

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

Report of Independent Accountant and Financial  
Statements

December 31, 2018



## ***Report of Independent Accountant***

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), which comprise the balance sheet as at December 31, 2018, 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) as adopted 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 qualified opinion.

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**Basis for a qualified opinion*****Overstatement of investment securities***

At December 31, 2018, the investments in held-to-maturity securities portfolio includes Global Bonds of the Bolivarian Republic of Venezuela, maturing in September 2027 and a book value of Bs 1,199 million (equivalent to US\$1,884,813), measured and recorded at June 30, 2018 at market value. Through Notice SIB-II-GGIBPV-GIBPV6-20531 of December 26, 2018, SUDEBAN instructed that those investments must continue to be recorded at market value. At December 31, 2018, the market value of these investment securities is Bs 976 million (equivalent to US\$1,533,489). Therefore, investment securities, equity and net income for the six-month period then ended are overstated by Bs 224 million (equivalent to US\$351,324).

***Credit accounting records with no corresponding entries in the cash and due from banks statement of accounts***

At December 31, 2018, foreign and correspondent banks includes a record that decreases the book balance by Bs 269 million. This record is not included in the correspondent bank's statement of accounts. Bank management is currently analyzing this reconciling item. Until we receive the documentation supporting this transaction, we are unable to anticipate the effect, if any, on the accompanying financial statements at December 31, 2018.

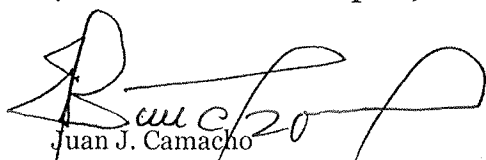
**Qualified opinion**

In our opinion, except for the effects and possible effects of the matters described in the basis for a qualified opinion, the financial statements present fairly, in all material respects, the financial position of Banco Nacional de Crédito, C.A., Banco Universal as at December 31, 2018, and its financial performance and its cash flows for the six-month period then ended, in conformity with the accounting rules and instructions of 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)**



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CPC 16072  
CP 498  
SNV 22

February 22, 2019

***Banco Nacional de Crédito, C.A., Banco Universal***  
**Balance sheet**  
**December 31 and June 30, 2018**

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	December 31, 2018	June 30, 2018 (*)
	(In bolivars)	
<b>Assets</b>		
<b>Cash and due from banks</b>	<u>29,519,878,105</u>	<u>310,845,101</u>
Cash	1,265,862,922	2,580,294
Central Bank of Venezuela (Notes 3, 4 and 26)	10,584,817,514	260,413,110
Venezuelan banks and other financial institutions	217,510,340	2,321,400
Foreign and correspondent banks (Note 4)	17,135,787,450	32,228,422
Pending cash items (Note 3)	334,757,106	13,301,875
(Provision for cash and due from banks)	(18,857,227)	-
<b>Investment securities</b> (Note 5)	<u>9,415,477,192</u>	<u>62,112,389</u>
Deposits with the BCV and overnight deposits	-	5,818,848
Investments in available-for-sale securities	3,762,784,263	12,757,076
Investments in held-to-maturity securities	3,476,192,956	37,720,652
Restricted investments	2,172,824,440	3,893,556
Investments in other securities	3,675,533	1,922,257
<b>Loan portfolio</b> (Note 6)	<u>20,704,422,060</u>	<u>442,202,181</u>
Current	24,472,145,397	456,766,516
Rescheduled	151	219
Overdue	191,028,202	741,865
(Allowance for losses on loan portfolio)	(3,958,751,690)	(15,306,419)
<b>Interest and commissions receivable</b> (Note 7)	<u>52,083,582</u>	<u>885,726</u>
Interest receivable on investment securities	560,463,496	756,120
Interest receivable on loan portfolio	89,591,619	696,151
Commissions receivable	61,058	7,536
Interest and commissions receivable on other accounts receivable	-	24,790
(Provision for interest receivable and other)	(598,032,591)	(598,871)
<b>Available-for-sale assets</b> (Note 9)	<u>309</u>	<u>431,134</u>
<b>Property and equipment</b> (Note 10)	<u>769,766,935</u>	<u>7,116,674</u>
<b>Other assets</b> (Note 11)	<u>1,754,390,506</u>	<u>12,772,413</u>
<b>Total assets</b>	<u>62,216,018,689</u>	<u>836,365,618</u>
<b>Memorandum accounts</b> (Note 20)		
Contingent debtor accounts	403,194,132	37,850,821
Assets received in trust	66,280,750	16,697,617
Debtor accounts from other special trust services	32,019,150	407,968
Other debtor memorandum accounts	<u>86,528,150,690</u>	<u>854,200,133</u>
	<u>87,029,644,722</u>	<u>909,156,539</u>

The accompanying notes are an integral part of the financial statements  
 (\*) Redenominated for comparative purposes (Note 1)

***Banco Nacional de Crédito, C.A., Banco Universal***  
**Balance sheet**  
**December 31 and June 30, 2018**

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	December 31, 2018	June 30, 2018 (•)
	(In bolivars)	
<b>Liabilities and Equity</b>		
<b>Customer deposits</b> (Note 12)	<u>43,250,335,295</u>	<u>738,538,132</u>
Demand deposits	<u>21,512,798,300</u>	<u>601,023,860</u>
Non-interest-bearing checking accounts	17,806,759,183	518,493,110
Interest-bearing checking accounts	2,008,559,501	45,455,313
Checking accounts under Exchange Agreement No. 20	1,324,461,406	14,272,525
Demand deposits and certificates	373,018,210	22,802,912
Other demand deposits	274,481,563	18,088,733
Savings deposits	17,939,439,421	107,417,609
Time deposits	3,523,616,011	9,248,337
Restricted customer deposits	-	2,759,593
<b>Borrowings</b> (Note 13)	<u>179,018</u>	<u>31,207</u>
Venezuelan financial institutions, up to one year	170,230	28,749
Foreign financial institutions, up to one year	8,788	2,458
<b>Interest and commissions payable</b> (Note 14)	<u>16,752,650</u>	<u>92,007</u>
Expenses payable on customer deposits	<u>16,752,650</u>	<u>92,007</u>
<b>Accruals and other liabilities</b> (Note 15)	<u>5,494,123,162</u>	<u>48,817,931</u>
<b>Total liabilities</b>	<u>48,761,390,125</u>	<u>787,479,277</u>
<b>Equity</b> (Note 22)		
Capital stock	38,919	36,919
Contributions pending capitalization	387,162	380,709
Capital reserves	40,191	37,997
Retained earnings	2,483,491,212	9,995,249
Adjustment from revaluation of property and equipment	463,334	463,334
Exchange gain from holding foreign currency assets and liabilities	11,023,638,858	37,968,484
Net unrealized gain (loss) on investments in available-for-sale securities (Note 5)	<u>(53,431,112)</u>	<u>3,649</u>
<b>Total equity</b>	<u>13,454,628,564</u>	<u>48,886,341</u>
<b>Total liabilities and equity</b>	<u>62,216,018,689</u>	<u>836,365,618</u>

The accompanying notes are an integral part of the financial statements  
 (•) Redenominated for comparative purposes (Note 1)

***Banco Nacional de Crédito, C.A., Banco Universal***  
**Income statement**  
**Six-month periods ended December 31 and June 30, 2018**

	December 31, 2018	June 30, 2018 (•)
	(In bolivars)	
<b>Interest income</b>	<u>1,949,139,950</u>	<u>38,296,341</u>
Income from cash and due from banks	4,074,801	60,922
Income from investment securities	252,632,872	660,145
Income from loan portfolio	1,578,823,089	37,331,046
Income from other accounts receivable	113,609,188	244,226
Other interest income	-	2
<b>Interest expense</b>	<u>(120,053,315)</u>	<u>(1,710,387)</u>
Expenses from customer deposits	(115,879,974)	(1,708,597)
Expenses from borrowings	(2,723,211)	-
Other interest expense	(1,450,130)	(1,790)
<b>Gross financial margin</b>	<u>1,829,086,635</u>	<u>36,585,954</u>
Income from financial assets recovered	5,118	1,420
Expenses from uncollectible loans and other accounts receivable (Notes 6, 7 and 15)	(510,462,063)	(9,039,949)
Expenses from provision for cash and due from banks	(18,857,227)	-
<b>Net financial margin</b>	<u>1,299,772,463</u>	<u>27,547,425</u>
Other operating income (Note 17)	1,042,604,778	7,947,778
Other operating expenses (Note 18)	(318,347,254)	(4,206,892)
<b>Financial intermediation margin</b>	<u>2,024,029,987</u>	<u>31,288,311</u>
<b>Operating expenses</b>	<u>(1,350,755,398)</u>	<u>(14,224,789)</u>
Salaries and employee benefits (Note 2-j)	(433,269,568)	(5,146,129)
General and administrative expenses (Note 19)	(901,696,362)	(8,761,915)
Fees paid to the Social Bank Deposit Protection Fund (Note 24)	(4,724,076)	(288,086)
Fees paid to the Superintendency of Banking Sector Institutions (Note 25)	(11,065,392)	(28,659)
<b>Gross operating margin</b>	<u>673,274,589</u>	<u>17,063,522</u>
Income from available-for-sale assets (Notes 9 and 20)	24,417,732	15,891
Sundry operating income	1,718,880	10,645
Expenses from available-for-sale assets	(1,105,090)	(97)
Sundry operating expenses (Note 18)	(188,033,440)	(333,828)
<b>Net operating margin</b>	<u>510,272,671</u>	<u>16,756,133</u>
Extraordinary expenses	(7,006,015)	(6,397)
Extraordinary income (Note 10)	2,050,084,700	-
<b>Gross income before tax</b>	<u>2,553,351,356</u>	<u>16,749,736</u>
Income tax (Note 16)	(79,853,198)	(7,320,534)
<b>Net income</b>	<u>2,473,498,158</u>	<u>9,429,202</u>
<b>Appropriation of net income</b>		
Legal reserve	2,000	6,600
Retained earnings	<u>2,473,496,158</u>	<u>9,422,601</u>
	<u>2,473,498,158</u>	<u>9,429,201</u>
Provision for the Antidrug Law (Notes 1 and 18)	<u>28,405,104</u>	<u>167,561</u>

The accompanying notes are an integral part of the financial statements  
(•) Redenominated for comparative purposes (Note 1)

**Banco Nacional de Crédito, C.A., Banco Universal**  
**Statement of changes in equity**  
**Six-month periods ended December 31 and June 30, 2018**

	Paid-in capital stock	Share premium and contributions pending capitalization	Capital reserves	Retained earnings				Total	Adjustment from revaluation of property and equipment	Exchange gain from holding foreign currency assets and liabilities	Unrealized gain (loss) on investment securities (Note 5)	Total equity
				Unappropriated surplus	Restricted surplus	Non-distributable surplus	Cumulative loss					
				(In bolivars)								
<b>Balances at December 31, 2017 (*)</b>	30,319	233,837	31,212	296,189	281,930	870	(1,206)	577,783	463,334	381,467	7,956	1,725,908
Contributions pending capitalization (Note 22)	-	148,522	-	-	-	-	-	-	-	-	-	148,522
Capital stock increase (Note 22)	6,600	(1,650)	-	-	(4,950)	-	-	(4,950)	-	-	-	-
Adjustment of investments in available-for-sale securities to market value	-	-	-	-	-	-	-	-	-	-	-	-
Net income	-	-	-	9,429,201	-	-	-	9,429,201	-	-	-	9,429,201
Legal reserve (Note 22)	-	-	6,600	(6,600)	-	-	-	(6,600)	-	-	-	-
Creation of the Social Contingency Fund (Note 22)	-	-	185	(185)	-	-	-	(185)	-	-	-	-
Reclassification of net income of the Curacao Branch (Note 22)	-	-	-	1,607,298	-	-	(1,607,298)	-	-	-	-	-
Exchange gain, net (Note 4)	-	-	-	-	-	-	-	-	-	37,587,017	-	37,587,017
Reclassification to restricted surplus of 50% of net income for the period (Note 22)	-	-	-	(4,711,301)	4,711,301	-	-	-	-	-	-	-
<b>Balances at June 30, 2018 (*)</b>	36,919	380,709	37,997	6,614,602	4,988,281	870	(1,608,504)	9,995,249	463,334	37,968,484	3,649	48,886,341
Contributions pending capitalization	-	8,453	-	-	-	-	-	-	-	-	-	8,453
Capital stock increase (Note 22)	2,000	(2,000)	-	-	-	-	-	-	-	-	-	-
Adjustment of investments in available-for-sale securities to market value	-	-	-	-	-	-	-	-	-	-	(53,434,761)	(53,434,761)
Net income	-	-	-	2,473,498,158	-	-	-	2,473,498,158	-	-	-	2,473,498,158
Legal reserve (Note 22)	-	-	2,000	(2,000)	-	-	-	(2,000)	-	-	-	-
Creation of the Social Contingency Fund (Note 22)	-	-	194	(195)	-	-	-	(195)	-	-	-	(1)
Reclassification of net income of the Curacao Branch (Note 22)	-	-	-	(191,028,496)	-	191,028,496	-	-	-	-	-	-
Exchange gain, net (Note 4)	-	-	-	-	-	-	-	-	-	10,985,670,374	-	10,985,670,374
Reclassification to restricted surplus of 50% of net income for the period (Note 22)	-	-	-	(1,141,233,831)	1,141,233,831	-	-	-	-	-	-	-
<b>Balances at December 31, 2018</b>	<u>38,919</u>	<u>387,162</u>	<u>40,191</u>	<u>1,147,848,238</u>	<u>1,146,222,112</u>	<u>191,029,366</u>	<u>(1,608,504)</u>	<u>2,483,491,212</u>	<u>463,334</u>	<u>11,023,638,858</u>	<u>(53,431,112)</u>	<u>13,454,628,564</u>

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

	Six-month periods ended	
	December 31, 2018	June 30, 2018
Weighted average of outstanding shares	<u>3,891,930,106</u>	<u>3,503,358,943</u>
Income per share	<u>0.636</u>	<u>0.003</u>

The accompanying notes are an integral part of the financial statements  
 (•) Redenominated for comparative purposes (Note 1)

***Banco Nacional de Crédito, C.A., Banco Universal***  
**Cash flow statement**  
**Six-month periods ended December 31 and June 30, 2018**

	December 31, 2018	June 30, 2018 (*)
	(In bolivars)	
<b>Cash flows from operating activities</b>		
Net income	2,473,498,158	9,429,201
Adjustments to reconcile net income to net cash provided by operating activities		
Investment securities written off	-	-
Allowance for losses on loan portfolio	276,991,871	8,446,641
Provision for contingent loans	166	71
Release of allowance for losses on loan portfolio	-	-
Provision for interest receivable	233,470,026	593,237
Provision for other assets	13,446,655	2,374
Depreciation of property and equipment and amortization of deferred charges	16,734,926	214,716
Accrual for length-of-service benefits	147,959,385	2,298,009
Transfers to trust fund and payment of length-of-service benefits	(14,118,738)	(141,397)
Income tax provision	44,591,722	7,151,690
Deferred income tax	35,261,476	168,844
Net change in		
Overnight deposits	240,746,556	(5,752,574)
Interest and commissions receivable	(693,308,543)	(262,904)
Other assets	214,778,667	(11,398,254)
Accruals and other liabilities	<u>(2,239,630,359)</u>	<u>29,486,506</u>
Net cash provided by operating activities	<u>750,421,968</u>	<u>40,236,160</u>
<b>Cash flows from financing activities</b>		
Contributions pending capitalization	8,453	148,522
Net change in		
Customer deposits	22,415,480,528	693,390,467
Borrowings	147,811	29,827
Interest and commissions payable	<u>368,887</u>	<u>78,295</u>
Net cash provided by financing activities	<u>22,416,005,679</u>	<u>693,647,111</u>
<b>Cash flows from investing activities</b>		
Loans granted during the period	(20,103,237,377)	(819,094,466)
Loans collected during the period	7,226,099,753	384,976,217
Net change in		
Investments in available-for-sale securities	54,842,013	(12,576,645)
Investments in held-to-maturity securities	6,448,840	(13,821,244)
Restricted investments	(15,249,850)	(3,892,472)
Investments in other securities	(1,753,276)	(1,549,228)
Property and equipment	<u>(751,967,423)</u>	<u>(6,241,226)</u>
Net cash used in investing activities	<u>(13,584,817,320)</u>	<u>(472,199,064)</u>
<b>Cash and due from banks</b>		
Net change in cash and cash equivalents	9,581,610,327	261,684,207
Exchange gain	19,627,422,677	23,495,022
At the beginning of the period	<u>310,845,101</u>	<u>25,665,872</u>
At the end of the period	<u>29,519,878,105</u>	<u>310,845,101</u>
<b>Supplementary information on non-cash activities</b>		
Write-off of uncollectible loans (Note 6)	555	1,040,138
Write-off of uncollectible loans (interest) (Note 7)	-	161
Reclassification of excess in (Notes 6, 7, 11 and 15)		
Interest receivable to allowance for losses on loan portfolio	36,032,938	(963)
Interest receivable to other assets	(3,302,601)	(5,951)
Change in net unrealized gain on investments in available-for-sale securities (Note 5-b)	(53,431,112)	4,307
Loans collected through assets received as payment	1,104,916	431,134
Adjustment from revaluation of property and equipment (Note 10)	-	24,408,202,873
Creation of the Social Contingency Fund (Note 22)	194	185
Exchange difference from collection of letters of credit in foreign currency		
Exchange gain, net, recorded in equity		
Cash and due from banks	7,638,368,332	23,495,022
Loan portfolio	-	1,003,353
Investment securities		
Overnight deposits	234,927,708	3,798,503
Investments in available-for-sale securities	3,858,978,052	8,304,530
Investments in held-to-maturity securities	3,444,921,144	9,126,355
Restricted investments	2,153,681,034	2,570,252
Interest and commissions receivable	23,108,555	1,118,409
Other assets	1,550,462,477	734,358
Property and equipment (Note 8)	15,049,485	31,524
Available-for-sale assets	22,601,046	35,610
Customer deposits	(20,096,316,635)	(4,394,488)
Accruals and other liabilities	(7,471,241,745)	(8,226,349)
Interest and commissions payable	(16,291,756)	(10,062)

The accompanying notes are an integral part of the financial statements  
 (•) Redenominated for comparative purposes (Note 1)



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

## **Notes to the financial statements**

### **December 31 and June 30, 2018**

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

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

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

Most of the Bank's assets are located in the Bolivarian Republic of Venezuela. At December 31 and June 30, 2018, the Bank has 165 and 178 agencies and external counters, respectively, a branch in Curacao, a main office and 2,624 and 2,671 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, 2018 were approved for issue by the Board of Directors on January 9, 2019 and July 11, 2018, 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.

#### **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 BCV and the Venezuelan Securities Superintendency (SNV), as well as the prudential rules and other instructions of SUDEBAN.

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

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

## **Notes to the financial statements**

### **December 31 and June 30, 2018**

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

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

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

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

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

Deposit and lending rates are regulated by the BCV. The BCV sets maximum and minimum interest rates for deposits and credit operations based on reference rates. In this regard, at December 31 and June 30, 2018, 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.

#### ***Subsequent event***

Through an Official Notice published in the Official Gazette of January 31, 2019, the BCV informed that interest rates for credit card transactions shall range from 17% to 40% per annum. The maximum rate to be charged on cardholders' obligations shall be 3% per annum, additional to that agreed upon in the respective transaction, as per the section above.

Furthermore, through Resolution No. 19-01-06, the BCV establishes that the interest rate on savings deposits, including liquid asset accounts, shall not fall below 21% per annum calculated on daily balances. Annual interest rates for time deposits and transactions for the issue of certificates of participation shall not fall below 24%.

#### ***Currency redenomination***

On July 25, 2018, the Venezuelan government announced that the new monetary unit would be effective as from August 20, 2018 at a conversion rate of 100,000 current bolivars to one new bolivar. The bolivar resulting from this redenomination would continue to be represented by the "Bs" symbol. The financial statements at June 30, 2018 were converted to this monetary unit for comparative purposes.

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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, 2018, the Bank recorded expenses in this connection of Bs 7,302 and Bs 7,267, respectively, included under sundry operating expenses (Note 18).

#### ***Antidrug Law***

This Law requires all private corporations, consortia and business-oriented public entities with 50 or more employees to contribute 1% of their annual operating income to the National Antidrug Fund (FONA) within 60 days of their respective year end. These contributions will be used to finance plans and projects for the prevention of illegal drug trafficking. Companies belonging to economic groups will make contributions on a consolidated basis. For the six-month periods ended December 31 and June 30, 2018, the Bank recorded expenses in this connection of Bs 28,405,104 and Bs 167,561, 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, 2018, the Bank recorded expenses in this connection of Bs 25,334,364 and Bs 111,770, respectively, included within sundry operating expenses (Note 18).

#### ***New Labor Law (LOTTT)***

The most relevant aspects of this Law include: calculation of certain employee benefits, such as vacation bonus, profit sharing, maternity leave, and the retrospective accrual of length-of-service benefits. In addition, the LOTTT reduces working hours and extends job security for parents. 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, 2018 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.

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

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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, 2018, 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-20230 of December 19, 2018, 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, 2018; this supplementary information will be presented for purposes of comparison with the information at the end of the first semester of 2019.

**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.

**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.

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***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, any measurement of expected credit losses from a financial instrument shall reflect: a) an unbiased and probability-weighted amount that is determined by evaluating the range of possible outcomes; b) the time value of money; and c) reasonable and supportable information, that is available without undue cost or effort at the reporting date, about past events, current conditions and forecasts of future economic conditions.

**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.

**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.

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**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). 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, and exchange gain recorded in equity, since they are recorded according to SUDEBAN rules and instructions. A deferred tax asset is not recognized for any amount exceeding future taxable income. In accordance with VEN NIF, a deferred tax asset is recognized in respect of all temporary differences between the carrying amount of assets and liabilities and their tax bases, provided that its realization is assured beyond any reasonable doubt.

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

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.

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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.

**18) Reconciling items**

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

The accounting policies followed by the Bank are:

**a) Foreign currency**

Foreign currency balances and transactions are recorded at the official exchange rate in effect at the transaction date. At December 31 and June 30, 2018, foreign currency balances are shown at the official exchange rate of Bs 636.58/US\$1 and Bs 1.1471 /US\$1, respectively.

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

Through Resolution No. 008.18 of February 8, 2018, 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 Branch's financial statements in foreign currency**

The accompanying financial statements include the accounts of the Bank and its Branch in Curacao. 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 636.58/US\$1 and Bs 1.1471/US\$1 at December 31 and June 30, 2018 (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.

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

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

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

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

These investments may not remain in this category for more than 1 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, 2018, 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 (Note 5-d).

***Investments in other securities***

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



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

**d) Loan portfolio**

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

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

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

**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, 2018 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 LOTT and the Bank's Collective Labor Agreement, length-of-service benefits are a vested right of employees. Under the LOTT, the Bank transfers guaranteed length-of-service benefits monthly to a trust fund on behalf of each employee. In addition, the LOTT establishes that length-of-service benefits will be calculated retrospectively upon termination of employment considering the last salary earned by the employee and length of service. The LOTT requires the payment to employees at employment termination of the higher of retrospective length-of-service benefits and total amounts accrued in the employee's trust fund. During the six-month periods ended December 31 and June 30, 2018, the effect of the retrospective scheme was determined using a non-actuarial calculation, which consisted in determining length-of-service benefits according to Article 142 b) of the LOTT. An additional expense and an additional liability were recognized for employees whose benefits in the guarantee fund are less than the amount calculated using the retrospective scheme. At December 31 and June 30, 2018, this additional liability amounted to Bs 136,048,213 and Bs 2,207,566, 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, 2018, 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, 2018, 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, 2018, the Bank has recorded Bs 87,977,595 and Bs 463,627, respectively, in this connection, shown under salaries and employee benefits. At December 31, 2018, the Bank paid the profit sharing accruals, while at June 30, 2018 it maintained an accrual of Bs 409,611 in this connection (Note 15).

***Vacation leave and vacation bonus***

The LOTTT and the Collective Labor Agreement grant each employee a minimum of 15 days of vacation leave each year and a vacation bonus of 23 days of salary based on length of service. For the six-month periods ended December 31 and June 30, 2018, the Bank recorded expenses in this connection for Bs 422,028,032 and Bs 368,211, respectively, shown under salaries and employee benefits. At December 31 and June 30, 2018, the Bank maintains accruals of Bs 23,296,367 and Bs 401,615, respectively, to cover expenses in this connection (Note 15).

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

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

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

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

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

Service fees (mainly from point-of-sale transactions and use of credit cards, and documentation and maintenance of pledged lines of credit) 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).

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

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

**l) 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, 2018, 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, 2018, trust fund assets amount to Bs 66,280,750 (Bs 16,697,617 at June 30, 2018), 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 (foreign exchange and interest rate risk), liquidity and operational risks. Below is the risk policy used by the Bank for each type of risk:

***Credit risk***

The Bank assumes exposure to credit risk when a counterparty is unable to pay off its debts at maturity.

The Bank monitors credit risk exposure by regularly analyzing payment capabilities of its borrowers. The Bank structures the level of credit risk by establishing limits for individual and group borrowers. The Bank requests fiduciary and mortgage guarantees, and collateral on certificates of deposit and other securities after assessing specific borrower characteristics.

***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

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Bank identifies short or medium-term market opportunities, investments might be deposited in foreign currency instruments, mainly in U.S. dollars.

***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, 2018</b>	<b>June 30, 2018</b>
	(In bolivars)	
Legal reserve (Note 26)	6,750,060,894	154,495,422
Special reserve fund (Note 26)	2,542,940,282	-
Demand deposits	1,278,448,061	105,893,598
Other deposits with the BCV, include US\$21,000 (US\$21,000 at June 30, 2018) (Notes 4 and 15)	<u>13,368,277</u>	<u>24,090</u>
	<u><b>10,584,817,514</b></u>	<u><b>260,413,110</b></u>

At December 31 and June 30, 2018, the Bank has cash and due from foreign and correspondent banks for US\$2,080,574 and US\$12,441,996, equivalent to Bs 1,324,461,406 and Bs 14,272,525, respectively, deposited at BNC International Banking Corporation, in respect of deposits received in accordance with

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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, are authorized to maintain the aforementioned deposits in their correspondent accounts. This extraordinary measure was effective until June 30, 2017. To date, the Bank is awaiting instructions from regulatory entities to transfer funds in this connection.

At December 31 and June 30, 2018, pending cash items relate to clearinghouse operations conducted by the BCV and other banks.

**4. Foreign currency assets and liabilities**

**a) Exchange control regime**

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.

Exchange Agreement No. 1 was published in Extraordinary Official Gazette No. 6,405. This Agreement repeals Exchange Agreement No. 39 and establishes the free convertibility of the currency throughout the country based on the following premises:

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

***Annulment of the exchange control regime and related offenses***

The annulment of the Law on Exchange control regime and related offenses, Article No. 138 of the Law of the Central Bank of Venezuela, exclusively regarding the illicit trade of foreign currency in the country as well as any provision that conflicts with the provisions of this Constituent Decree, was published in the Official Gazette on August 2, 2018.

***Subsequent events***

At January 31, 2019, the prevailing exchange rate published by the BCV was Bs 3,290.87/US\$1. The accounting effect of measuring foreign currency assets and liabilities at this exchange rate was an increase in equity of Bs 54,856,683,562, to be recorded in the Bank's financial statements for the six-month period ending June 30, 2019.

***Exchange intervention measures***

The BCV issued Resolution No. 19-01-04 on January 29, 2019 to establish that when deemed pertinent, it may conduct foreign currency sale transactions with financial institutions with a charge to the sole account with the BCV for the amount of bolivars equivalent to the exchange transaction conducted. Furthermore, the total foreign currency amount sold should be used in the trading of foreign currencies

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that are part of the Exchange Market System, private-sector clients, with the exception of those belonging to banking sectors and the stock market, at the official exchange rate of the transaction. The amount in bolivars, equivalent to the amount of the exchange transaction, will be deducted from the legal reserve as from the transaction date until the last day of the following week. According to this Resolution, on January 29, 2019, the BCV sold €446,600 to the Bank, with a charge of Bs 1,685,260,041 to its sole account.

#### **b) Applicable exchange rates**

At December 31 and June 30, 2018, the exchange rate for transactions in U.S. dollars is Bs 636.58/US\$1 and Bs 1.1471/US\$1, respectively, for all transactions.

At December 31 and June 30, 2018, the exchange rate for transactions in euros is Bs 728/€1 and Bs 1.3391/€1, respectively.

During the six-month periods ended December 31 and June 30, 2018, the Bank recorded net exchange gains of Bs 10,985,670,374 and Bs 37,587,017, respectively arising from exchange rate fluctuations of the U.S. dollar, recorded in equity under exchange gain from holding foreign currency assets and liabilities.

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

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

	December 31, 2018					June 30, 2018				
	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	1,323,375	-	-	1,323,375	842,440,079	1,380,743	-	-	1,380,743	1,583,885
Central Bank of Venezuela (Note 3)	21,000	-	-	21,000	13,368,277	21,000	-	-	21,000	24,090
Foreign and correspondent banks	23,898,923	11,481,703	(8,462,306)	26,918,320	17,135,787,450	20,359,187	8,492,183	(756,417)	28,094,953	32,228,422
(Provision for cash and due from banks)	(29,623)	-	-	(29,623)	(18,857,227)	-	-	-	-	-
Investment securities (Note 5)	3,282,914	11,158,793	-	14,441,707	9,193,367,552	27,479,752	24,686,675	-	52,166,427	59,841,413
Loan portfolio (Note 6)	-	17,830,987	-	17,830,987	11,350,930,835	-	15,759,508	-	15,759,508	18,078,126
Current	-	300,000	-	300,000	190,975,365	-	645,000	-	645,000	739,896
Overdue	-	-	-	-	-	-	-	-	-	-
(Allowance for losses on loan portfolio)	-	(5,801,263)	-	(5,801,263)	(3,692,994,396)	-	(5,826,674)	-	(5,826,674)	(6,683,923)
Interest and commissions receivable (Note 7)	-	22,142	-	22,142	14,095,892	340,874	44,386	-	385,260	441,941
Investments in subsidiaries, affiliates and branches (Note 8)	6,049,622	-	(6,049,622)	-	-	5,815,347	-	(5,815,347)	-	-
Available-for-sale assets (Note 9)	-	-	-	-	-	-	375,418	-	375,418	430,651
Property and equipment (Note 10)	-	19,909	-	19,909	12,673,762	-	23,684	-	23,684	27,169
Other assets (Note 11)	400,058	70,755	-	470,813	299,712,282	691,668	8,291	-	699,959	802,940
<b>Total assets</b>	<b>34,946,269</b>	<b>35,083,026</b>	<b>(14,511,928)</b>	<b>55,517,367</b>	<b>35,341,499,871</b>	<b>56,088,571</b>	<b>44,208,471</b>	<b>(6,571,764)</b>	<b>93,725,278</b>	<b>107,514,610</b>
<b>Liabilities and Equity</b>										
<b>Liabilities</b>										
Customer deposits (Note 12)	2,080,574	28,946,044	(52,332)	30,974,286	19,717,751,915	12,441,996	38,240,217	(31,316)	50,650,897	58,102,910
Interest and commissions payable (Note 14)	-	23,210	-	23,210	14,775,127	-	53,038	-	53,038	60,841
Accruals and other liabilities (Note 15)	12,364,652	64,150	(8,409,974)	4,018,828	2,558,323,814	3,819,371	99,869	(725,101)	3,194,139	3,664,077
<b>Total liabilities</b>	<b>14,445,226</b>	<b>29,033,404</b>	<b>(8,462,306)</b>	<b>35,016,324</b>	<b>22,290,850,856</b>	<b>16,261,367</b>	<b>38,393,124</b>	<b>(756,417)</b>	<b>53,898,074</b>	<b>61,827,828</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)	-	-	-	2,766,551	(2,766,551)	-	-
Retained earnings	-	(4,232,671)	4,232,671	-	-	-	(4,532,756)	4,532,756	-	-
Net unrealized loss on available-for-sale securities	-	(83,720)	83,720	-	-	-	(17,910)	17,910	-	-
<b>Total equity</b>	<b>-</b>	<b>6,049,622</b>	<b>(6,049,622)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,815,347</b>	<b>(5,815,347)</b>	<b>-</b>	<b>-</b>
<b>Total liabilities and equity</b>	<b>14,445,226</b>	<b>35,083,026</b>	<b>(14,511,928)</b>	<b>35,016,324</b>	<b>22,290,850,856</b>	<b>16,261,367</b>	<b>44,208,471</b>	<b>(6,571,764)</b>	<b>53,898,074</b>	<b>61,827,828</b>
Contingent accounts (Note 20)	-	-	-	-	-	-	1,050,660	-	1,050,660	1,205,238
Memorandum accounts (Note 20)	26,619,869	22,404,697	-	49,024,566	31,208,281,286	79,509,518	10,658,943	-	90,168,461	103,434,496

At December 31 and June 30, 2018, the Bank has a net monetary asset position in foreign currency of US\$20,500,067, equivalent to Bs 13,050,025,926 and US\$16,008,182, equivalent to Bs 18,363,386, respectively, calculated based on the rules laid down by the BCV. According to BCV guidelines, the authorized foreign currency position should not exceed the maximum limit set, which at December 31 and June 30, 2018, is 60% of the Bank's equity, equivalent to US\$12,681,480 and US\$25,569,842,

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respectively. On December 28, 2018, through Circular No. VOI-GOC-DNPC-03, the BCV resolved not to penalize financial institutions that exceeded the authorized foreign currency position between November 1, 2018 and February 28, 2019.

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

	December 31, 2018	June 30, 2018
	(In U.S. dollars)	
<b>Assets less liabilities, transaction in Venezuela</b>		
BCV exclusions	20,501,043	39,827,204
Principal and Interest Covered Bonds (TICC)	-	(24,216,274)
International Sovereign Bonds	(876)	(909)
Interest receivable on investment securities	<u>(100)</u>	<u>398,161</u>
Position determined, computable as per the BCV rules	<u>20,500,067</u>	<u>16,008,182</u>

Investment securities, which include Principal and Interest Covered Bonds (TICCs) issued by the Bolivarian Republic of Venezuela, payable in local currency and referenced to the U.S. dollar at the official exchange, held by the Bank at June 30, 2018, were early redeemed by the BCV in August 2018 at the exchange rate of Bs 172.800/US\$1 together with pending interest.

During the six-month period ended December 31, 2018, the Bank recorded exchange gains and losses of Bs 14,486,751 and Bs 60,313,474, respectively (Bs 104,743 and Bs 173,416, respectively, during the six-month period ended June 30, 2018), 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, 2018	June 30, 2018
	(In bolivars)	
<b>Investments</b>		
Deposits with the BCV and overnight deposits	-	5,818,848
Available for sale	3,762,784,263	12,757,076
Held to maturity	3,476,192,956	37,720,652
Restricted	2,172,824,440	3,893,556
Other securities	<u>3,675,533</u>	<u>1,922,257</u>
	<u>9,415,477,192</u>	<u>62,112,389</u>

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

Deposits with the BCV and overnight deposits comprise the following:

	December 31, 2018	June 30, 2018	
	(In bolivars)		
Certificate of deposit with the BCV, at par value, annual yield between 6% and 7%, maturing between July and August 2018	-	83,223	(1) - (a)
Overnight deposits at Banco Do Brasil, with a par value of US\$5,000,000, 1.30% annual yield, maturing in July 2018 (Note 4)	<u>-</u>	<u>5,735,625</u>	(1) - (b)
	<u>-</u>	<u>5,818,848</u>	

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



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#### Custodians of investments

- (a) Central Bank of Venezuela
- (b) Banco Do Brasil

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

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

	December 31, 2018			June 30, 2018		
	Acquisition cost	Net unrealized gain	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 Venezuelan government</b>						
Fixed Interest Bonds (TIF), with a par value of Bs 25,622, annual yield between 13.25% and 16.50%, maturing between November 2019 and January 2037 (Bs 26,061, annual yield between 13.25% and 16.50%, maturing between August 2018 and January 2037, at June 30, 2018)	28,796	2,710	31,506 (1) - (a)	29,319	3,058	32,377 (1) - (a)
Vebonos, with a par value of Bs 202,246,111; annual yield between 12.08% and 21.07%, maturing between April 2019 and August 2037 (Bs 29,767, annual yield between 13.17% and 15.12%, maturing between March 2019 and August 2037, at June 30, 2018)	202,249,226	116,616	202,365,842 (1) - (a)	32,881	3,393	36,274 (1) - (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 (Note 4)	-	-	-	67,106	18,156	85,262 (3) - (a)
Global Bonds, with a par value of US\$1,287,800, annual yield between 7.75% and 9.25%, maturing between October 2019 and September 2027 (US\$800, 9.25% annual yield, maturing in September 2027, at June 2018) (Notes 4 and 9)	<u>239,359,566</u>	<u>(47,430,824)</u>	<u>191,928,742</u> (1) - (b and f)	<u>675</u>	<u>(413)</u>	<u>262</u> (1) - (b)
	<u>441,637,588</u>	<u>(47,311,498)</u>	<u>394,326,090</u>	<u>129,981</u>	<u>24,194</u>	<u>154,175</u>
<b>Debt securities issued by Venezuela financial public-sector companies</b>						
Agriculture BANDES Certificates of Participation, with a par value of Bs103,941, 4% annual yield, maturing in October 2018	-	-	- (2) - (a)	<u>103,941</u>	-	<u>103,941</u> (2) - (a)
<b>Equity in Venezuelan non-financial private-sector companies</b>						
Common shares						
S.G.R. - SOGATUR, S.A., Sociedad de Garantías Recíprocas para el Sector Turismo, S.A., 10,873 shares, with a par value Bs 0.018 each	196	-	196 (2) - (g)	196	-	196 (2) - (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 0.0001 each, 3.10% owned	<u>2</u>	-	<u>2</u> (2) - (g)	<u>2</u>	-	<u>2</u> (2) - (g)
	<u>198</u>	-	<u>198</u>	<u>198</u>	-	<u>198</u>
<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)	<u>19,099,448</u>	<u>(8,672,192)</u>	<u>10,427,256</u> (1) - (c)	<u>34,417</u>	<u>(22,946)</u>	<u>11,471</u> (1) - (c)
<b>Debt securities issued by foreign non-financial public-sector entities</b>						
Treasury Notes, issued by the United States of America, with a par value of US\$5,280,000, maturing in January 2019	<u>3,355,478,141</u>	<u>2,552,578</u>	<u>3,358,030,719</u> (1) - (c) (d) and (e)	<u>12,484,890</u>	<u>2,401</u>	<u>12,487,291</u> (1) - (c) (d) and (e)
	<u>3,816,215,375</u>	<u>(53,431,112)</u>	<u>3,762,784,263</u>	<u>12,753,427</u>	<u>3,649</u>	<u>12,757,076</u>

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

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

(3) 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.

#### Custodians of investments

- (a) Central Bank of Venezuela
- (b) Caja Venezolana de Valores, S.A.
- (c) Morgan Stanley Private Wealth Management
- (d) Pershing LLC
- (e) Morgan Stanley Smith Barney
- (f) BNC International Banking Corporation
- (g) Shares held in custody of private companies, 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, 2018.

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, 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 in equity as a net unrealized gain on investment securities. These unrealized gains or losses comprise the following:

	December 31, 2018	June 30, 2018
	(In bolivars)	
<b>Unrealized gain</b>		
Securities issued or guaranteed by the Venezuelan government in local currency	119,326	6,451
Principal and Interest Covered Bonds (TICCs) payable in bolivars	-	18,156
Debt securities issued by foreign non-financial public-sector entities	<u>2,552,578</u>	<u>2,401</u>
	<u>2,671,904</u>	<u>27,008</u>
<b>Unrealized loss</b>		
Securities issued or guaranteed by the Venezuelan government in foreign currency	(47,430,824)	(413)
Debt securities issued by foreign financial private-sector companies	<u>(8,672,192)</u>	<u>(22,946)</u>
	<u>(56,103,016)</u>	<u>(23,359)</u>
	<u>(53,431,112)</u>	<u>3,649</u>

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

	Fair value	
	December 31, 2018	June 30, 2018
	(In bolivars)	
Up to 6 months	3,358,154,768	12,591,683
6 months to 1 year	191,810,971	91,760
1 to 5 years	10,445,604	30,048
Over 5 years	202,372,722	43,387
Without maturity	<u>198</u>	<u>198</u>
	<u>3,762,784,263</u>	<u>12,757,076</u>

During the six-month period ended December 31, 2018, the Bank sold investments in available-for-sale securities for Bs 372,423,189 and US\$43,912,675 equivalent to Bs 27,964,130,308 (Bs 22,398,050 during the six-month period ended June 30, 2018), resulting in gains and losses of Bs 44,721,651 and Bs 2,727, respectively (Bs 61,305 and Bs 1,200, respectively, for the six-month period ended June 30, 2018), shown under other operating income and other operating expenses, respectively (Notes 17 and 18).

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

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

	December 31, 2018			June 30, 2018		
	Acquisition cost	Amortized cost	Fair value	Acquisition cost	Amortized cost	Fair value
	(In bolivar)					
<b>Investment securities issued or guaranteed by the Venezuelan government</b>						
Veponos, with a par value of Bs 15,967,118, annual yield between 9.27% and 15.23%, maturing between June 2020 and October 2030 (Bs 16,873, annual yield between 14.37% and 15.12%, maturing between June 2020 and February 2025 at June 30, 2018)	15,967,557	15,965,071	16,057,244 (1) - (a)	22,127	20,202	20,586 (1) - (a)
Fixed Interest Bonds (TIF), with a par value of Bs 7,867, annual yield between 9.88% and 16.25%, maturing between August 2019 and January 2026 (Bs 9,283, annual yield between 9.875% and 16.25%, maturing between August 2018 and January 2026 at June 30, 2018)	10,328	9,191	10,084 (1) - (a)	12,096	10,734	11,564 (1) - (a)
Principal and Interest Covered Bonds (TICC), with a par value of US\$23,061,519 5.25% annual yield, maturing in March 2019 (Note 4)	-	-	-	26,781,348	27,693,835	26,392,806 (3) - (a)
Sovereign Bonds with a par value of US\$6,625,100, annual yield between 8.25% and 9.25%, maturing in October 2024 (Note 4)	<u>2,138,241,518</u>	<u>1,199,898,023</u>	<u>976,211,534 (1) - (b)</u>	<u>3,853,138</u>	<u>2,162,213</u>	<u>2,162,147 (1) - (b)</u>
	<u>2,154,219,403</u>	<u>1,215,872,285</u>	<u>992,278,862</u>	<u>30,668,709</u>	<u>29,886,984</u>	<u>28,587,103</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 Bs 60,868, annual yield between 4.66% and 6.05%, maturing between June 2023 and November 2024 (Note 26)	60,868	60,868	60,868 (2) - (a)	60,870	60,870	60,870 (2) - (a)
PDVSA Bonds issued by Petróleos de Venezuela, S.A., with a par value of US\$900, annual yield between 5.38% and 5.50%, maturing between April 2027 and 2037 (Note 4)	<u>287,813</u>	<u>384,473</u>	<u>84,588 (1) - (b)</u>	<u>519</u>	<u>682</u>	<u>231 (1) - (b)</u>
	<u>348,681</u>	<u>445,341</u>	<u>145,456</u>	<u>61,389</u>	<u>61,552</u>	<u>61,101</u>

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

## **Notes to the financial statements**

### **December 31 and June 30, 2018**

	December 31, 2018			June 30, 2018		
	Acquisition cost	Amortized cost	Fair value	Acquisition cost	Amortized cost	Fair value
	(In bolivar)					
<b>Certificates of deposit with foreign financial institutions</b>						
Certificates of deposit with Banco Do Brasil, S.A., with a par value of US\$1,050,000, 2.65% annual yield, maturing in January 2019 (US\$3,000,000, annual yield between 1.91% and 2.11%, maturing in July 2018 at June 30, 2018) (Note 4)	668,413,830	668,413,830	668,413,830 (2) - (c)	3,441,374	3,441,374	3,441,374 (2) - (c)
Certificate of deposit with Itaú Unibanco, S.A., with a par value of US\$2,500,000, annual yield between 2.02% and 2.04%, maturing in July 2028	1,591,461,500	1,591,461,500	1,591,461,500 (2) - (d)	2,867,813	2,867,813	2,867,813 (2) - (d)
Certificate of deposit with Mercantil Commercebank, N.A., with a par value of US\$1,275,300, 0.6% annual yield, maturing in August 2018 (Note 4)	-	-	- (2) - (e)	1,462,929	1,462,929	1,462,929 (2) - (e)
	<u>2,259,875,330</u>	<u>2,259,875,330</u>	<u>2,259,875,330</u>	<u>7,772,116</u>	<u>7,772,116</u>	<u>7,772,116</u>
	<u>4,414,443,414</u>	<u>3,476,192,956</u>	<u>3,252,299,648</u>	<u>38,502,214</u>	<u>37,720,652</u>	<u>36,420,320</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) Shown at par value, which is considered as fair value.

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

#### **Custodians of investments**

- (a) Central Bank of Venezuela
- (b) Euroclear Bank, S.A.
- (c) Banco Do Brasil, S.A.
- (d) Itaú Unibanco, S.A.
- (e) Mercantil Commercebank, N.A.

During the six-month period ended June 30, 2018, the Bank recorded US\$1,684,304 equivalent to Bs 1,932,107, in connection with impairment losses from investments in held-to-maturity securities, shown under other operating expenses (Note 18).

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

	December 31, 2018		June 30, 2018	
	Amortized cost	Fair value	Amortized cost	Fair value
	(In bolivars)			
Less than 1 year	2,259,875,530	2,259,936,404	7,773,547	7,773,582
1 to 5 years	13,936,396	13,823,218	27,719,752	26,419,274
5 to 10 years	1,201,938,760	978,282,881	2,226,835	2,227,285
Over 10 years	<u>442,270</u>	<u>257,145</u>	<u>518</u>	<u>179</u>
	<u>3,476,192,956</u>	<u>3,252,299,648</u>	<u>37,720,652</u>	<u>36,420,320</u>

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

At December 31 and June 30, 2018, 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 and BNC International Banking Corporation 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, 2018, unrealized losses of Bs 223,691,489 and Bs 1,301,547, 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.

**Banco Nacional de Crédito, C.A, Banco Universal**  
**Notes to the financial statements**  
**December 31 and June 30, 2018**

**d) Restricted investments**

Restricted investments comprise the following:

	<b>December 31, 2018</b>		<b>June 30, 2018</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)	1,074	1,074	899	899	(1)
PNC Bank, with a par value of US\$1,784,740 (US\$1,774,227 at June 30, 2018) (Note 4)	1,136,475,280	1,136,475,280	2,035,260	2,035,260	(1)
JP Morgan Chase Bank, with a par value of US\$1,627,982 (US\$1,619,175 at June 30, 2018) (Note 4)	<u>1,036,348,086</u>	<u>1,036,348,086</u>	<u>1,857,397</u>	<u>1,857,397</u>	(1)
	<u>2,172,824,440</u>	<u>2,172,824,440</u>	<u>3,893,556</u>	<u>3,893,556</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, 2018, the certificates of deposit with JP Morgan Chase Bank and PNC Bank are used as collateral to guarantee VISA and MasterCard credit card operations, respectively.

**e) Investments in other securities**

Investments in other securities comprise the following:

	<b>December 31, 2018</b>	<b>June 30, 2018</b>	
	(In bolivars)		
BANDES securities, issued by Banco de Desarrollo Económico y Social de Venezuela, with a par value Bs 3,603,683, 10% annual yield, maturing between December 2022 and August 2024 (maturing between August 2022 and May 2024 at June 30, 2018)	3,603,683	1,849,564	(1) - (a)
Bolivarian Housing Securities issued by Fondo Simón Bolívar para la Reconstrucción, S.A., with a par value Bs 73,022, annual yield between 4.66% and 6.48%, maturing between October 2020 and September 2021	<u>71,850</u>	<u>72,693</u>	
	<u>3,675,533</u>	<u>1,922,257</u>	(1) - (a)

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

**Custodian of investments**

(a) Central Bank of Venezuela

At December 31 and June 30, 2018, the Bank maintains BANDES securities issued by Banco de Desarrollo Económico y Social de Venezuela. 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, 2018, the Bank has Bolivarian Housing Securities issued by Fondo Simón Bolívar para la Reconstrucción, S.A. These investments were computed for the construction mortgage loan portfolio until the year ended December 31, 2015.

The Bank's control environment includes policies and procedures to determine investment risks by entity and economic sector. At December 31, 2018, the Bank has investment securities issued or guaranteed by the Venezuelan government of Bs 1,390,386,139, representing 15% of its investment securities portfolio (Bs 32,212,131, representing 51.86% of its investment securities portfolio at June 30, 2018).

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

## Notes to the financial statements

### December 31 and June 30, 2018

#### 6. Loan portfolio

The loan portfolio is classified as follows:

	December 31, 2018				June 30, 2018			
	Current	Rescheduled	Overdue	Total	Current	Rescheduled	Overdue	Total
	(In bolivars)							
<b>Economic activity</b>								
Financial businesses, insurance, real estate and services	11,840,207,133	-	17,987	11,840,225,120	25,849,445	-	1,966	25,851,411
Manufacturing	3,638,198,489	-	-	3,638,198,489	38,601,963	-	-	38,601,963
Wholesale and retail trade, restaurants and hotels	3,248,362,321	-	8,200	3,248,370,521	345,619,656	-	-	345,619,656
Communal, social and consumer services	2,306,466,842	-	12,554	2,306,479,396	23,689,511	-	3	23,689,514
Agriculture, fishing and forestry	1,474,793,489	151	-	1,474,793,640	18,977,227	219	-	18,977,446
Construction	917,297,196	-	-	917,297,196	4,457	-	-	4,457
Transportation, warehousing and communications	834,713,686	-	190,989,461	1,025,703,147	4,019,435	-	739,896	4,759,331
Mining and oil	139,373,708	-	-	139,373,708	2,504	-	-	2,504
Utilities	72,732,533	-	-	72,732,533	2,318	-	-	2,318
	<u>24,472,145,397</u>	<u>151</u>	<u>191,028,202</u>	<u>24,663,173,750</u>	<u>456,766,516</u>	<u>219</u>	<u>741,865</u>	<u>457,508,600</u>
Allowance for losses on loan portfolio, includes US\$5,801,263 at December 31, 2018 (US\$5,826,674 at June 30, 2018) (Note 4)				(3,958,751,690)				(15,306,419)
				<u>20,704,422,060</u>				<u>442,202,181</u>
<b>Guarantee</b>								
Unsecured	14,411,234,422	151	191,005,676	14,602,240,249	189,810,635	211	1,961	189,812,807
Endorsement	6,099,219,949	-	22,500	6,099,242,449	245,747,808	-	739,895	246,487,703
Pledge	2,544,033,446	-	-	2,544,033,446	4,318,669	-	-	4,318,669
Collateral	1,367,127,274	-	-	1,367,127,274	7,503,193	1	-	7,503,194
Real property mortgage	27,442,791	-	26	27,442,817	1,831,818	6	9	1,831,833
Written instruments	14,384,372	-	-	14,384,372	4,534,586	-	-	4,534,586
Trust fund guarantee	8,700,000	-	-	8,700,000	-	-	-	-
Chattel mortgage	1,732	-	-	1,732	7,221	-	-	7,221
Non-possessory pledge	989	-	-	989	1,387	1	-	1,388
Other guarantees	422	-	-	422	3,011,199	-	-	3,011,199
	<u>24,472,145,397</u>	<u>151</u>	<u>191,028,202</u>	<u>24,663,173,750</u>	<u>456,766,516</u>	<u>219</u>	<u>741,865</u>	<u>457,508,600</u>
<b>Maturity</b>								
Overdue	-	-	-	-	-	-	739,895	739,895
Up to 30 days	7,967,392,582	-	40,005	7,967,432,587	354,379,041	-	1,771	354,380,812
31 to 60 days	6,013,414,940	-	109	6,013,415,049	18,031,122	-	-	18,031,122
61 to 90 days	6,043,382,205	-	178	6,043,382,383	68,103,802	-	6	68,103,808
91 to 180 days	1,188,959,035	-	562	1,188,959,597	1,458,533	-	10	1,458,543
181 to 360 days	877,238,245	-	1,488	877,239,733	1,703,464	2	23	1,703,489
	<u>2,381,758,390</u>	<u>151</u>	<u>190,985,860</u>	<u>2,572,744,401</u>	<u>13,090,554</u>	<u>217</u>	<u>160</u>	<u>13,090,931</u>
	<u>24,472,145,397</u>	<u>151</u>	<u>191,028,202</u>	<u>24,663,173,750</u>	<u>456,766,516</u>	<u>219</u>	<u>741,865</u>	<u>457,508,600</u>
<b>Type of loan</b>								
Checking accounts	10,283,550,523	-	20,552	10,283,571,075	-	-	1,738	1,738
Fixed term, includes US\$9,823,517 at December 31, 2018 (US\$3,574,447 at June 30, 2018) (Note 4)	7,603,404,349	-	190,975,365	7,794,379,714	329,584,074	-	739,895	330,323,969
Letters of credit, equivalent to US\$8,007,471 (US\$6,681,742 and €1,159,260 at June 2018) (Note 4)	5,097,432,157	-	-	5,097,432,157	9,217,219	-	-	9,217,219
Agriculture	733,374,110	151	-	733,374,261	18,977,227	219	-	18,977,446
Credit cards	442,768,583	-	14,053	442,782,636	6,544,930	-	199	6,545,129
Manufacturing	135,333,568	-	-	135,333,568	38,601,963	-	-	38,601,963
Factoring and discounts	84,497,612	-	-	84,497,612	42,097,548	-	-	42,097,548
Microcredits	48,862,731	-	18,200	48,880,931	1,593,097	-	1	1,593,098
Employee loans	25,593,230	-	-	25,593,230	156,704	-	-	156,704
Tourism	17,304,331	-	-	17,304,331	1,355,873	-	-	1,355,873
Mortgage	23,621	-	32	23,653	1,972,789	-	9	1,972,798
Vehicles	521	-	-	521	11,273	-	-	11,273
Installment, includes US\$4,795,000 at June 30, 2018 (Note 4)	61	-	-	61	6,653,804	-	23	6,653,827
Financial leases	-	-	-	-	15	-	-	15
	<u>24,472,145,397</u>	<u>151</u>	<u>191,028,202</u>	<u>24,663,173,750</u>	<u>456,766,516</u>	<u>219</u>	<u>741,865</u>	<u>457,508,600</u>

In accordance with SUDEBAN rules, at December 31 and June 30, 2018, the Bank maintains a general allowance of Bs 341,692,250 and Bs 4,590,981, respectively, for losses on the loan portfolio, and a countercyclical allowance of Bs 190,614,559 and Bs 3,431,290, respectively, (Note 2-e).

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

	Six-month periods ended	
	December 31, 2018	June 30, 2018
	(In bolivars)	
Balance at the beginning of the period	15,306,419	300,220
Provided in the period	276,991,871	8,446,642
Write-offs of uncollectible loans, includes US\$905,952 at June 30, 2018	(555)	(1,040,138)
Reclassification from (to) provision for interest receivable, includes US\$56,194 (US\$212 at June 30, 2018) (Note 7)	(36,032,938)	963
Adjustment from exchange differences	<u>3,702,486,893</u>	<u>7,598,732</u>
Balance at the end of the period	<u>3,958,751,690</u>	<u>15,306,419</u>

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On May 11, 2018, the Branch entered into a "Payment Agreement" with the debtor Importaciones BOIA, C.A. for collection of letters of credit amounting to US\$1,790,292, for which a provision of US\$1,105,505 had been set aside. In this regard, the Branch received cash for US\$501,163, and investment securities issued or guaranteed by the Bolivarian Republic of Venezuela, with a par value of US\$1,287,000. The fair value of these securities was US\$375,418 and yield receivable amounted to US\$7,759; they mature in October 2019 (Note 9). As a result of this transaction, the Branch wrote off the allowance for losses on loan portfolio for US\$905,952, equivalent to Bs 1,039,240.

At December 31, 2018, overdue loans on which interest is no longer accrued amount to Bs 191,028,202 (Bs 741,865 at June 30, 2018). In addition, at December 31, 2018, memorandum accounts include Bs 222,030 (Bs 16,006 at June 30, 2018)), in respect of interest not recognized as income from loans on which interest is no longer accrued (Note 20).

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

Activity	December 31, 2018					June 30, 2018					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)	733,374,261	29.00	25.00	204	13	19,081,386	31.48	28.00	243	13	Gross loan portfolio from previous quarter (six-month period prior to December 31, 2018)
Small businesses	48,880,931	7.00	3.00	4,730	24	1,593,098	9.82	3.00	1,498	24	Gross loan portfolio from previous six-month period
Mortgages	23,653	-	20.00	3	Between 4.66 and 10.66	290	-	-	3	Between 4.66 and 10.66	Gross loan portfolio at December 31, 2017
Tourism (b)	17,304,331	184.00	5.25	34	11.62	1,356,069	8.36	2.50	27	11.62	Gross loan portfolio from previous year (average balance of gross loan portfolio for the last two years at December 31, 2018)
Manufacturing	135,333,568	834.00	30.00	46	Between 16.2 and 18	38,601,963	237.98	-	54	Between 16.2 and 18	Gross loan portfolio from previous year

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, 2018, 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, 2018	June 30, 2018
	(In bolivars)	
<b>Interest receivable on investment securities</b>		
Held to maturity, includes US\$797,180 (US\$624,177 at June 30, 2018) (Note 4)	507,592,774	717,403
Available for sale, includes US\$74,163 (US\$3,075 at June 30, 2018 (Note 4)	52,770,707	7,596
Deposits with the BCV and overnight deposits, includes US\$363 (Note 4)	-	815
Other securities	100,015	30,306
	<u>560,463,496</u>	<u>756,120</u>

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	December 31, 2018	June 30, 2018
	(In bolivars)	
<b>Interest receivable on loan portfolio</b>		
Current, includes US\$69,607 (US\$36,621 at June 30, 2018) (Note 4)	76,008,430	670,293
Overdue, includes US\$20,219 (US\$10,190 at June 30, 2018) (Note 4)	13,128,474	12,558
Microcredits	454,712	13,295
Rescheduled	3	5
Agricultural	-	-
	<u>89,591,619</u>	<u>696,151</u>
 <b>Commissions receivable</b>		
Trust fund (Note 20)	<u>61,058</u>	<u>7,536</u>
<b>Interest receivable on other accounts receivable</b>		
Interest receivable on securities received as payment, equivalent to US\$21,611 (Notes 4 and 9)	-	24,790
	650,116,173	1,484,597
Provision for interest receivable and other, includes US\$939,027 (US\$521,269 at June 30, 2018) (Note 4)	<u>(598,032,591)</u>	<u>(598,871)</u>
	<u>52,083,582</u>	<u>885,726</u>

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

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

	<b>Six-month periods ended</b> <b>December 31,</b> <b>2018</b>	<b>June 30,</b> <b>2018</b>
	(In bolivars)	
Balance at the beginning of the period	598,871	778
Provided in the period, includes US\$366,652	233,470,026	593,236
Write-off of interest receivable on loans	-	(161)
Reclassification to provision for other assets, equivalent to US\$5,188 (Note 11)	(3,302,601)	(5,951)
Reclassification to allowance for losses on loan portfolio, includes US\$56,194 (US\$212 at June 30, 2018) (Note 6)	36,032,938	(963)
Adjustment from exchange differences	<u>331,233,357</u>	<u>11,932</u>
Balance at the end of the period	<u>598,032,591</u>	<u>598,871</u>

## **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, 2018, the Branch's capital assigned of US\$7,599,462 corresponds to contributions received and approved by the Bank's Board of Directors.

**Banco Nacional de Crédito, C.A, Banco Universal**  
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Below is a summary of the financial statements of the Branch included in the Bank's financial statements:

**Balance sheet**

	December 31, 2018		June 30, 2018	
	US\$	Equivalent in bolivars	US\$	Equivalent in bolivars
<b>Assets</b>				
Cash and due from banks	11,481,703	7,309,074,737	8,492,182	9,741,594
Investment securities	11,158,793	7,103,515,220	24,686,676	28,318,703
Loan portfolio	12,329,724	7,848,911,804	10,577,834	12,134,098
Interest and commissions receivable	22,142	14,094,619	44,386	50,916
Available-for-sale assets	-	-	375,418	430,651
Property and equipment	19,909	12,673,762	23,684	27,169
Other assets	<u>70,755</u>	<u>45,042,176</u>	<u>8,291</u>	<u>9,511</u>
Total assets	<u>35,083,026</u>	<u>22,333,312,318</u>	<u>44,208,471</u>	<u>50,712,642</u>
<b>Liabilities and Equity</b>				
<b>Liabilities</b>				
Customer deposits	28,946,044	18,426,604,394	38,240,217	43,866,309
Interest and commissions payable	23,210	14,775,127	53,038	60,841
Accruals and other liabilities	<u>64,150</u>	<u>40,836,899</u>	<u>99,869</u>	<u>114,562</u>
	<u>29,033,404</u>	<u>18,482,216,420</u>	<u>38,393,124</u>	<u>44,041,712</u>
<b>Equity (Note 4)</b>				
Capital assigned	7,599,462	4,837,700,098	7,599,462	8,717,533
Capital reserves	2,766,551	1,761,143,623	2,766,551	3,173,580
Retained earnings	(4,232,671)	(2,694,452,964)	(4,532,756)	(5,199,638)
Unrealized loss on investments in available-for-sale securities	<u>(83,720)</u>	<u>(53,294,859)</u>	<u>(17,910)</u>	<u>(20,545)</u>
Total equity	<u>6,049,622</u>	<u>3,851,095,898</u>	<u>5,815,347</u>	<u>6,670,930</u>
Total liabilities and equity	<u>35,083,026</u>	<u>22,333,312,318</u>	<u>44,208,471</u>	<u>50,712,642</u>

**Income statement**

	Six-month periods ended			
	December 31, 2018		June 30, 2018	
	US\$	Equivalent in bolivars	US\$	Equivalent in bolivars
Interest income	1,017,879	647,966,045	1,071,813	1,229,503
Interest expense	(70,607)	(44,947,325)	(80,047)	(91,824)
Income from financial assets recovered	-	-	-	-
Expenses from uncollectible loans	(397,435)	(253,000,981)	(623,950)	(715,749)
Other operating income	92,762	59,050,856	307,357	352,577
Other operating expenses	(217,308)	(138,335,894)	(1,956,932)	(2,244,844)
Operating expenses	(124,661)	(79,357,267)	(133,549)	(153,197)
Income from available-for-sale assets	-	-	13,853	15,891
Sundry operating income	1,955	1,244,523	1,774	2,035
Income tax	<u>(2,500)</u>	<u>(1,591,461)</u>	<u>(1,473)</u>	<u>(1,690)</u>
Net income	<u>300,085</u>	<u>191,028,496</u>	<u>(1,401,154)</u>	<u>(1,607,298)</u>

At December 31 and June 30, 2018, 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, 2018 have been translated at the official exchange rate of Bs 636.58455/US\$1 and Bs 1.14712/US\$1 (Note 2-b), respectively.



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

Available-for-sale assets comprise the following:

	December 31, 2018	June 30, 2018	
	(In bolivars)		
Personal property received as payment	309	483	
<b>Securities received as payment</b>			
Sovereign Bonds, with a par value of US\$1,287,000, shown at cost of US\$375,418, 7.75% annual yield, maturing in October 2019 (Notes 4 and 6)	—	430,651	(1) - (a)
	<u>309</u>	<u>431,134</u>	

(1) At June 30, 2018, with an estimated fair value of US\$350,128, equivalent to Bs 401,641 from trading operations on the secondary market per valuation screens.

**Custodian of investments**

(a) Euroclear Bank, S.A.

During the six-month period ended December 31, 2018, interest income in respect of the security received as payment amounted to US\$31,862, equivalent to Bs 20,282,916, shown as part of net income for the period within income from available-for-sale assets (US\$13,853, equivalent to Bs 15,891 at June 30, 2018). In addition, at June 30, 2018, yield receivable in connection with this security amounts to US\$21,611, equivalent to Bs 24,790, shown in the balance sheet within interest and commissions receivable (Note 7).

On June 19, 2018, the Branch requested authorization from SUDEBAN to reclassify these securities to held-to-maturity securities. Through Notice SIB-II-GGIBPV-GIBPV6-17264 of October 23, 2018, SUDEBAN authorized the reclassification (Note 5).

**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, 2017</b>									
Cost (include US\$83,164)	61,436	621,083	139,692	108,747	14,744	87	8,062	165	954,016
Accumulated depreciation (include US\$55,706)	—	(8,294)	(19,138)	(9,188)	(1,278)	(52)	—	—	(37,950)
Net balance	<u>61,436</u>	<u>612,789</u>	<u>120,554</u>	<u>99,559</u>	<u>13,466</u>	<u>35</u>	<u>8,062</u>	<u>165</u>	<u>916,066</u>
<b>Balances at June 30, 2018</b>									
Opening balance	61,436	612,789	120,554	99,559	13,466	35	8,062	165	916,066
Additions	—	3,864,476	817,357	842,320	—	—	717,074	—	6,241,227
Adjustment from exchange differences	—	—	70,234	25,157	—	—	—	—	95,391
Disposals	—	—	(8)	—	—	—	—	—	(8)
Adjustment from exchange differences on accumulated	—	—	(53,300)	(10,567)	—	—	—	—	(63,867)
Depreciation expense	—	(7,872)	(50,999)	(11,791)	(1,470)	(11)	—	—	(72,143)
Withdrawals from accumulated depreciation	—	—	8	—	—	—	—	—	8
Closing balance	<u>61,436</u>	<u>4,469,393</u>	<u>903,846</u>	<u>944,678</u>	<u>11,996</u>	<u>24</u>	<u>725,136</u>	<u>165</u>	<u>7,116,674</u>
<b>Balances at June 30, 2018</b>									
Cost (include US\$83,164)	61,436	4,485,560	1,027,274	976,224	14,744	87	725,136	165	7,290,626
Accumulated depreciation (include US\$59,480)	—	(16,165)	(123,429)	(31,546)	(2,749)	(63)	—	—	(173,952)
Net balance	<u>61,436</u>	<u>4,469,395</u>	<u>903,845</u>	<u>944,678</u>	<u>11,995</u>	<u>24</u>	<u>725,136</u>	<u>165</u>	<u>7,116,674</u>

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	Land	Buildings and facilities	Computer hardware	Furniture and equipment	Vehicles (In bolivars)	Equipment for Chip project	Construction in progress	Other property	Total
<b>Balances at December 31, 2018</b>									
Opening balance	61,436	4,469,395	903,845	944,678	11,995	24	725,136	165	7,116,674
Additions	-	6,606,810	26,414,017	34,975,574	52,692,765	-	631,278,352	-	751,967,518
Adjustment from exchange differences	-	-	38,909,106	13,936,412	-	-	-	-	52,845,518
Disposals	(95)	(22,518)	-	-	-	-	-	-	(22,613)
Adjustment from exchange differences on accumulated depreciation	-	-	(31,229,410)	(6,566,623)	-	-	-	-	(37,796,033)
Depreciation expense	-	(135,900)	(2,717,256)	(1,265,243)	(248,224)	(24)	-	-	(4,366,647)
Withdrawals from accumulated depreciation	-	22,518	-	-	-	-	-	-	22,518
Closing balance	<u>61,341</u>	<u>10,940,305</u>	<u>32,280,302</u>	<u>42,024,798</u>	<u>52,456,536</u>	<u>-</u>	<u>632,003,488</u>	<u>165</u>	<u>769,766,935</u>
<b>Balances at December 31, 2018</b>									
Cost (include US\$83,164)	61,341	11,069,850	66,349,923	49,888,665	52,707,510	87	632,003,488	165	812,081,029
Accumulated depreciation (Include US\$59,480)	-	(129,545)	(34,069,621)	(7,863,867)	(250,974)	(87)	-	-	(42,314,094)
Net balance	<u>61,341</u>	<u>10,940,305</u>	<u>32,280,302</u>	<u>42,024,798</u>	<u>52,456,536</u>	<u>-</u>	<u>632,003,488</u>	<u>165</u>	<u>769,766,935</u>

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, 2018, 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, 2018, the Bank recorded depreciation expense of Bs 4,366,647 (Bs 72,143 during the six-month period ended June 30, 2018), shown in the income statement under general and administrative expenses (Note 19).

On December 12, 2018, the Bank sold the Altamira office, where the Altamira II agency was located, for €6,000,000 at a gain of Bs 2,050,084,000, recorded in the income statement under extraordinary income. Furthermore, the Bank requested authorization from SUDEBAN to sell this office before and after the transaction. SUDEBAN, through Notice SIB-II.GGR-GA-01155 of January 29, 2019 authorized the sale.

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**11. Other assets**

Other assets comprise the following:

	December 31, 2018	June 30, 2018
	(In bolivars)	
<b>Deferred expenses</b>		
Licenses (US\$12,870 and €4,353 at June 30, 2018) (Note 4)	43,839,226	261,573
Leasehold improvements, net of amortization	196,938	210,081
Deferred loss on mortgage loans to companies whose real property was subject to intervention from the Venezuelan government	3,401	3,631
Operating system (software) (US\$3,851 at June 30, 2018) (Note 4)	<u>39,162,845</u>	<u>5,552</u>
	<u>83,202,410</u>	<u>480,837</u>
 Advances to suppliers	 540,163,623	 6,904,415
Pending items	318,621,810	463,783
Debt items pending reconciliation, includes US\$382,254 (US\$2,070 at June 30, 2018) (Note 15)	243,336,698	2,374
Advances on purchase options on premises owned by the Bank	208,322,636	2,068,542
Prepaid advertising	91,085,180	62,983
Stationery and sundry supplies	75,962,654	754,338
Other sundry accounts receivable, includes US\$447,664 (US\$861 at June 30, 2018) (Note 4)	43,917,508	169,313
Prepaid taxes and subscriptions (Note 16)	41,700,872	278,036
Other prepaid expenses, includes US\$51 (US\$14,044 at June 30, 2018) (Note 4)	41,187,847	332,608
Accounts receivable in foreign currency, equivalent to US\$61,440	39,111,885	-
Credit card-related accounts receivable and balance offsettings	11,784,079	119,576
Accounts receivable from employees, includes US\$20,270 (US\$600 June 30, 2018) (Note 4)	13,081,563	6,570
Bank insurance, includes US\$4,590 (US\$657,979 at June 30, 2018) (Note 4)	7,874,026	854,641
Matured financial instruments receivable, equivalent to US\$10,375 (US\$10,375 at June 30, 2018) (Note 4)	6,604,564	11,903
Contribution under the Law for the Advancement of Science, Technology and Innovation (Note 1)	-	7,302
Other items pending recording, includes US\$2,913	3,341,186	-
Inventories of chip credit and debit cards	2,169,200	265,271
Guarantee deposits, includes US\$4,675 (US\$4,675 at June 30, 2018) (Note 4)	<u>2,976,272</u>	<u>5,893</u>
	<u>1,691,241,603</u>	<u>12,307,548</u>
	1,774,444,013	12,788,385
Provision for other assets, includes US\$19,718 (US\$12,445 at June 30, 2018) (Note 4)	<u>(20,053,507)</u>	<u>(15,972)</u>
	<u>1,754,390,506</u>	<u>12,772,413</u>

At December 31 and June 30, 2018, advances to suppliers, relate mainly to purchases of equipment, teller machines and remodeling of agencies and the administrative headquarters.

Advances for purchase options on premises owned by the Bank were granted to purchase administrative offices and bank agencies for Bs 8,322,636 and Bs 200,000,000, respectively (Bs 68,542 and Bs 2,000,000, respectively, at June 30, 2018).

At December 31, 2018, stationery and sundry supplies include office supplies for Bs 59,421,550; stationery for Bs 3,255,876; and cleaning and other supplies for Bs 13,285,228 (Bs 568,035, Bs 144,634 and Bs 41,669, respectively, at June 30, 2018).

At December 31, 2018, other sundry accounts receivable correspond mainly to claims and in-transit operations for debit and credit card transactions amounting to Bs 39,689,708 (Bs 181,022 at June 30, 2018).

At December 31, 2018, debt items pending reconciliation includes items from credit balances for US\$346,202, equivalent to Bs 220,386,868, and debt balances for US\$36,052, equivalent to Bs 22,949,830 (Note 15).

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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 January 2019 and July 2018, the Bank paid Bs 837,402 and Bs 42,411, respectively, in this connection (Note 18).

Deferred expenses comprise the following:

	December 31, 2018			June 30, 2018		
	Cost	Accumulated amortization	Book value	Cost	Accumulated amortization	Book value
	(In bolivars)					
Licenses	50,738,816	(6,899,590)	43,839,226	414,041	(152,468)	261,573
Leasehold improvements	217,139	(20,201)	196,938	215,694	(5,613)	210,081
Deferred loss on mortgage loans to companies whose real property was subject to intervention from the Venezuelan government	4,586	(1,185)	3,401	4,586	(955)	3,631
Operating system (software)	<u>44,154,644</u>	<u>(4,991,799)</u>	<u>39,162,845</u>	<u>132,903</u>	<u>(127,351)</u>	<u>5,552</u>
	<u>95,115,185</u>	<u>(11,912,775)</u>	<u>83,202,410</u>	<u>767,224</u>	<u>(286,387)</u>	<u>480,837</u>

During the six-month periods ended December 31 and June 30, 2018, the Bank recorded amortization of deferred expenses of Bs 12,368,279 and Bs 142,573, respectively, shown in the income statement under general and administrative expenses (Note 19).

The balance of pending items comprises the following:

	December 31, 2018	June 30, 2018
	(In bolivars)	
<b>In-transit operations</b>		
Interbank Mobile Payment	210,281,627	268,453
MasterCard credit card	59,519,673	190,859
Internet deposit remittances	42,709,354	382
Teller machines and remittances in foreign currency	3,122,975	3,655
Cash shortages	104,145	385
Other pending items	<u>2,884,036</u>	<u>49</u>
	<u>318,621,810</u>	<u>463,783</u>

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.

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.

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Below is the movement in the provision for other assets:

	<u>Six-month periods ended</u>	
	<u>December 31,</u>	<u>June 30,</u>
	<u>2018</u>	<u>2018</u>
	(In bolivars)	
Balance at the beginning of the period	15,972	1,740
Provided in the period (Note 18)	13,446,655	2,374
Reclassification of interest receivable, equivalent to US\$5,188 (Note 7)	3,302,601	5,951
Write-offs of unrecoverable accounts, includes US\$5,188 (US\$31,126 at June 30, 2018)	(3,302,601)	(35,745)
Adjustment from exchange differences	<u>6,590,880</u>	<u>41,652</u>
Balance at the end of the period	<u>20,053,507</u>	<u>15,972</u>

**12. Customer deposits**

Customer deposits comprise the following:

	<u>December 31,</u>	<u>June 30,</u>
	<u>2018</u>	<u>2018</u>
	(In bolivars)	
<b>Checking account deposits and certificates</b>		
Non-interest-bearing checking accounts	17,806,759,183	518,493,110
Interest-bearing checking accounts	2,008,559,501	45,455,313
Checking accounts under Exchange Agreement No. 20, equivalent to US\$2,080,574 (US\$12,441,996 at June 30, 2018) (Notes 3 and 4)	1,324,461,406	14,272,525
Demand deposits and certificates		
Non-negotiable demand deposits, bearing annual interest between 1% and 9%, maturing in January 2017	346,487,099	19,742,158
Public, State and Municipal Administration	<u>26,531,111</u>	<u>3,060,754</u>
	<u>21,512,798,300</u>	<u>601,023,860</u>
<b>Other demand deposits</b>		
Cashier's checks	247,362,511	2,390,230
Trust fund liabilities (Note 20)	15,785,017	15,579,454
Advance collections from credit card holders	11,026,259	116,137
Housing Savings Fund liabilities (Note 20)	<u>307,776</u>	<u>2,912</u>
	<u>274,481,563</u>	<u>18,088,733</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 foreign currency, includes US\$16,485,051 and €6,104,972 (US\$31,646,391 and €17,885 at June 30, 2018) (Note 4)	<u>17,939,439,421</u>	<u>107,417,609</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\$5,479,347 (US\$4,167,287 at June 30, 2018) with the following maturities (Note 4)		
Up to 30 days	380,463,255	4,300,314
31 to 60 days	877,967,957	143,274
61 to 90 days	242,699,694	3,503,371
91 to 180 days	103,354,736	277,178
181 to 360 days	1,919,130,369	1,024,188
Over 361 days	-	12
	<u>3,523,616,011</u>	<u>9,248,337</u>
Restricted customer deposits, includes US\$1,355,000 and €900,000 (Note 4)	-	2,759,593
	<u>43,250,335,295</u>	<u>738,538,132</u>

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At June 30, 2018, restricted customer deposits correspond to guarantee deposits for loans granted by the Branch. During the six-month period ended December 31, 2018, the Branch and its customers amended the guarantee contracts by transferring the guarantees to other foreign financial institutions.

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

	December 31, 2018	June 30, 2018
	(In bolivars)	
Non-interest-bearing checking accounts	540,652,394	107,823,903
Non-negotiable demand deposits	190,726,482	39,044,493
Interest-bearing checking accounts, at 0.25% annual interest	62,131,073	10,949,187
Savings deposits, at 12.5% annual interest	26,531,111	30,607,539
Time deposits, at 14.5% annual interest	<u>4,000,529</u>	<u>25,004,050</u>
	824,041,589	213,429,172

### 13. Borrowings

Borrowings comprise the following:

	December 31, 2018	June 30, 2018
	(In bolivars)	
<b>Borrowings from Venezuelan financial institutions, up to one year</b>		
Demand deposits, non-interest bearing checking account with		
Banco del Tesoro, C.A.	133,355	-
Bancrecer, Banco Microfinanciero, C.A.	30,475	27,615
Mi Banco, Banco Microfinanciero, C.A.	6,399	1,134
Banplus, Banco Universal, C.A.	<u>1</u>	<u>-</u>
	170,230	28,749
<b>Borrowings from foreign financial institutions, up to one year</b>		
Demand deposits, interest-bearing checking account		
BNC International Banking Corporation, at 0.25% per annum (Note 23)	103	103
Demand deposits, non-interest bearing checking account with		
Arca International Bank, Inc.	6,732	2,349
Bancaribe Curacao Bank, N.V.	<u>1,953</u>	<u>6</u>
	8,788	2,458
	<u>179,018</u>	<u>31,207</u>

Through Resolution No. 113.14 of August 13, 2014, SUDEBAN set interbank deposit limits, which should be the lower amount resulting from comparing 10% of the total equity of the placing financial institution at the previous month end with 10% of the total equity of the receiving financial institution at the previous month end. At December 31 and June 30, 2018, the Bank complies with the requirements of this Resolution.

### 14. Interest and commissions payable

Interest and commissions payable comprise the following:

	December 31, 2018	June 30, 2018
	(In bolivars)	
<b>Expenses payable on customer deposits</b>		
Time deposits, includes US\$23,210 (US\$53,038 at June 30, 2018) (Note 4)	15,111,611	81,972
Non-negotiable demand deposits	<u>1,641,039</u>	<u>10,035</u>
	16,752,650	92,007

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**15. Accruals and other liabilities**

Accruals and other liabilities comprise the following:

	December 31, 2018	June 30, 2018
	(In bolivars)	
Pending items, includes US\$406,166 (US\$23,070 at June 30, 2018) (Note 4)	2,351,053,396	25,306,375
Accounts payable in foreign currency, equivalent to US\$3,534,512 and €12,241 (US\$3,058,770 and €10,648 at June 30, 2018) (Note 4)	2,258,927,867	3,523,050
Withholding tax, includes US\$1,415 (US\$1,414 at June 30, 2018) (Note 4)	175,968,302	3,127,241
Accrual for length-of-service benefits (Note 2-j)	136,048,213	2,207,566
Other provisions	120,130,013	2,963
Deferred interest income, includes US\$849 (US\$849 at June 30, 2018) (Notes 2-k and 4)	114,905,869	3,825,338
Suppliers and other sundry payables, includes US\$56,692 (US\$94,274 at June 30, 2018) (Note 4)	105,405,037	680,132
Income tax provision, includes US\$3,949 (US\$2,057 at June 30, 2018) (Notes 4 and 16)	50,425,019	7,201,735
Tax on economic activities and other taxes payable (Note 16)	37,697,650	573,369
Deferred income tax liability (Note 16)	35,514,275	252,799
Contribution for the prevention of money laundering and terrorism financing	28,571,757	166,653
Sports and Physical Education Law	25,444,870	110,506
Vacations and vacation bonus payable (Notes 2-j and 4)	23,296,367	401,615
Labor contributions and withholdings payable, includes US\$1,245 (US\$1,275 at June 30, 2018) (Note 4)	9,431,602	31,638
Cashier's checks	9,229,896	148,139
Commissions on credit and debit card services	4,713,834	375,162
Professional fees payable	3,752,906	42,484
Leases	2,643,179	37,186
Ezequiel Zamora Fund withholdings	890,578	82,860
Other personnel expenses	72,226	311,369
Provision for contingent loans (Note 20)	306	140
Profit sharing payable (Note 2-j)	-	409,611
	<u>5,494,123,162</u>	<u>48,817,931</u>

At December 31 and June 30, 2018, accounts payable in foreign currency include US\$2,859,834 (equivalent to Bs 1,820,526,449) and US\$2,872,118 (equivalent to Bs 3,294,678 at the exchange rate in effect at June 30, 2018), respectively, in connection with interest payable on customer securities held in custody by the Bank, which have not been claimed to date.

At December 31 and June 30, 2018, withheld taxes relate mainly to withholdings from third parties in connection with: income tax for Bs 80,626,249 and Bs 1,570,656, respectively; tax on large financial transactions for Bs 81,859,834 and Bs 747,696, respectively; value added tax for Bs 1,698,751 and Bs 405,871, respectively; stamp duty for Bs 10,778,801 and Bs 401,160, respectively, and other taxes for Bs 1,004,667 and Bs 1,858, respectively, which were paid to the Tax Authorities during January 2019 and July 2018, respectively.

At December 31 and June 30, 2018, suppliers and other sundry payables correspond mainly to accounts payable of Bs 58,887,457 and Bs 388,089, respectively, for contracted services.

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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>2018</u>	<u>2018</u>
	(In bolivars)	
Balance at the beginning of the period	140	69
Provided for the period	<u>166</u>	<u>71</u>
Balance at the end of the period	<u>306</u>	<u>140</u>

The balance of pending items comprises the following:

	<u>December 31,</u>	<u>June 30,</u>
	<u>2018</u>	<u>2018</u>
	(In bolivars)	
Point-of-sale transactions payable	1,959,167,649	16,323,055
Reconciling items includes US\$382,254 (US\$2,070 at June 30, 2018) (Note 11)	243,336,698	2,374
Mobile payment transactions payable	47,440,167	181,247
Collection of government and municipal taxes	37,442,500	516,435
Commissions to the Central Bank of Venezuela	36,948,800	10,021
In-transit operations through SICAD, equivalent to US\$21,000 (Note 4)	13,368,277	24,090
Difference in exchange for credit cards	5,795,622	20,566
Suiche 7B transactions payable	5,460,925	4,248
Debt items in foreign currency pending reconciliation, equivalent to US\$2,913 (Note 4)	1,854,053	-
Cash surplus	177,813	244
Pending employee payments	42,310	110,445
Other pending items	16,567	-
Automatic voucher differences	2,015	10,423
Advance received on sale of agency	-	7,237,343
Credit card transactions	-	8,837
In-transit operations	-	857,047
	<u>2,351,053,396</u>	<u>25,306,375</u>

At December 31 and June 30, 2018, point-of-sale transactions payable correspond to the use of points of sale of other financial institutions by Bank customers. Most of these transactions clear in the month following period closing. During the six-month period ended December 31, 2018, the Bank recorded income and expenses of Bs 368,528,488 and Bs 177,901,903, respectively, from commissions charged to stores for the use of points of sales, which are part of commissions for services recorded under other operating income and expenses, respectively (income and expenses of Bs 5,997,568 and Bs 1,758,727, respectively, for the six-month period ended June 30, 2018) (Notes 17 and 18).

During the six-month period ended June 30, 2018, the Bank received an advance of Bs 7,237,343 for the sale of an agency which is fully operational. The sale will be formalized upon fulfillment of all legal requirements.

At December 31 and June 30, 2018, 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.

At June 30, 2018, in-transit operations includes returned checks and Swift transfers in clearinghouse at the BCV.



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**16. Taxes**

**a) Income tax**

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

The 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, 2018:

	(In bolivars)
Statutory tax rate (%)	<u>40</u>
Book income before tax	2,570,101,092
Difference between book income and taxable income	
Other provisions	78,593,367
Loan portfolio, net	37,607,907
Other assets	7,499,939
Tax-exempt income, net of related expenses	(737,015)
Social contributions	3,665,901
Municipal taxes	32,109,016
Other effects, net	(2,414,044,008)
Financial income from foreign source not imputable to income in Venezuela	<u>(189,421,199)</u>
Taxable income from foreign source	<u>125,375,000</u>
Income tax expense in Venezuela	<u>50,150,000</u>

During the six-month period ended December 31, 2018, the Branch recorded estimated income tax expense of US\$2,500 equivalent to Bs 1,591,461, (US\$1,473 equivalent to Bs 1,690 at the exchange rate in effect at June 30, 2018). 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>	
	<u>December 31,</u>	<u>June 30,</u>
	<u>2018</u>	<u>2018</u>
	(In bolivars)	
<b>Income tax</b>		
Current	44,591,722	7,151,690
Deferred liability	<u>35,261,476</u>	<u>168,844</u>
	<u>79,853,198</u>	<u>7,320,534</u>

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At December 31 and June 30, 2018, the Bank maintains an income tax provision of Bs 50,425,019 and Bs 7,201,735, respectively, which includes US\$3,949 and US\$2,057, respectively, in connection with the Branch (Note 15). In addition, at December 31 and June 30, 2018, the Bank has prepaid income tax amounting to Bs 41,691,027 and Bs 274,063, respectively, which are part of other assets and are shown within prepaid taxes and subscriptions (Note 11).

**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, 2018 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, 2018, the Bank maintains a net deferred tax liability of Bs 35,514,275 (Bs 252,799 at June 30, 2018), included under accruals and other liabilities (Note 15).

The components of the deferred tax liability are as follows:

	December 31, 2018	June 30, 2018
	(In bolivars)	
<b>Assets</b>		
Inflation adjustment for tax purposes pending amortization on property and equipment	-	169
Other provisions and accruals	5,660,500	301,956
Allowance for losses on loan portfolio and provision for interest receivable	<u>332,516</u>	<u>40</u>
	<u>5,993,016</u>	<u>302,165</u>
<b>Liabilities</b>		
Deferred losses on mortgage loans	-	1,550
Prepaid expenses	<u>41,507,291</u>	<u>553,414</u>
	<u>41,507,291</u>	<u>554,964</u>
Deferred income tax liability	<u>(35,514,275)</u>	<u>(252,799)</u>

The movements in the deferred income tax liability accounts for the six-month periods ended December 31 and June 30, 2018 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, 2017	4,255	17,924	1,073	(1,640)	(105,567)	(83,955)
Charged (credited) to the income statement	<u>(4,086)</u>	<u>284,032</u>	<u>(1,033)</u>	<u>90</u>	<u>(447,847)</u>	<u>(168,844)</u>
At June 30, 2018	169	301,956	40	(1,550)	(553,414)	(252,799)
Charged (credited) to the income statement	<u>(169)</u>	<u>5,358,544</u>	<u>332,476</u>	<u>1,550</u>	<u>(40,953,877)</u>	<u>(35,261,476)</u>
At December 31, 2018	<u>-</u>	<u>5,660,500</u>	<u>332,516</u>	<u>-</u>	<u>(41,507,291)</u>	<u>(35,514,275)</u>

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**c) Transfer pricing**

According to transfer-pricing regulations, taxpayers that conduct transactions with related parties abroad are required to calculate income, costs and deductions applying the methodology set out in the Law. The Bank conducts transactions with related parties abroad. At December 31, 2017, the Bank made the transfer-pricing study and determined no impact on taxable income for the year then ended; the transfer-pricing study at December 31, 2018 is underway.

**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, 2018, the Bank recorded a tax expense of Bs 54,304,333 and Bs 926,004, respectively, in connection with the economic activities conducted in its offices nationwide, shown under general and administrative expenses (Note 19). At December 31, 2018, the balance pending payment in this connection amounts to Bs 32,135,264 (Bs 551,848 at June 30, 2018), 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.

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

During the six-month period ended December 31, 2018, the Bank recognized expenses of 42,402,317 shown under general and administrative expenses (Bs 229,371 during the six-month period ended June 30, 2018) (Note 19).

**17. Other operating income**

Other operating income comprises the following:

	<b>Six-month periods ended</b>	
	<b>December 31, 2018</b>	<b>June 30, 2018</b>
	(In bolivars)	
Service fees (Notes 2-k and 15)	527,380,279	6,976,830
Commission for documentation of lines of credit (Note 2-k)	455,546,102	570,755
Gain on sale of investment securities (Note 5-b)	44,721,651	61,305
Exchange gain (Note 4)	14,486,751	104,743
Commissions on trust funds (Note 20)	294,917	10,347
Income from amortization of discount on held-to-maturity investments	175,078	223,798
	<u>1,042,604,778</u>	<u>7,947,778</u>

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**18. Other operating expenses**

Other operating expenses comprise the following:

	<u>Six-month periods ended</u>	
	<u>December 31,</u>	<u>June 30,</u>
	<u>2018</u>	<u>2018</u>
	(In bolivars)	
Service fees (Notes 2-k and 15)	256,044,708	1,930,239
Exchange loss (Note 4)	60,313,474	173,416
Amortization of premiums on held-to-maturity investments	1,986,345	169,930
Loss on sale of investment securities (Note 5-b)	2,727	1,200
Loss on impairment of investment securities (Note 5-c)	-	1,932,107
	<u>318,347,254</u>	<u>4,206,892</u>

Sundry operating expenses comprise the following:

	<u>Six-month periods ended</u>	
	<u>December 31,</u>	<u>June 30,</u>
	<u>2018</u>	<u>2018</u>
	(In bolivars)	
Contribution to the National Fund for Communal Councils (Note 11)	837,402	42,441
Contribution for the Antidrug Law (Note 1)	28,405,104	167,520
Contribution for the Sports and Physical Education Law (Note 1)	25,334,364	111,770
Contribution for the Law for the Advancement of Science, Technology and Innovation (Note 1)	7,302	7,267
Other	120,002,613	2,456
Provision for other assets (Note 11)	<u>13,446,655</u>	<u>2,374</u>
	<u>188,033,440</u>	<u>333,828</u>

**19. General and administrative expenses**

General and administrative expenses comprise the following:

	<u>Six-month periods ended</u>	
	<u>December 31,</u>	<u>June 30,</u>
	<u>2018</u>	<u>2018</u>
	(In bolivars)	
Transportation of valuables and surveillance	271,656,108	1,103,174
Maintenance and repairs	176,126,304	1,477,574
Consulting and external audit	85,148,919	1,231,696
Outsourced services	58,626,861	477,094
Tax on economic activities (Note 16)	54,304,333	926,004
Sundry general expenses	50,009,757	1,300,158
Legal advice	47,218,824	76,783
Transportation and communication expenses	42,314,792	305,837
Tax on Large Financial Transactions (Note 16)	42,402,317	229,371
Leases	28,005,577	157,499
Amortization of deferred expenses (Note 11)	12,368,279	142,573
Legal expenses	10,347,620	152
Stationery and office supplies	6,888,803	139,790
Depreciation and impairment of property and equipment (Note 10)	4,366,647	72,143
Advertising	3,393,902	382,361
Insurance	2,355,028	683,889
Infrastructure expenses	1,961,040	19,321
Public relations	1,718,146	8,674
Other taxes and contributions	460,259	5,396
Utilities	386,744	9,991
Other	<u>1,636,102</u>	<u>12,435</u>
	<u>901,696,362</u>	<u>8,761,915</u>

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**20. Memorandum accounts**

Memorandum accounts comprise the following:

	<b>December 31, 2018</b>	<b>June 30, 2018</b>
	(In bolivars)	
<b>Contingent debtor accounts</b>		
Credit card lines of credit (Note 21)	403,150,952	36,546,814
Guarantees granted (Note 21)	30,603	13,989
Lines of credit for discounts and factoring (Note 21)	12,575	1,554
Letters of credit issued but not negotiated, includes €900,000 at June 30, 2018 (Notes 4 and 21)	2	1,205,240
Purchases of financial futures (Note 5-a)	-	83,224
	<u>403,194,132</u>	<u>37,850,821</u>
<b>Assets received in trust (Note 2-m)</b>	<u>66,280,750</u>	<u>16,697,617</u>
<b>Debtor accounts from other special trust services (Housing Loan System)</b>	<u>32,019,150</u>	<u>407,968</u>
<b>Other debtor memorandum accounts</b>		
Guarantees received, includes US\$26,663,566 (US\$27,619,551 at June 30, 2018) (Note 4)	55,902,032,233	503,939,925
Lines of credit available but not negotiated	16,123,064,639	277,473,357
Assets held in custody, includes US\$10,961,297 (US\$50,611,815 at June 30, 2018) (Note 4)	7,006,160,834	58,560,980
Securities held by other financial institutions, equivalent to US\$9,566,801 (US\$9,616,600 at June 30, 2018) (Note 4)	6,090,077,551	11,031,442
Collections in foreign currency, equivalent to US\$1,664,007 (US\$1,664,007 at June 30, 2018) (Note 4)	1,059,281,211	1,908,824
Others (US\$96,982 at June 30, 2018) (Note 4)	239,968,193	111,258
Debt reconciling and written off items, includes US\$168,607 (US\$535,988 and €8,377 at June 30, 2018) (Note 4)	107,333,593	627,133
Deferred interest receivable on loans overdue and in litigation, includes US\$291 (US\$13,736 at June 30, 2018) (Notes 4 and 6)	222,030	16,006
Uncollectible accounts written off	5,378	5,362
Performance bonds from suppliers	4,889	525,707
Personal and real property written off (Note 9)	117	117
Taxes receivable	16	16
Guarantees on collateral granted	4	4
Currency awarded through SICAD	2	2
	<u>86,528,150,690</u>	<u>854,200,133</u>
	<u>87,029,644,722</u>	<u>909,156,539</u>

At December 31 and June 30, 2018, securities in custody of other financial institutions of Bs 6,090,077,551 and Bs 11,031,442 respectively, are held in Commerzbank, A.G.

At December 31, 2018, in accordance with the Accounting Manual, the Bank has set aside general and specific provisions for contingent debtor accounts of Bs 306 (Bs 140 at June 30, 2018), 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, 2018	June 30, 2018
	(In bolivars)	
<b>Assets</b>		
Cash and due from banks (Note 12)	15,785,017	15,579,454
Investment securities	38,480,348	906,308
Loan portfolio	11,036,541	199,464
Loans and advances to beneficiaries of length-of-service benefits	11,036,541	199,089
Loans receivable	-	375
Interest receivable on investment securities	834,153	6,491
Other assets	144,691	5,900
<b>Total assets</b>	<u>66,280,750</u>	<u>16,697,617</u>
<b>Liabilities and Equity</b>		
Liabilities		
Other liabilities	112,723	8,094
<b>Total liabilities</b>	<u>112,723</u>	<u>8,094</u>
Equity		
Capital assigned to trusts	64,889,036	16,408,487
Retained earnings	1,278,991	281,036
<b>Total equity</b>	<u>66,168,027</u>	<u>16,689,523</u>
<b>Total liabilities and equity</b>	<u>66,280,750</u>	<u>16,697,617</u>

Below is a breakdown of assets received in trust:

	December 31, 2018	June 30, 2018
	(In bolivars)	
<b>Assets received in trust</b>		
Length-of-service benefits	65,332,523	939,217
Administration	917,234	15,720,757
Investment	30,993	37,643
	<u>66,280,750</u>	<u>16,697,617</u>

At December 31 and June 30, 2018, cash and due from banks includes Bs 15,785,017 and Bs 15,579,454, 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, 2018, the Bank's trust fund earned income of Bs 283,648 and Bs 3,174, respectively, from cash and due from banks.

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

	December 31, 2018				June 30, 2018		
	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>							
Debenture bonds							
Compañía Venezolana de Cerámica, C.A., with a par value of Bs 1,500,000, 25% annual yield, maturing in December 2021	1,500,000	1,500,000	1,500,000	(1) - (a)	-	-	- (1) - (a)
Trusts - Funds, with a par value of Bs 1,500, 20% annual yield, maturing in December 2021	1,500	1,500	1,500	(1) - (a)	-	-	- (1) - (a)
Bestinvest Casa de Bolsa S.A., with a par value of Bs 4,270, 20% annual yield, maturing in December 2021	4,270	4,270	4,270	(1) - (a)	-	-	- (1) - (a)
Mercosur Casa de Bolsa S.A., with a par value of Bs 40,000, 25% annual yield, maturing in December 2020	40,000	40,000	40,000	(1) - (a)	-	-	- (1) - (a)
Ron Santa Teresa C.A., with a par value of Bs 40,000, 25% annual yield, maturing in December 2020	-	-	-	(1) - (a)	40,000	40,000	40,000 (1) - (a)
Anic Neumáticos de Venezuela, with a par value of Bs 30,000, 26% annual yield, maturing in May 2021	30,000	30,000	30,000	(1) - (a)	30,000	30,000	30,000 (1) - (a)
Desarrollo Forestales, with a par value of Bs 10,000, 24.50% annual yield, maturing in March 2021	10,000	10,000	10,000	(1) - (a)	10,000	10,000	10,000 (1) - (a)
Cerámica Carabobo, S.A., with a par value of Bs 30,000, annual yield between 15.09% and 25%, maturing between February 2019 and June 2021	30,000	30,000	30,000	(1) - (a)	30,000	30,000	30,000 (1) - (a)
Inversiones Selva, C.A., with a par value of Bs 10,000, 24% annual yield, maturing in March 2021	10,000	10,000	10,000	(1) - (a)	10,000	10,000	10,000 (1) - (a)
Venequip S.A., with a par value of Bs 10,000, 25% annual yield, maturing in March 2021	10,000	10,000	10,000	(1) - (a)	10,000	10,000	10,000 (1) - (a)
Corporación Grupo Químico, C.A., with a par value of Bs 9,500, annual yield between 16.70% and 23.50%, maturing between September 2019 and November 2020	9,500	9,500	9,500	(1) - (a)	9,500	9,500	9,500 (1) - (a)
Montana Gráfica, C.A., with a par value of Bs 577,000,000, 20% annual yield, maturing in June 2020	-	-	-	(1) - (a)	5,770	5,770	5,770 (1) - (a)
Agropecuaria INSA de Venezuela AGRORINSA, C.A., with a par value of Bs 5,000, 26.5% annual yield, maturing in September 2021	5,000	5,000	5,000	(1) - (a)	5,000	5,000	5,000 (1) - (a)
La Montserratina, C.A., with a par value of Bs 5,000, annual yield between 17.40% and 26% maturing between March 2020 and August 2021	5,000	5,000	5,000	(1) - (a)	5,000	5,000	5,000 (1) - (a)
Inelectra, S.A.C.A., with a par value of Bs 13,000, annual yield between 17.09% and 26%, maturing between October 2019 and June 2021	13,000	13,000	13,000	(1) - (a)	3,000	3,000	3,000 (1) - (a)
Venezolana de Frutas, C.A., with a par value of Bs 3,000, 22.5% annual yield, maturing in October 2020	3,000	3,000	3,000	(1) - (a)	3,000	3,000	3,000 (1) - (a)
Automercados Plaza's, C.A., with a par value of Bs 200,000, 17.53% annual yield, maturing in March 2020	2,000	2,000	2,000	(1) - (a)	2,000	2,000	2,000 (1) - (a)
Avior Airlines, C.A., with a par value of Bs 2,000, 17.36% annual yield, maturing in May 2020	2,000	2,000	2,000	(1) - (a)	2,000	2,000	2,000 (1) - (a)
Toyota Servicios de Venezuela, C.A., with a par value of Bs 1,200, annual yield between 16.89% and 16.92%, maturing in October 2021	-	-	-	(1) - (a)	1,200	1,200	1,200 (1) - (a)
F.V.I. Fondo de Valores Inmobiliarios, S.A.C.A., with a par value of Bs 2,001,000, annual yield between 8.84% and 22%, maturing between December 2021 and October 2022	2,001,000	2,001,000	2,001,000	(1) - (a)	1,000	1,000	1,000 (1) - (a)
Corporación Digitel, C.A., with a par value of Bs 83, 16.03% annual yield, maturing between November 2018 and June 2028	-	-	-		83	83	83 (1) - (a)
Dominguez & Cia., S.A., with a par value of Bs 74,400, annual yield between 17.40% and 26%, maturing between March 2020 and August 2021	74,400	74,400	74,400	(1) - (a)	10,400	10,400	10,400 (1) - (a)
	3,750,670	3,750,670	3,750,670		177,953	177,953	177,953
<b>Sundry obligations</b>							
Mercantil Servicios Financieros, C.A., with a par value of Bs 8,000, annual yield between 16.03% and 16.25%, maturing between December 2019 and April 2020	8,000	8,000	8,000	(1) - (a)	8,000	8,000	8,000 (1) - (a)
Netuno, C.A., with a par value of Bs 10,000, annual yield between 22% and 24%, maturing between July and November 2020	10,000	10,000	10,000	(1) - (a)	10,000	10,000	10,000 (1) - (a)
Corrimon, C.A., with a par value of Bs 4,000, annual yield between 22% and 24%, maturing between July and November 2020	4,000	4,000	4,000	(1) - (a)	4,000	4,000	4,000 (1) - (a)
Ron Santa Teresa, C.A., with a par value of Bs 4,000, 22% annual yield, maturing in February 2021	4,000	4,000	4,000	(1) - (a)	4,000	4,000	4,000 (1) - (a)
Cerámica Carabobo, S.A., with a par value of Bs 2,500, 15.09% annual yield, maturing in February 2019	2,500	2,500	2,500	(1) - (a)	2,500	2,500	2,500 (1) - (a)
	28,500	28,500	28,500		28,500	28,500	28,500

(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) Bancgreco, S.A., Banco Microfinanciero

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Below is the classification of investment securities according to maturity:

	<u>December 31, 2018</u>		<u>June 30, 2018</u>	
	<u>Amortized cost</u>	<u>Fair value</u>	<u>Amortized cost</u>	<u>Fair value</u>
	(In bolivars)			
Up to 6 months	10,165,156	10,136,127	146,587	146,586
6 months to 1 year	57,100	57,100	484,877	451,059
1 to 5 years	3,776,192	3,806,882	196,285	196,285
Over 5 years	<u>24,481,900</u>	<u>24,569,496</u>	<u>78,559</u>	<u>78,559</u>
	<u>38,480,348</u>	<u>38,569,605</u>	<u>906,308</u>	<u>872,489</u>

At December 31, 2018, interest receivable on investment securities amounts to Bs 834,153 (Bs 6,492 at June 30, 2018)

At December 31 and June 30, 2018, 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, 2018, loans and advances to beneficiaries of the length-of-service benefit trust fund include Bs 183,957 (Bs 7,714 at June 30, 2018) from Bank employees (Notes 1 and 8); Bs 8,788,904 from private length-of-service benefit trust funds, and Bs 2,063,680, from government agencies (Bs 122,066 and Bs 69,309, respectively, at June 30, 2018).

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 (Note 7). Furthermore, the commission paid by the trust fund and the trustors to the Bank during the six-month period ended December 31, 2018 amounted to Bs 294,917 (Bs 10,347 during the six-month period ended June 30, 2018) (Note 17).

At December 31, 2018, length-of-service benefit trust funds in favor of Bank employees amount to Bs 10,542,798 (Bs 102,227 at June 30, 2018).

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, 2018, trust funds set up by the Venezuelan government or its decentralized agencies correspond mainly to length-of-service benefit and administration trust funds, which have been mobilized over the last 4 months.



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

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

	December 31, 2018	June 30, 2018
	(In bolivars)	
<b>Assets</b>		
Cash and due from banks (Note 12)	307,776	2,912
Investment securities	31,711,322	404,017
Loan portfolio	44	1,036
Interest receivable	-	2
Other assets	<u>8</u>	<u>1</u>
Total assets	<u>32,019,150</u>	<u>407,968</u>
<b>Liabilities</b>		
Contributions to the Housing Savings Fund	32,016,125	404,912
Liabilities to BANAVIH	<u>2,437</u>	<u>2,437</u>
Total liabilities	<u>32,018,562</u>	<u>407,349</u>
Income	<u>588</u>	<u>619</u>
Total liabilities and income	<u>32,019,150</u>	<u>407,968</u>

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

At December 31, 2018, the Bank has an investment trust in BANAVIH for Bs 31,711,322 (Bs 404,017 at June 30, 2018) 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, 2018, the Bank has granted loans out of BANAVIH resources of Bs 44 (Bs 1,036 at June 30, 2018). These loans bear annual interest between 4.66% and 8.55%.

At December 31, 2018, the Housing Savings Fund has 72 debtors (1,156 debtors at June 30, 2018).

During the six-month period ended December 31, 2018, the Bank recorded income Bs 41 (Bs 12 during the six-month period ended June 30, 2018) 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, 2018, these guarantees earned annual commissions of 1%. These commissions are recorded monthly while the guarantees are in force.

At December 31, 2018, Bank guarantees amount to Bs 30,603 (Bs 13,989 at June 30, 2018) (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. At December 31 and June 30, 2018, the Bank has no negotiated lines of credit unused by customers.

**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, 2018, 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, 2018 amount to Bs 2 (Bs 1,205,240 at June 30, 2018) (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, 2018, the Bank's paid-in capital amounts to Bs 38,919 and Bs 36,919, respectively, represented by 3,891,930,372 and 3,691,930,372 non-convertible common shares of the same class with a par value of Bs 0.00001 each, fully subscribed and paid-in. The Bank complies with the minimum capital required under the current legislation.

At a Regular Shareholders' Meeting held on September 28, 2016, it was resolved to declare and pay dividends for Bs 6,600, to be distributed as follows: Bs 1,650 payable in cash with a charge to unappropriated surplus, and Bs 4,950 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 cash dividends of Bs 1,650 in equity under share premium and paid-in surplus, taking into consideration that at the aforementioned Regular Shareholders' Meeting it was unanimously

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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 Venezuelan Securities Superintendency (SNV) authorized the public offering and listing of shares in the National Securities Registry.

At a Special Shareholders' Meeting held on January 25, 2017, it was resolved to increase capital to up to Bs 2,000, through the public offering of non-convertible common shares with a par value of Bs 0.00001 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, 2018, the Bank received contributions of Bs 8,453 and Bs 148,522, 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 0.00001 each, for a total of up to Bs 2,000. On January 25, 2018, and upon favorable pronouncement from OSFIN, SUDEBAN issued Notice SIB-II-GGR-GA-01342 authorizing the capital increase. On April 13, 2018, through Resolution No. DSNV/CJU/321, the SNV authorized the public offering. During July 2018, the Bank placed the public offering, completing the requirements of the Stock Market Law. As a result, the Bank recorded a capital increase of Bs 2,000.

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
March 29, 2017	Stock dividends	19,000	25% with a charge to unappropriated surplus and 75% with a charge to restricted surplus	SUDEBAN and SNV
September 27, 2017	Stock dividends	56,000	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	65,555	With a charge to share premiums pending capitalization	SUDEBAN and SNV
March 18, 2018	Stock dividends	195,000	With a charge to unappropriated surplus	SUDEBAN and SNV
September 26, 2018	Stock dividends	3,110,000	With a charge to unappropriated surplus	SUDEBAN and SNV

At a Regular Shareholders' Meeting held on March 29, 2017, it was resolved to declare and pay dividends for Bs 19,000, to be distributed as follows: Bs 4,750, payable in cash with a charge to unappropriated surplus, and Bs 14,250 through a stock dividend payable with a charge to restricted surplus. To date, the Bank is awaiting a response from SUDEBAN to subsequently request SNV authorization.

At a Regular Shareholders' Meeting held on September 27, 2017, it was resolved to declare and pay dividends for Bs 56,000, to be distributed as follows: Bs 14,000 payable in cash with a charge to restricted surplus, and Bs 42,000 through a stock dividend payable with a charge to unappropriated surplus. To date, the Bank is awaiting a response from SUDEBAN to subsequently request SNV authorization.

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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 65,555 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 to subsequently request SNV authorization.

At a Regular Shareholders' Meeting held on March 18, 2018, it was resolved to declare and pay dividends for Bs 195,000, payable in cash with a charge to unappropriated surplus. Furthermore, at the aforementioned Meeting, the shareholders unanimously approved to increase capital stock to up to Bs 195,000, by subscribing and paying shares at a par value of Bs 0.00001. To date, the Bank is awaiting a response from SUDEBAN to subsequently request SNV authorization.

At a Special Shareholders' Meeting on August 9, 2018, the shareholders approved a capital stock increase of up to Bs 10,000, payable in cash with a premium at a price 3.5 times the equity value of the share. The Bank's Board of Directors, exercising the powers granted by the Shareholders' Meeting, desisted from carrying out the capital increase, since the amount was insignificant and informed SUDEBAN of such decision.

At a Special Shareholders' Meeting of September 26, 2018, it was resolved to declare dividends of Bs 3,110,000 fully payable in shares through the distribution of 311,000,000,000 non-convertible common shares of the same class with a par value of Bs 0.00001, payable with a charge to restricted surplus. To date, the Bank is awaiting authorization from SUDEBAN to subsequently request SNV authorization.

Shares subscribed by shareholders for the six-month periods ended December 31 and June 30, 2018 are identified as non-convertible common shares as follows:

	December 31, 2018		June 30, 2018	
	Number of shares	Equity %	Number of shares	Equity %
<b>Shareholders</b>				
Nogueroles García, Jorge Luis	372,174,373	9.5627	352,573,409	9.5498
Valores Torre Casa, C.A.	276,925,773	7.1154	262,341,155	7.1058
Nogueroles López, José María	252,916,178	6.4985	239,596,045	6.4897
Halabi Harb, Anuar	228,097,270	5.8608	216,084,245	5.8529
Alintio International, S.L.	192,941,978	4.9575	182,780,436	4.9508
Curbelo Pérez, Juan Ramón	153,670,544	3.9484	145,773,664	3.9484
Zasuma Inversiones, C.A.	149,481,548	3.8408	141,799,934	3.8408
De Guruceaga López, Gonzalo Francisco	147,160,402	3.7812	140,036,897	3.7931
Inversiones Clatal, C.A.	120,260,925	3.0900	113,937,199	3.0861
Castellana Investments Fund. Limited, S.C.C.	118,743,890	3.0510	112,439,000	3.0455
Osio Montiel, Carmen Inés	101,089,275	2.5974	95,903,947	2.5977
Kozma Solymosy, Nicolás A.	83,368,691	2.1421	78,977,917	2.1392
Inversiones Grial, C.A.	76,611,287	1.9685	72,576,396	1.9658
Inversiones Tosuman, C.A.	72,570,836	1.8646	68,841,539	1.8646
Tamayo Degwitz, Carlos Enrique	72,521,155	1.8634	68,739,568	1.8619
Teleacción A.C., C.A.	69,720,258	1.7914	66,048,289	1.7890
García Arroyo, Sagrario	66,646,753	1.7124	63,136,653	1.7101
Puig Miret, Jaime	54,352,762	1.3966	51,559,662	1.3966
Consortio Toyomarca, S.A. (Toyomarca, S.A.)	54,271,625	1.3945	51,365,167	1.3913
Somoza Mosquera, David	53,655,399	1.3786	50,829,500	1.3768
Kozma Ingenuo, Alejandro Nicolás	49,283,004	1.2663	46,687,380	1.2646
Kozma Ingenuo, Carolina María	49,283,004	1.2663	46,687,380	1.2646
Chaar, Mouada	44,269,705	1.1375	41,938,111	1.1359
Nogueroles García, María Monsterrat	42,953,049	1.1036	40,690,797	1.1022
Eurobuilding Internacional, C.A.	39,813,617	1.0230	35,003,501	0.9481
Valores Agropecuarios La Florida, C.A.	36,899,717	0.9481	34,122,925	0.9243
Tracto Agro Valencia, C.A.	36,020,045	0.9255	33,984,728	0.9205
Carried forward	3,015,703,063	77.4861	2,854,455,444	77.3161

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	December 31, 2018		June 30, 2018	
	Number of shares	Equity %	Number of shares	Equity %
Brought forward	3,015,703,063	77.4861	2,854,455,444	77.3161
Valores Abezur, C.A.	34,446,275	0.8851	32,676,137	0.8851
Herrera de la Sota, Mercedes de la Concepción	33,189,534	0.8528	31,441,486	0.8516
Benacerraf Herrera, Mercedes Cecilia	30,204,338	0.7761	28,613,508	0.7750
Benacerraf Herrera, Andrés Gonzalo	30,204,338	0.7761	28,613,508	0.7750
Benacerraf Herrera, Jorge Fortunato	30,163,499	0.7750	28,574,820	0.7740
Grupo Inmobiliario Gonariz, C.A.	27,481,141	0.7061	26,033,730	0.7052
Cedeño, Eligio	27,430,793	0.7048	26,021,169	0.7048
Other	<u>663,107,391</u>	<u>17.0379</u>	<u>635,500,570</u>	<u>17.2132</u>
	<u>3,891,930,372</u>	<u>100.0000</u>	<u>3,691,930,372</u>	<u>100.0000</u>

**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, 2018, capital reserves include Bs 38,919 and Bs 36,919, respectively, in connection with the legal reserve.

**2) Social Contingency Fund**

Resolution No. 305.11 issued by SUDEBAN on November 28, 2011 was published in the Official Gazette No. 39,820 on December 14, 2011. This Resolution relates to the "Regulations Governing the Social Contingency Fund" and establishes the guidelines to account for the social fund, in conformity with Article No. 45 of the Law on Banking Sector Institutions.

On March 23, 2012, the Bank created the social fund through an investment trust fund with Banco Exterior, C.A. Banco Universal, in conformity with Resolution No. 305.11. The Bank made the respective accounting entries with a charge to restricted investments (Note 5-d) and a credit to cash maintained with the BCV.

At December 31 and June 30, 2018, the Bank recorded the social contingency fund of Bs 194 and Bs 185, respectively, which includes capital and interest, with a charge to unappropriated surplus and a credit to capital reserves. At December 31 and June 30, 2018, capital reserves include Bs 194 and Bs 184, in respect of the Social Contingency Fund (Note 5-d).

**3) Voluntary reserves**

At December 31 and June 30, 2018, capital reserves include Bs 10 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, 2018, the Bank reclassified Bs 1,141,233,831 (Bs 4,711,301 at June 30, 2018) to restricted surplus, equivalent to 50% of income for the six-month period, net of appropriations to reserves. At December 31 and June 30, 2018, restricted surplus amounts to Bs 1,146,222,112 and Bs 4,988,281, respectively. These amounts may be used for capital stock increase, but not for cash dividend distribution.

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Below is the movement in restricted surplus balances:

	<b>Resolution No. 329.99</b>
	(In bolivars)
Balance at December 31, 2017	281,930
Capital increase through stock dividends declared	(4,950)
Appropriation of 50% of income for the period	<u>4,711,301</u>
Balance at June 30, 2018	4,988,281
Appropriation of 50% of income for the period	<u>1,141,233,831</u>
Balance at December 31, 2018	<u>1,146,222,112</u>

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

At December 31 and June 30, 2018, exchange gain from holding foreign currency assets and liabilities comprises the following:

	(In bolivars)
Balance at December 31, 2017	381,467
Net exchange gain (Note 4)	<u>37,587,017</u>
Balance at June 30, 2018	37,968,484
Net exchange gain (Note 4)	<u>10,985,670,374</u>
Balance at December 31, 2018	<u>11,023,638,858</u>

**e) Risk-based capital ratio**

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

	Required %	Maintained % December 31, 2018	June 30, 2018
Total risk-based capital	11	34.13	11.58
Equity-to-total assets	7	26.81	10.57

The Law on Banking Sector Institutions requires banks to calculate total risk-based capital, which under no circumstances should be lower than 12% of their assets and risk-weighted contingent operations, according to Resolution No. 305-09 of July 9, 2009. This Resolution also establishes that banks and financial institutions shall calculate on a monthly basis, equity-to-total assets ratio by dividing the amount of equity-to-total assets plus operating results by the value of total assets, which according to Resolution No. 117.14 of August 25, 2014, shall not be less than 9%.

Through Resolution No. 004.18 of January 25, 2018, SUDEBAN decreased the equity-to-total assets ratio to 7% and total risk-based capital ratio to 11% and modified the parameters to determine primary equity (Tier I), reducing the risk-weighting of certain assets. 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.

At December 31 and June 30, 2018, the Bank calculates the total risk-based capital ratio and capital to risk asset ratio in conformity with current regulations.

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**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.

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

	December 31, 2018	June 30, 2018
	(In bolivars)	
<b>Assets</b>		
Cash and due from banks		
Foreign and correspondent banks for US\$8,275,303 (US\$151,479 at June 30, 2018)	17,388,024,392	1,409,412
Exchange Agreement No. 20 for US\$2,080,574 (US\$12,441,996 at June 30, 2018) (Notes 3 and 4)	<u>1,427,252,497,122</u>	<u>24,833,232</u>
	<u>1,444,640,521,514</u>	<u>26,242,644</u>
<b>Liabilities</b>		
Borrowings (Note 13)		
Interest-bearing checking accounts, with 0.25% annual interest	<u>10,283,809</u>	<u>10,270,893</u>
<b>Custodian of investment securities</b>		
Global Bonds issued by the Bolivarian Republic of Venezuela, with a par value of US\$1,287,800, maturing in September 2017 (Notes 4 and 5-b)	<u>191,810,844</u>	<u>-</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, 2018, the biannual fee is 0.1% and 0.08% of the average of the Bank's assets, respectively; it is payable monthly. This fee is shown under operating expenses.

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Through Resolution No. 013.18 of June 1, 2018, SUDEBAN established that the contribution for the second semester of 2018, payable by private banking institutions subject to the supervision and control of this Superintendency within the first 5 business days of each month, is 0.1% of the Bank's average assets at the May and June 2018 month-end. In addition, through Resolutions Nos. 075.18 and 078.18 of September 21 and October 17, 2018, respectively, SUDEBAN set the fee at 0.045% of the average of the Bank's assets during the 2 months prior to the two-month period when payment of the contribution for September, October, November and December, 2018 is due.

**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.

Accordingly, through Resolution No. 18-11-02 of November 29, 2018, 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.

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, 2018, the legal reserve is 31% and 21.5%, respectively, of the total amount of net liabilities and 50% and 31%, respectively, for marginal increases in deposits, according to the methodology established by the BCV.

In addition, according to Resolution No. 18-11-03 issued by the BCV on November 29, 2018, financial institutions are required to maintain a special reserve, additional to the regular reserve, equivalent to 100% of the Bank's surplus reserves at August 31, 2018, to be calculated and reported on a daily basis by the BCV.

**Subsequent event**

On January 21, 2019, the BCV repealed the application of the special reserve.

Furthermore, the BCV published Resolution No. 19-01-05 in the Official Gazette on January 29, 2019 to increase the legal reserve percentage to 57% of total net liabilities and 100% of the regular reserve for marginal increases.



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**27. Contingencies**

At December 31 and June 30, 2018, 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 1,085 and Bs 429, at December 31 and June 30, 2018, 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 contingencies and lawsuits are not well grounded in law and, consequently, the outcome of these claims will be favorable to the Bank. At December 31 and June 30, 2018, 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.

**28. Maturity of financial assets and liabilities**

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

	December, 2018							
	Maturity							
	June 30, 2019	December 31, 2019	June 30, 2020	December 31, 2020	June 30, 2021	December 31, 2021	Beyond December 31, 2021	Total
	(In bolivars)							
<b>Assets</b>								
Cash and due from banks	29,538,735,332	-	-	-	-	-	-	29,538,735,332
Investment securities	5,893,251,919	314	10,436,416	2,323	12,981	5,195	3,511,768,044	9,415,477,192
Loan portfolio	21,213,188,526	877,239,733	2,111,411,441	19,193,482	15,666,293	7,587,468	418,886,807	24,663,173,750
Interest and commissions receivable	<u>650,116,173</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>650,116,173</u>
	<u>57,295,291,950</u>	<u>877,240,047</u>	<u>2,121,847,857</u>	<u>19,195,805</u>	<u>15,679,274</u>	<u>7,592,663</u>	<u>3,930,654,851</u>	<u>64,267,502,447</u>
<b>Liabilities</b>								
Customer deposits	41,331,204,926	1,919,130,369	-	-	-	-	-	43,250,335,295
Borrowings	179,018	-	-	-	-	-	-	179,018
Interest and commissions payable	<u>16,752,650</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,752,650</u>
	<u>41,348,136,594</u>	<u>1,919,130,369</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>43,267,266,963</u>
	June 30, 2018							
	Maturity							
	December 31, 2018	June 30, 2019	December 31, 2019	June 30, 2020	December 31, 2020	June 30, 2021	Beyond June 30, 2021	Total
	(In bolivars)							
<b>Assets</b>								
Cash and due from banks	310,845,101	-	-	-	-	-	-	310,845,101
Investment securities	26,334,160	27,786,496	326	9,810	14,301	11,983	7,955,313	62,112,389
Loan portfolio	442,714,362	2,907,970	436,555	722,358	467,064	3,517,133	6,743,158	457,508,600
Interest and commissions receivable	1,484,598	-	-	-	-	-	-	1,484,598
Available-for-sale assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>430,651</u>	<u>-</u>	<u>-</u>	<u>430,651</u>
	<u>781,378,221</u>	<u>30,694,466</u>	<u>436,881</u>	<u>732,168</u>	<u>912,016</u>	<u>3,529,116</u>	<u>14,698,471</u>	<u>832,381,339</u>
<b>Liabilities</b>								
Customer deposits	737,536,875	1,001,245	12	-	-	-	-	738,538,132
Borrowings	31,207	-	-	-	-	-	-	31,207
Interest and commissions payable	<u>92,007</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>92,007</u>
	<u>737,660,089</u>	<u>1,001,245</u>	<u>12</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>738,661,346</u>

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**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, 2018		June 30, 2018	
	Book value	Estimated fair value	Book value	Estimated fair value
	(In bolivars)			
<b>Assets</b>				
Cash and due from banks	29,519,878,105	29,519,878,105	310,845,101	310,845,101
Investment securities	9,415,477,192	9,191,583,884	62,112,389	60,812,056
Loan portfolio	20,704,422,060	20,704,422,060	442,202,181	442,202,181
Interest and commissions receivable	52,083,582	52,083,582	885,726	885,726
Investments in securities received as payment	-	-	431,134	401,641
	<u>59,691,860,939</u>	<u>59,467,967,631</u>	<u>816,476,531</u>	<u>815,146,705</u>
<b>Liabilities</b>				
Customer deposits	43,250,335,295	43,250,335,295	738,538,132	738,538,132
Borrowings	179,018	179,018	31,207	31,207
Interest and commissions payable	16,752,650	16,752,650	92,007	92,007
	<u>43,267,266,963</u>	<u>43,267,266,963</u>	<u>738,661,346</u>	<u>738,661,346</u>

**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, held-to-maturity securities and securities received as payment recorded in available-for-sale assets, was determined using quoted market prices, reference prices determined from trading operations on the secondary market, the present value of estimated future cash flows and quoted market prices of financial instruments with similar characteristics (Notes 5-b and c and 9). 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, 2018, 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.