

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

Report of Independent Accountants and Financial  
Statements

December 31, 2017



## ***Report of Independent Accountants***

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

### **Report on the financial statements**

We have audited the accompanying financial statements of Banco Nacional de Crédito, C.A., Banco Universal (the Bank) and its Curacao Branch, which comprise the balance sheet as at December 31, 2017, and the statements of income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes.

### **Management's responsibility for the financial statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting rules and instructions of the Superintendency of Banking Sector Institutions (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.

### **Independent accountant's responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA) applicable in Venezuela. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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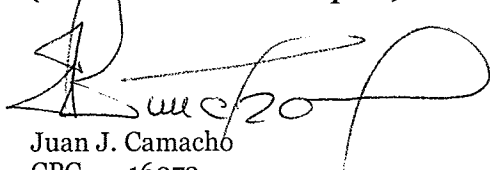
**Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of Banco Nacional de Crédito, C.A., Banco Universal and its Curacao Branch as at December 31, 2017, and their financial performance and their cash flows for the six-month period then ended, in conformity with the accounting rules and instructions of the SUDEBAN.

**Emphasis on matter**

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

Pacheco, Apostólico y Asociados  
**(PricewaterhouseCoopers)**

A handwritten signature in black ink, appearing to read 'Juan J. Camacho', with a large, stylized flourish extending to the right.

Juan J. Camacho

CPC 16072

CP 498

SNV C-841

February 22, 2018

***Banco Nacional de Crédito, C.A., Banco Universal***  
**Balance sheet**  
**December 31 and June 30, 2017**

	<b>December 31, 2017</b>	<b>June 30, 2017</b>
	(In bolivars)	
<b>Assets</b>		
<b>Cash and due from banks</b>	<u>2,566,587,176,741</u>	<u>338,977,938,474</u>
Cash	13,862,171,127	20,564,761,361
Central Bank of Venezuela (Notes 3, 4 and 26)	2,472,231,356,386	299,549,936,987
Venezuelan banks and other financial institutions	10,026,819,679	654,505,821
Foreign and correspondent banks (Note 4)	468,698,864	280,661,204
Pending cash items (Note 3)	69,998,130,685	17,928,073,101
<b>Investment securities (Note 5)</b>	<u>72,489,322,764</u>	<u>37,050,916,068</u>
Deposits with the BCV and overnight deposits	6,627,419,000	2,101,117,000
Investments in available-for-sale securities	18,473,795,401	18,189,144,313
Investments in held-to-maturity securities	9,976,801,659	9,328,817,527
Restricted investments	108,465,460	129,097,264
Investments in other securities	37,302,841,244	7,302,841,244
(Provision for investment securities)	-	(101,280)
<b>Loan portfolio (Note 6)</b>	<u>1,592,216,430,586</u>	<u>519,118,998,977</u>
Current	1,622,158,787,324	529,122,577,116
Rescheduled	27,790,852	33,431,805
Overdue	51,825,025	324,923,692
(Allowance for losses on loan portfolio)	(30,021,972,615)	(10,361,933,636)
<b>Interest and commissions receivable (Note 7)</b>	<u>9,765,020,979</u>	<u>3,264,474,472</u>
Interest receivable on investment securities	1,048,912,721	681,246,961
Interest receivable on loan portfolio	8,768,573,180	2,614,136,943
Commissions receivable	25,388,643	10,730,569
Interest and commissions receivable on other accounts receivable	-	1,799,882
(Provision for interest receivable and other)	(77,853,565)	(43,439,883)
<b>Available-for-sale assets (Note 9)</b>	<u>57,915,727</u>	<u>66,084,375</u>
<b>Property and equipment (Note 10)</b>	<u>91,606,700,491</u>	<u>44,733,861,900</u>
<b>Other assets (Note 11)</b>	<u>78,474,748,400</u>	<u>18,677,713,272</u>
<b>Total assets</b>	<u>4,411,197,315,688</u>	<u>961,889,987,538</u>
<b>Memorandum accounts (Note 20)</b>		
Contingent debtor accounts	53,181,978,434	21,237,590,244
Assets received in trust	30,454,120,461	12,462,932,414
Debtor accounts from other special trust services (Housing Loan System)	11,319,040,167	5,439,351,462
Other debtor memorandum accounts	<u>3,532,541,215,873</u>	<u>1,396,086,490,956</u>
	<u>3,627,496,354,935</u>	<u>1,435,226,365,076</u>

The accompanying notes are an integral part of the financial statements

***Banco Nacional de Crédito, C.A., Banco Universal***  
**Balance sheet**  
**December 31 and June 30, 2017**

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	December 31, 2017	June 30, 2017
	(In bolivars)	
<b>Liabilities and Equity</b>		
<b>Customer deposits</b> (Note 12)	<u>4,075,317,661,828</u>	<u>857,874,690,294</u>
Demand deposits	<u>3,516,576,901,892</u>	<u>725,791,158,385</u>
Non-interest-bearing checking accounts	3,136,395,812,027	531,678,197,406
Interest-bearing checking accounts	237,136,784,813	90,875,015,545
Checking accounts under Exchange Agreement No. 20	51,709,822	24,356,774
Demand deposits and certificates	142,992,595,230	103,213,588,660
Other demand deposits	21,168,211,959	6,858,316,515
Savings deposits	515,170,443,484	115,047,772,930
Time deposits	22,377,818,959	10,153,674,034
Restricted customer deposits	24,285,534	23,768,430
<b>Borrowings</b> (Note 13)	<u>137,966,254</u>	<u>67,615,869</u>
Venezuelan financial institutions, up to one year	126,959,030	55,505,238
Foreign financial institutions, up to one year	11,007,224	12,110,631
<b>Interest and commissions payable</b> (Note 14)	<u>365,025,830</u>	<u>192,965,271</u>
Expenses payable on customer deposits	<u>365,025,830</u>	<u>192,965,271</u>
<b>Accruals and other liabilities</b> (Note 15)	<u>162,785,883,030</u>	<u>32,962,246,802</u>
<b>Total liabilities</b>	<u>4,238,606,536,942</u>	<u>891,097,518,236</u>
<b>Equity</b> (Note 22)		
Capital stock	3,031,930,372	3,031,930,372
Contributions pending capitalization	23,383,714,351	12,037,409,697
Capital reserves	3,121,220,855	3,106,061,203
Retained earnings	57,778,185,629	18,648,121,260
Adjustment from revaluation of property and equipment	46,333,412,470	21,925,209,597
Exchange gain from holding foreign currency assets and liabilities	38,146,664,196	11,200,743,587
Net unrealized gain on investments in available-for-sale securities (Note 5)	<u>795,650,873</u>	<u>842,993,586</u>
<b>Total equity</b>	<u>172,590,778,746</u>	<u>70,792,469,302</u>
<b>Total liabilities and equity</b>	<u>4,411,197,315,688</u>	<u>961,889,987,538</u>

The accompanying notes 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, 2017**

	December 31, 2017	June 30, 2017
	(In bolivars)	
<b>Interest income</b>	<u>178,590,910,879</u>	<u>58,070,301,111</u>
Income from cash and due from banks	42,083	36,960
Income from investment securities	1,898,056,197	1,308,211,877
Income from loan portfolio	176,664,706,461	56,759,635,302
Income from other accounts receivable	28,106,138	2,416,972
<b>Interest expense</b>	<u>(20,612,025,654)</u>	<u>(8,139,377,816)</u>
Expenses from customer deposits	(20,584,889,110)	(8,124,112,867)
Expenses from borrowings	(6,416,667)	(10,049,372)
Other interest expense	(20,719,877)	(5,215,577)
<b>Gross financial margin</b>	<u>157,978,885,225</u>	<u>49,930,923,295</u>
Income from financial assets recovered (Notes 6 and 7)	100,987,015	61,195,392
Expenses from uncollectible loans and other accounts receivable (Notes 6, 7 and 15)	<u>(19,927,223,765)</u>	<u>(5,094,026,937)</u>
<b>Net financial margin</b>	138,152,648,475	44,898,091,750
Other operating income (Note 17)	44,618,677,189	8,671,959,767
Other operating expenses (Note 18)	<u>(9,790,615,418)</u>	<u>(2,172,198,706)</u>
<b>Financial intermediation margin</b>	<u>172,980,710,246</u>	<u>51,397,852,811</u>
<b>Operating expenses</b>	<u>(86,284,738,594)</u>	<u>(30,500,782,992)</u>
Salaries and employee benefits (Note 2-j)	(22,488,452,661)	(11,265,846,158)
General and administrative expenses (Note 19)	(57,223,869,181)	(15,968,880,032)
Fees paid to the Social Bank Deposit Protection Fund (Note 24)	(5,862,741,228)	(2,919,981,354)
Fees paid to the Superintendency of Banking Sector Institutions (Note 25)	<u>(709,675,524)</u>	<u>(346,075,448)</u>
<b>Gross operating margin</b>	86,695,971,652	20,897,069,819
Income from available-for-sale assets (Notes 9 and 20)	1,102,854,799	1,137,662
Sundry operating income (Note 17)	139,790,473	27,435,083
Sundry operating expenses (Note 18)	<u>(2,275,734,543)</u>	<u>(885,743,299)</u>
<b>Net operating margin</b>	<u>85,662,882,381</u>	<u>20,039,899,265</u>
Extraordinary expenses	<u>(780,846,765)</u>	<u>(19,753,498)</u>
<b>Gross income before tax</b>	84,882,035,616	20,020,145,767
Income tax (Note 16)	<u>(45,736,811,595)</u>	<u>(7,649,589,661)</u>
<b>Net income</b>	<u>39,145,224,021</u>	<u>12,370,556,106</u>
<b>Appropriation of net income</b>		
Legal reserve	-	1,009,683,578
Retained earnings	<u>39,145,224,021</u>	<u>11,360,872,528</u>
	<u>39,145,224,021</u>	<u>12,370,556,106</u>
Provision for the Antidrug Law (Notes 1 and 18)	<u>763,588,121</u>	<u>206,773,294</u>

The accompanying notes 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, 2017**

	Paid-in capital stock	Share premium and contributions pending capitalization	Capital reserves	Retained earnings				Adjustment from revaluation of property and equipment	Exchange gain from holding foreign currency assets and liabilities	Unrealized gain on investment securities (Note 5)	Total equity	
				Unappropriated surplus	Restricted surplus	Non- distributable surplus (In bolivars)	Cumulative loss	Total				
<b>Balances at December 31, 2016</b>	2,471,930,372	6,860,451,276	2,081,217,973	4,424,694,385	3,388,649,935	29,639,665	(120,575,601)	7,722,408,384	-	5,285,446,329	369,107,579	24,790,561,913
Contributions pending capitalization (Note 22)	-	5,316,958,421	-	-	-	-	-	-	-	-	-	5,316,958,421
Capital increase through capitalization of retained earnings (Note 22)	560,000,000	(140,000,000)	-	-	(420,000,000)	-	-	(420,000,000)	-	-	-	-
Gain on sale of investments and adjustments of investments in available-for-sale securities to market value	-	-	-	-	-	-	-	-	-	-	473,886,007	473,886,007
Net gain on sale of securities in foreign currency through DICOM (Note 5)	-	-	-	-	-	-	-	-	-	5,915,297,258	-	5,915,297,258
Net income	-	-	-	12,370,556,106	-	-	-	12,370,556,106	-	-	-	12,370,556,106
Appropriation to legal reserve (Note 22)	-	-	1,009,683,578	(1,009,683,578)	-	-	-	(1,009,683,578)	-	-	-	-
Creation of the Social Contingency Fund (Note 22)	-	-	15,159,652	(15,159,652)	-	-	-	(15,159,652)	-	-	-	-
Reclassification of net income of the Curacao Branch (Note 22)	-	-	-	(7,990,140)	-	7,990,140	-	-	-	-	-	-
Adjustment from revaluation of property and equipment (Note 10)	-	-	-	-	-	-	-	-	21,925,209,597	-	-	21,925,209,597
Reclassification to restricted surplus of 50% of net income for the period (Note 22)	-	-	-	<u>(5,676,441,194)</u>	<u>5,676,441,194</u>	-	-	-	-	-	-	-
<b>Balances at June 30, 2017</b>	3,031,930,372	12,037,409,697	3,106,061,203	10,085,975,927	8,645,091,129	37,629,805	(120,575,601)	18,648,121,260	21,925,209,597	11,200,743,587	842,993,586	70,792,469,302
Contributions pending capitalization (Note 22)	-	11,346,304,654	-	-	-	-	-	-	-	-	-	11,346,304,654
Gain on sale of investments and adjustments of investments in available-for-sale securities to market value	-	-	-	-	-	-	-	-	-	-	(47,342,713)	(47,342,713)
Exchange differences from collection of letters of credit in foreign currency (Note 6)	-	-	-	-	-	-	-	-	-	26,945,920,609	-	26,945,920,609
Net income	-	-	-	39,145,224,021	-	-	-	39,145,224,021	-	-	-	39,145,224,021
Creation of the Social Contingency Fund (Note 22)	-	-	15,159,652	(15,159,652)	-	-	-	(15,159,652)	-	-	-	-
Reclassification of net income of the Curacao Branch (Note 22)	-	-	-	(49,337,296)	-	49,337,296	-	-	-	-	-	-
Adjustment from revaluation of property and equipment (Note 10)	-	-	-	-	-	-	-	-	24,408,202,873	-	-	24,408,202,873
Reclassification to restricted surplus of 50% of net income for the period (Note 22)	-	-	-	<u>(19,547,943,363)</u>	<u>19,547,943,363</u>	-	-	-	-	-	-	-
<b>Balances at December 31, 2017</b>	<u>3,031,930,372</u>	<u>23,383,714,351</u>	<u>3,121,220,855</u>	<u>29,618,759,637</u>	<u>28,193,034,492</u>	<u>86,967,101</u>	<u>(120,575,601)</u>	<u>57,778,185,629</u>	<u>46,333,412,470</u>	<u>38,146,664,196</u>	<u>795,650,873</u>	<u>172,590,778,746</u>

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

	Six-month periods ended	
	December 31, 2017	June 30, 2017
Weighted average of outstanding shares	<u>3,031,930,372</u>	<u>2,871,930,372</u>
Income per share	<u>Bs 12.911</u>	<u>Bs 4.307</u>

The accompanying notes 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, 2017**

	December 31, 2017	June 30, 2017
	(In bolivars)	
<b>Cash flows from operating activities</b>		
Net income	39,145,224,021	12,370,556,106
Adjustments to reconcile net income to net cash provided by operating activities		
Investment securities written off	(101,280)	-
Allowance for losses on loan portfolio	19,802,670,452	5,041,606,385
Provision for contingent loans	4,825,694	402,134
Release of allowance for losses on loan portfolio	(34,166,998)	-
Provision for interest receivable	119,727,619	52,018,418
Provision for other assets	-	87,000,000
Depreciation of property and equipment and amortization of deferred charges	3,122,521,425	1,017,814,227
Accrual for length-of-service benefits	3,404,080,052	3,391,049,539
Transfers to trust fund and payment of length-of-service benefits	(1,243,080,052)	(784,436,674)
Income tax provision	36,450,029,879	8,100,024,919
Deferred income tax	9,286,781,716	(450,435,258)
Net change in		
Overnight deposits	(4,526,302,000)	(332,600,000)
Interest and commissions receivable	(6,620,274,126)	(1,017,762,274)
Other assets	(61,200,351,898)	(4,705,462,592)
Accruals and other liabilities	<u>81,920,998,939</u>	<u>9,163,723,975</u>
Net cash provided by operating activities	<u>119,632,583,443</u>	<u>31,933,498,905</u>
<b>Cash flows from financing activities</b>		
Contributions pending capitalization	11,346,304,654	5,316,958,421
Net change in		
Customer deposits	3,217,442,971,534	435,526,689,248
Borrowings	70,350,385	(15,801,237)
Interest and commissions payable	<u>172,060,559</u>	<u>13,364,680</u>
Net cash provided by financing activities	<u>3,229,031,687,132</u>	<u>440,841,211,112</u>
<b>Cash flows from investing activities</b>		
Loans granted during the period	(2,342,259,679,048)	(669,939,289,128)
Loans collected during the period	1,276,339,664,594	394,592,182,837
Net change in		
Investments in available-for-sale securities	(331,993,801)	5,878,072,290
Investments in held-to-maturity securities	(639,815,484)	558,699,243
Restricted investments	20,631,804	(14,145,863)
Investments in other securities	(30,000,000,000)	324,814,000
Property and equipment	<u>(24,183,840,373)</u>	<u>(10,968,085,420)</u>
Net cash used in investing activities	<u>(1,121,055,032,308)</u>	<u>(279,567,752,041)</u>
<b>Cash and due from banks</b>		
Net change in cash and cash equivalents	2,227,609,238,267	193,206,957,976
At the beginning of the period	<u>338,977,938,474</u>	<u>145,770,980,498</u>
At the end of the period	<u>2,566,587,176,741</u>	<u>338,977,938,474</u>
<b>Supplementary information on non-cash activities</b>		
Write-off of uncollectible loans (Note 6)	183,916,915	130,848,805
Write-off of uncollectible loans (interest) (Note 7)	9,809,747	15,275,300
Reclassification of excess in (Notes 6, 7, 11 and 15)		
Contingent loans to allowance for losses on loan portfolio	-	(433,131)
Interest receivable to allowance for losses on loan portfolio	(75,452,440)	(11,230,330)
Interest receivable to other assets	(51,750)	(51,750)
Change in net unrealized gain on investments in available-for-sale securities (Note 5-b)	47,342,713	473,886,007
Net gain on sale of securities in foreign currency through DICOM (Note 5-b)	-	5,915,297,258
Loans collected through assets received as payment	57,915,727	66,084,375
Exchange difference from collection of letters of credit in foreign currency	26,945,920,609	-
Adjustment from revaluation of property and equipment (Note 10)	24,408,202,873	21,925,209,597
Creation of the Social Contingency Fund (Note 22)	15,159,652	15,159,652

The accompanying notes 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, 2017**

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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. 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, 2017, the Bank has 179 and 174 offices and external counters, respectively, a branch in Curacao, a main office and 3,130 and 3,139 employees, respectively.

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

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

The Bank's financial statements at December 31 and June 30, 2017 were approved for issue by the Board of Directors on January 10, 2018 and July 12, 2017, 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 off-shore license granted by the Central Bank of Curacao and St. Maarten and SUDEBAN in Venezuela. Capital assigned to the Branch has been contributed by the Bank (Note 8).

**Trust fund**

In August 2003, SUDEBAN issued Resolution No. 202.03 dated August 4, 2003, published in Official Gazette No. 37,748 on August 7, 2003, authorizing the Bank's fiduciary operations.

**Acquisition and merger by absorption of Stanford Bank, S.A., Banco Comercial**

On February 18, 2009, SUDEBAN, with the approval of the BCV's Board of Directors and the Higher Banking Council, resolved to take control of Stanford Bank, S.A., Banco Comercial (hereinafter Stanford Bank). The Bank participated in the auction process and on May 8, 2009 won the bid to purchase Stanford Bank. Accordingly, the merger by absorption of Stanford Bank into the Bank was approved at a Special Shareholders' Meeting of the Bank during the first semester of 2009, and SUDEBAN resolved to cease the intervention of Stanford Bank after it was acquired by the Bank. The Bank sent a communication to SUDEBAN that included the Merger Plan and a request for authorization to make the merger effective. SUDEBAN authorized the merger by absorption of Stanford Bank into the Bank effective on June 8, 2009 upon registration of the minutes with the relevant Mercantile Registry.

***Banco Nacional de Crédito, C.A., Banco Universal***  
**Notes to the financial statements**  
**December 31 and June 30, 2017**

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**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 the Higher Authority of the National Financial System (OSFIN), the Central Bank of Venezuela (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.

***Law on Banking Sector Institutions***

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

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

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

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

Deposit and lending rates are regulated by the BCV. The BCV sets maximum and minimum interest rates for deposits and credit operations based on reference rates. In this regard, at December 31 and June 30, 2017, the annual interest rate for lending operations may not exceed 24% and 29% for credit card transactions. Financial institutions may only charge an additional 3% per annum on amounts overdue from clients.

The annual interest rates on savings deposits may not fall below 16% calculated on daily balances up to Bs 20,000 and 12.50% on daily balances greater than Bs 20,000. Annual interest rates on time deposits may not fall below 14.50% (Note 12).

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

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

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

This Law establishes that the country's major corporations will annually earmark 0.5% of gross income generated in Venezuela in the prior year to investments in science, technology and innovation and their applications. Contributions must be paid and declared within the second quarter after the closing of the period in which gross income was generated. During the six-month periods ended December 31 and June 30, 2017, the Bank recorded expenses in this connection of Bs 119,556,982, included under sundry operating expenses (Note 18). In addition, at June 30, 2017, the Bank maintains an advance in this connection of Bs 119,556,982 under other assets, which will be amortized in the second semester of 2017 (Note 11).

***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. For the six-month periods ended December 31 and June 30, 2017, the Bank recorded expenses in this connection of Bs 763,588,121 and Bs 206,773,294, respectively, included under sundry operating expenses (Note 18).

***Sports and Physical Education Law***

This Law seeks to regulate physical education and the sponsorship, organization and management of sporting activities as public services. Companies subject to this Law must contribute 1% of their net or accounting income to the activities contemplated therein. During the six-month periods ended December 31 and June 30, 2017, the Bank recorded expenses in this connection of Bs 391,139,684 and Bs 124,338,022, respectively, included within sundry operating expenses (Note 18).

***New Labor Law***

The most relevant aspects of the New labor Law (LOTTT) 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. This Law became effective upon its publication in the Official Gazette.

Through Notice SIB-II-GGR-GNP-38442 of November 27, 2012, SUDEBAN clarified that, in accordance with the Accounting Manual for Banking Institutions (Accounting Manual), banks must apply International Accounting Standards (IAS) as supplemental guidance for issues not treated in said Accounting Manual, prudential regulations or prevailing accounting principles generally accepted in Venezuela issued by the Venezuelan Federation of Public Accountants (FCCPV). SUDEBAN also indicated that the methodology used to determine this liability must be applied consistently, must be contemplated in the Bank's rules and policies, and must be approved by the Board of Directors. As reflected in Minutes No. 218 of the Board of Directors' Meeting held on February 6, 2013, the Bank will use a simplified calculation, which has been duly approved, to determine its liability with respect to length-of-service benefits (Note 2-j).

**2. Basis of preparation**

The accompanying financial statements at December 31 and June 30, 2017 have been prepared based on the accounting rules and instructions of SUDEBAN included in the Accounting Manual, which differ in certain material respects from accounting principles generally accepted in Venezuela (VEN NIF) published by the 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 and the valuation of foreign currency assets and liabilities, among others.

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Through Resolution No. 648-10 of December 28, 2010, SUDEBAN deferred the presentation of consolidated or combined financial statements prepared under VEN NIF as supplementary information and established that, until otherwise stated, consolidated or combined financial statements and their notes must continue to be presented as supplementary information in accordance with generally accepted accounting principles in effect at December 31, 2007 (VEN GAAP).

At December 31 and June 30, 2017, the main differences identified by management between the accounting rules and instructions of SUDEBAN and VEN NIF that affect the Bank are the following:

**1) Inflation-adjusted financial statements**

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. Through Circular SIB-II-GGR-GNP-25188 of November 27 2017, SUDEBAN deferred the presentation of the supplementary financial statements prepared under generally accepted accounting principles, effective at December 31, 2007 (PCGA-Ven), and inflation-adjusted financial statements for the six-month period ended December 31, 2017; this supplementary information will be presented for purposes of comparison with the information at the end of the first semester of 2018.

**2) 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.

**3) Cash equivalents**

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

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

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.

**5) Permanent losses on investment securities**

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.

**6) Investments in other securities**

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

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**7) 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***

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

**8) 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.

**9) 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, they establish that for financial assets carried at amortized cost, expected losses will be recognized in the results for the period in which they were identified.

**10) 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 losses on the loan portfolio to be determined based on asset recoverability, considering the fair value of guarantees, and do not provide for a general allowance, which would have to be accounted for as a reduction of retained earnings in the statement of changes in equity.

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**11) 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.

**12) Assets received as payment and idle assets**

Assets received as payment are recorded at the lower of cost and market value and amortized using the straight-line method over 1 to 3 years. Idle assets must be written out of asset accounts after 24 months. In accordance with VEN NIF, assets received as payment are stated at the lower of cost and fair value, and are classified as available-for-sale assets or investment property depending on their use. Investment properties are depreciated over their expected income-generating term.

**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) at June 30, 2017. According to VEN NIF when an item of property and equipment is revalued, all other assets in the same class should also be revalued, and such increase should be recognized in other comprehensive income.

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

**14) 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.

**15) 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.

**16) 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 other than high risk or unrecoverable loans, which generate a deferred tax asset, and surplus from revaluation of property and equipment recorded in equity, since it is recorded according to SUDEBAN Resolutions Nos. 025.17 and 101.17 of March 28 and September 12, 2017, respectively. A deferred tax asset is not recognized for any amount exceeding future taxable income. In accordance with VEN NIF, a deferred tax asset is recognized in respect of all temporary differences between the carrying amount of assets and liabilities and their tax bases, except for the differences arising from the tax and book inflation adjustment, provided that its realization is assured beyond any reasonable doubt.

**17) Foreign currency**

Foreign currency transactions, mainly in U.S. dollars, are recorded at the official exchange rate in effect at the transaction date and balances are adjusted to the official rate prevailing at year end. The assets, liabilities and equity of the Branch abroad are translated at the effective exchange rate. Income accounts are translated at the average official exchange rate for the period. VEN NIF establish two options for

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measuring foreign currency transactions and balances: a) at the official exchange rates established in the exchange agreements issued by the BCV or b) on the basis of best estimates of future cash flows in bolivars expected to be obtained using the exchange or settlement mechanisms permitted under Venezuelan law. VEN NIF establish that exchange gains and losses on available-for-sale or held-to-maturity securities must be included in the income statement.

SUDEBAN established that gains or losses resulting from foreign exchange fluctuations must 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.

SUDEBAN established the rules to record net benefits obtained by financial institutions from transactions as bidders with the supplementary floating exchange rate (DICOM) indicating that these benefits shall be recorded in equity. Under VEN NIF, realized gains or losses resulting from the trading of financial instruments must be recorded in the income statement for the period in which they occur.

The accounting policies followed by the Bank are:

**a) Foreign currency**

Foreign currency balances and transactions are recorded at the official exchange rate in effect at the transaction date. Foreign currency balances at December 31 and June 30, 2017, are shown at the official exchange rate of Bs 9.975/US\$1.

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.

Through Resolution No. 074.16 of April 7, 2016, 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), increase capital stock (Note 22), and b) exchange gains and losses arising from exchange fluctuations of the U.S. dollar with respect to other foreign currencies are recorded in net results for the period (Notes 17 and 18).

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

The accompanying financial statements include the accounts of Banco Nacional de Crédito, C.A., Banco Universal and its Curacao Branch. Assets, liabilities and results of the Branch were integrated into 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.

Assets and liabilities, and income accounts of the Branch expressed in U.S. dollars were translated into bolivars at the official exchange rate of Bs 9.975/US\$1 at December 31 and June 30, 2017, Note 8.

**c) Investment securities**

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

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

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

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

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***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).

These investments may not remain in this category for more than one year, except for securities issued and guaranteed by the Venezuelan government and investments in shares of mutual guarantee companies.

***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. 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, 2017, the Bank has identified no unrecorded permanent impairment in the 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 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.

***Investments in other securities***

Investments in other securities include investment trusts, as well as investments not classified under any of the aforementioned categories.

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.



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**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.

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

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

***Investment securities***

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

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

***Allowance for losses on loan portfolio and provision for contingent loans***

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

***Provision for other assets***

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

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

The Bank sets aside a provision for legal and tax claims considered probable and reasonably quantifiable based on the opinion of its legal advisors. Based on this opinion, management believes that the outcome of legal and tax claims outstanding at December 31 and June 30, 2017 be favorable to the Bank (Note 27). However, this opinion is based on events to date; the outcome of these lawsuits could differ from that expected.

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

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

Other available-for-sale assets and assets idle for more than 24 months are written out of asset accounts.

**g) Property and equipment**

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

**h) Deferred expenses**

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

**i) Income tax**

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

**j) Employee benefits**

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

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

Based on the provisions of the LOTTT and the Bank's collective labor agreement, length-of-service benefits are a vested right of employees. Under the LOTTT, the Bank transfers guaranteed length-of-service benefits monthly to a trust fund on behalf of each employee. In addition, the LOTTT 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 LOTTT 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, 2017, 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 LOTTT. 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. At December 31 and June 30, 2017, this additional liability amounted to Bs 5,095,430,866 and Bs 3,447,388,056, respectively, included under accruals and other liabilities (Note 15).

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Employees' last salary, 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, 2017, employee salaries may differ from future salaries due to changes in salaries, bonuses and other payments.

Under certain conditions, the LOTTT provides for an additional indemnity for unjustified dismissals for double the amount of length-of-service benefits, which is charged to the income statement upon payment as it is considered a benefit for termination of employment, in accordance with applicable accounting regulations.

At December 31 and June 30, 2017, the method used by the Bank to calculate length-of-service benefits comply with the provisions set out by SUDEBAN, the LOTTT and the prevailing Collective Labor Agreement.

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

***Profit sharing***

Under the Collective Labor Agreement, the Bank is required to pay a share of its annual profits to its employees of up to 150 days of salary. Expenses incurred in this connection during the first six-month period of each year are paid in April and July, and the remaining amount in November. For the six-month periods ended December 31 and June 30, 2017, the Bank has recorded Bs 3,450,155,932 and Bs 909,730,875, respectively, in this connection, shown under salaries and employee benefits. At December 31, 2017, the Bank paid the full amount of this liability to its employees (liabilities for Bs 569,627,642, included under accruals and other liabilities at June 30, 2017) (Note 15).

***Vacation leave and vacation bonus***

The LOTTT and the Collective Labor Agreement grant each employee a minimum of 15 days of vacation leave each year and a vacation bonus of 23 days of salary based on length of service. For the six-month periods ended December 31 and June 30, 2017, the Bank recorded expenses in this connection for Bs 552,919,639 and Bs 512,615,114, respectively, shown under salaries and employee benefits. At December 31 and June 30, 2017, the Bank maintains accruals of Bs 988,989,153 and Bs 736,487,924, respectively, to cover expenses in this connection (Note 15).

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

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

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

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

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

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

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

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

**l) Residual value**

Residual value is the estimated value of assets upon termination of the financial lease. The Bank recognizes residual value as income when collected.

**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, 2017, 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, 2017, trust fund assets amount to Bs 30,454,120,461 (Bs 12,462,932,414 at June 30, 2017), shown under memorandum accounts (Note 20).

**n) Net income per share**

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

**o) Cash flows**

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

**p) Financial risk management**

The Bank is mainly exposed to credit and market risks (exchange rate 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.

***Market risk***

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

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

Market risk comprises two types of risk: foreign exchange and interest rate risk.

***1) Foreign exchange risk***

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

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***2) 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.

***Liquidity risk***

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

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

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

***Operational risk***

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

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

**3. Cash and due from banks**

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

	<b>December 31, 2017</b>	<b>June 30, 2017</b>
	(In bolivars)	
Demand deposits	1,544,778,433,506	85,859,231,823
Legal reserve (Note 26)	927,425,836,815	213,690,495,689
Other deposits with the BCV, equivalent to US\$2,715,395 (US\$21,000 at June 30, 2017) (Notes 4 and 15)	<u>27,086,065</u>	<u>209,475</u>
	<u><b>2,472,231,356,386</b></u>	<u><b>299,549,936,987</b></u>

At December 31 and June 30, 2017, the Bank has cash and due from banks for US\$2,489,547 and US\$2,441,782, equivalent to Bs 24,833,232 and Bs 24,356,774, respectively, deposited at BNC International Banking Corporation, in respect of deposits received in accordance with Exchange Agreement No. 20 (Notes 12 and 23). Through Circular VOI-GOC-BLOC/132 of October 13, 2016, the BCV agreed to exempt financial institutions from the obligation of transferring to BCV accounts all deposits in foreign currency received in accordance with Exchange Agreements Nos. 20 and 30 and, consequently,

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are authorized to maintain the aforementioned deposits in their correspondent accounts. To date, the Bank is awaiting instructions from regulatory entities to transfer funds in this connection.

At December 31, 2017, the Bank maintains US\$2,694,395, equivalent to Bs 26,876,590, under other deposits with the BCV in connection with funds of Bank clients awarded through DICOM (Note 12).

At December 31 and June 30, 2017, pending cash items relate to clearinghouse operations conducted by the BCV and other banks.

**4. Foreign currency assets and liabilities**

**a) Exchange control regime**

Since February 2003, the Venezuelan government established an exchange control regime, currently managed by the National Foreign Trade Center (CENCOEX), which was created in January 2014 and replaced the Commission for the Administration of Foreign Currency (CADIVI).

The Venezuelan government and the BCV enacted Exchange Agreement No. 35 on March 9, 2016. This Agreement sets the protected exchange rate (DIPRO) at Bs 9.975/US\$1 (purchase) and Bs 10/US\$1 (sale), for the food, health, sports, culture and academic sectors, among others, and a supplementary floating exchange rate (DICOM - Supplementary Exchange Rate) for other areas of the economy.

The Venezuelan government and the BCV enacted Exchange Agreement No. 38 on May 19, 2017 to establish the new DICOM exchange rate system. This is a foreign currency auction system through which the BCV, individuals and private-sector companies may offer and purchase foreign currency. Public entities may only participate as bidders. Companies may purchase an amount equivalent to 30% of their average gross monthly income of the previous tax year per month, up to a maximum of US\$400,000; individuals may purchase up to US\$500 per quarter. At December 31 and June 30, 2017, the last exchange rate defined through this system was Bs 3,345/US\$1 and Bs 2,640/US\$1, respectively.

***Subsequent event***

The Venezuelan government and the BCV enacted Exchange Agreement No. 39 on January 26, 2018. This Agreement establishes the DICOM exchange rate system, which is a foreign currency auction system through which the BCV, individuals and private-sector companies may offer and purchase foreign currency. Public entities may only participate as bidders. Companies may purchase, on a monthly basis, an amount equivalent to 30% of their average monthly gross income of the prior fiscal year, up to a maximum of €340,000, or its equivalent in another currency; individuals may purchase up to US\$420 per quarter. This Exchange Agreement repeals Exchange Agreements Nos. 35 and 38, with the exception of Article No. 7 of the latter. The effect of measuring foreign currency assets and liabilities at the DICOM exchange rate at January 31, 2018 of Bs 3,336.64/US\$1 was an increase in equity of Bs 86,699 million. In addition, on February 5, 2018, the BCV published the exchange rate resulting from the first auction of the new DICOM system, which was Bs 24,937.50/US\$1. The effect of measuring foreign currency assets and liabilities at this exchange rate was an increase of Bs 554,602 million in equity, to be recorded in the Bank's financial statements at February 28, 2018.

**b) Applicable exchange rates**

Between January 1 and December 31, 2017, the exchange rate for transactions in U.S. dollars is Bs 9.975/US\$ for all transactions.

At December 31 and June 30, 2017, the exchange rate for transactions in euros is Bs 11.966/€1 and Bs 11.3915/€1, respectively.

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

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

	December 31, 2017					June 30, 2017				
	US\$					US\$				
	Bank	Curacao Branch	Eliminations	Total	Equivalent in bolivars	Bank	Curacao Branch	Eliminations	Total	Equivalent in bolivars
<b>Assets</b>										
Cash and due from banks										
Cash	1,285,558	-	-	1,285,558	12,823,441	1,403,997	-	-	1,403,997	14,004,870
Central Bank of Venezuela (Note 3)	2,715,395	-	-	2,715,395	27,086,065	21,000	-	-	21,000	209,475
Foreign and correspondent banks	11,699,556	35,319,096	(31,297)	46,987,355	468,698,864	11,251,593	16,916,146	(31,277)	28,136,462	280,661,204
Investment securities (Note 5)	12,119,595	21,825,228	-	33,944,823	338,599,609	12,034,147	29,396,921	-	41,431,068	413,274,903
Loan portfolio (Note 6)	-	3,513,416	-	3,513,416	35,046,325	-	2,822,029	-	2,822,029	28,149,739
Current	-	3,513,416	-	3,513,416	35,046,325	-	2,822,029	-	2,822,029	28,149,739
Outstanding letters of credit negotiated	-	9,862,681	-	9,862,681	98,380,243	4,548,375	5,247,450	-	9,795,825	97,713,354
Overdue	-	730,000	-	730,000	7,281,750	-	7,793,941	-	7,793,941	77,744,561
Overdue letters of credit negotiated	-	-	-	-	-	6,892,896	-	-	6,892,896	68,756,638
(Allowance for losses on loan portfolio)	-	(6,624,731)	-	(6,624,731)	(66,081,692)	(6,823,967)	(14,019,790)	-	(20,843,757)	(207,916,476)
Interest and commissions receivable (Note 7)	134,609	206,283	-	340,892	3,400,398	131,934	1,659,136	-	1,791,070	17,865,923
Investments in subsidiaries, affiliates and branches (Note 8)	7,220,782	-	(7,220,782)	-	-	1,638,073	-	(1,638,073)	-	-
Available-for-sale assets (Note 9)	-	27,458	-	27,458	273,894	-	23,516	-	23,516	234,572
Property and equipment (Note 10)	-	7,024	-	7,024	255,369	-	12,363	-	12,363	6,172,610
Other assets (Note 11)	248,345	7,024	-	255,369	2,547,306	606,445	12,363	-	618,808	6,172,610
<b>Total assets</b>	<b>35,423,840</b>	<b>64,866,455</b>	<b>(7,252,079)</b>	<b>93,038,216</b>	<b>928,056,203</b>	<b>31,704,493</b>	<b>56,476,712</b>	<b>(1,669,350)</b>	<b>86,511,855</b>	<b>862,955,748</b>
<b>Liabilities and Equity</b>										
<b>Liabilities</b>										
Customer deposits (Note 12)	5,183,941	57,566,730	(31,297)	62,719,374	625,625,756	2,441,805	52,180,302	(31,277)	54,590,830	544,543,530
Interest and commissions payable (Note 14)	-	29,326	-	29,326	292,527	-	8,889	-	8,889	88,668
Accruals and other liabilities (Note 15)	4,708,336	49,617	-	4,757,953	47,460,581	3,514,320	2,649,448	-	6,163,768	61,483,586
<b>Total liabilities</b>	<b>9,892,277</b>	<b>57,645,673</b>	<b>(31,297)</b>	<b>67,506,653</b>	<b>673,378,864</b>	<b>5,956,125</b>	<b>54,838,639</b>	<b>(31,277)</b>	<b>60,763,487</b>	<b>606,115,784</b>
<b>Equity</b>										
Assigned capital	-	7,599,462	(7,599,462)	-	-	-	7,599,462	(7,599,462)	-	-
Capital reserves	-	2,766,551	(2,766,551)	-	-	-	1,777,332	(1,777,332)	-	-
Retained earnings	-	(3,131,602)	3,131,602	-	-	-	(7,088,478)	7,088,478	-	-
Net unrealized loss on available-for-sale securities	-	(13,629)	13,629	-	-	-	(650,243)	650,243	-	-
<b>Total equity</b>	<b>-</b>	<b>7,220,782</b>	<b>(7,220,782)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,638,073</b>	<b>(1,638,073)</b>	<b>-</b>	<b>-</b>
<b>Total liabilities and equity</b>	<b>9,892,277</b>	<b>64,866,455</b>	<b>(7,252,079)</b>	<b>67,506,653</b>	<b>673,378,864</b>	<b>5,956,125</b>	<b>56,476,712</b>	<b>(1,669,350)</b>	<b>60,763,487</b>	<b>606,115,784</b>
Contingent accounts (Note 20)	-	1,079,639	-	1,079,639	10,769,399	-	1,027,805	-	1,027,805	10,252,355
Memorandum accounts (Note 20)	95,488,606	10,757,851	-	106,246,457	1,059,808,409	119,852,206	13,600,442	-	133,452,648	1,331,190,164

At December 31, 2017, the Bank has a net monetary asset position in foreign currency of US\$16,525,005, equivalent to Bs 164,836,925 (US\$16,819,103, equivalent to Bs 167,770,552 at June 30, 2017), calculated based on the rules laid down by the BCV. This amount does not exceed the maximum limit set by the BCV, which at December 31 and June 30, 2017 is 30% of the Bank's equity, equivalent to US\$5,190,700,113 and US\$2,129,096,821, respectively.

Below is a reconciliation of the Bank's net monetary position in foreign currency, considering the exclusions established in the BCV's guidelines:

	December 31, 2017	June 30, 2017
	(In U.S. dollars)	
<b>Assets less liabilities, transaction in Venezuela</b>	25,531,563	25,748,368
<b>BCV exclusions</b>		
Principal and Interest Covered Bonds (TICC)	(8,871,898)	(8,797,280)
International 2024 Sovereign Bonds	(84)	(84)
Interest receivable on investment securities	(134,576)	(131,901)
<b>Position determined, computable as per BCV rules</b>	<b>16,525,005</b>	<b>16,819,103</b>

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At December 31 and June 30, 2017, investment securities include TICC's issued by the Bolivarian Republic of Venezuela, payable in local currency and referenced to the U.S. dollar at the official exchange rate of Bs 9.975/US\$1, and have foreign exchange indexing clauses at variable quarterly yields.

During the six-month period ended December 31, 2017, the Bank recorded exchange gains and losses of Bs 3,537,423 and Bs 846,211, respectively (Bs 2,924,807 and Bs 708,565, respectively, during the six-month period ended June 30, 2017), arising from exchange rate fluctuations of the U.S. dollar with respect to other foreign currencies (Notes 17 and 18).

**5. Investment securities**

Investment securities comprise the following:

	December 31, 2017	June 30, 2017
	(In bolivars)	
<b>Investments</b>		
Deposits with the BCV and overnight deposits	6,627,419,000	2,101,117,000
Available for sale	18,473,795,401	18,189,144,313
Held to maturity	9,976,801,659	9,328,817,527
Restricted	108,465,460	129,097,264
Other securities	37,302,841,244	7,302,841,244
Provision for investment securities	-	(101,280)
	<u>72,489,322,764</u>	<u>37,050,916,068</u>

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

Deposits with the BCV and overnight deposits comprise the following:

	December 31, 2017	June 30, 2017
	(In bolivars)	
Certificate of deposit with the BCV, with a par value of Bs 6,627,419,000, annual yield between 6% and 7%, maturing between January and February, 2018 (Bs 2,101,117,000, annual yield between 6% and 7%, maturing between July and August, 2017 at June 30, 2017)	<u>6,627,419,000</u>	<u>2,101,117,000</u> (1) - (a)

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

**Custodians of investments**

(a) Central Bank of Venezuela

**b) Investment in available-for-sale securities**

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

	December 31, 2017			June 30, 2017		
	Acquisition cost	Net unrealized gain (loss)	Book value (equivalent to fair value)	Acquisition cost	Net unrealized gain (loss)	Book value (equivalent to fair value)
	(In bolivars)					
<b>Securities issued or guaranteed by the Venezuela government</b>						
Fixed Interest Bonds (TIFs), with a par value of Bs 3,129,922,786, annual yield between 9.88% and 18%, maturing between April 2018 and January 2037 (Bs 2,989,495,329, annual yield between 9.88% and 18%, maturing between October 2017 and March 2033, at June 30, 2017)	3,571,874,155	308,917,949	3,880,792,104 (1) - (a)	3,261,466,140	314,788,804	3,576,254,944 (1) - (a)
Vebonos, with a par value of Bs 2,988,828,661, annual yield between 10.07% and 15.32%, maturing between February and November 2018 (Bs 3,119,916,713, annual yield between 10.29% and 15.54%, maturing between November 2017 and July 2033, at June 30, 2017)	3,289,512,108	483,152,756	3,772,664,864 (1) - (a)	3,554,534,982	534,054,978	4,088,589,960 (1) - (a)
Treasury Notes, with a par value of Bs 408,056,000, annual yield between 0.72% and 4.50%, maturing between February and November 2018	402,510,078	3,088,914	405,598,992 (3) - (a)	-	-	-
Principal and Interest Covered Bonds (TICCs), payable in bolivars, with a par value of US\$74,500, 5.25% annual yield, maturing in March 2019 (US\$72,800, 5.25% annual yield, maturing in March 2019, at June 30, 2017) (Note 4)	583,525	159,033	742,558 (2) - (a)	558,961	162,923	721,884 (2) - (a)
Global Bonds, with a par value of US\$800, 9.25% annual yield, maturing in September 2027 (Note 4)	5,865	(4,087)	1,778 (3) - (b)	5,865	(1,857)	4,008 (3) - (b)
	<u>7,264,485,731</u>	<u>795,314,565</u>	<u>8,059,800,296</u>	<u>6,816,565,948</u>	<u>849,004,848</u>	<u>7,665,570,796</u>



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	December 31, 2017				June 30, 2017		
	Acquisition cost	Net unrealized gain (loss)	Book value (equivalent to fair value)		Acquisition cost	Net unrealized gain (loss)	Book value (equivalent to fair value)
	(In bolivars)						
<b>Debt securities issued by Venezuela financial public-sector companies</b>							
Agriculture BANDES Certificates of Participation, with a par value of Bs 10,394,055,374, 4% annual yield, maturing in October 2018 (Bs 10,394,055,374, 4% annual yield, maturing in September 2017, at June 30, 2017)	10,394,055,374	-	10,394,055,374	(3) - (a)	10,394,055,374	-	10,394,055,374 (3) - (a)
<b>Bonds and debt securities issued by Venezuelan non-financial public-sector companies</b>							
PDVSA Bonds, issued by Petróleos de Venezuela, S.A., with a par value of US\$15,000,000, 4% annual yield, maturing in September 2017 (Note 4)	-	-	-		114,613,748	(6,888,236)	107,725,512 (e) y (f)
Global Bond, issued by C.A. La Electricidad de Caracas, with a par value of US\$250,000, 8.5% annual yield, maturing in April 2018 (Note 4)	-	-	-		1,213,608	536,755	1,750,363 (1) - (c)
	-	-	-		115,827,356	(6,351,481)	109,475,875
<b>Equity in Venezuelan non-financial private-sector companies</b>							
<b>Common shares</b>							
S.G.R. - SOGATUR, S.A., Sociedad de Garantías Recíprocas para el Sector Turismo, S.A., 10,873 shares, with a par value of Bs 1,800 each	19,571,400	-	19,571,400	(3) - (g)	19,571,400	-	19,571,400 (3) - (g)
S.G.R. - SOGAMIC, S.A., Sociedad de Garantías Recíprocas del Sector Microfinanciero, S.A., 17,500 shares, with a par value of Bs 10 each, 3.10% owned	175,000	-	175,000	(3) - (g)	175,000	-	175,000 (3) - (g)
S.G.R. - Sociedad de Garantías Recíprocas del Estado Aragua, C.A., 10,128 shares, with a par value of Bs 10 each, 1.7% owned	-	-	-	(3) - (g)	101,280	-	101,280 (3) - (g)
S.G.R. - SOGARSA, S.A., Sociedad de Garantías Recíprocas para el Sector Agropecuario, Forestal, Pesquero y Afines, S.A., 3,000 shares, with a par value of Bs 10 each, 0.028% owned	30,000	-	30,000	(3) - (g)	30,000	-	30,000 (3) - (g)
	19,776,400	-	19,776,400		19,877,680	-	19,877,680
<b>Debt securities issued by foreign financial private-sector companies</b>							
International Cooperatief UA, with a par value of US\$100,000, 10.38% annual yield, maturing in September 2020 (Note 4)	299,280	(135,949)	163,331	(1) - (f)	299,280	(134,692)	164,588 (1) - (f)
	17,678,616,785	795,178,616	18,473,795,401		17,346,625,638	842,518,675	18,189,144,313
Unrealized gain on transfer of available-for-sale securities as per SUDEBAN Notice SIB-II-CCD-36481		472,257				474,911	
		795,650,873				842,993,586	

(1) Estimated fair value is determined from trading operations on the secondary market per valuation screens or yield curves.

(2) Value is determined based on the present value of estimated future cash flows in conformity with the Accounting Manual. The fair value of TICCs is their equivalent amount in bolivars at the official exchange rate.

(3) Shown at par value or acquisition cost, which is considered as fair value.

#### **Custodians of investments**

(b) Central Bank of Venezuela

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

(d) Euroclear Bank, S.A.

(e) Pershing LLC

(f) Morgan Stanley Smith Barney

(g) Morgan Stanley Private Wealth Management

(h) Shares held in custody of private companies, S.G.R. del Estado Aragua, C.A.; S.G.R. - SOGAMIC, S.A.; S.G.R. - SOGARSA, 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 followed these guidelines to measure its available-for-sale portfolio at December 31 and June 30, 2017.

Through Notice SIB-II-CCD-36481 of November 12, 2012, SUDEBAN instructed the Bank to transfer the balances of non-convertible bearer bonds (2012 issue) issued by Fondo de Desarrollo Nacional FONDEN, S.A. for Bs 209,187,351 and those issued by Petróleos de Venezuela, S.A. for Bs 91,359,660 from the available-for-sale portfolio to the held-to-maturity portfolio, in conformity with Circular SIB-II-GGR-GNP-CCD-15075 of May 30, 2012. At December 31, 2012, the Bank calculated the fair value of the available-for-sale investments at the date of transfer and recorded an unrealized loss on these investments of Bs 7,680,340 in a separate equity account, which will be amortized until these securities mature. At December 31 and June 30, 2017, the balance of this unrealized gain is Bs 472,257 and Bs 474,911, respectively.

Through Circular SIB-II-GGR-GNP-28283 of October 20, 2016, SUDEBAN informed banking institutions that Agriculture BANDES Certificates of Participation held by the Bank at December 31 and June 30, 2017, should be accounted for as part of investments in available-for-sale securities and shall be recorded at acquisition cost.

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At period end, the Bank records fluctuations in the market value of these investments as an unrealized gain or loss on investment securities in equity. These unrealized gains or losses comprise the following:

	December 31, 2017	June 30, 2017
	(In bolivars)	
<b>Unrealized gain</b>		
Securities issued or guaranteed by the Venezuelan government in local currency	795,159,619	848,843,782
Principal and Interest Covered Bonds (TICCs) payable in bolivars	159,033	162,923
Bonds and debt securities issued by Venezuelan non-financial public-sector companies	<u>-</u>	<u>536,755</u>
	<u>795,318,652</u>	<u>849,543,460</u>
<b>Unrealized loss</b>		
Securities issued or guaranteed by the Venezuelan government in foreign currency	(4,087)	(1,857)
Bonds and debt securities issued by Venezuelan non-financial public-sector companies	-	(6,888,236)
Debt securities issued by foreign financial private-sector companies	<u>(135,949)</u>	<u>(134,692)</u>
	<u>(140,036)</u>	<u>(7,024,785)</u>
	795,178,616	842,518,675
Unrealized gain on transfer of available-for-sale securities as per SUDEBAN Notice SIB-II-CCD-36481	<u>472,257</u>	<u>474,911</u>
Net unrealized gain on available-for-sale securities	<u>795,650,873</u>	<u>842,993,586</u>

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

	<b>Fair value</b>	
	December 31, 2017	June 30, 2017
	(In bolivars)	
Up to 6 months	954,337,975	10,435,172,347
6 months to 1 year	10,486,817,394	646,211,032
1 to 5 years	2,261,662,178	2,906,416,339
Over 5 years	4,751,201,454	4,181,466,915
Without maturity	<u>19,776,400</u>	<u>19,877,680</u>
	<u>18,473,795,401</u>	<u>18,189,144,313</u>

During the six-month period ended December 31, 2017, the Bank sold investments in available-for-sale securities for Bs 5,645,985,028 (Bs 3,224,266,409 during the six-month period ended June 30, 2017), resulting in gains and losses of Bs 92,810,964 and Bs 18,354,613, respectively (Bs 11,337,614 and Bs 6,110,389, respectively, for the six-month period ended June 30, 2017), shown under other operating income and other operating expenses, respectively (Notes 17 and 18).

During the six-month period ended June 30, 2017, the Bank sold through DICOM Global Bonds from the Venezuelan government, including accumulated yields receivable, with a book value of US\$8,526,294, equivalent to Bs 85,049,784, recording a gain of Bs 5,915,297,258 in equity.

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

## Notes to the financial statements

### December 31 and June 30, 2017

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

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

	December 31, 2017				June 30, 2017		
	Acquisition cost	Amortized cost	Fair value		Acquisition cost	Amortized cost	Fair value
	(In bolivars)						
<b>Securities issued or guaranteed by the Venezuelan government</b>							
Valorons, with a par value of Bs 1,688,618,216, annual yield between 10.07% and 15.32%, maturing between April 2018 and February 2025 (Bs 1,085,920,272, annual yield between 10.29% and 15.54%, maturing between April 2018 and February 2025, at June 30, 2017)	2,214,008,345	2,067,153,215	2,229,824,997 (1) - (a)		1,478,395,035	1,351,443,992	1,467,437,358 (1) - (a)
Fixed Interest Bonds (TIFs), with a par value of Bs 1,355,268,063, annual yield between 9.88% and 18%, maturing between April 2018 and January 2026 (Bs 1,407,088,823, annual yield between 9.88% and 18%, maturing between October 2017 and January 2026, at June 30, 2017)	1,686,908,451	1,518,614,051	1,722,065,385 (1) - (a)		1,753,160,626	1,591,005,978	1,660,228,113 (1) - (a)
Principal and Interest Covered Bonds (TICCs), payable in bolivars, with a par value of US\$8,972,519, 5.25% annual yield, maturing in March 2019 (Note 4)	78,278,433	87,754,625	89,431,066 (2) - (a)		78,278,433	87,030,953	89,960,017 (2) - (a)
Sovereign Bonds with a par value of US\$100, 8.25% annual yield, maturing in October 2024 (Note 4)	766	846	208 (1) - (b)		766	835	434 (1) - (b)
	<u>3,979,195,995</u>	<u>3,673,522,737</u>	<u>4,041,321,656</u>		<u>3,309,834,860</u>	<u>3,029,481,758</u>	<u>3,217,626,922</u>
<b>Bonds and debt securities issued by Venezuelan non-financial public-sector companies</b>							
Dematerialized Certificates of Participation issued by Fondo Simón Bolívar para la Reconstrucción, S.A., with a par value of Bs 6,087,030,691, annual yield between 4.66% and 6.05%, maturing between June 2023 and November 2024 (Note 26)	6,087,030,691	6,087,030,691	6,087,030,691 (3) - (a)		6,087,030,691	6,087,030,691	6,087,030,691 (3) - (a)
PDVSA Bonds issued by Petróleos de Venezuela, S.A., with a par value of US\$6,625,900, annual yield between 5.38% and 9.25%, maturing between April 2027 and 2037 (US\$900, annual yield between 5.38% and 5.5%, maturing between April 2027 and 2037, at June 30, 2017) (Note 4)	33,509,288	33,952,113	33,952,113 (1) - (b)		4,510	5,728	3,220 (1) - (b)
Agriculture Bonds issued by Fondo de Desarrollo Nacional FONDEN, S.A., with a par value of Bs 30,000,000, 9.10% annual yield, maturing in July 2017 (Note 6)	-	-	-		<u>30,420,390</u>	<u>30,003,232</u>	<u>30,000,000</u> (1) - (a)
	<u>6,120,539,979</u>	<u>6,120,982,804</u>	<u>6,120,982,804</u>		<u>6,117,455,591</u>	<u>6,117,039,651</u>	<u>6,117,033,911</u>
<b>Certificates of deposit with foreign financial institutions</b>							
Certificates of deposits with Banco Do Brasil, S.A., with a par value of US\$11,000,000, annual yield between 1.40% and 1.58%, maturing in January 2018 (US\$11,000,000, annual yield between 1.40% and 1.58%, maturing between July and October 2017, at June 30, 2017) (Note 4)	109,725,000	109,725,000	109,725,000 (3) - (c)		109,725,000	109,725,000	109,725,000 (3) - (c)
Certificates of deposits with Itaú Unibanco, S.A., with a par value of US\$6,000,000, annual yield between 1.39% and 1.71%, maturing between January and February 2018, (US\$6,000,000, annual yield between 1.25% and 1.41%, maturing in July 2017, at June 30, 2017) (Note 4)	59,850,000	59,850,000	59,850,000 (3) - (d)		59,850,000	59,850,000	59,850,000 (3) - (d)
Certificates of deposits with Mercantil Commercebank, N.A., with a par value of US\$1,275,300, 0.6% annual yield, maturing in January 2018 (Note 4)	<u>12,721,118</u>	<u>12,721,118</u>	<u>12,721,118</u> (3) - (e)		<u>12,721,118</u>	<u>12,721,118</u>	<u>12,721,118</u> (3) - (e)
	<u>182,296,118</u>	<u>182,296,118</u>	<u>182,296,118</u>		<u>182,296,118</u>	<u>182,296,118</u>	<u>182,296,118</u>
	<u>10,282,032,092</u>	<u>9,976,801,659</u>	<u>10,344,600,578</u>		<u>9,609,586,569</u>	<u>9,328,817,527</u>	<u>9,516,955,951</u>

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

(2) Value is determined based on the present value of estimated future cash flows in conformity with the Accounting Manual. The fair value of TICCs is their equivalent amount in bolivars at the official exchange rate.

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

#### Custodians of investments

(a) Central Bank of Venezuela

(b) Euroclear Bank, S.A.

(c) Banco Do Brasil

(d) Itaú Unibanco, S.A.

(e) Mercantil Commercebank, N.A.

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

	December 31, 2017		June 30, 2017	
	Amortized cost	Fair value	Amortized cost	Fair value
	(In bolivars)			
Less than 1 year	761,331,575	831,826,792	700,237,557	750,438,819
1 to 5 years	1,949,986,209	1,982,057,340	382,872,149	402,927,615
5 to 10 years	7,265,479,427	7,511,491,709	8,245,703,439	8,363,587,019
Over 10 years	<u>4,448</u>	<u>1,652</u>	<u>4,382</u>	<u>2,498</u>
	<u>9,976,801,659</u>	<u>10,325,377,493</u>	<u>9,328,817,527</u>	<u>9,516,955,951</u>

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

At June 30, 2017, the Bank had agriculture bonds issued by Fondo Nacional de Desarrollo Nacional FONDEN, S.A. for Bs 30,003,232. Through Notice SIB-II-CCD-06140 of March 1, 2013, SUDEBAN informed the Bank that the maximum amount of agriculture bonds that may be included in the agricultural loan portfolio is Bs 473,381,100, which may be computed as part of the agricultural loans that the Bank is required to grant (Note 6).

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At December 31 and June 30, 2017, the Bank has an account in the name of the BCV at the Euroclear Bank to hold in custody all foreign currency securities held by other foreign financial institutions, as set out in Article 51 of the Law on Banking Sector Institutions. Pershing LLC, Morgan Stanley Smith Barney and Morgan Stanley Private Wealth Management only hold in custody securities of the Branch; and Banco Do Brasil, S.A, Mercantil Commercebank, N.A. and Itaú Unibanco, S.A. only have deposits and certificates of deposit.

At December 31 and June 30, 2017, unrealized losses of Bs 19,223,723 and Bs 6,141, respectively, on held-to-maturity securities issued by the Bolivarian Republic of Venezuela are considered temporary since management believes that from the standpoint of the issuer's credit risk, interest rate risk and liquidity risk, the decrease in these securities' fair value is temporary. In addition, the Bank has the intention and ability to hold these securities to maturity. Accordingly, the Bank has identified no impairment in the value of these investments.

**d) Restricted investments**

Restricted investments comprise the following:

	<b>December 31, 2017</b>		<b>June 30, 2017</b>		
	<b>Amortized cost</b>	<b>Fair value</b>	<b>Amortized cost</b>	<b>Fair value</b>	
	(In bolivars)				
<b>Certificates of deposit</b>					
Social Contingency Fund (Note 22)	74,777,215	74,777,215	58,774,959	58,774,959	(1)
Trust fund with Mercantil, C.A., Banco Universal	-	-	36,747,391	36,747,391	(1)
PNC Bank, with a par value of US\$1,768,577 (US\$1,774,572 at June 30, 2017) (Note 4)	17,641,557	17,641,557	17,602,713	17,602,713	(1)
JP Morgan Chase Bank, with a par value of US\$1,608,690 (US\$1,601,223 at June 30, 2017) (Note 4)	<u>16,046,688</u>	<u>16,046,688</u>	<u>15,972,201</u>	<u>15,972,201</u>	(1)
	<u>108,465,460</u>	<u>108,465,460</u>	<u>129,097,264</u>	<u>129,097,264</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, 2017, 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.

At June 30, 2017, the certificate of deposit in a trust fund with Mercantil, C.A., Banco Universal is used as collateral to guarantee Maestro debit card operations.

**e) Investments in other securities**

Investments in other securities comprise the following:

	<b>December 31, 2017</b>	<b>June 30, 2017</b>	
	(In bolivars)		
BANDES securities, issued by Banco de Desarrollo Económico y Social de Venezuela, with a par value of Bs 30,000,000,000, 10% annual yield, maturing between August and December 2022	30,000,000,000	-	(1) - (a)
Bolivarian Housing Securities issued by Fondo Simón Bolívar para la Reconstrucción, S.A., with a par value of Bs 7,302,841,244, annual yield between 4.66% and 6.48%, maturing between June 2020 and February 2028 (Bs 7,302,841,244, annual yield between 4.66% and 6.48%, maturing between June 2017 and February 2028 at June 30, 2017)	<u>7,302,841,244</u>	<u>7,302,841,244</u>	(1) - (a)
	<u>37,302,841,244</u>	<u>7,302,841,244</u>	

(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

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At December 31, 2017, the Bank maintains BANDES securities issued by Banco de Desarrollo Económico y Social de Venezuela for Bs 30,000,000,000. Through Circular SIB-II-GGR-GNP-15282 of June 25, 2017, SUDEBAN informed banking institutions that BANDES securities will exceptionally be computed as 0% risk-weighted items to calculate the capital adequacy ratio and that they will not be deducted from total assets to calculate the accounting capital ratio.

At December 31 and June 30, 2017, the Bank has Bolivarian Housing Securities issued by Fondo Simón Bolívar para la Reconstrucción, S.A. for Bs 7,302,841,244. These investments were computed for the construction mortgage loan portfolio until the year ended December 31, 2015.

The Bank has the ability and intention to hold the investments in other securities to maturity.

The Bank's control environment includes policies and procedures to determine investment risks by entity and economic sector. At December 31, 2017, the Bank has investment securities issued or guaranteed by the Venezuelan government of Bs 72,178,621,455, representing 99.58% of its investment securities portfolio (Bs 36,804,581,700, representing 99.34% of its investment securities portfolio at June 30, 2017).

## 6. Loan portfolio

The loan portfolio is classified as follows:

	December 31, 2017				June 30, 2017			
	Current	Rescheduled	Overdue	Total	Current	Rescheduled	Overdue	Total
	(In bolivars)							
<b>Economic activity</b>								
Wholesale and retail trade, restaurants and hotels	1,120,102,411,244	-	723,593	1,120,103,134,837	253,367,400,254	-	239,317,069	253,606,717,323
Manufacturing	258,425,366,661	-	-	258,425,366,661	23,302,462,735	-	-	23,302,462,735
Agriculture, fishing and forestry	107,589,529,824	27,790,852	-	107,617,320,676	59,427,898,749	33,181,697	62,500,000	59,523,580,446
Communal, social and consumer services	71,841,164,186	-	2,680,134	71,843,844,320	180,250,139,327	250,108	20,689,050	180,271,078,485
Financial businesses, insurance, real estate and services	41,260,489,282	-	40,552,123	41,301,041,405	8,187,306,728	-	1,811,700	8,189,118,428
Transportation, warehousing and communications	20,628,495,947	-	7,866,271	20,636,362,218	2,380,719,944	-	412,337	2,381,132,281
Mining and oil	1,268,532,295	-	2,904	1,268,535,199	183,829,212	-	193,536	184,022,748
Construction	660,920,730	-	-	660,920,730	1,344,843,449	-	-	1,344,843,449
Utilities	381,877,155	-	-	381,877,155	677,976,718	-	-	677,976,718
	<u>1,622,158,787,324</u>	<u>27,790,852</u>	<u>51,825,025</u>	<u>1,622,238,403,201</u>	<u>529,122,577,116</u>	<u>33,431,805</u>	<u>324,923,692</u>	<u>529,480,932,613</u>
Allowance for losses on loan portfolio, includes US\$6,624,731 (US\$20,843,757 at June 30, 2017) (Note 4)				(30,021,972,615)				(10,361,933,636)
				<u>1,592,216,430,586</u>				<u>519,118,998,977</u>
<b>Guarantee</b>								
Endorsement	863,280,775,331	28,875	-	863,280,804,206	226,173,551,483	93,750	54,389,631	226,228,034,864
Unsecured	557,838,591,894	26,442,777	43,953,326	557,908,987,997	144,386,433,999	31,250,555	199,437,030	144,617,121,584
Collateral	114,451,795,299	112,000	7,515,094	114,459,422,393	82,832,399,740	432,400	6,855,084	82,839,687,224
Real property mortgage	52,411,439,175	725,000	356,605	52,412,520,780	34,127,212,980	870,000	63,541,107	34,191,624,087
Written instruments	19,551,514,431	-	-	19,551,514,431	12,218,576,698	-	-	12,218,576,698
Pledge	9,084,927,889	62,500	-	9,084,990,389	23,656,876,691	62,500	-	23,656,939,191
Other guarantees	3,962,919,522	-	-	3,962,919,522	2,245,094,001	-	700,840	2,245,794,841
Chattel mortgage	1,296,412,171	245,000	-	1,296,657,171	3,120,632,063	490,000	-	3,121,122,063
Non-possessory pledge	280,411,612	174,700	-	280,586,312	361,799,461	232,600	-	362,032,061
	<u>1,622,158,787,324</u>	<u>27,790,852</u>	<u>51,825,025</u>	<u>1,622,238,403,201</u>	<u>529,122,577,116</u>	<u>33,431,805</u>	<u>324,923,692</u>	<u>529,480,932,613</u>
<b>Maturity</b>								
Overdue	-	-	51,825,025	51,825,025	-	-	324,923,692	324,923,692
Up to 30 days	841,833,727,129	-	-	841,833,727,129	117,930,959,637	36,000	-	117,930,995,637
31 to 60 days	526,276,667,824	28,875	-	526,276,696,699	114,653,075,473	-	-	114,653,075,473
61 to 90 days	59,396,636,679	-	-	59,396,636,679	167,476,568,610	-	-	167,476,568,610
91 to 180 days	33,498,269,955	245,000	-	33,498,514,955	49,944,157,130	283,067	-	49,944,440,197
181 to 360 days	54,162,567,189	-	-	54,162,567,189	31,920,482,022	547,750	-	31,921,029,772
Over 360 days	106,990,918,548	27,516,977	-	107,018,435,525	47,197,334,244	32,564,988	-	47,229,899,232
	<u>1,622,158,787,324</u>	<u>27,790,852</u>	<u>51,825,025</u>	<u>1,622,238,403,201</u>	<u>529,122,577,116</u>	<u>33,431,805</u>	<u>324,923,692</u>	<u>529,480,932,613</u>

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	December 31, 2017				June 30, 2017			
	Current	Rescheduled	Overdue	Total	Current	Rescheduled	Overdue	Total
	(In bolivars)							
<b>Type of loan</b>								
Fixed term, includes								
US\$3,876,749 (US\$4,840,687, at June 30, 2017) (Note 4)	999,148,418,047	-	7,281,749	999,155,699,796	327,351,748,641	-	49,823,819	327,401,572,460
Manufacturing	258,425,366,661	-	-	258,425,366,661	23,302,462,735	-	-	23,302,462,735
Agriculture	107,589,529,825	27,790,852	-	107,617,320,677	59,427,898,749	33,181,697	62,500,000	59,523,580,446
Factoring and discounts, includes								
US\$4,610,283, at June 30, 2017 (Note 4)	93,514,438,923	-	-	93,514,438,923	21,982,842,650	-	45,987,575	22,028,830,225
Installment, includes US\$366,667 (US\$1,165,000, at June 30, 2017) (Note 4)	73,340,278,179	-	3,770,000	73,344,048,179	56,167,334,870	-	43,982,638	56,211,317,508
Credit cards	34,974,162,795	-	37,367,503	35,011,530,298	19,014,360,925	-	39,386,658	19,053,747,583
Microcredits	22,613,006,026	-	363,292	22,613,369,318	8,594,576,438	250,108	11,683,872	8,606,510,418
Tourism	16,566,591,360	-	-	16,566,591,360	4,449,142,478	-	-	4,449,142,478
Mortgage	13,214,874,757	-	356,605	13,215,231,362	7,740,043,792	-	960,551	7,741,004,343
Vehicles	2,211,369,969	-	-	2,211,369,969	588,701,744	-	700,840	589,402,584
Employee loans	436,941,923	-	-	436,941,923	142,359,842	-	100,000	142,459,842
Letters of credit, equivalent to								
US\$8,472,033 and €1,159,260 (US\$15,086,940 and €1,402,604 at June 30, 2017) (Note 4)	98,380,244	-	-	98,380,244	97,713,340	-	68,756,640	166,469,980
Financial leases	25,428,615	-	-	25,428,615	263,390,912	-	-	263,390,912
Checking accounts	-	-	2,685,876	2,685,876	-	-	1,041,099	1,041,099
	<u>1,622,158,787,324</u>	<u>27,790,852</u>	<u>51,825,025</u>	<u>1,622,238,403,201</u>	<u>529,122,577,116</u>	<u>33,431,805</u>	<u>324,923,692</u>	<u>529,480,932,613</u>

Through Resolution No. 332.11 of December 22, 2011, SUDEBAN established the parameters to set aside provisions for loans or microcredits granted to individuals or corporations whose assets were subject to expropriation, occupation or intervention by the Venezuelan government, effective from December 1, 2011 to November 30, 2013. In addition, through Circular SIB-II-GGR-GNP-21051 of June 30, 2015, SUDEBAN established the indefinite application of measures provided in Resolution No. 332.11. At December 31 and June 30, 2017, the Bank applied the aforementioned Resolution to loans amounting to Bs 59,433,157 and Bs 480,785,338, respectively. Through Resolution No. 310.11 of December 1, 2011, SUDEBAN allows banks that granted mortgage loans to housing constructors, whose projects have been expropriated, occupied or intervened by the Venezuelan government and that assumed work completion, to defer the expenses, charges or losses that may arise from work completion for a term of no less than 10 years and no more than 15 years. During the first six-month period of 2016, the Bank requested SUDEBAN to defer the estimated losses from the execution of these projects that will not be recovered through the sale of housing units. Through Notice SIB-II-GGIBPV/GIBPV4-154476 of May 27, 2016, SUDEBAN authorized the deferral for up to 15 years. At December 31, 2017, the Bank maintains Bs 385,988,238 (Bs 408,918,233 at June 30, 2017) in this connection within other assets (Note 11).

In accordance with SUDEBAN rules, at December 31 and June 30, 2017, the Bank maintains a general allowance of Bs 17,339,159,476 and Bs 6,041,926,772, respectively, for losses on the loan portfolio, and a countercyclical allowance of Bs 12,167,139,795 and Bs 3,971,106,995, respectively, (Note 2-e).

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

	Six-month periods ended	
	December 31, 2017	June 30, 2017
	(In bolivars)	
Balance at the beginning of the period	10,361,933,636	5,439,305,913
Provided in the period	19,802,670,452	5,041,606,385
Release of allowance for losses on loan portfolio, equivalent to US\$3,425,263	(34,166,998)	-
Write-offs of uncollectible loans, includes US\$5,019,452 at December 31, 2017	(183,916,915)	(130,848,805)
Reclassification from provision for interest receivable, includes US\$21,483 (US\$114 at June 30, 2017) (Note 7)	75,452,440	11,230,330
Reclassification from (to) provision for contingent loans (Note 15)	-	433,131
Adjustment from exchange differences in respect of letters of credit in euros	-	206,682
Balance at the end of the period	<u>30,021,972,615</u>	<u>10,361,933,636</u>

***Banco Nacional de Crédito, C.A., Banco Universal***  
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At December 31, 2015, the Branch had an overdue loan for US\$3,300,000, equivalent to Bs 32,917,500, with the debtor Siderúrgica del Turbio, S.A. (SIDETUR), in respect of which the Bank initiated legal actions. On April 14, 2016, the Branch received a Resolution of the First Instance Court of Curacao in regard to file No. EJ 74192/2015, establishing that the Branch may apply the collateral security of Bs 38,068,799 recording a partial collection of the loan amounting to US\$116,343. Through Notice SIB-II-GGIBPV-GIBPV6-19310 of September 13, 2017, SUDEBAN instructed the Branch to write off the full amount of the loan since the Accounting Manual does not provide for partial collection for assets received as payment. Therefore, during the six-month period ended December 31, 2017, the Branch wrote off the loan with a charge to the provision of US\$3,183,657, equivalent to Bs 31,756,979.

During the six-month periods ended December 31 and June 30, 2017, the Bank wrote off others loans of Bs 133,904,838 and Bs 130,848,805, respectively, against the allowance for losses on the loan portfolio.

During the six-month period ended June 30, 2017, the Branch entered into the "Payment and release agreement" (the agreement) with the debtor Cargill de Venezuela, S.R.L., for collection of loans amounting to US\$5,255,348, equivalent to Bs 52,422,096 and related yield receivable of US\$1,393,835, equivalent to Bs 13,903,504, which were fully provided for and deferred, respectively. In this regard, the Bank received and recorded a security issued or guaranteed by the Bolivarian Republic of Venezuela, at its par value of US\$6,625,000 (Note 9), since management intends to request SUDEBAN authorization for holding it to maturity. The fair value of this security at the date of the agreement was US\$3,442,350 and yield receivable amounted to US\$66,388 (equivalent to Bs 34,337,441 and Bs 662,220, respectively). In addition, on May 5, 2017, the Bank requested authorization from SUDEBAN to release the allowance for losses on loan portfolio amounting to US\$5,294,763, equivalent to Bs 52,815,261 in connection with the aforementioned loans. This request included information on accounting records, the payment agreement and the special source of loans that led management to enter into the agreement. Accruals and other liabilities include US\$1,393,835 and US\$42,205 (equivalent to Bs 13,903,504 and Bs 420,995, respectively), in connection with deferred income from the loan collected and the difference between the security received as payment and the amount of the loan and interest, respectively (Note 15).

Through Notice SIB-II-GGIBPV-GIBPV6-18898 of September 6, 2017, SUDEBAN instructed the Branch to make an adjustment to recognize the market value of the security at the time it was acquired. Accordingly, it may only recognize the resulting difference to release the allowance maintained in respect of these loans. Therefore, during the six-month period ended December 31, 2017, the Branch wrote off and released the allowance for losses on loan portfolio and deferred income for US\$1,830,085, US\$3,425,263 and US\$1,436,040, respectively (equivalent to Bs 18,255,098, Bs 34,166,998 and Bs 14,324,499, respectively), with a credit to investment securities under available-for-sale assets for US\$3,266,125, equivalent to Bs 32,579,597 (Note 9), recording US\$3,425,263, equivalent to Bs 34,166,998, in the income statement under income from financial assets recovered.

In December 2017 the Bank had letters of credit in foreign currency from two debtors with a book value of US\$6,904,504, and the respective interest receivable of US\$1,164,206, equivalent to Bs 68,872,423 and Bs 11,612,951, respectively. These letters of credit and interest were collected in local currency. The Bank received a total of Bs 27,026,680,598, resulting in an increase in equity of Bs 26,945,920,609, recorded under exchange gain from holding foreign currency assets and liabilities.

During the six-month period ended December 31, 2017, the Bank recovered loans written off in previous periods of Bs 65,722,191, shown in the income statement within income from financial assets recovered (Bs 50,019,415 during the six-month period ended June 30, 2017).

At December 31, 2017, overdue loans on which interest is no longer accrued amount to Bs 51,825,025 (Bs 324,923,692 at June 30, 2017). In addition, at December 31, 2017, memorandum accounts include Bs 21,312,097 (Bs 88,569,166 at June 30, 2017), in respect of interest not recognized as income from loans on which interest is no longer accrued (Note 20).

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

Activity	December 31, 2017					June 30, 2017					Calculation basis
	Balance maintained in bolivars	Earmarked %	Required %	Number of debtors	Maximum annual interest rate %	Balance maintained in bolivars	Earmarked %	Required %	Number of debtors	Maximum annual interest rate %	
Agriculture (a)	118,011,406,051	22.29	20	295	13	59,553,613,678	23.43	22	326	13	Gross loan portfolio from previous six-month period
Small businesses	22,613,369,318	4.27	3	2,437	24	8,606,510,418	3.39	3	3,124	24	Gross loan portfolio from previous six-month period
Mortgages	1,054,625,155	0.41	20	2,267	Between 4.66 and 10.66	156,239,774	0.06	-	30	Between 4.66 and 10.66	Gross loan portfolio from previous year
Tourism (b)	16,586,162,760	9.72	5.25	26	11.62	4,468,713,878	2.62	2.5	25	11.62	Average balance of the gross loan portfolio at December 31, 2016 and 2015
Manufacturing	258,425,366,661	101.68	10	100	18	23,302,462,735	9.17	8	53	18	Gross loan portfolio at December 31, 2016
<p>(a) At December 31, 2017, the Bank maintains an agricultural loan portfolio for Bs 107,617,320,677, Agriculture Bandes Certificates of Participation for Bs 10,394,055,374 and Bs 30,000 in Class "B" shares from Sociedad de Garantías Recíprocas para el Sector Agropecuario Forestal Pesquero y Afines, S.A. (SOGARSA). These shares are imputable to the agricultural loan portfolio compliance (Bs 59,523,580,446, agriculture bonds issued by the Venezuelan government for Bs 30,003,232 and Bs 30,000, respectively, at June 30, 2017) (Note 5-b and c).</p> <p>(b) At December 31 and June 30, 2017, the Bank maintains a tourism loan portfolio for Bs 16,566,591,360 and Bs 4,449,142,478, respectively, and Bs 19,571,400 in Class "B" shares from Sociedad de Garantías Recíprocas para la Pequeña y Mediana Empresa del Sector Turismo, S.A. (SOGATUR). These shares are imputable to the tourism loan portfolio compliance (Note 5-b).</p>											

The Bank's control environment includes policies and procedures to determine credit risks by client and economic sector. Concentration of risk is limited since loans are granted to a variety of economic sectors and a large number of clients. At December 31 and June 30, 2017, the Bank's loan portfolio does not have significant risk concentrations in terms of individual clients and groups of related companies.

## 7. Interest and commissions receivable

Interest and commissions receivable comprise the following:

	December 31, 2017	June 30, 2017
	(In bolivars)	
<b>Interest receivable on investment securities</b>		
Other securities	637,705,917	86,814,572
Available for sale, includes US\$3,753 (US\$235,144 at June 30, 2017) (Note 4)	219,059,353	428,394,693
Held to maturity, includes US\$322,244 (US\$171,128 at June 30, 2017) (Note 4)	161,129,761	155,344,500
Deposits with the BCV and overnight deposits	<u>31,017,690</u>	<u>10,693,196</u>
	<u>1,048,912,721</u>	<u>681,246,961</u>
<b>Interest receivable on loan portfolio</b>		
Current, includes US\$14,895 (US\$11,039 at June 30, 2017) (Note 4)	8,491,984,166	2,485,770,737
Microcredits	203,124,471	73,601,837
Overdue, includes US\$10,403 (US\$1,225,206 at June 30, 2017) (Note 4)	72,823,773	54,005,199
Rescheduled	592,672	700,317
Agricultural	<u>48,098</u>	<u>58,853</u>
	<u>8,768,573,180</u>	<u>2,614,136,943</u>
<b>Commissions receivable</b>		
Trust fund (Note 20)	<u>25,388,643</u>	<u>10,730,569</u>
<b>Interest and commissions receivable on other accounts receivable</b>		
Interest receivable on resale agreements, equivalents to US\$180,439 (Notes 4 and 9)	-	<u>1,799,882</u>
	9,842,874,544	3,307,914,355
Provision for interest receivable and other, includes US\$10,403 (US\$31,886 at June 30, 2017) (Note 4)	<u>(77,853,565)</u>	<u>(43,439,883)</u>
	<u>9,765,020,979</u>	<u>3,264,474,472</u>



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

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

	<b>Six-month periods ended</b>	
	<b>December 31, 2017</b>	<b>June 30 2017</b>
	(In bolivars)	
Balance at the beginning of the period	43,439,883	17,978,845
Provided in the period, includes US\$5,188	119,727,619	52,018,418
Write-off of interest receivable on loans	(9,809,747)	(15,275,300)
Reclassification to provision for other assets, equivalents to US\$5,188 (Note 11)	(51,750)	(51,750)
Reclassification to allowance for losses on loan portfolio, includes US\$21,483 (US\$114 at June 30, 2017) (Note 6)	(75,452,440)	(11,230,330)
Balance at the end of the period	<u>77,853,565</u>	<u>43,439,883</u>

During the six-month periods ended December 31 and June 30, 2017, the Bank wrote off interest receivable of Bs 9,809,747 y Bs 15,275,300, respectively, against the provision for interest receivable and other.

During the six-month period ended December 31, 2017, the Bank collected interest of Bs 1,097,826 written off in previous periods, shown in the income statement within income from financial assets recovered (Bs 11,175,977 at June 30, 2017).

## **8. Investments in subsidiaries, affiliates and branches**

At a Board of Directors' Meeting held on November 25, 2009, it was resolved to contribute US\$1,000,000 to the new Branch's capital stock. This amount was fully paid in January 2010. On January 13, February 10 and April 13, 2016, the Bank resolved to contribute US\$6,599,462 to restore lost capital. The Bank paid this amount in cash between January and April 2016.

At December 31 and June 30, 2017, the Branch's capital assigned of US\$7,599,462 corresponds to contributions received by the Bank 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**

	<b>December 31, 2017</b>		<b>June 30, 2017</b>	
	<b>US\$</b>	<b>Equivalent in bolivars</b>	<b>US\$</b>	<b>Equivalent in bolivars</b>
<b>Assets</b>				
Cash and due from banks	35,319,096	352,307,983	16,916,146	168,738,556
Investment securities	21,825,228	217,706,649	29,396,921	293,234,287
Loan portfolio	7,481,366	74,626,626	1,843,630	18,390,209
Interest and commissions receivable	206,283	2,057,673	1,659,136	16,549,882
Available-for-sale assets	-	-	6,625,000	66,084,375
Property and equipment	27,458	273,894	23,516	234,572
Other assets	<u>7,024</u>	<u>70,064</u>	<u>12,363</u>	<u>123,321</u>
Total assets	<u>64,866,455</u>	<u>647,042,889</u>	<u>56,476,712</u>	<u>563,355,202</u>

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	December 31, 2017		June 30, 2017	
	US\$	Equivalent in bolivars	US\$	Equivalent in bolivars
<b>Liabilities and Equity</b>				
<b>Liabilities</b>				
Customer deposits	57,566,730	574,228,132	52,180,302	520,498,512
Interest and commissions payable	29,326	292,527	8,889	88,668
Accruals and other liabilities	49,617	494,930	2,649,448	26,428,244
	<u>57,645,673</u>	<u>575,015,589</u>	<u>54,838,639</u>	<u>547,015,424</u>
<b>Equity</b>				
Capital assigned	7,599,462	75,804,633	7,599,462	75,804,633
Capital reserves	2,766,551	27,596,346	1,777,332	17,728,887
Retained earnings	(3,131,602)	(31,237,730)	(7,088,478)	(70,707,568)
Unrealized loss on investments in available-for-sale securities	(13,629)	(135,949)	(650,243)	(6,486,174)
Total equity	<u>7,220,782</u>	<u>72,027,300</u>	<u>1,638,073</u>	<u>16,339,778</u>
Total liabilities and equity	<u>64,866,455</u>	<u>647,042,889</u>	<u>56,476,712</u>	<u>563,355,202</u>

**Income statement**

	Six-month periods ended			
	December 31, 2017		June 30, 2017	
	US\$	Equivalent in bolivars	US\$	Equivalent in bolivars
Interest income	2,215,703	22,101,637	633,696	6,321,118
Interest expense	(90,216)	(899,905)	(57,636)	(574,919)
Income from financial assets recovered	3,425,263	34,166,999	-	-
Expenses from uncollectible loans	(1,033,361)	(10,307,776)	(5,187)	(51,741)
Other operating income	921,955	9,196,901	888,425	8,862,040
Other operating expenses	(521,642)	(5,203,379)	(632,958)	(6,313,756)
Operating expenses	(197,929)	(1,974,342)	(138,402)	(1,380,560)
Income from available-for-sale assets	224,698	2,241,332	114,051	1,137,659
Sundry operating income	4,619	46,075	1,527	15,232
Income tax	(2,995)	(29,875)	(2,499)	(24,928)
Net income	<u>4,946,095</u>	<u>49,337,297</u>	<u>801,017</u>	<u>7,990,145</u>

At December 31 and June 30, 2017, the Branch's assets, liabilities and results were integrated into the Bank's financial statements.

The equivalent amounts in bolivars shown in the above financial statements at December 31 and June 30, 2017 have been translated at the official exchange rate of Bs 9.975/US\$1 (Note 2-b).

**9. Available-for-sale assets**

Available-for-sale assets comprise the following:

	December 31, 2017	June 30, 2017	
	(In bolivars)		
Personal property received as payment	57,915,727	-	
Securities received as payment			
Sovereign bonds, with a par value of US\$6,625,000, 9.25% annual yield, maturing in September 2027 (Note 6)	-	66,084,375	(1) - (a)
	<u>57,915,727</u>	<u>66,084,375</u>	

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

**Custodians of investments**

(a) Euroclear Bank, S.A.

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During the six-month period ended June 30, 2017, the Branch recorded securities received as payment at their par value of US\$6,625,000, equivalent to Bs 66,084,375. At June 30, 2017, the market value of these securities is Bs 33,192,860; they are in custody of Euroclear Bank, S.A.

During the six-month period ended December 31, 2017, interest income in respect of the security received as payment amounted to US\$224,698, equivalent to Bs 2,241,363, shown in the income statement within income from available-for-sale assets (US\$114,051, equivalent to Bs 1,137,659, at June 30, 2017). In addition, at June 30, 2017, yield receivable in connection with this security amounts to US\$180,439, equivalent to Bs 1,799,882, shown in the balance sheet within interest and commissions receivable (Note 7).

During the six-month period ended December 31, 2017, the Bank sold personal and real property written off at a gain of Bs 1,100,613,436, shown in the income statement under income from available-for-sale assets.

Through Notice SIB-II-GGIBPV-GIBPV6-2354 of November 9, 2017, SUDEBAN authorized the Branch to reclassify the security issued or guaranteed by the Venezuelan government to held-to-maturity securities. This security should be measured in conformity with the methodology set out in the Accounting Manual, recognizing the market value of the security when included as part of the Bank's assets (Notes 5 and 6).

At December 31 and June 30, 2017, the Bank has withdrawn available-for-sale assets for Bs 11,688,533 and Bs 17,662,247, respectively, shown in other memorandum accounts under personal and real property written off since they are overdue for more than 3 years (Note 20).

## 10. Property and equipment

Property and equipment comprises the following:

	Land	Buildings and facilities	Computer hardware	Furniture and equipment	Vehicles	Equipment for Chip project	Construction in progress	Other property	Total
	(In bolivars)								
<b>Balances at December 31, 2016</b>									
Cost	109,582,657	7,532,125,059	3,048,467,358	2,586,688,306	118,200,983	8,700,969	502,865,975	16,482,413	13,923,113,720
Accumulated depreciation	-	(214,626,697)	(709,494,363)	(380,419,813)	(17,083,991)	(4,281,056)	-	-	(1,325,905,920)
Net	<u>109,582,657</u>	<u>7,317,498,362</u>	<u>2,338,972,995</u>	<u>2,206,268,493</u>	<u>101,116,992</u>	<u>4,419,913</u>	<u>502,865,975</u>	<u>16,482,413</u>	<u>12,597,207,800</u>
<b>Balances at June 30, 2017</b>									
Opening balance	109,582,657	7,317,498,362	2,338,972,995	2,206,268,493	101,116,992	4,419,913	502,865,975	16,482,413	12,597,207,800
Additions	6,033,992,260	337,224,508	934,295,152	1,953,751,890	-	-	1,729,475,556	-	10,988,739,366
Revaluation	-	21,925,209,597	-	-	-	-	-	-	21,925,209,597
Disposals	-	-	(14,430,399)	(5,914,190)	(189,798)	-	(3,568,840)	-	(24,103,227)
Capitalizations	-	350,727,543	-	-	-	-	(350,727,543)	-	-
Depreciation expense	-	(144,292,335)	(422,266,803)	(178,070,764)	(11,575,966)	(435,049)	-	-	(756,640,917)
Withdrawals from accumulated depreciation	-	-	1,321,251	1,938,232	189,798	-	-	-	3,449,281
Closing balance	<u>6,143,574,917</u>	<u>29,786,367,675</u>	<u>2,837,892,196</u>	<u>3,977,973,661</u>	<u>89,541,026</u>	<u>3,984,864</u>	<u>1,878,045,148</u>	<u>16,482,413</u>	<u>44,733,861,900</u>
<b>Balances at June 30, 2017</b>									
Cost	6,143,574,917	30,145,286,707	3,968,332,111	4,534,526,006	118,011,185	8,700,969	1,878,045,148	16,482,413	46,812,959,456
Accumulated depreciation	-	(358,919,032)	(1,130,439,915)	(556,552,345)	(28,470,159)	(4,716,105)	-	-	(2,079,097,556)
Net	<u>6,143,574,917</u>	<u>29,786,367,675</u>	<u>2,837,892,196</u>	<u>3,977,973,661</u>	<u>89,541,026</u>	<u>3,984,864</u>	<u>1,878,045,148</u>	<u>16,482,413</u>	<u>44,733,861,900</u>
<b>Balances at December 31, 2017</b>									
Opening balance	6,143,574,917	29,786,367,675	2,837,892,196	3,977,973,661	89,541,026	3,984,864	1,878,045,148	16,482,413	44,733,861,900
Additions	-	1,260,178,772	10,001,223,169	6,315,214,392	1,356,414,000	-	5,301,925,006	-	24,234,955,339
Revaluation	-	24,408,202,873	-	-	-	-	-	-	24,408,202,873
Disposals	-	-	(353,810)	(2,820,901)	-	-	(51,312,784)	-	(54,487,495)
Capitalizations	-	6,294,597,846	-	27,822,863	-	-	(6,322,420,709)	-	-
Depreciation expense	-	(470,525,475)	(783,838,288)	(365,036,269)	(99,369,575)	(435,048)	-	-	(1,719,204,655)
Withdrawals from accumulated depreciation	-	67,318	516,796	2,788,415	-	-	-	-	3,372,529
Closing balance	<u>6,143,574,917</u>	<u>61,278,889,009</u>	<u>12,055,440,063</u>	<u>9,955,942,161</u>	<u>1,346,585,451</u>	<u>3,549,816</u>	<u>806,236,661</u>	<u>16,482,413</u>	<u>91,606,700,491</u>
<b>Balances at December 31, 2017</b>									
Cost	6,143,574,917	62,108,266,198	13,969,201,470	10,874,742,360	1,474,425,185	8,700,969	806,236,661	16,482,413	95,401,630,173
Accumulated depreciation	-	(829,377,189)	(1,913,761,407)	(918,800,199)	(127,839,734)	(5,151,153)	-	-	(3,794,929,682)
Net	<u>6,143,574,917</u>	<u>61,278,889,009</u>	<u>12,055,440,063</u>	<u>9,955,942,161</u>	<u>1,346,585,451</u>	<u>3,549,816</u>	<u>806,236,661</u>	<u>16,482,413</u>	<u>91,606,700,491</u>

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Below are the useful lives by type of asset:

	Useful life (years)	Average remaining useful life
Buildings and facilities	40	39.40
Computer hardware	4	3.28
Furniture and equipment	4-10	7.75
Vehicles	5	4.69
Equipment for Chip project	10	4.38

At December 31 and June 30, 2017, the balance of construction in progress is in respect of construction and remodeling work to the Bank's main office and to existing and new agencies, which is in compliance with the Accounting Manual.

During the six-month period ended December 31, 2017, the Bank recorded depreciation expense of Bs 1,719,204,655 (Bs 756,640,917 during the six-month period ended June 30, 2017), shown in the income statement under general and administrative expenses (Note 19).

During the six-month periods ended December 31 and June 30, 2017, to comply with SUDEBAN Resolutions Nos. 025.17 and 191.17 dated March 28 and September 12, 2017, respectively, the Bank hired an independent appraiser certified by this entity to conduct an appraisal of the Bank's Main Office, and record these assets at their revalued amounts. The accounting effect of this appraisal on the Bank's financial statements, upon consideration of the parameters set by SUDEBAN, was an increase in property and equipment of Bs 24,408,202,873 and Bs 21,925,209,597, respectively, with a charge to the equity account adjustment from revaluation of property and equipment.

## 11. Other assets

Other assets comprise the following:

	December 31, 2017	June 30, 2017
	(In bolivars)	
<b>Deferred expenses</b>		
Licenses, includes US\$16,658 and €6,137 (US\$11,703 and €63 at June 30, 2017) (Note 4)	7,820,995,765	120,662,066
Leasehold improvements, net of amortization	3,921,139,583	555,569,497
Deferred loss on mortgage loans to companies whose real property was subject to intervention from the Venezuelan government (Note 6)	385,988,238	408,918,233
Operating system (software), includes US\$9,248 (US\$20,269 at June 30, 2017) (Note 4)	<u>258,212,098</u>	<u>93,457,104</u>
	12,386,335,684	1,178,606,900
Advances to suppliers	32,505,261,648	3,852,013,688
Stationery and sundry supplies	13,406,958,516	1,122,231,286
Advances on purchase options on premises owned by the Bank	6,773,607,039	6,773,607,039
Other prepaid expenses, includes US\$192,169 (US\$552,220 at June 30, 2017) (Note 4)	3,468,800,352	690,260,575
Other sundry accounts receivable, includes US\$1,020 (US\$12,737 and €15,000 at June 30, 2017) (Note 4)	2,159,745,867	414,754,718
Prepaid taxes and subscriptions (Note 16)	1,908,054,370	2,015,794,736
Inventories of chip credit and debit cards	1,070,254,120	1,312,775,607
Credit card-related accounts receivable and balance offsettings	853,019,821	142,478,633
Guarantee deposits, includes US\$4,675 (Note 4)	48,210,518	16,636,582
Accounts receivable from employees, includes US\$24,199 at December 31, 2017 (Note 4)	34,057,817	13,750,099
Matured financial instruments receivable, equivalent to US\$36,313 (US\$31,125 at June 30, 2017) (Note 4)	362,217	310,472
Deferred tax asset (Note 16)	-	891,343,284
Contribution under the Law for the Advancement of Science, Technology and Innovation (Note 1)	-	119,556,982
Bank insurance	-	110,605,915
Claims	-	27,144,621
Pending items, include US\$38 (Note 4)	<u>4,034,114,780</u>	<u>173,521,268</u>
	<u>78,648,782,749</u>	<u>18,855,392,405</u>
Provision for other assets, includes US\$36,313 (US\$31,125 at June 30, 2017) (Note 4)	<u>(174,034,349)</u>	<u>(177,679,133)</u>
	<u>78,474,748,400</u>	<u>18,677,713,272</u>

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At December 31 and June 30, 2017, advances to suppliers of Bs 32,505,261,648 and Bs 3,852,013,688, respectively, relate mainly to purchases of equipment, teller machines and remodeling of agencies and the administrative headquarters.

At December 31, 2017, stationery and sundry supplies include office supplies for Bs 7,878,124,302; stationery for Bs 4,323,906,846; and cleaning and other supplies for Bs 1,204,927,368 (Bs 517,701,698; Bs 550,843,527 and Bs 53,686,061, respectively, at June 30, 2017).

At December 31 and June 30, 2017, advances for purchase options on premises owned by the Bank were granted to purchase administrative offices and bank agencies for Bs 6,136,824,915 and Bs 636,782,124, respectively.

At December 31, 2017, other prepaid expenses include Bs 2,418,935,554 for advertising and marketing, Bs 515,143,066 for purchase of software licenses, Bs 228,497,472 for insurance policies, and Bs 306,224,260 for other prepaid expenses (Bs 173,094,228, Bs 124,798,934, Bs 134,849,107 and Bs 257,518,306, respectively, at June 30, 2017).

At December 31, 2017, other sundry accounts receivable relate mainly to claims and in-transit operations for debit and credit card transactions of Bs 779,120,830; recovery processing of assets to be submitted to the insurance Company of Bs 176,407,379; accounts receivable from employees in connection with insurance policies and reimbursable expenses of Bs 138,346,953; uniforms for Bs 116,625,207; tax on financial transactions reimbursed to tax exempt clients of Bs 3,285,336; and other accounts receivable for Bs 945,960,162 (Bs 56,785,994, Bs 156,368,338, Bs 68,853,468, Bs 121,054,274, Bs 10,502,678 and Bs 1,189,966, respectively, at June 30, 2017).

On July 29, 2011, the Venezuelan government issued a resolution to establish the mechanisms to assign resources for financing projects developed by communal councils or other forms of social organization. In accordance with this Resolution, banks will earmark 5% of their gross pre-tax income to the National Communal Council Fund (SAFONACC) within 30 days of period end. On August 22, 2011, SUDEBAN issued Resolution No. 233.11 to require banks to record this social contribution as a prepaid expense forming part of other assets and to amortize it at a rate of 1/6 per month in the income statement within sundry operating expenses beginning in January or July, as appropriate to each six-month period. In July 2018 and January 2017, the Bank paid Bs 1,001,006,042 and Bs 347,026,100, respectively, in this connection (Note 18).

Deferred expenses comprise the following:

	<b>December 31, 2017</b>			<b>June 30, 2017</b>		
	<b>Cost</b>	<b>Accumulated amortization</b>	<b>Book value</b>	<b>Cost</b>	<b>Accumulated amortization</b>	<b>Book value</b>
	(In bolivars)					
Licenses	9,019,868,322	(1,198,872,557)	7,820,995,765	334,012,234	(213,350,168)	120,662,066
Leasehold improvements	4,148,282,886	(227,143,303)	3,921,139,583	714,494,314	(158,924,817)	555,569,497
Deferred loss on mortgage loans to companies whose real property was subject to intervention from the Venezuelan government	458,599,887	(72,611,649)	385,988,238	458,599,887	(49,681,654)	408,918,233
Operating system (software)	<u>363,880,677</u>	<u>(105,668,579)</u>	<u>258,212,098</u>	<u>125,638,281</u>	<u>(32,181,177)</u>	<u>93,457,104</u>
	<u>13,990,631,772</u>	<u>(1,604,296,088)</u>	<u>12,386,335,684</u>	<u>1,632,744,716</u>	<u>(454,137,816)</u>	<u>1,178,606,900</u>

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Below is the movement in deferred expenses for the six-month periods ended December 31 and June 30, 2017:

	Balances at June 30, 2017	Additions	Disposals	Balances at December 31, 2017
		(In bolivars)		
<b>Cost</b>				
Licenses	334,012,234	8,913,226,298	(227,370,210)	9,019,868,322
Leasehold improvements	714,494,314	3,454,083,260	(20,294,688)	4,148,282,886
Operating system (software)	125,638,281	243,735,996	(5,493,600)	363,880,677
Deferred loss on mortgage loans to companies whose real property was subject to intervention from the Venezuelan government	<u>458,599,887</u>	-	-	<u>458,599,887</u>
	<u>1,632,744,716</u>	<u>12,611,045,554</u>	<u>(253,158,498)</u>	<u>13,990,631,772</u>
<b>Accumulated amortization</b>				
Licenses	213,350,168	1,212,892,599	(227,370,210)	1,198,872,557
Leasehold improvements	158,924,817	88,513,174	(20,294,688)	227,143,303
Operating system (software)	32,181,177	78,981,002	(5,493,600)	105,668,579
Deferred loss on mortgage loans to companies whose real property was subject to intervention from the Venezuelan government	<u>49,681,654</u>	<u>22,929,995</u>	-	<u>72,611,649</u>
	<u>454,137,816</u>	<u>1,403,316,770</u>	<u>(253,158,498)</u>	<u>1,604,296,088</u>
	<u>1,178,606,900</u>			<u>12,386,335,684</u>
	Balances at December 31, 2016	Additions	Disposals	Balances at June 30, 2017
		(In bolivars)		
<b>Cost</b>				
Leasehold improvements	1,319,301,591	417,265,775	(1,022,073,052)	714,494,314
Licenses	301,268,799	78,541,024	(45,797,589)	334,012,234
Operating system (software)	53,344,129	90,845,176	(18,551,024)	125,638,281
Deferred loss on mortgage loans to companies whose real property was subject to intervention from the Venezuelan government	<u>458,599,887</u>	-	-	<u>458,599,887</u>
Other deferred expenses	<u>9,315,566</u>	-	<u>(9,315,566)</u>	-
	<u>2,141,829,972</u>	<u>586,651,975</u>	<u>(1,095,737,231)</u>	<u>1,632,744,716</u>
<b>Accumulated amortization</b>				
Leasehold improvements	118,668,173	65,187,574	(24,930,930)	158,924,817
Licenses	111,662,945	147,484,812	(45,797,589)	213,350,168
Operating system (software)	26,410,786	24,321,415	(18,551,024)	32,181,177
Deferred loss on mortgage loans to companies whose real property was subject to intervention from the Venezuelan government	<u>26,751,660</u>	<u>22,929,994</u>	-	<u>49,681,654</u>
Other deferred expenses	<u>8,066,050</u>	<u>1,249,516</u>	<u>(9,315,566)</u>	-
	<u>291,559,614</u>	<u>261,173,311</u>	<u>(98,595,109)</u>	<u>454,137,816</u>
	<u>1,850,270,358</u>			<u>1,178,606,900</u>

Leasehold improvements relate mainly to improvements made to Bank agencies.

The additions to licenses are mainly in respect of purchases of network planning and control licenses, and update of technological systems.

During the six-month periods ended December 31 and June 30, 2017, the Bank recorded amortization of deferred expenses of Bs 1,403,316,770 and Bs 261,173,311, respectively, shown in the income statement under general and administrative expenses (Note 19).

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The balance of pending items comprises the following:

	December 31, 2017	June 30, 2017
	(In bolivars)	
<b>In-transit operations</b>		
MasterCard credit card	2,093,823,505	2,030,876
Interbank Mobile Payment	1,406,580,790	-
Teller machines and remittances in foreign currency	288,488,683	2,493,909
Internet deposit remittances	176,834,969	165,573,431
Cash shortages	4,955,847	831,379
Difference in exchange for credit cards	-	1,971,051
Other pending items	<u>63,430,986</u>	<u>620,622</u>
	<u>4,034,114,780</u>	<u>173,521,268</u>

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

In-transit operations of the Interbank Mobile Payment System correspond to cash transfers with other financial institutions, which clear in the month following period closing.

Below is the movement in the provision for other assets:

	December 31, 2017	June 30, 2017
	(In bolivars)	
Balance at the beginning of the period	177,679,133	92,368,067
Provided in the period (Note 18)	-	87,000,000
Reclassification of interest receivable, equivalent to US\$5,188 (Note 7)	51,750	51,750
Write-offs of unrecoverable accounts	<u>(3,696,534)</u>	<u>(1,740,684)</u>
Balance at the end of the period	<u>174,034,349</u>	<u>177,679,133</u>

## 12. Customer deposits

Customer deposits comprise the following:

	December 31, 2017	June 30, 2017
	(In bolivars)	
<b>Checking account deposits and certificates</b>		
Non-interest-bearing checking accounts	3,136,395,812,027	531,678,197,406
Interest-bearing checking accounts	237,136,784,813	90,875,015,545
Checking accounts under Exchange Agreement No. 20, equivalent to US\$5,183,942 (US\$2,441,782 at June 30, 2017) (Notes 3, 4 and 23)	51,709,822	24,356,774
<b>Demand deposits and certificates</b>		
Non-negotiable demand deposits, bearing annual interest between 1% and 9%, maturing in January 2017	127,992,595,230	93,908,579,431
Public, State and Municipal Administration	<u>15,000,000,000</u>	<u>9,305,009,229</u>
	<u>3,516,576,901,892</u>	<u>725,791,158,385</u>

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	December 31, 2017	June 30, 2017
	(In bolivars)	
<b>Other demand deposits</b>		
Cashier's checks	11,367,227,043	5,815,565,597
Trust fund liabilities (Note 20)	8,623,489,205	957,767,928
Advance collections from credit card holders	1,145,374,292	74,928,688
Housing Savings Fund liabilities (Note 20)	<u>32,121,419</u>	<u>10,054,302</u>
	<u>21,168,211,959</u>	<u>6,858,316,515</u>
 Savings deposits, bearing 16% annual interest for savings deposits for individuals with daily balances under Bs 20,000, 12.50% for other deposits in bolivars, and 0.125% for deposits in U.S. dollars, includes US\$49,744,396 and €18,048 (US\$41,877,796 and €3,624,229 at June 30, 2017) (Note 4)	 <u>515,170,443,484</u>	 <u>115,047,772,930</u>
 Time deposits, bearing 14.50% annual interest for deposits in bolivars and between 0.02% and 3.50% for deposits in U.S. dollars, includes US\$5,334,746 (US\$3,749,559 at June 30, 2017), with the following maturities (Note 4)		
Up to 30 days	3,465,059,722	2,858,847,152
31 to 60 days	12,834,848,973	1,999,317,658
61 to 90 days	4,866,936,938	4,715,657,709
91 to 180 days	1,165,168,326	542,655,431
181 to 360 days	45,805,000	35,996,084
Over 361 days	<u>-</u>	<u>1,200,000</u>
	<u>22,377,818,959</u>	<u>10,153,674,034</u>
 Restricted customer deposits, includes US\$1,355,000 and €900,000 (Note 4)	 <u>24,285,534</u>	 <u>23,768,430</u>
	<u>4,075,317,661,828</u>	<u>857,874,690,294</u>

At December 31 and June 30, 2017, restricted customer deposits correspond to guarantee deposits for loans granted by the Branch. At December 31 and June 30, 2017, the Branch has a guarantee on these deposits, which has been correctly set up.

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

	December 31, 2017	June 30, 2017
	(In bolivars)	
Non-interest-bearing checking accounts	84,415,007,904	23,080,140,136
Non-negotiable demand deposits	26,802,402,096	9,305,009,229
Interest-bearing checking accounts, at 0.25% annual interest	20,158,600,594	9,184,916,182
Savings deposits, at 12.5% annual interest	15,000,000,000	4,279,251,963
Time deposits, at 14.5% annual interest	<u>284,750,147</u>	<u>3,332,689,410</u>
	<u>146,660,760,741</u>	<u>49,182,006,920</u>



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**13. Borrowings**

Borrowings comprise the following:

	December 31, 2017	June 30, 2017
	(In bolivars)	
<b>Borrowings from Venezuelan financial institutions, up to one year</b>		
Demand deposits, non-interest bearing checking account with Bancrerer, Banco Microfinanciero, C.A.	121,121,939	47,439,087
Mi Banco, Banco Microfinanciero, C.A.	5,795,083	8,024,428
Banplus, Banco Universal, C.A.	<u>42,008</u>	<u>41,723</u>
	<u>126,959,030</u>	<u>55,505,238</u>
<b>Borrowings from foreign financial institutions, up to one year</b>		
Demand deposits, checking account BNC International Banking Corporation, at 0.25% per annum (Note 23)	10,270,893	10,257,778
Demand deposits, non-interest bearing checking account with Arca International Bank, Inc.	109,637	1,226,158
Bancaribe Curacao Bank, N.V.	<u>626,694</u>	<u>626,695</u>
	<u>11,007,224</u>	<u>12,110,631</u>
	<u>137,966,254</u>	<u>67,615,869</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.

**14. Interest and commissions payable**

Interest and commissions payable comprise the following:

	December 31, 2017	June 30, 2017
	(In bolivars)	
<b>Expenses payable on customer deposits</b>		
Time deposits, includes US\$29,326 (US\$8,889 at June 30, 2017) (Note 4)	197,341,371	77,089,794
Non-negotiable demand deposits	162,190,270	111,031,343
Deposits in interest-bearing checking accounts	<u>5,494,189</u>	<u>4,844,134</u>
	<u>365,025,830</u>	<u>192,965,271</u>

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**15. Accruals and other liabilities**

Accruals and other liabilities comprise the following:

	December 31, 2017	June 30, 2017
	(In bolivars)	
Pending items, includes US\$21,000 (Note 4)	74,020,747,246	11,312,581,391
Income tax provision, includes US\$5,126 (US\$2,131 at June 30, 2017) (Notes 4 and 16)	44,577,803,107	8,127,773,227
Deferred interest income, includes US\$2,624,915 at June 30, 2017 (Notes 2-k and 4)	9,787,477,901	3,282,633,917
Deferred income tax liability (Note 16)	8,395,438,432	-
Withholding tax, includes US\$1,417 (US\$1,415 at June 30, 2017) (Note 4)	8,064,292,109	1,455,635,847
Accrual for length-of-service benefits (Note 2-j)	5,095,430,866	3,447,388,056
Suppliers and other sundry payables, includes US\$41,813 (US\$18,051 at June 30, 2017) (Note 4)	4,891,816,607	1,180,376,207
Tax on economic activities and other taxes payable (Note 16)	2,666,464,024	979,781,906
Fees for credit and debit card services	1,448,626,356	466,163,599
Vacations and vacation bonus payable, includes US\$1,675 at June 30, 2017 (Notes 2-j and 4)	988,989,153	736,487,924
Contribution for the prevention of money laundering and terrorism financing	970,361,415	206,773,294
Sports and Physical Education Law (Note 1)	500,348,239	142,144,408
Professional fees payable	382,277,947	105,442,675
Labor contributions and withholdings payable, includes US\$1,261 (Note 4)	303,994,908	135,190,050
Leases	220,852,289	173,632,963
Cashier's checks	155,283,627	239,613,754
Ezequiel Zamora Fund withholdings	154,070,000	89,682,995
Other provisions	95,886,522	96,664,524
Accounts payable in foreign currency, equivalent to US\$4,674,969 and €10,309 (US\$3,482,858 and €9,161 at June 30, 2017) (Note 4)	46,756,178	34,845,868
Provision for contingent loans (Note 20)	6,862,359	2,036,665
Other personnel expenses	2,141,446	105,109,573
Profit sharing (Note 2-j)	-	569,627,642
Audit provision	-	60,000,000
Advertising payable	-	994,321
Other	<u>9,962,299</u>	<u>11,665,996</u>
	<u>162,785,883,030</u>	<u>32,962,246,802</u>

Furthermore, other provisions at December 31, 2017, include a provision for municipal taxes, fines and interest of Bs 7,971,586 and others provisions of Bs 8,296,347 (Bs 7,971,586 and Bs 26,296,347, respectively, at June 30, 2017). At December 31 and June 30, 2017, it includes a provision for money laundering prevention projects for Bs 22,132,353 and Bs 4,910,355, respectively. Through Notice SIB-II-GGIBPV-GIBPV4-10112 of April 6, 2016, SUDEBAN ordered the Bank to cease its practice to pay interest on contributions pending capitalization; however, to avoid reversals in the aforementioned accrual, SUDEBAN ordered to maintain this liability, which at January 2016 amounted to Bs 47,146,007, to cover possible future contingencies. At December 31 and June 30, 2017, the Bank maintains Bs 42,523,736 in this connection.

At December 31 and June 30, 2017, fees for credit and debit card services of Bs 1,448,626,356 and Bs 466,163,599, respectively, mainly correspond to fees for the use of the VISA, Maestro, MasterCard and Suiche 7B trademarks and to point-of-sale and teller machine transactions. During the six-month periods ended December 31 and June 30, 2017, the Bank recorded expenses in this connection of Bs 9,730,893,170 and Bs 2,123,520,813, respectively, included within service fees under other operating expenses (Note 18).

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At December 31 and June 30, 2017, suppliers and other sundry payables are mainly in respect of accounts payable for services of Bs 2,888,971,046 and Bs 986,581,352, respectively; pending claims, returns and credit cards of Bs 1,925,130,154 and Bs 167,803,332, respectively; and other accounts payable of Bs 77,715,407 and Bs 25,991,523, respectively.

Below is the movement in the provision for contingent loans:

	<u>Six-month periods ended</u>	
	<u>December 31,</u>	<u>June 30,</u>
	<u>2017</u>	<u>2017</u>
	(In bolivars)	
Balance at the beginning of the period	2,036,665	2,067,662
Provided for the period	4,825,694	402,134
Reclassification to allowance for losses on loan portfolio (Note 6)	-	(433,131)
Balance at the end of the period	<u>6,862,359</u>	<u>2,036,665</u>

The balance of pending items comprises the following:

	<u>December 31,</u>	<u>June 30,</u>
	<u>2017</u>	<u>2017</u>
	(In bolivars)	
Point-of-sale transactions payable	68,789,234,364	9,330,943,051
Checks received for credit transactions	3,266,284,032	3,820,215
Mobile payment transactions payable	1,115,415,660	-
Collection of government and municipal taxes	301,745,026	1,306,082,187
Suiche 7B transactions payable	264,520,127	184,514,400
Credit card transactions	189,175,982	24,241,040
Commissions to the Central Bank of Venezuela	81,209,579	69,534,811
Other pending items	6,028,461	368,045,159
Cash surplus	5,165,765	4,153,289
Difference in exchange for credit cards	1,040,067	16,778,186
Automatic voucher differences	698,708	4,259,578
In-transit operations through SICAD, equivalent to US\$21,000 (Note 4)	209,475	209,475
In-transit operations	<u>20,000</u>	<u>-</u>
	<u>74,020,747,246</u>	<u>11,312,581,391</u>

At December 31 and June 30, 2017, 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.

At December 31 and June 30, 2017, collection of government and municipal taxes includes national and municipal taxes paid by individuals and corporations to the Tax Authorities on January 3, 2018, and between July 6 and 7, 2017, respectively.

## **16. Taxes**

### **a) Income tax**

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

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The Income Tax Law published on December 30, 2015 in Official Gazette No. 6,210, 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.

Below is the reconciliation between book income and net taxable income for the year ended December 31, 2017:

	(In bolivars)
Statutory tax rate (%)	<u>40</u>
Book income before tax	104,902,181,383
Difference between book income and taxable income	
Effect of the annual inflation adjustment	(127,571,025)
Other provisions	725,898,124
Loan portfolio, net	907,862,161
Other assets	(1,752,788,089)
Tax-exempt income, net of related expenses	(2,692,108,990)
Social contributions	660,331,606
Municipal taxes	2,199,940,788
Other effects, net	<u>6,512,809,576</u>
Tax debt in Venezuela	111,336,555,534
Taxable income from foreign source	<u>38,444,466</u>
	<u>111,375,000,000</u>
Income tax expense in Venezuela	<u>44,550,000,000</u>

For the six-month periods ended December 31 and June 30, 2017, the Bank computed income tax expense in Venezuela of Bs 36,450,000,000 and Bs 8,100,000,000, respectively.

During the six-month period ended December 31, 2017, the Branch recorded estimated income tax expense of US\$2,495 (US\$2,499 during the six-month period ended June 30, 2017). On June 27, 2013, the Curacao Tax Authorities approved the extension of Tax Ruling No. UR 15-1483 until December 31, 2018; according to this ruling, the Branch must calculate tax payable on the basis of 7% of the costs of its activities since the commencement of Branch operations, except for disbursement costs and interest on debt with a tax rate of 22%. 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).

The tax expense comprises the following:

	<u>Six-month periods ended</u>	
	December 31, 2017	June 30, 2017
	(In bolivars)	
<b>Income tax</b>		
Current	36,450,029,879	8,100,024,919
Deferred liability (asset)	<u>9,286,781,716</u>	<u>(450,435,258)</u>
	<u>45,736,811,595</u>	<u>7,649,589,661</u>

At December 31 and June 30, 2017, the Bank maintains an income tax provision of Bs 44,577,803,107 and Bs 8,127,773,227, respectively, which includes US\$5,126 and US\$2,131, respectively, in connection with the Branch (Note 15). In addition, at December 31 and June 30, 2017, the Bank has prepaid income tax amounting to Bs 1,854,870,662 and Bs 1,855,035,060, respectively, which are part of other assets and are shown within prepaid taxes and subscriptions (Note 11).

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**b) Deferred income tax**

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

Bank management determined and evaluated the deferred tax recorded. The main differences between the tax base and the carrying amount at December 31 and June 30, 2017 relate to the provision for high-risk and uncollectible loans, inflation adjustment for tax purposes pending amortization on property and equipment, deferred expenses and sundry provisions. At December 31, 2017, the Bank maintains a deferred tax liability of Bs 8,395,438,432, included under accruals and other liabilities (Note 15) (deferred tax asset of Bs 891,343,284, included under other assets at June 30, 2017 (Note 11)).

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

	December 31, 2017	June 30, 2017
	(In bolivars)	
<b>Assets</b>		
Inflation adjustment for tax purposes pending amortization on property and equipment	425,608,716	432,516,778
Other provisions and accruals	1,792,368,173	670,845,336
Allowance for losses on loan portfolio and provision for interest receivable	<u>107,335,977</u>	<u>126,599,912</u>
	<u>2,325,312,866</u>	<u>1,229,962,026</u>
<b>Liabilities</b>		
Deferred losses on mortgage loans	164,006,402	164,370,782
Prepaid expenses	<u>10,556,744,896</u>	<u>174,247,960</u>
	<u>10,720,751,298</u>	<u>338,618,742</u>
Deferred income tax asset (liability)	<u>(8,395,438,432)</u>	<u>891,343,284</u>

The movements in the deferred income tax asset accounts for the six-month periods ended December 31 and June 30, 2017 are summarized below:

	Inflation adjustment for tax purposes pending amortization on property and equipment	Other provisions and accruals	Allowance for losses on loan portfolio and provision for interest receivable	Deferred losses on mortgage loans	Prepaid expenses	Total deferred tax asset (liability)
	(In bolivars)					
At December 31, 2016	379,888,306	275,810,847	30,505,364	(143,658,521)	(101,637,970)	440,908,026
Charged (credited) to the income statement	<u>52,628,472</u>	<u>395,034,489</u>	<u>96,094,548</u>	<u>(20,712,261)</u>	<u>(72,609,990)</u>	<u>450,435,258</u>
At June 30, 2017	432,516,778	670,845,336	126,599,912	(164,370,782)	(174,247,960)	891,343,284
Charged (credited) to the income statement	<u>(6,908,062)</u>	<u>1,121,522,837</u>	<u>(19,263,935)</u>	<u>364,380</u>	<u>(10,382,496,936)</u>	<u>(9,286,781,716)</u>
At December 31, 2017	<u>425,608,716</u>	<u>1,792,368,173</u>	<u>107,335,977</u>	<u>(164,006,402)</u>	<u>(10,556,744,896)</u>	<u>(8,395,438,432)</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, 2016, the Bank made the transfer-pricing study and determined no impact on taxable income for the year then ended; the study for the year ended December 31, 2017 is currently underway.

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**d) Tax on economic activities**

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

At December 31 and June 30, 2017, the Bank recorded a tax expense of Bs 4,560,906,513 and Bs 1,519,392,505, respectively, in connection with the economic activities conducted in its offices nationwide, shown under general and administrative expenses (Note 19). At December 31, 2017, the balance pending payment in this connection amounts to Bs 2,624,793,635 (Bs 950,378,456 at June 30, 2017), and is shown under accruals and other liabilities within tax on economic activities and other taxes payable (Note 15).

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

On December 30, 2015, the Venezuelan government enacted the Law on Tax on Large Financial Transactions, whose tax rate is 0.75% applicable to operations made by incorporated and unincorporated entities that have been qualified by Seniat's System for Liquidation and Self-liquidation of Customs Duties as special taxpayers and by incorporated and unincorporated entities legally bound to them or that make payments on their behalf. Similarly, Venezuelan banks and financial institutions also pay this tax based on the transactions laid down in the aforementioned Law that give rise to such payment. This tax is effective as from February 1, 2016. During the six-month period ended December 31, 2017, the Bank recognized expenses of Bs 1,062,203,054 shown under general and administrative expenses (Bs 272,609,278 during the six-month period ended June 30, 2017) (Note 19).

**17. Other operating income**

Other operating income comprises the following:

	<b>Six-month periods ended</b>	
	<b>December 31, 2017</b>	<b>June 30, 2017</b>
	(In bolivars)	
Service fees (Note 2-k)	44,403,895,233	8,597,637,501
Commissions on trust funds (Note 20)	117,200,872	59,239,825
Gain on sale of investment securities (Note 5-b)	92,810,964	11,337,614
Exchange gain (Note 4)	3,537,423	2,924,807
Income from amortization of discount on held-to-maturity investments	<u>1,232,697</u>	<u>820,020</u>
	<b>44,618,677,189</b>	<b>8,671,959,767</b>

Sundry operating income comprises the following:

	<b>Six-month periods ended</b>	
	<b>December 31, 2017</b>	<b>June 30, 2017</b>
	(In bolivars)	
Other	82,336,166	17,036,236
Income from expenses recovered	<u>57,454,307</u>	<u>10,398,847</u>
	<b>139,790,473</b>	<b>27,435,083</b>

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**18. Other operating expenses**

Other operating expenses comprise the following:

	<b>Six-month periods ended</b>	
	<b>December 31, 2017</b>	<b>June 30, 2017</b>
	(In bolivars)	
Service fees (Notes 2-k and 15)	9,730,893,170	2,123,520,813
Amortization of premiums on held-to-maturity investments	40,521,424	41,858,939
Loss on sale of investment securities (Note 5-b)	18,354,613	6,110,389
Exchange loss (Note 4)	<u>846,211</u>	<u>708,565</u>
	<u><b>9,790,615,418</b></u>	<u><b>2,172,198,706</b></u>

Sundry operating expenses comprise the following:

	<b>Six-month periods ended</b>	
	<b>December 31, 2017</b>	<b>June 30, 2017</b>
	(In bolivars)	
Contribution to the National Fund for Communal Councils (Note 11)	1,001,006,042	347,026,100
Contribution for the Antidrug Law (Note 1)	763,588,121	206,773,294
Contribution for the Sports and Physical Education Law (Note 1)	391,139,684	124,338,022
Contribution for the Law for the Advancement of Science, Technology and Innovation (Note 1)	119,556,982	119,556,982
Other	443,714	1,048,831
Provision for other assets (Note 11)	<u>-</u>	<u>87,000,000</u>
	<u><b>2,275,734,543</b></u>	<u><b>885,743,229</b></u>

**19. General and administrative expenses**

General and administrative expenses comprise the following:

	<b>Six-month periods ended</b>	
	<b>December 31, 2017</b>	<b>June 30, 2017</b>
	(In bolivars)	
Transportation of valuables and surveillance	9,503,479,388	3,917,611,274
Maintenance and repairs	8,663,988,060	2,329,730,560
Stationery and office supplies	7,070,619,969	1,277,082,899
Sundry general expenses	6,921,970,874	1,024,634,790
Consulting and external audit	6,007,401,864	986,913,294
Tax on economic activities (Note 16)	4,560,906,513	1,519,392,505
Outsourced services	2,788,382,774	1,047,529,401
Transportation and communication expenses	2,390,493,868	1,015,129,553
Leases	2,280,914,832	881,538,630
Depreciation and impairment of property and equipment (Note 10)	1,719,204,655	756,640,917
Amortization of deferred expenses (Note 11)	1,403,316,770	261,173,311
Advertising	1,242,473,384	224,358,677
Tax on Large Financial Transactions (Note 16)	1,062,203,054	272,609,278
Legal advice	677,456,585	83,991,955
Insurance	293,069,593	130,532,456
Infrastructure expenses	274,292,534	119,300,776
Public relations	203,604,444	33,807,839
Utilities	70,687,589	33,600,848
Legal expenses	12,783,427	40,514,360
Other taxes and contributions	71,501,061	11,559,778
Other	<u>5,117,943</u>	<u>1,226,931</u>
	<u><b>57,223,869,181</b></u>	<u><b>15,968,880,032</b></u>

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**20. Memorandum accounts**

Memorandum accounts comprise the following:

	December 31, 2017	June 30, 2017
	(In bolivars)	
<b>Contingent debtor accounts</b>		
Credit card lines of credit (Note 21)	45,789,360,618	18,889,664,669
Purchases of financial futures (Note 5-a)	6,627,419,000	2,101,117,000
Guarantees granted (Note 21)	685,615,524	203,046,112
Lines of credit for discounts and factoring (Note 21)	68,193,490	32,889,765
Letters of credit issued but not negotiated, includes €900,000 (Notes 4 and 21)	<u>11,389,802</u>	<u>10,872,698</u>
	<u>53,181,978,434</u>	<u>21,237,590,244</u>
<b>Assets received in trust (Note 2-m)</b>	<u>30,454,120,461</u>	<u>12,462,932,414</u>
<b>Debtor accounts from other special trust services (Housing Loan System)</b>	<u>11,319,040,167</u>	<u>5,439,351,462</u>
<b>Other debtor memorandum accounts</b>		
Guarantees received, includes US\$26,341,526 (US\$50,805,654 at June 30, 2017) (Note 4)	2,768,605,473,439	1,227,405,132,223
Lines of credit available (includes US\$500,000 at June 30, 2017) (Notes 4 and 21)	746,706,387,229	158,870,822,028
Assets held in custody, includes US\$63,568,061 (US\$64,905,561 at June 30, 2017) (Note 4)	15,123,101,956	8,444,547,718
Performance bonds from suppliers	1,223,798,600	493,708,600
Uncollectible accounts written off	539,889,909	452,973,048
Debt reconciling and written off items, includes US\$535,988 and € 8,378 (US\$537,238 and €8,378 at June 30, 2017) (Note 4)	108,391,148	104,503,474
Securities held by other financial institutions, equivalent to US\$9,637,000 (US\$10,422,724 at June 30, 2017) (Note 4)	96,129,075	103,966,669
Deferred interest receivable on loans overdue and in litigation, includes US\$7,244 (US\$159,083 at June 30, 2017) (Notes 4 and 6)	21,312,097	88,569,166
Guarantees on collateral granted	41,289,849	41,289,849
Guarantees in foreign currency, equivalent to US\$3,830,093 (Note 4)	38,205,183	38,205,183
Collections in foreign currency, equivalent to US\$1,664,007 (Note 4)	16,598,470	16,598,470
Personal and real property written off (Note 9)	11,688,533	17,662,247
Other, includes US\$628,803 (US\$595,036 at June 30, 2017) (Note 4)	7,097,171	6,659,067
Taxes receivable	1,616,964	1,616,964
Currency awarded through SICAD, equivalent to US\$23,684 (Note 4)	<u>236,250</u>	<u>236,250</u>
	<u>3,532,541,215,873</u>	<u>1,396,086,490,956</u>
	<u>3,627,496,354,935</u>	<u>1,435,226,365,076</u>

At December 31 and June 30, 2017, securities in custody of other financial institutions of Bs 96,129,075 and Bs 103,966,669, respectively, are held in Commerzbank, A.G.

At December 31, 2017, in accordance with the Accounting Manual, the Bank has set aside a general and specific provision for contingent debtor accounts of Bs 6,862,359 (Bs 2,036,665 at June 30, 2017), shown under accruals and other liabilities (Note 15).



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**a) Assets received in trust**

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

	December 31, 2017	June 30, 2017
	(In bolivars)	
<b>Assets</b>		
Cash and due from banks (Note 12)	<u>8,623,489,205</u>	<u>957,767,928</u>
Investment securities	<u>13,328,649,983</u>	<u>6,122,365,718</u>
Loan portfolio	<u>8,178,761,645</u>	<u>4,846,385,068</u>
Loans and advances to beneficiaries of length-of-service benefits	8,178,755,218	4,846,378,641
Loans receivable	<u>6,427</u>	<u>6,427</u>
Interest receivable on investment securities	<u>200,486,365</u>	<u>123,753,973</u>
Other assets	<u>122,733,263</u>	<u>412,659,727</u>
<b>Total assets</b>	<u><u>30,454,120,461</u></u>	<u><u>12,462,932,414</u></u>
<b>Liabilities and Equity</b>		
Liabilities		
Other liabilities	<u>29,141,641</u>	<u>14,679,641</u>
<b>Total liabilities</b>	<u><u>29,141,641</u></u>	<u><u>14,679,641</u></u>
Equity		
Capital assigned to trusts	29,547,436,205	12,060,300,321
Retained earnings	<u>877,542,615</u>	<u>387,952,452</u>
<b>Total equity</b>	<u><u>30,424,978,820</u></u>	<u><u>387,952,452</u></u>
<b>Total liabilities and equity</b>	<u><u>30,454,120,461</u></u>	<u><u>12,462,932,414</u></u>

Below is a breakdown of assets received in trust:

	December 31, 2017	June 30, 2017
	(In bolivars)	
<b>Assets received in trust</b>		
Length-of-service benefits	29,401,243,356	11,011,034,591
Administration	565,644,387	1,072,168,812
Investment	<u>487,232,718</u>	<u>379,729,011</u>
	<u><u>30,454,120,461</u></u>	<u><u>12,462,932,414</u></u>

At December 31, 2017, combined trust fund assets include Bs 16,614,602,698 in respect of trust funds opened by government agencies, representing 54.56% of total assets received in trust (Bs 5,748,876,563, representing 46.18% at June 30, 2017).

At December 31 and June 30, 2017, cash and due from banks includes Bs 8,623,489,205 and Bs 957,767,928, respectively, related to funds received from trust fund operations that are managed through checking accounts with the Bank and are used to receive or pay all funds; they earn 6% annual interest (Note 12). During the six-month periods ended December 31 and June 30, 2017, the Bank's trust fund earned income of Bs 94,981,620 and Bs 25,136,694, respectively, from cash and due from banks.

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## Notes to the financial statements

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

	December 31, 2017			June 30, 2017		
	Acquisition cost	Amortized cost	Fair value	Acquisition cost	Amortized cost	Fair value
	(In bolivars)					
<b>Debt securities issued by Venezuelan non-financial private-sector companies</b>						
<b>Debtenture bonds</b>						
Corporación Grupo Químico, C.A., with a par value of Bs 950,000,000, annual yield between 15.85% and 23.50%, maturing between September 2019 and November 2020 (Bs 350,000,000, 14.5% annual yield, maturing in September 2019, at June 30, 2017)	950,000,000	950,000,000	950,000,000 (1) - (a)	350,000,000	350,000,000	350,000,000 (1) - (a)
Montana Gráfica, C.A., with a par value of Bs 577,000,000, 20% annual yield, maturing in June 2020	577,000,000	577,000,000	577,000,000 (1) - (a)	-	-	-
Agropecuaria INSA de Venezuela AGROINSA, C.A., with a par value of Bs 500,000,000, 26.5% annual yield, maturing in September 2021	500,000,000	500,000,000	500,000,000 (1) - (a)	-	-	-
La Montserratina, C.A., with a par value of Bs 500,000,000, 21% annual yield, maturing in May 2021	500,000,000	500,000,000	500,000,000 (1) - (a)	500,000,000	500,000,000	500,000,000 (1) - (a)
Inelectra, S.A.C.A., with a par value of Bs 300,000,000, annual yield between 17.53% and 19%, maturing between October and December 2019	300,000,000	300,000,000	300,000,000 (1) - (a)	300,000,000	300,000,000	300,000,000 (1) - (a)
Venezolana de Frutas, C.A., with a par value of Bs 300,000,000, 22.5% annual yield, maturing in October 2020	300,000,000	300,000,000	300,000,000 (1) - (a)	-	-	-
Automerados Plaza's, C.A., with a par value of Bs 200,000,000, 18% annual yield, maturing in March 2020	200,000,000	200,000,000	200,000,000 (1) - (a)	200,000,000	200,000,000	200,000,000 (1) - (a)
Avior Airlines, C.A., with a par value of Bs 200,000,000, 20% annual yield, maturing in May 2020	200,000,000	200,000,000	200,000,000 (1) - (a)	200,000,000	200,000,000	200,000,000 (1) - (a)
Toyota Servicios de Venezuela, C.A., with a par value of Bs 120,000,000, annual yield between 16.75% and 16.99%, maturing in October 2021	120,000,000	120,000,000	120,000,000 (1) - (a)	120,000,000	120,000,000	120,000,000 (1) - (a)
F.V.I. Fondo de Valores Inmobiliarios, S.A.C.A., with a par value of Bs 100,000,000, annual yield between 8.65% and 14%, maturing in May and October 2022 (Bs 70,000,000, annual yield between 8.59% and 9.27%, maturing between September 2017 and May 2020, at June 30, 2017)	100,000,000	100,000,000	100,000,000 (1) - (a)	70,000,000	70,000,000	70,000,000 (1) - (a)
Corporación Digitel, C.A., with a par value of Bs 66,666,667, annual yield between 15.92% and 16.23%, maturing between February and November 2018 (Bs 90,284,000, annual yield between 15.61% and 16.32%, maturing between November 2017 and 2018, at June 30, 2017)	66,666,667	66,666,667	66,666,667 (1) - (a)	90,436,840	90,299,944	90,284,000 (1) - (a)
Dominguez & Cia., S.A., with a par value of Bs 40,000,000, annual yield 1 between 6.6% and 17.5%, maturing in March 2020	40,000,000	40,000,000	40,000,000 (1) - (a)	40,000,000	40,000,000	40,000,000 (1) - (a)
	<u>3,853,666,667</u>	<u>3,853,666,667</u>	<u>3,853,666,667</u>	<u>1,870,436,840</u>	<u>1,870,299,944</u>	<u>1,870,284,000</u>
<b>Sundry obligations</b>						
Mercantil Servicios Financieros, C.A., with a par value of Bs 800,000,000, 16.5% annual yield, maturing between December 2019 and April 2020	800,000,000	800,000,000	800,000,000 (1) - (a)	-	-	-
Netuno, C.A., with a par value of Bs 500,000,000, annual yield between 14% and 24%, maturing between January 2018 and November 2020 (Bs 5,000,000, 14% annual yield, maturing in January 2018, at June 30, 2017)	500,000,000	500,000,000	500,000,000 (1) - (a)	5,000,000	5,000,000	5,000,000 (1) - (a)
Corimon, C.A., with a par value of Bs 400,000,000, 20% annual yield, maturing in February 2020	400,000,000	400,000,000	400,000,000 (1) - (a)	400,000,000	400,000,000	400,000,000 (1) - (a)
Ron Santa Teresa, C.A., with a par value of Bs 400,000,000, 22% annual yield, maturing in February 2021	400,000,000	400,000,000	400,000,000 (1) - (a)	400,000,000	400,000,000	400,000,000 (1) - (a)
Cerámica Carabobo, S.A., with a par value of Bs 250,000,000, 15.15% annual yield, maturing in February 2019	250,000,000	250,000,000	250,000,000 (1) - (a)	250,000,000	250,000,000	250,000,000 (1) - (a)
	<u>2,350,000,000</u>	<u>2,350,000,000</u>	<u>2,350,000,000</u>	<u>1,055,000,000</u>	<u>1,055,000,000</u>	<u>1,055,000,000</u>
<b>Commercial paper</b>						
Mercantil Servicios Financieros, C.A., with a par value of Bs 3,050,000,000, annual yield between 12.63% and 15.73%, maturing between April and August 2018	2,729,466,150	2,816,360,356	3,050,000,000 (1) - (a)	-	-	-
<b>Asset-backed securities</b>						
Titularizadora Univerprima, C.A., with a par value of Bs 100,017,500, 15.34% annual yield, maturing in April 2018 (Bs 200,035,000, 17% annual yield, maturing in April 2018, at June 30, 2017)	100,017,500	100,017,500	100,017,500 (1) - (a)	200,035,000	200,035,000	200,035,000 (1) - (a)
	<u>9,033,150,317</u>	<u>9,120,044,523</u>	<u>9,353,684,167</u>	<u>3,125,471,840</u>	<u>3,125,334,944</u>	<u>3,125,319,000</u>
<b>Securities issued or guaranteed by the Venezuelan government</b>						
Fixed Interest Bond (TIFs), with a par value of Bs 1,683,781,263, annual yield between 13.5% and 18%, maturing between April 2018 and May 2036 (Bs 985,282,750, annual yield between 14.5% and 18%, maturing between April 2018 and March 2033, at June 30, 2017)	1,683,781,263	1,655,653,084	1,818,512,352 (2) - (b)	1,124,191,177	1,103,168,782	1,259,411,795 (2) - (b)
Veponos, with a par value of Bs 1,603,913,641, annual yield between 10.07% and 15.32%, maturing between April 2018 and July 2033 annual yield (Bs 1,324,231,155, between 10.29% and 15.54%, maturing between November 2017 and July 2033, at June 30, 2017)	1,603,913,641	1,552,952,376	1,820,500,324 (2) - (b)	1,528,173,612	1,488,303,659	1,739,887,724 (2) - (b)
	<u>3,287,694,904</u>	<u>3,208,605,460</u>	<u>3,639,012,676</u>	<u>2,652,364,789</u>	<u>2,591,472,441</u>	<u>2,999,299,519</u>
<b>Debt securities issued by Venezuelan financial private-sector companies</b>						
Bancrecer, S.A., Banco Microfinanciero, with a par value of Bs 1,000,000,000, 15% annual yield, maturing in January 2018	1,000,000,000	1,000,000,000	1,000,000,000 (1) - (c)	-	-	-
Banco Occidental de Descuento, Banco Universal, with a par value of Bs 405,558,333, 14.5% annual yield, maturing in August 2017	-	-	-	405,558,333	405,558,333	405,558,333 (1) - (d)
	<u>1,000,000,000</u>	<u>1,000,000,000</u>	<u>1,000,000,000</u>	<u>405,558,333</u>	<u>405,558,333</u>	<u>405,558,333</u>
	<u>13,320,845,221</u>	<u>13,328,649,983</u>	<u>13,992,696,843</u>	<u>6,183,394,962</u>	<u>6,122,365,718</u>	<u>6,530,176,852</u>

(1) Corresponds to par value or acquisition cost, 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) Caja Venezolana de Valores, S.A.
- (b) Central Bank of Venezuela
- (c) Bancreecer, S.A., Banco Microfinanciero
- (d) Banco Occidental de Descuento, Banco Universal, C.A.

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Below is the classification of investment securities according to maturity:

	<b>December 31, 2017</b>		<b>June 30, 2017</b>	
	<b>Amortized cost</b>	<b>Fair value</b>	<b>Amortized cost</b>	<b>Fair value</b>
	(In bolivars)			
Up to 6 months	2,182,671,216	2,238,849,801	444,858,277	445,308,637
6 months to 1 year	1,850,616,983	2,034,559,971	294,519,984	299,611,167
1 to 5 years	6,641,688,498	6,762,401,387	3,366,382,540	3,471,587,694
Over 5 years	<u>2,653,673,286</u>	<u>2,956,885,684</u>	<u>2,016,604,917</u>	<u>2,313,669,354</u>
	<u>13,328,649,983</u>	<u>13,992,696,843</u>	<u>6,122,365,718</u>	<u>6,530,176,852</u>

At December 31, 2017, interest receivable on investment securities amounts to Bs 200,486,365 (Bs 123,753,973 at June 30, 2017).

At December 31 and June 30, 2017, loans and advances to beneficiaries of the length-of-service benefit trust fund are in respect of 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, 2017, loans and advances to beneficiaries of the length-of-service benefit trust fund include Bs 654,859,588 (Bs 373,451,911 at June 30, 2017) from Bank employees; Bs 4,406,537,367 from private length-of-service benefit trust funds, and Bs 3,117,358,263, from government agencies (Bs 2,240,902,841 and Bs 2,232,023,889, respectively, at June 30, 2017).

Fiduciary remuneration payable relates to commissions payable to the Bank as set out in the trust fund agreements signed by trustors and the Bank as trustee. It is calculated on the monthly average capital of the trust fund and is deducted from the product or capital, depending on the terms of the contract. Furthermore, the commission paid by the trust fund and the trustors to the Bank during the six-month period ended December 31, 2017 amounted to Bs 117,200,872 (Bs 59,239,825 during the six-month period ended June 30, 2017) (Note 17).

At December 31, 2017, length-of-service benefit trust funds in favor of Bank employees amount to Bs 2,189,996,925 (Bs 1,162,479,991 at June 30, 2017).

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, 2017, the Venezuelan government or its decentralized agencies have only set up length-of-service benefit trust funds.

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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, 2017	June 30, 2017
	(In bolivars)	
<b>Assets</b>		
Cash and due from banks (Note 12)	32,121,419	10,054,302
Investment securities	11,159,254,342	5,284,811,025
Loan portfolio	127,308,642	144,065,788
Interest receivable	243,570	308,152
Other assets	<u>112,194</u>	<u>112,195</u>
Total assets	<u>11,319,040,167</u>	<u>5,439,351,462</u>
<b>Liabilities</b>		
Contributions to the Housing Savings Fund	11,015,211,193	5,138,197,835
Liabilities to BANAVIH	<u>243,716,487</u>	<u>243,717,303</u>
Total liabilities	<u>11,258,927,680</u>	<u>5,381,915,138</u>
Income	<u>60,112,487</u>	<u>57,436,324</u>
Total liabilities and income	<u>11,319,040,167</u>	<u>5,439,351,462</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 BANAHIV 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, 2017, the Bank has an investment trust in BANAVIH for Bs 11,159,254,342 (Bs 5,284,811,025 at June 30, 2017) 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.

At December 31, 2017, the Bank has granted loans out of BANAVIH resources of Bs 127,308,642 (Bs 144,065,788 at June 30, 2017). These loans bear annual interest between 4.66% and 8.55%.

At December 31, 2017, the Housing Savings Fund has 1,344 debtors (1,493 debtors at June 30, 2017).

During the six-month period ended December 31, 2017, the Bank recorded income Bs 913,834 (Bs 723,226 during the six-month period ended June 30, 2017) from commissions charged to BANAVIH for the administration of resources related to the Mandatory Housing Savings Fund, shown under interest income.

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

**Credit-related financial instruments**

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

**a) Guarantees granted**

After conducting a credit risk analysis, the Bank provides guarantees to certain customers within their line of credit; they are issued to a beneficiary who may execute the guarantee if the customer fails to comply with the terms of the agreement. At December 31 and June 30, 2017, these guarantees earned annual commissions of 1%. These commissions are recorded monthly while the guarantees are in force.

At December 31, 2017, Bank guarantees amount to Bs 685,615,524 (Bs 203,046,112 at June 30, 2017) (Note 20).

**b) Credit limits**

Credit limit contractual agreements are granted to customers subject to prior credit risk assessments and, if needed, obtention of any guarantee required by the Bank to cover risk for each customer. These agreements are for specific periods, provided that customers do not default on the terms set forth therein (Note 20). The Bank may exercise its option to cancel a credit commitment with a particular customer.

**c) Letters of credit**

Letters of credit usually mature within 90 days, and are renewable. They are generally issued to finance a trade agreement for the shipment of goods from a seller to a buyer. At December 31 and June 30, 2017, the Bank charged a commission of between 0.5% and 2% on the amount of letters of credit. Unused letters of credit at December 31, 2017 amount to Bs 11,389,802 (Bs 10,872,698 at June 30, 2017) (Note 20).

The Bank's exposure to credit loss in the event of noncompliance by customers with terms for extended credit, letters of 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 accounts receivable, property and equipment or warranties on investment securities.

**22. Equity**

**a) Capital stock and authorized capital**

At December 31 and June 30, 2017, the Bank's paid-in capital amounts to Bs 3,031,930,372, represented by 3,031,930,372 non-convertible common shares of the same class with a par value of Bs 1 each, fully subscribed and paid-in. The Bank complies with the minimum capital required under the current legislation.

At a Regular Shareholders' Meeting held on March 30, 2016, it was resolved to declare and pay dividends for Bs 560,000,000, to be distributed as follows: Bs 140,000,000 payable in cash with a charge to unappropriated surplus, and Bs 420,000,000 through a stock dividend payable with a charge to restricted surplus. On October 5, 2016, and upon a favorable pronouncement from OSFIN, SUDEBAN issued Notice SIB-II-GGR-GA-26867 authorizing the capital increase. Additionally, in the aforementioned Notice, SUDEBAN authorized the Bank to record a cash dividend payable of Bs 140,000,000 in equity under share

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premium and paid-in surplus, taking into consideration that at the aforementioned Regular Shareholders' Meeting it was unanimously resolved to provide the resources to increase the Bank's capital stock. Through Resolution No. DSNV-0099-2017 of January 26, 2017, the SNV authorized the public offering and listing of shares in the National Securities Registry.

At a Regular Shareholders' Meeting held on September 28, 2016, it was resolved to declare and pay dividends for Bs 660,000,000, to be distributed as follows: Bs 165,000,000 payable in cash with a charge to unappropriated surplus, and Bs 495,000,000 through a stock dividend payable with a charge to restricted surplus. On October 28, 2016, through Notice SIB-II-GGIBPV-GIBPV4-29452, SUDEBAN authorized the Bank to record the cash dividend of Bs 165,000,000 in equity under share premium and paid-in surplus, taking into consideration that at the aforementioned Regular Shareholders' Meeting it was unanimously resolved to provide the resources to increase the Bank's capital stock. Through Resolution No. 009/2017 of December 29, 2017, received by the Bank on January 21, 2018, the SNV authorized the public offering and listing of shares in the National Securities Registry. To date, the Bank is completing the requirements of the Stock Market Law to formalize the capital increase.

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

Meeting date	Type of increase	Amount of the increase (In bolivars)	Increase method	Regulatory entities pending authorization
January 25, 2017	Public offering of shares at a premium	200,000,000	Issue of non-convertible common shares with a par value of Bs 1 per share, at a premium equivalent to 3.5 times the equity value of the share	SNV
March 29, 2017	Stock dividends	1,900,000,000	25% with a charge to unappropriated surplus and 75% with a charge to restricted surplus	SUDEBAN and SNV
September 27, 2017	Stock dividends	5,600,000,000	25% with a charge to unappropriated surplus and 75% with a charge to restricted surplus	SUDEBAN and SNV
December 20, 2017	Premium capitalization on capital contributions	6,555,451,276	With a charge to paid-in surplus	SUDEBAN and SNV

At a Special Shareholders' Meeting held on January 25, 2017, it was resolved to increase capital to up to Bs 200,000,000, through the public offering of non-convertible common shares with a par value of Bs 1 at a premium. Through Notice SIB-II-GGIBPV-GIBPV4-00900 of January 25, 2017, SUDEBAN informed that once the capital increase proposed at the aforementioned Shareholders' Meeting is approved, the Bank will be responsible for making the arrangements so that cash contributions to be made by buyers of shares for premiums are sufficient. These contributions should be recorded in equity under contributions pending capitalization so as to comply with current regulations. During the six-month periods ended December 31 and June 30, 2017, the Bank received contributions of Bs 11,346,304,654 and Bs 5,316,958,421, respectively, from its shareholders in this connection; these contributions are included in equity under contributions pending capitalization. Through Notice SIB-GGIBPV-GIBPV4-16085 of August 3, 2017, SUDEBAN informed it had no objections to the contents of the Shareholders' Meeting minute of January 25, 2017; accordingly, on August 9, 2017, the Bank sent a request to the SNV asking for its authorization to publicly offer up to 200,000,000 new shares, with a par value of Bs 1 each, for a total of up to Bs 200,000,000. On January 25, 2018, and upon favorable pronouncement from OSFIN, SUDEBAN issued Notice SIB-II-GGR-GA-01342 authorizing the capital increase. To date, the Bank is awaiting a response from the SNV.

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At a Regular Shareholders' Meeting held on March 29, 2017, it was resolved to declare and pay dividends for Bs 1,900,000,000, to be distributed as follows: Bs 475,000,000 payable in cash with a charge to unappropriated surplus, and Bs 1,425,000,000 through a stock dividend payable with a charge to restricted surplus. To date, the Bank is awaiting a response from SUDEBAN and the SNV.

At a Regular Shareholders' Meeting on September 27, 2017, it was resolved to declare and pay dividends for Bs 5,600,000,000, to be distributed as follows: Bs 1,400,000,000 payable in cash with a charge to restricted surplus, and Bs 4,200,000,000 through a stock dividend payable with a charge to unappropriated surplus. To date, the Bank is awaiting a response from SUDEBAN and the SNV.

At a Special Shareholders' Meeting held on December 20, 2017, it was resolved to increase the Bank's subscribed and paid-in capital by Bs 6,555,451,276 with a charge to paid-in surplus, through the issue of 6,555,451,276 shares, with a par value of Bs 1 each. To date, the Bank is awaiting a response from SUDEBAN and the SNV.

Shares subscribed by shareholders for the six-month periods ended December 31 and June 30, 2017 are identified as non-convertible common shares as follows:

	December 31, 2017		June 30, 2017	
	Number of shares	Equity %	Number of shares	Equity %
<b>Shareholders</b>				
Nogueroles García, Jorge Luis	289,544,472	9.5498	289,544,472	9.5498
Valores Torre Casa, C.A.	215,442,884	7.1058	215,060,319	7.0932
Nogueroles López, José María	196,756,878	6.4895	196,621,611	6.4850
Halabi Harb, Anuar	177,455,241	5.8529	177,455,241	5.8529
Alintio International, S.L.	150,105,095	4.9508	150,105,095	4.9508
Curbelo Pérez, Juan Ramón	119,713,959	3.9484	119,713,959	3.9484
Zasuma Inversiones, C.A.	116,450,606	3.8408	116,450,606	3.8408
De Guruceaga López, Gonzalo Francisco	115,002,744	3.7931	115,002,744	3.7931
Inversiones Clatal, C.A.	93,589,376	3.0868	93,782,376	3.0932
Osio Montiel, Carmen Inés	78,759,366	2.5977	78,759,366	2.5977
Castellana Investments Fund. Limited, S.C.C.	71,459,178	2.3569	17,864,767	0.5892
Kozma Solymosy, Nicolás A.	64,859,172	2.1392	64,859,172	2.1392
Inversiones Grial, C.A.	56,789,465	1.8730	56,789,465	1.8730
Inversiones Tosuman, C.A.	56,534,857	1.8646	56,534,857	1.8646
Tamayo Degwitz, Carlos Enrique	56,451,115	1.8619	56,551,115	1.8652
Teleacción A.C., C.A.	54,240,952	1.7890	54,396,952	1.7941
García Arroyo, Sagrario	51,849,824	1.7101	51,849,824	1.7101
Puig Miret, Jaime	42,342,432	1.3966	42,342,432	1.3966
Consorcio Toyomarca, S.A. (Toyomarca, S.A.)	42,182,706	1.3913	42,182,706	1.3913
Somoza Mosquera, David	41,742,800	1.3768	41,742,800	1.3768
Kozma Ingenuo, Alejandro Nicolás	38,341,159	1.2646	38,341,159	1.2646
Kozma Ingenuo, Carolina María	38,341,159	1.2646	38,341,159	1.2646
Chaar, Mouada	34,440,909	1.1359	34,440,909	1.1359
Nogueroles García, María Monsterrat	33,416,575	1.1022	33,416,575	1.1022
Eurobuilding Internacional, C.A.	28,745,987	0.9481	28,745,987	0.9481
Valores Agropecuarios La Florida, C.A.	28,022,829	0.9243	28,022,829	0.9243
Valores Abezur, C.A.	26,834,681	0.8851	26,834,681	0.8851
Herrera de la Sota, Mercedes de la Concepción	25,820,746	0.8516	25,820,746	0.8516
Tracto Agro Valencia, C.A.	23,802,963	0.7851	22,936,308	0.7565
Benacerraf Herrera, Mercedes Cecilia	23,498,322	0.7750	23,498,322	0.7750
Benacerraf Herrera, Andrés Gonzalo	23,498,322	0.7750	23,498,322	0.7750
Benacerraf Herrera, Jorge Fortunato	23,466,550	0.7740	23,466,550	0.7740
Grupo Inmobiliario Gonariz, C.A.	21,379,726	0.7052	21,379,726	0.7052
Cedeño, Eligio	21,369,411	0.7048	21,369,411	0.7048
Promociones Ojinaga, C.A.	20,612,703	0.6799	20,612,703	0.6799
Other	529,065,208	17.4496	583,595,106	19.2482
	<u>3,031,930,372</u>	<u>100.0000</u>	<u>3,031,930,372</u>	<u>100.0000</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, 2017, capital reserves include Bs 3,031,930,372 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.

At December 31 and June 30, 2017, the Bank recorded the social contingency fund of Bs 15,159,652, which includes capital and interest, with a charge to unappropriated surplus and a credit to capital reserves. At December 31 and June 30, 2017, capital reserves include Bs 88,294,359 and Bs 73,134,707, in respect of the Social Contingency Fund (Note 5-d).

**3) Voluntary reserves**

At December 31 and June 30, 2017, capital reserves include Bs 996,124 in respect of voluntary reserves.

**c) Retained earnings**

**1) Restricted surplus**

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

**2) Restricted surplus**

In compliance with SUDEBAN Resolution No. 329-99, during the six-month period ended December 31, 2017, the Bank reclassified Bs 19,547,943,363 (Bs 5,676,441,194 at June 30, 2017) to restricted surplus, equivalent to 50% of income for the six-month period, net of appropriations to reserves and Branch income. At December 31 and June 30, 2017, restricted surplus amounts to Bs 28,193,034,492 and Bs 8,645,091,129, respectively. These amounts may be used for capital stock increase, but not for cash dividend distribution.

Below is the movement in restricted surplus balances:

	<b>Resolution No. 329.99</b>
	(In bolivars)
Balance at December 31, 2016	3,388,649,935
Capital increase through stock dividends declared	(420,000,000)
Appropriation of 50% of income for the period	<u>5,676,441,194</u>
Balance at June 30, 2017	8,645,091,129
Appropriation of 50% of income for the period	<u>19,547,943,363</u>
Balance at December 31, 2017	<u>28,193,034,492</u>



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**d) Exchange gain from holding foreign currency assets and liabilities**

At December 31 and June 30, 2017, exchange gain from holding foreign currency assets and liabilities comprises the following:

	(In bolivars)
Balance at December 31, 2016	5,285,446,329
Net gain on sale of foreign currency assets through DICOM (Note 5-a)	<u>5,915,297,258</u>
Balance at June 30, 2017	11,200,743,587
Exchange differences from collection of letters of credit (Note 6)	<u>26,945,920,609</u>
Balance at December 31, 2017	<u>38,146,664,196</u>

Through Resolution No. 048.14 of April 1, 2014, SUDEBAN established the rules to record net benefits obtained by banking institutions from transactions as bidders in DICOM, these benefits shall be recorded in equity under exchange gain from holding foreign currency assets and liabilities.

**e) Risk-based capital ratio**

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

	Required %	Maintained %	
		December 31, 2017	June 30, 2017
Total risk-based capital	12	12.77	14.74
Equity-to-total assets	9	11.24	13.49

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, 2017, the Bank calculates the total risk-based capital ratio and capital to risk asset ratio in conformity with current regulations.

**Subsequent event**

Through Resolution No. 004.18 of January 25, 2018, SUDEBAN decreased the equity-to-total assets ratio to 7% and total risk-based capital ratio to 11% and modified the parameters to determine primary equity (Tier I), reducing the risk-weighting of certain assets. The exceptional measures established in this Resolution are temporary and will be applicable as from the January 2018 month-end closing until January 2019, both inclusive.

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

In the ordinary course of business, the Bank conducts commercial transactions with related companies, 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.

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

	December 31, 2017	June 30, 2017
	(In bolivars)	
<b>Assets</b>		
Cash and due from banks		
Foreign and correspondent banks for US\$141,295 (US\$29,759 at June 30, 2017)	1,409,412	296,849
Exchange Agreement No. 20 for US\$2,624,402 (US\$2,441,782 at June 30, 2017) (Notes 4 and 12)	<u>24,833,232</u>	<u>24,356,774</u>
	<u>26,242,644</u>	<u>24,653,623</u>
<b>Liabilities</b>		
Borrowings (Note 13)		
Interest-bearing checking accounts, with 0.25% annual interest	<u>10,270,893</u>	<u>10,257,778</u>
<b>Expenses for the period</b>		
Interest expense		
Expenses from borrowings	<u>1,696</u>	<u>1,097</u>

**24. Social Bank Deposit Protection Fund**

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

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

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

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

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

At December 31 and June 30, 2017, the biannual fee is 0.08% of the average of the Bank's assets; it is payable monthly. This fee is shown under operating expenses.

Through Resolution No. 013.17 of January 30, 2017, SUDEBAN established that the contribution for the first semester of 2017, payable by private banking institutions subject to the supervision and control of this Superintendency within the first 5 business days of each month, is 0.08% of the Bank's average assets at the November and December 2016 month-end.

**26. Legal reserve**

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

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Accordingly, through Resolution No. 14-03-02 of March 13, 2014, the BCV requires financial institutions to maintain a minimum legal reserve deposit at such institute equal to a percentage of their placements, deposits, liabilities and investments assigned, excluding liabilities with the BCV, FOGADE and other financial institutions; liabilities arising from funds received from the Venezuelan government, local or foreign entities to finance special programs in the country (once these funds have been allocated); liabilities arising from funds received from financial institutions to finance and promote exports as required by Law (once these funds have been allocated) and; liabilities in foreign currency resulting from its offices abroad and those resulting from transactions with other banks and financial institutions for which the latter have, in turn, created a reserve pursuant to the legal reserve regulations. Liabilities arising from resources provided by Mandatory Housing Savings Funds required under the Venezuelan Housing Loan Law and managed by financial institutions in trust funds will not be computed. In addition, through Resolutions Nos. 12-05-02 and 13-04-01 published in Official Gazettes Nos. 39,933 and 40,155 on May 29, 2012 and on April 26, 2013, respectively, the BCV reduced the legal reserve amount to be allocated by financial institutions that purchased dematerialized certificates of participation issued by the Simón Bolívar Fund by the balance of such certificates. At December 31 and June 30, 2017, the Bank maintains Bs 6,087,030,691, respectively, in this connection (Note 5-c).

The legal reserve must be maintained in legal tender, regardless of the currency of the transactions from which it originated (Note 3).

At December 31 and June 30, 2017, the legal reserve is 21.5% of all deposits and 31% for marginal increases in deposits, according to the methodology established by the BCV.

**27. Contingencies**

At December 31 and June 30, 2017, the Bank is defendant in the following legal proceedings:

**Labor**

The Bank has received legal claims from individuals in respect of length-of-service and other labor-related benefits amounting to Bs 57,001,934 and Bs 53,144,713, at December 31 and June 30, 2017, respectively. In the opinion of Bank management and its external legal advisors, these claims are not well grounded in law and, therefore, should not have a material adverse effect on the Bank's financial position and results of operations.

Bank management and its legal advisors believe that most of these assessments are not well grounded in law and, consequently, that the outcome of these claims will be favorable to the Bank. At December 31 and June 30, 2017, the Bank has set aside no provision in this connection.

Except for the aforementioned assessments, 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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**28. Maturity of financial assets and liabilities**

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

December 31, 2017							
Maturity							
	June 30, 2018	December 31, 2018	June 30, 2019	December 31, 2019	June 30, 2020	December 31, 2020	Beyond December 31, 2020
	(In bolivars)						
							Total
<b>Assets</b>							
Cash and due from banks	2,566,587,176,741	-	-	-	-	-	2,566,587,176,741
Investment securities	8,322,815,428	10,635,332,379	785,625	34,010,561	1,042,652,725	283,574,632	72,489,322,764
Loan portfolio	1,461,057,400,487	54,162,567,189	36,448,732,363	15,684,836,291	4,439,903,970	14,878,226,842	1,622,238,403,201
Interest and commissions receivable	9,842,874,544	-	-	-	-	-	9,842,874,544
	<u>4,045,810,267,200</u>	<u>64,797,899,568</u>	<u>37,234,217,988</u>	<u>15,718,846,852</u>	<u>5,482,556,695</u>	<u>15,161,801,474</u>	<u>4,271,157,777,250</u>
<b>Liabilities</b>							
Customer deposits	4,075,271,856,828	45,805,000	-	-	-	-	4,075,317,661,828
Borrowings	137,966,254	-	-	-	-	-	137,966,254
Interest and commissions payable	365,025,830	-	-	-	-	-	365,025,830
	<u>4,075,774,848,912</u>	<u>45,805,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,075,820,653,912</u>

June 30, 2017							
Maturity							
	December 31, 2017	June 30, 2018	December 31, 2018	June 30, 2019	December 31, 2019	June 30, 2020	Beyond June 30, 2020
	(In bolivars)						
							Total
<b>Assets</b>							
Cash and due from banks	338,977,938,474	-	-	-	-	-	338,977,938,474
Investment securities	12,788,059,863	1,044,106,051	204,571,413	912,841,146	33,161,212	280,756,845	37,051,017,348
Loan portfolio	450,254,826,726	31,925,655,497	10,034,373,266	11,756,618,203	9,009,794,001	7,557,587,266	529,480,932,613
Interest and commissions receivable	3,307,914,355	-	-	-	-	-	3,307,914,355
Available-for-sale assets	-	-	-	-	-	-	66,084,375
	<u>805,328,739,418</u>	<u>32,969,761,548</u>	<u>10,238,944,679</u>	<u>12,669,459,349</u>	<u>9,042,955,213</u>	<u>7,838,344,111</u>	<u>908,883,887,165</u>
<b>Liabilities</b>							
Customer deposits	857,837,693,710	35,796,584	1,200,000	-	-	-	857,874,690,294
Borrowings	67,615,869	-	-	-	-	-	67,615,869
Interest and commissions payable	192,965,271	-	-	-	-	-	192,965,271
	<u>858,098,274,850</u>	<u>35,796,584</u>	<u>1,200,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>858,135,271,434</u>

**29. Fair value of financial instruments**

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

	December 31, 2017		June 30, 2017	
	Book value	Estimated fair value	Book value	Estimated fair value
	(In bolivars)			
<b>Assets</b>				
Cash and due from banks	2,566,587,176,741	2,566,587,176,741	338,977,938,474	338,977,938,474
Investment securities	72,489,322,764	72,857,121,683	37,050,916,068	37,239,054,492
Loan portfolio	1,592,216,430,586	1,592,216,430,586	519,118,998,977	519,118,998,977
Interest and commissions receivable	9,765,020,979	9,765,020,979	3,264,474,472	3,264,474,472
Available-for-sale assets	57,915,727	57,915,727	66,084,375	33,192,860
	<u>4,241,115,866,797</u>	<u>4,241,483,665,716</u>	<u>898,478,412,366</u>	<u>898,633,659,275</u>
<b>Liabilities</b>				
Customer deposits	4,075,317,661,828	4,075,317,661,828	857,874,690,294	857,874,690,294
Borrowings	137,966,254	137,966,254	67,615,869	67,615,869
Interest and commissions payable	365,025,830	365,025,830	192,965,271	192,965,271
	<u>4,075,820,653,912</u>	<u>4,075,820,653,912</u>	<u>858,135,271,434</u>	<u>858,135,271,434</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 and long-term liabilities**

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

**30. Legally established limits for loans and investments**

At December 31 and June 30, 2017, the Bank does not have loans with 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.