower inflation rates.

The current account funding, despite having a financial cost close to zero, it also involves important transactional costs. These costs are related to the fact that Familiar has an important network of branches which, as a differentiating factor, have extended opening hours. The possibility of making transactions under these conditions is very attractive for clients but involve costs related to cash treasury, insurance, transportation, etc. Throughout the year, the bank has made important improvements in order to significantly reduce these costs; on the clients´ side, encouraging making more transactions using the digital channels, and on the bank´s side, improving efficiency processing those transactions

EVOLUTION OF DEPOSITS
(Billions of PYG)



LOAN PORTFOLIO

On the loans side, the increase has been of 21%, above the market´s average.

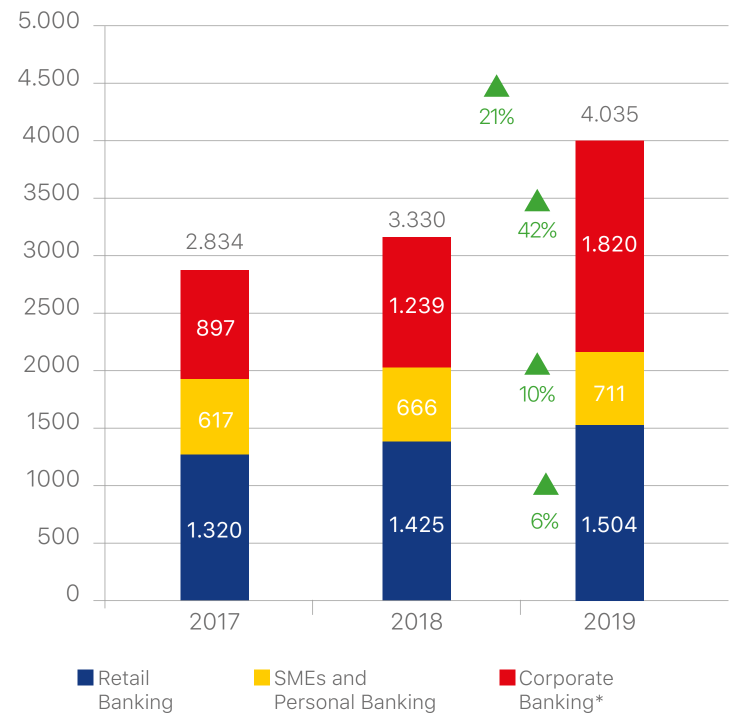
This bigger dynamism is attributed to the corporate banking portfolio which has grown by 42%. It is important to highlight that this growth was given fairly equally among sectors, maturities and currencies.

Besides the growth shown in the loan portfolio, corporate banking has entered into a Bank Guarantee operation through the issuing of a Stand-by Letter of Credit to co-finance the duplication of public highways 2 and 7, project which was given in concession by the government to the Consortium Rutas del Este made up of the local construction company Ocho A S.A. and the Spanish international construction company SACYR S.A, an important international player in the sector. Familiar participates, along other 4 banks in Paraguay, in the co-financing of the operative capital needed to carry out the project.

The loans given to the SMEs and the sector of individuals with middle income, showed an increase similar to last year´s, growing at 10%. Despite this being only moderate growth, we consider it a favorable tendency which continues for a second consecutive year, after drops in previous years due to the restructuring in the credit technology applied to this sector. The credit restructuring is focused on every aspect of the client´s activity, focused not only on giving loans and accepting deposits but also complementing with transactional services such as FX operations, transfers, digital banking and others.

This sector is also an active participant of loan operations with specific goals: travel, purchase of fixed asset, vehicles and real estate. These operations are generally of longer maturity which allow to achieve customer loyalty within the portfolio. We highlight the success of the home financing program for those who contribute to the IPS pension fund, which was launched in 2018 with competitive conditions with respect to the market. In 2019, we have managed to give out all of the funding available for this program. The loans given to the retail sector grew at a slower pace, increasing by 6%. This growth was less than expected because of the worsening of the economic environment and the adoption of prudential preventive measures. The growth in the portfolio was not the driver, however the transition to processes of loan acceptance and administration that are more agile and digital was accelerated. The biggest share of the bank´s customers belong to this sector, and they represent an important part of those who use web and mobile banking tools. The number of clients who use the digital tools increased by 35% while the number of digital transactions through this channel increased by 40%.

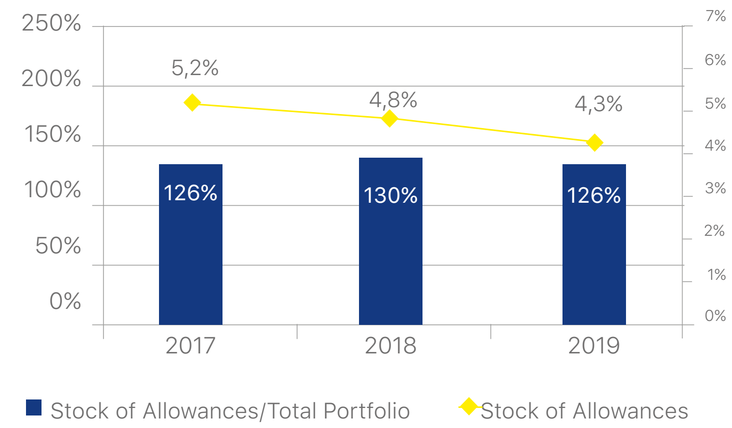
ACTIVE PORTFOLIO
(Billions of PYG)



** Incluye cartera de bonos de clientes corporativos*

CHALLENGING WORK IN LOAN QUALITY

The first semester has been especially complicated due to the economic environment aforementioned. We were able to redeem in the Income Statement some of the operations in corporate banking which entered into negative territory through the use of some of the additional voluntary provision reserves we have constituted in previous years with this very goal in mind. This can be noticed in the level of coverage which shows a slight decrease from 130% to 126%. The increase in the default rate had less of an impact in the medium and retail markets where the situation was detected on time and in a preventive manner, measures which were pro-cyclical to the tendency were taken, toughening the approval of loans, especially during the first semester.



TRANSACTIONAL BUSINESS

The main transactional businesses are the foreign exchange operations and payment to remittances beneficiaries which are sent by Paraguayans living abroad. We have observed an increase in operations due to larger usage of this service by Paraguayans living mainly in Spain and the US where a recovery of the economies is observed and has a positive effect on remittances. Another important channel for remittances is Argentina where we can observed, due mainly to the difference in foreign exchange, a reduction of 20% of the flow.

Thanks to the funding provided by Paraguayans' remittances, the bank can in turn sell this foreign exchange coverage to its clients, mostly importers, at competitive prices. In 2019, foreign exchange operations were done for a total of USD 924 million. An efficient handling of national and international transfers is an integral part of good customer service. During 2019, the number of transfers received and sent was 1.128.500, a 80% increase over the previous year´s number.

Banco Familiar´s value proposal for their clients which are enterprises includes an efficient service of payment of recurrent obligations. During 2019, Familiar helped 453 enterprises pay 635.550 salaries and 86.145 providers´ invoices. These volumes reflect an increase of 21% and 61%, respectively, in the number of enterprises served.

REDUCED PROFITS, DESPITE A LARGER PORTFOLIO, DUE TO INCREASING LOAN LOSS PROVISIONS

In global terms, net profits are 4% less than the previous year, despite experiencing important growth in the level of assets.

The intermediation margin (net interest income) increased by 4,6% which in absolute value implies a positive variation of guaranies 23 billion; the increase in the margin in less than proportional to the increase in the loan portfolio due to the fact that this growth has occurred mainly in the corporate banking sector where margins are slimmer. Interest expenses grew more than proportional to the interest revenue, due to the increased funding and a restructuring of the financing mix towards some financing that while more expensive, necessary as previously explained. The larger net interest income was absorbed by the also larger loan loss provisions, which increased by a value of guaranies 19 billion, and by the larger operative expense, which despite having grown in a moderate and justified manner by 4%, in absolute value it grew by guaranies 23 billion, giving an increase in provisions and operating expenses of guaranies 31 billion.

Likewise, despite an increase in the business volume, other operative revenues stayed constant and did not experience increases due to the fact that profits generated by the sale of insurance policies, which used to be completely within the bank´s books in 2018, were partially migrated to the new insurance company, Familiar Seguros, at the beginning of the second semester of 2019. This explains approximately guaranies 12 billion of the reduction in the net profits of the bank in 2019.

Results (millions of Gs)	2017	2018	2019	Var. 19-18 num	Var. 19-18 %
Financial Income	564.081	612.144	673.415	61.271	10.0%
Financial Costs	110.521	121.332	159.818	38.486	31,7%
Financial Margin	453.517	490.812	513.597	22.785	4.6%
Allowances	177.061	200.785	219.591	18.806	9,4%
Net Financial Margin	276.499	290.027	294.006	3.979	1,4%
Operating expenses	261.703	269.109	281.576	12.467	4,6%
Other net operating expenses	126.829	139.369	139.242	-127	-0,1%
Income before taxes	141.625	160.287	151.672	-8.615	-5,4%
Income Tax	15.658	19.176	16.573	-2.602	-13,6%
Net Income	125.967	141.111	135.099	-6.012	-4,3%

CONSOLIDATING OUR PRESENCE IN THE SOUTH OF THE COUNTRY WITH OUR OWN BUILDING IN ENCARNACION

For Familiar, the preference of its customers entails both a responsibility and a commitment. On april 11, we inaugurated a modern brach in the city of Encarnación. The staff is made up of a team of specialized professionals focusing on offering solutions tailored to each type of enterprise and on counseling customers in their personal projects.

Familiar aspires to increase business in this region of the country. Through this investment, it renovates its commitment and strengthens its connection with the community of Encarnación.

QUICK AND EASY PROCESSES, AND MORE SPECIALIZED PRODUCTS TO MAKE OUR CLIENTS´ LIVES SIMPLER

Continuing its plans of becoming a more complete bank, offering integral solutions to customers, the retail banking unit has resumed the process, begun in 2018, of consolidation of its suite of products. This project has the objective of improving the customer experience before and after the acquisition of the products, which are focused on solving the needs of people and families.

To the suite of general products, the bank added those specialized to specific destinations, such as mortgage loans, car loans, loans for traveling, celebrating, taking care of health and beauty needs, among others.

Viewing the life stage of people through more empathic lenses, these variants integrate to offer ever more flexible solutions. This process optimizes the customer experience of the traditional retail banking unit, and it is part of a road towards a transformation to a culture focused on the client.

CONTACTLESS TRANSACTIONS: MORE SECURITY, FASTER TRANSACTIONS, AND AN IMPROVED CUSTOMER EXPERIENCE WITH CREDIT AND DEBIT CARDS

CONTACTLESS TECHNOLOGY

The migration of our credit and debit cards from magnetic band to chip and contactless technology, allows to expand the card transactions to new spheres, nationally and internationally, while reducing the risk associated with cloning and fraud.

In the first stage we have migrated 50% of the current plastic stock, increasing the level of security of those clients whose lifestyle has them more exposed to risk. Contactless payments use wireless technology of short range to make secure payments: when the cardholder draws its card close to an enabled terminal, the payment is sent to be authorized.

This technology provides the highest grade of security in the industry and at the same time, increases the speed of transactions.

FAMILIAR WALLET

As more and more consumer make purchases using a mobile device, the payment industry must deliver a simple buying experience, regardless of the location or the device.

Another step in the adoption of new payment technologies has been the development of Familiar Wallet: an application which allows customers to make purchases using mobile devices and a terminal enabled to process contactless payments. It is necessary for the smartphone to be approximately 4 cm from the terminal.

This technology provides the highest grade of security in the industry and at the same time, increases the speed of transactions, reducing the purchase authorization from 15 to 4 seconds.

INVESTMENTS TO CONTINUE THE PROCESS OF THE BANKING CORE REPLACEMENT, THE STRENGTHENING OF OUR TECHNOLOGICAL INFRASTRUCTURE AND ARCHITECTURE

Advancing with the strengthening of our technological infrastructure and architecture, in 2019 we continued with the process of replacement of our Banking Core System and the Database Engine. This has required the hiring of national and international experts, who have worked with our local staff, in a feedback process of which has allowed for the substantial improvement of our human capital.

He have renewed and expanded our storage equipment, servers and processing capacity, both in our headquarters and branches. Additionally, we have worked to reinforce our hardware and software security schemes, in order to have the latest technology to face the risks that come along with the hyperconnectivity with which we offer our services. In sum, the tasks described required a total investment of approximately USD 2.4 million.

FINANCIAL STATEMENTS

ASSETS

ASSETS	December 31, 2019 Gs.	December 31, 2018 Gs.
CASH AND CASH EQUIVALENTS	**817.100.986.140**	**697.392.738.302**
Cash	186.019.465.994	158.763.578.574
Central Bank of Paraguay (Note C.2)	515.772.140.619	428.218.128.193
Other Financial Institutions	114.801.629.387	109.988.457.032
Account receivables from accrued financial products	507.750.140	423.831.003
(Allowance for loan losses) (Note C.6)	0	(1.256.500)
PUBLIC SECURITIES (Note C.3)	**413.100.387.356**	**502.231.301.160**
CURRENT LOANS FROM FINANCIAL INTERMEDIATION - FINANCIAL SECTOR (Note C.5.1)	**312.089.056.022**	**296.196.157.752**
Loans	307.612.261.031	294.027.817.676
Account receivables from accrued financial products	4.476.794.991	2.178.787.711
(Allowance for loan losses) (Note C.6)	0	(10.447.635)
CURRENT LOANS FROM FINANCIAL INTERMEDIATION – NON-FINANCIAL SECTOR (Note C.5.2	**3.407.951.977.839**	**2.911.592.405.117**
Loans	3.498.628.626.070	3.002.606.892.304
Loans – Public sector	2.113.439.986	1.060.912.819
(Revenue from unrealized valuation)	(204.486)	(1.914.689)
Account receivables from accrued financial products	52.347.778.614	46.495.968.814
(Allowance for loan losses) (Note C.6)	(145.137.662.345)	(138.569.454.131)
SUNDRY DEBTS (Note C.15)	**38.542.466.907**	**28.812.752.481**
PAST DUE DEBTS FROM FINANCIAL INTERMEDIATION (Note C.5.3)	**100.887.638.346**	**91.390.493.431**
Loans	160.902.970.357	151.151.958.176
(Revenue from unrealized valuation)	(150.158.639)	(54.736.667)
Account receivables from accrued financial products	7.407.526.774	7.210.493.647
(Allowance for loan losses) (Note C.6)	(67.272.700.146)	(66.917.221.725)
INVESTMENTS (Note C.7)	**127.021.058.505**	**81.092.659.991**
Goods received in debt recovery	14.107.581.422	1.210.580.260
Private Securities – Rights and Shares	120.322.971.904	80.214.407.986
(Allowance for loan losses) (Note C.6)	(7.409.494.821)	(332.328.255)
FIXED ASSETS (Note C.8)	**27.658.662.378**	**26.504.122.273**
DEFERRED CHARGES AND INTANGIBLES (Note C.9)	**15.114.828.033**	**15.834.769.914**
TOTAL ASSETS	**5.259.467.061.526**	**4.651.047.400.421**

Notes A to L attached are integral part of these financial statements

LIABILITIES

PASIVO	December 31, 2019 Gs.	December 31, 2018 Gs.
LIABILITIES FROM FINANCIAL INTERMEDIATION – FINANCIAL SECTOR (Note C.13)	**887.654.150.578**	**955.179.943.486**
Central Bank of Paraguay – Guarantee Fund	4.233.161.250	3.447.920.355
Deposits – Other Financial Institutions (Note C.14.d)	307.167.436.896	267.756.066.942
Transactions to be settled	48.104.729.908	206.028.406.528
Loans from organizations and financial institutions	512.630.887.370	465.373.184.674
Accounts payable for accrued financial charges	15.517.935.154	12.574.364.987
LIABILITIES FROM FINANCIAL INTERMEDIATION-NON FINANCIAL SECTOR (Note C.13)	**3.456.495.551.529**	**2.894.028.202.837**
Deposits – Private Sector	2.804.532.639.538	2.479.520.490.592
Deposits – Public Sector	495.525.241.370	304.717.829.111
Obligations or debentures and Bonds issued in the market (Note C.17)	92.916.666.670	55.000.000.000
Other obligations from financial intermediation	26.868.781.008	28.314.365.658
Accounts payable for accrued financial charges	36.652.222.943	26.475.517.476
OTHER LIABILITIES	**100.440.901.808**	**67.307.761.887**
Fiscal and social creditors	4.760.139.420	5.302.839.013
Other debts (Note C.16)	95.680.762.388	62.004.922.874
PROVISIONS	**5.569.120.205**	**8.924.745.859**
TOTAL LIABILITIES	**4.450.159.724.120**	**3.925.440.654.069**
SHAREHOLDERS' EQUITY (Note D)	**809.307.337.406**	**725.606.746.352**
Paid-In Capital (Nota B.5) Equity Adjustments	330.000.000.000	300.000.000.000
Legal Reserve	21.124.603.500	20.322.751.086
Retained Earnings	187.697.009.305	159.474.799.097
Net Income	135.386.985.961	104.698.145.128
For legal reserve	135.098.738.640	141.111.051.041
Net to be distributed	27.019.747.728	28.222.210.208
Neto a distribuir	108.078.990.912	112.888.840.833
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**5.259.467.061.526**	**4.651.047.400.421**

Notes A to L attached are integral part of these financial statements

INCOME STATEMENT

INCOME STATEMENT	December 31, 2019 Gs.	December 31, 2018 Gs.
FINANCIAL INCOME	633.393.369.106	574.187.208.476
From current loans from financial intermediation – Financial Sector	20.795.890.631	15.988.934.738
From current loans from financial intermediation – Non-Financial Sector	570.708.175.124	523.094.698.842
From past-due loans from financial intermediation	12.881.549.005	12.012.177.561
From revenue and changes in value of Public Securities	28.481.006.115	23.091.397.335
From net valuation of financial assets and liabilities in foreign currency (Note G.2)	526.748.231	0
FINANCIAL LOSS	(159.822.594.137)	(121.813.436.285)
From debts – Financial Sector	(56.627.463.007)	(35.449.492.736)
From debts – Non-Financial Sector	(103.195.131.130)	(86.113.494.177)
From net valuation of financial assets and liabilities in foreign currency (Note G.2)	0	(250.449.372)
NET FINANCIAL INCOME BEFORE PROVISIONS	473.570.774.969	452.373.772.191
PROVISIONS	(220.215.365.922)	(201.330.892.529)
Establishment of provisions (Note C.6)	(227.651.575.087)	(210.893.067.688)
Cancellation of provisions (Note C.6)	7.436.209.165	9.562.175.159
NET FINANCIAL INCOME AFTER PROVISIONS	253.355.409.047	251.042.879.662
INCOME FROM SERVICES	96.383.633.181	101.576.138.708
Income from services	146.886.668.060	153.085.247.610
Loss from services	(50.503.034.879)	(51.509.108.902)
GROSS INCOME	349.739.042.228	352.619.018.370
OTHER INCOME FROM OPERATIONS	119.419.474.414	109.950.425.249
Income from FX operations	19.293.003.612	16.741.457.330
Other	100.126.470.802	93.147.545.372
From net valuation of other assets and liabilities in foreign currency (Note G.2)	0	61.422.547
OTHER LOSS FROM OPERATIONS	(324.610.772.092)	(307.872.681.495)
Employee remuneration and social security charges	(151.915.131.927)	(141.007.002.425)
General expenses (Note H)	(154.354.387.539)	(148.069.217.949)
Fix asset depreciation (Note C.8)	(6.673.668.235)	(7.521.247.327)
Amortization of deferred charges (Note C.9)	(6.402.853.524)	(6.639.777.163)
Other	(5.024.924.139)	(4.635.436.631)
From net valuation of other assets and liabilities in foreign currency (Note G.2)	(239.806.728)	
NET INCOME FROM OPERATIONS	144.547.744.550	154.696.762.124
NET EXTRAORDINARY INCOME	7.124.273.608	5.589.973.143
Extraordinary Income	7.799.204.541	6.612.921.279
Extraordinary loss	(674.930.933)	(1.022.948.136)
NET INCOME BEFORE INCOME TAX	151.672.018.158	160.286.735.267
INCOME TAX (Note G.4)	(16.573.279.518)	(19.175.684.226)
NET INCOME FROM FISCAL YEAR	135.098.738.640	141.111.051.041
NET INCOME PER COMMON SHARE (Note E)	4.883	5.775

Notes A to L attached are integral part of these financial statements

CONTINGENCY ACCOUNTS AND OFF-BALANCE SHEET ITEMS

CONTINGENCY ACCOUNTS AND OFF-BALANCE SHEET ITEMS	December 31, 2019 Gs.	December 31, 2018 Gs.
Contingency accounts (Note F)	392.794.434.059	268.213.168.442
Off-Balance Sheet Items (Note F)	2.351.385.218.761	1.919.475.257.232

STATEMENT OF CASH FLOWS

STATEMENT OF CASH FLOWS	December 31, 2019 Gs.	December 31, 2018 Gs.
CASH FLOW FROM OPERATING ACTIVITIES		
Interest and other financial income	724.634.083.632	662.022.601.862
Interest and other financial loss	(90.315.556.046)	(99.266.808.637)
Income from services and other income	156.869.249.085	159.086.758.343
Payments to providers, employees and others	(317.145.923.368)	(307.235.334.144)
Income tax payments	(19.443.806.945)	(16.021.526.244)
Net change in portfolio of public and private securities	89.130.913.804	(157.935.956.720)
Net change in term deposits in other financial institutions	(11.444.253.154)	(202.935.799.914)
Net increase in loan portfolio for FS and NFS clients	(721.724.041.422)	(676.348.830.725)
Net increase in deposits from FS and NFS clients	492.684.344.975	321.977.022.727
Net cash flow from ordinary operating activities	303.245.010.561	(316.657.873.452)
Net extraordinary income – Others	1.889.472.136	1.111.159.353
Net cash flow from operating activities	305.134.482.697	(315.546.714.099)
CASH FLOW FROM INVESTING ACTIVITIES		
Paid-In Capital - Familiar Seguros	0	(9.950.000.000)
Net extraordinary income - Bancard	5.234.801.472	4.478.813.790
Fix asset acquisition and deferred expenses	(16.117.455.972)	(17.879.797.996)
Net cash flow from investing activities	(10.882.654.500)	(23.350.984.206)
CASH FLOW FROM FINANCING ACTIVITIES		
Net change in loans granted by other financial institutions	(135.539.662.332)	419.098.168.608
Interest paid from loans granted by other financial institutions	(56.415.168.985)	(19.540.000.089)
Issuing of Financial Bonds	40.000.000.000	55.000.000.000
Payment of Financial Bonds	(2.083.333.330)	0
Dividend payments	(51.741.918.990)	(47.320.000.000)
Net cash flow from financing activities	(205.780.083.637)	407.238.168.519
Net increase of cash	88.471.744.560	68.340.470.214
Income from valuation of cash and cash equivalents	31.235.246.778	15.607.220.851
Change in provisions	1.256.500	(1.178.960)
CASH AT BEGINNING OF FISCAL YEAR	697.392.738.302	613.446.226.197
CASH AT END OF FISCAL YEAR	817.100.986.140	697.392.738.302

Notes A to L attached are integral part of these financial statements

STATEMENT OF CHANGES IN EQUITY

Concept	Paid-In Capital	Adjustments to Equity (Revaluation Reserve)	Legal Reserve	Retained Earnings	Net Income from Fiscal Year	Total
BALANCE AT DECEMBER 31 2017	270.000.000.000	19.377.427.386	134.281.320.197	81.124.229.526	125.967.394.502	630.750.371.611
- Transfer to RE	0	0	0	125.967.394.502	(125.967.394.502)	0
- Net Income Capitalization (a	30.000.000.000	0	0	(30.000.000.000)	0	0
- Addition to Legal Reserve (a)	0	0	25.193.478.900	(25.193.478.900)	0	0
- Cash Dividend Payments (a)	0	0	0	(47.200.000.000)	0	(47.200.000.000)
- Addition to Revaluation Reserve	0	945.323.700	0	0	0	945.323.700
- Net Income From Fiscal Year	0	0	0	0	141.111.051.041	141.111.051.041
BALANCE AT DECEMBER 31 2018	300.000.000.000	20.322.751.086	159.474.799.097	104.698.145.128	141.111.051.041	725.606.746.352
- Transfer to RE	0	0	0	141.111.051.041	(141.111.051.041)	0
- Net Income Capitalization (a	30.000.000.000	0	0	(30.000.000.000)	0	0
- Addition to Legal Reserve (a)	0	0	28.222.210.208	(28.222.210.208)	0	0
- Cash Dividend Payments (a)	0	0	0	(52.200.000.000)	0	(52.200.000.000)
- Addition to Revaluation Reserve	0	801.852.414	0	0	0	801.852.414
- Net Income From Fiscal Year	0	0	0	0	135.098.738.640	135.098.738.640
BALANCE AT DECEMBER 31 2019	330.000.000.000	21.124.603.500	187.697.009.305	135.386.985.961	135.098.738.640	809.307.337.406

(a) Issue of capital approved by Shareholders' Meeting dated April 10, 2018 (Minutes No. 45).
(b) Issue of capital approved by Shareholders' Meeting dated April 9, 2019 (Minutes No. 48).

Notes A to L attached are integral part of these financial statements

English translation of statutory financial statements

These financial statements have been translated into English for the convenience of English-speaking readers. The financial statementes are the English translation of those originally prepared by the Entity in Spanish, expressed in local currency (Paraguayan Guarani) and presented in accordance with accouting rules, regulations and instructions established by the Central Bank of Paraguay and, in issues not covered by them, with the financial reporting standards in force in Paraguay. The effects of the differences between these standards and the accounting principles generally acepted in the countries in which the financial statements are to be used, have not been quantified. Accordingly, the accompanying financial statements are not intended to present the financial position, results of operations, shareholders' equity or cash flows in accordance with accounting principles generally accepted in the countries of users of the financial statements, other than Paraguay.

BANCO FAMILIAR