

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

Report of Independent Accountants and Financial  
Statements

June 30, 2017 and December 31, 2016



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

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

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

We have audited the accompanying financial statements of Banco Nacional de Crédito, C.A., Banco Universal (the Bank) and its Curacao Branch, which comprise the balance sheets at June 30, 2017 and December 31, 2016, and the related statements of income, changes in equity and cash flows for the six-month periods 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 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.

### **Auditor's responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement in 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 of financial statements that give a true and fair view 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 reasonableness presentation of the financial statements.

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

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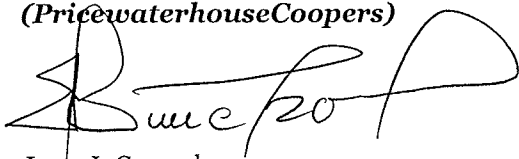
**Opinion**

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Banco Nacional de Crédito, C.A., Banco Universal and its Curacao Branch at June 30, 2017 and December 31, 2016, and the results of their operations and their cash flows for the six-month periods then ended, in conformity with the accounting rules and instructions of the Superintendency of Banking Sector Institutions (SUDEBAN).

**Emphasis on matter**

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

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

A handwritten signature in black ink, appearing to read 'Juan J. Camacho', is written over the printed name and firm name.

Juan J. Camacho  
CPC 16072  
CP 498  
SNV C-841

August 22, 2017

***Banco Nacional de Crédito, C.A., Banco Universal***  
**Balance sheet**  
**June 30, 2017 and December 31, 2016**

	June 30, 2017	December 31, 2016
	(In bolivars)	
<b>Assets</b>		
<b>Cash and due from banks</b> (Notes 3, 4 and 26)	<u>338,977,938,474</u>	<u>145,770,980,498</u>
Cash	20,564,761,361	16,090,789,150
Central Bank of Venezuela	299,549,936,987	122,379,592,146
Venezuelan banks and other financial institutions	654,505,821	89,359
Foreign and correspondent banks	280,661,204	314,704,557
Pending cash items	17,928,073,101	6,985,805,286
<b>Investment securities</b> (Note 5)	<u>37,050,916,068</u>	<u>37,076,572,473</u>
Investments in available-for-sale securities	18,189,144,313	17,678,033,338
Investments in held-to-maturity securities	9,328,817,527	9,887,516,770
Deposits with the BCV and overnight deposits	2,101,117,000	1,768,517,000
Restricted investments	129,097,264	114,951,401
Investments in other securities	7,302,841,244	7,627,655,244
(Provision for investment securities)	(101,280)	(101,280)
<b>Loan portfolio</b> (Note 6)	<u>519,118,998,977</u>	<u>248,867,868,235</u>
Current	529,122,577,116	254,083,302,763
Rescheduled	33,431,805	38,397,220
Overdue	324,923,692	185,474,165
(Allowance for losses on loan portfolio)	(10,361,933,636)	(5,439,305,913)
<b>Interest and commissions receivable</b> (Note 7)	<u>3,264,474,472</u>	<u>2,310,064,446</u>
Interest receivable on investment securities	681,246,961	486,982,138
Interest receivable on loan portfolio	2,614,136,943	1,834,254,671
Commissions receivable	10,730,569	6,806,482
Interest and commissions receivable on other accounts receivable	1,799,882	-
(Provision for interest receivable and other)	(43,439,883)	(17,978,845)
<b>Available-for-sale assets</b> (Note 9)	<u>66,084,375</u>	<u>-</u>
<b>Property and equipment</b> (Note 10)	<u>44,733,861,900</u>	<u>12,597,207,800</u>
<b>Other assets</b> (Note 11)	<u>18,677,713,272</u>	<u>13,869,936,982</u>
<b>Total assets</b>	<u><u>961,889,987,538</u></u>	<u><u>460,492,630,434</u></u>
<b>Memorandum accounts</b> (Note 20)		
Contingent debtor accounts	21,237,590,244	13,693,202,618
Assets received in trust	12,462,932,414	8,152,252,855
Debtor accounts from other special trust services (Housing Loan System)	5,439,351,462	3,395,569,053
Other debtor memorandum accounts	<u>1,396,086,490,956</u>	<u>567,918,967,307</u>
	<u>1,435,226,365,076</u>	<u>593,159,991,833</u>

The accompanying notes are an integral part of the financial statements

***Banco Nacional de Crédito, C.A., Banco Universal***  
**Balance sheet**  
**June 30, 2017 and December 31, 2016**

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	<b>June 30, 2017</b>	<b>December 31, 2016</b>
	(In bolivars)	
<b>Liabilities and Equity</b>		
<b>Customer deposits</b> (Note 12)	<u>857,874,690,294</u>	<u>422,348,001,046</u>
Demand deposits	<u>725,791,158,385</u>	<u>333,902,798,997</u>
Non-interest-bearing checking accounts	531,678,197,406	259,209,188,703
Interest-bearing checking accounts	90,875,015,545	38,480,601,119
Checking accounts under Exchange Agreement No. 20	24,356,774	19,698,142
Demand deposits and certificates	103,213,588,660	36,193,311,033
Other demand deposits	6,858,316,515	4,898,344,598
Savings deposits	115,047,772,930	74,466,214,997
Time deposits	10,153,674,034	9,067,126,329
Restricted customer deposits	23,768,430	13,516,125
<b>Borrowings</b> (Note 13)	<u>67,615,869</u>	<u>83,417,106</u>
Venezuelan financial institutions, up to one year	55,505,238	82,646,310
Foreign financial institutions, up to one year	12,110,631	770,796
<b>Interest and commissions payable</b> (Note 14)	<u>192,965,271</u>	<u>179,600,591</u>
Expenses payable on customer deposits	192,965,271	179,477,198
Expenses payable on borrowings	-	123,393
<b>Accruals and other liabilities</b> (Note 15)	<u>32,962,246,802</u>	<u>13,091,049,778</u>
<b>Total liabilities</b>	<u>891,097,518,236</u>	<u>435,702,068,521</u>
<b>Equity</b> (Note 22)		
Capital stock	3,031,930,372	2,471,930,372
Contributions pending capitalization	12,037,409,697	6,860,451,276
Capital reserves	3,106,061,203	2,081,217,973
Retained earnings	18,648,121,260	7,722,408,384
Adjustment from revaluation of property and equipment	21,925,209,597	-
Exchange gain from holding foreign currency assets and liabilities	11,200,743,587	5,285,446,329
Net unrealized gain on investments in available-for-sale securities (Note 5)	<u>842,993,586</u>	<u>369,107,579</u>
<b>Total equity</b>	<u>70,792,469,302</u>	<u>24,790,561,913</u>
<b>Total liabilities and equity</b>	<u>961,889,987,538</u>	<u>460,492,630,434</u>

The accompanying notes are an integral part of the financial statements

***Banco Nacional de Crédito, C.A., Banco Universal***  
**Income statement**  
**Six-month periods ended June 30, 2017 and December 31, 2016**

	June 30, 2017	December 31, 2016
	(In bolivars)	
<b>Interest income</b>	<u>58,070,301,111</u>	<u>26,310,210,290</u>
Income from cash and due from banks	36,960	11,462
Income from investment securities	1,308,211,877	1,124,413,479
Income from loan portfolio	56,759,635,302	25,180,307,954
Income from other accounts receivable	2,416,972	5,477,395
<b>Interest expense</b>	<u>(8,139,377,816)</u>	<u>(5,898,712,980)</u>
Expenses from customer deposits	(8,124,112,867)	(5,859,818,405)
Expenses from borrowings	(10,049,372)	(35,123,264)
Other interest expense	(5,215,577)	(3,771,311)
<b>Gross financial margin</b>	<u>49,930,923,295</u>	<u>20,411,497,310</u>
Income from financial assets recovered (Notes 6 and 7)	61,195,392	32,473,311
Expenses from uncollectible loans and other accounts receivable (Notes 6, 7 and 15)	<u>(5,094,026,937)</u>	<u>(2,685,226,387)</u>
<b>Net financial margin</b>	<u>44,898,091,750</u>	<u>17,758,744,234</u>
Other operating income (Note 17)	8,671,959,767	5,171,183,890
Other operating expenses (Note 18)	<u>(2,172,198,706)</u>	<u>(1,264,215,414)</u>
<b>Financial intermediation margin</b>	<u>51,397,852,811</u>	<u>21,665,712,710</u>
<b>Operating expenses</b>	<u>(30,500,782,992)</u>	<u>(14,418,216,413)</u>
Salaries and employee benefits (Note 2-j)	(11,265,846,158)	(3,971,458,001)
General and administrative expenses (Note 19)	(15,968,880,032)	(8,982,280,444)
Fees paid to the Social Bank Deposit Protection Fund (Note 24)	(2,919,981,354)	(1,292,132,250)
Fees paid to the Superintendency of Banking Sector Institutions (Note 25)	<u>(346,075,448)</u>	<u>(172,345,718)</u>
<b>Gross operating margin</b>	<u>20,897,069,819</u>	<u>7,247,496,297</u>
Income from available-for-sale assets (Note 9)	1,137,662	-
Sundry operating income (Note 17)	27,435,083	28,761,122
Sundry operating expenses (Note 18)	<u>(885,743,299)</u>	<u>(331,046,431)</u>
<b>Net operating margin</b>	<u>20,039,899,265</u>	<u>6,945,210,988</u>
Extraordinary expenses	<u>(19,753,498)</u>	<u>(4,669,042)</u>
<b>Gross income before tax</b>	20,020,145,767	6,940,541,946
Income tax (Note 16)	<u>(7,649,589,661)</u>	<u>(2,014,297,226)</u>
<b>Net income</b>	<u>12,370,556,106</u>	<u>4,926,244,720</u>
<b>Appropriation of net income</b>		
Legal reserve	1,009,683,578	985,248,944
Retained earnings	<u>11,360,872,528</u>	<u>3,940,995,776</u>
	<u>12,370,556,106</u>	<u>4,926,244,720</u>
Provision for the Antidrug Law (Notes 1 and 18)	<u>206,773,294</u>	<u>74,807,642</u>

The accompanying notes are an integral part of the financial statements

**Banco Nacional de Crédito, C.A., Banco Universal**  
**Statement of changes in equity**  
**Six-month periods ended June 30, 2017 and December 31, 2016**

	Paid-in capital stock	Share premium and contributions pending capitalization	Capital reserves	Retained earnings					Adjustment from revaluation of property and equipment	Exchange gain from holding foreign currency assets and liabilities	Unrealized gain on investment securities (Note 5)	Total equity
				Unappropriated surplus	Restricted surplus	Non- distributable surplus	Cumulative loss	Total				
Balances at June 30, 2016	1,621,930,372	5,032,130,398	1,083,609,377	2,633,164,362	1,869,760,261	26,423,238	(120,575,601)	4,408,772,260	-	3,816,281,707	71,543,826	16,034,267,940
Contributions pending capitalization (Note 22)	-	1,923,320,878	-	-	-	-	-	-	-	-	-	1,923,320,878
Capital increase through public offering of shares (Note 22)	400,000,000	(400,000,000)	-	-	-	-	-	-	-	-	-	-
Capital increase through capitalization of retained earnings (Note 22)	450,000,000	-	-	-	(450,000,000)	-	-	(450,000,000)	-	-	-	-
Capitalization of cash dividends (Note 22)	-	305,000,000	-	(165,000,000)	-	-	-	(165,000,000)	-	-	-	140,000,000
Gain on sale of investments and adjustments of investments in available-for-sale securities to market value	-	-	-	-	-	-	-	-	-	-	297,563,753	297,563,753
Net gain on sale of securities in foreign currency through DICOM (Note 5)	-	-	-	-	-	-	-	-	-	1,469,164,622	-	1,469,164,622
Net income	-	-	-	4,926,244,720	-	-	-	4,926,244,720	-	-	-	4,926,244,720
Appropriation to the legal reserve (Note 22)	-	-	985,248,944	(985,248,944)	-	-	-	(985,248,944)	-	-	-	-
Creation of the Social Contingency Fund (Note 22)	-	-	12,359,652	(12,359,652)	-	-	-	(12,359,652)	-	-	-	-
Reclassification of net income of the Curacao Branch (Note 22)	-	-	-	-	-	3,216,427	-	-	-	-	-	-
Reclassification to restricted surplus of 50% of net income for the period (Note 22)	-	-	-	(1,968,889,674)	1,968,889,674	-	-	-	-	-	-	-
Balances at December 31, 2016	2,471,930,372	6,860,451,276	2,081,217,973	4,424,694,385	3,388,649,935	29,639,665	(120,575,601)	7,722,408,384	-	5,285,446,329	369,107,579	24,790,561,913
Contributions pending capitalization (Note 22)	-	5,316,958,421	-	-	-	-	-	-	-	-	-	5,316,958,421
Capital increase through capitalization of retained earnings (Note 22)	560,000,000	(140,000,000)	-	-	(420,000,000)	-	-	(420,000,000)	-	-	-	-
Gain on sale of investments and adjustments of investments in available-for-sale securities to market value	-	-	-	-	-	-	-	-	-	-	473,886,007	473,886,007
Net gain on sale of securities in foreign currency through DICOM (Note 5)	-	-	-	-	-	-	-	-	-	5,915,297,258	-	5,915,297,258
Net income	-	-	-	12,370,556,106	-	-	-	12,370,556,106	-	-	-	12,370,556,106
Appropriation to the legal reserve (Note 22)	-	-	1,009,683,578	(1,009,683,578)	-	-	-	(1,009,683,578)	-	-	-	-
Creation of the Social Contingency Fund (Note 22)	-	-	15,159,652	(15,159,652)	-	-	-	(15,159,652)	-	-	-	-
Reclassification of net income of the Curacao Branch (Note 22)	-	-	-	(7,990,140)	-	7,990,140	-	-	-	-	-	-
Adjustment from revaluation of property and equipment (Note 10)	-	-	-	-	-	-	-	-	21,925,209,597	-	-	21,925,209,597
Reclassification to restricted surplus of 50% of net income for the period (Note 22)	-	-	-	(5,676,441,194)	5,676,441,194	-	-	-	-	-	-	-
Balances at June 30, 2017	3,031,930,372	12,037,409,697	3,106,061,203	10,085,975,927	8,645,091,129	37,629,805	(120,575,601)	18,648,121,260	21,925,209,597	11,200,743,587	842,993,586	70,792,469,302

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

	Six-month periods ended	
	June 30, 2017	December 31, 2016
Weighted average of outstanding shares	<u>2,871,930,372</u>	<u>1,833,835,134</u>
Income per share	<u>Bs 4.307</u>	<u>Bs 2.686</u>

The accompanying notes are an integral part of the financial statements

***Banco Nacional de Crédito, C.A., Banco Universal***  
**Cash flow statement**  
**Six-month periods ended June 30, 2017 and December 31, 2016**

	June 30, 2017	December 31, 2016
	(In bolivars)	
<b>Cash flows from operating activities</b>		
Net income	12,370,556,106	4,926,244,720
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for investment securities	-	1,280
Allowance for losses on loan portfolio	5,041,606,385	2,667,782,775
Provision for contingent loans	402,134	13,112
Release of allowance for losses on loan portfolio	-	(2,116,639)
Provision for interest receivable	52,018,418	17,430,500
Provision for other assets	87,000,000	28,950,000
Depreciation of property and equipment and amortization of deferred charges	1,017,814,227	701,608,187
Accrual for length-of-service benefits	3,391,049,539	654,414,591
Transfers to trust fund and payment of length-of-service benefits	(784,436,674)	(317,790,124)
Income tax provision	8,100,024,919	2,479,731,735
Deferred income tax	(450,435,258)	(465,434,509)
Net change in		
Overnight deposits	(332,600,000)	(1,494,204,500)
Interest and commissions receivable	(1,017,762,274)	(991,441,202)
Other assets	(4,705,462,592)	(4,817,507,638)
Accruals and other liabilities	9,163,723,975	4,286,157,343
Net cash provided by operating activities	<u>31,933,498,905</u>	<u>7,673,839,631</u>
<b>Cash flows from financing activities</b>		
Contributions pending capitalization	5,316,958,421	1,923,320,878
Net change in		
Customer deposits	435,526,689,248	224,558,353,272
Borrowings	(15,801,237)	(41,470,938)
Interest and commissions payable	13,364,680	(128,240,171)
Net cash provided by financing activities	<u>440,841,211,112</u>	<u>226,311,963,041</u>
<b>Cash flows from investing activities</b>		
Loans granted during the period	(669,939,289,128)	(245,919,139,130)
Loans collected during the period	394,592,182,837	110,801,674,704
Net change in		
Investments in available-for-sale securities	5,878,072,290	(12,483,548,617)
Investments in held-to-maturity securities	558,699,243	(3,863,177,467)
Restricted investments	(14,145,863)	(11,919,339)
Investments in other securities	324,814,000	7,352,500
Property and equipment	(10,968,085,420)	(3,852,102,581)
Net cash used in investing activities	<u>(279,567,752,041)</u>	<u>(155,320,859,930)</u>
<b>Cash and due from banks</b>		
Net change in cash and cash equivalents	193,206,957,976	78,664,942,742
At the beginning of the period	<u>145,770,980,498</u>	<u>67,106,037,756</u>
At the end of the period	<u>338,977,938,474</u>	<u>145,770,980,498</u>
<b>Supplementary information on non-cash activities</b>		
Write-off of uncollectible loans (Note 6)	130,848,805	45,428,314
Write-off of uncollectible loans (interest) (Note 7)	15,275,299	3,775,555
Reclassification of excess in (Notes 6, 7, 11 and 15)		
Contingent loans to allowance for losses on loan portfolio	(433,131)	(598,850)
Interest receivable to allowance for losses on loan portfolio	(11,230,330)	(16,921,337)
Interest receivable to other assets	(51,750)	(51,750)
Change in net unrealized gain on investments in available-for-sale securities (Note 5-a)	473,886,007	297,563,753
Net gain on sale of securities in foreign currency through DICOM (Note 5-a)	5,915,297,258	1,469,164,622
Loans collected through assets received as payment	66,084,375	-
Adjustment from revaluation of property and equipment (Note 10)	21,925,209,597	-
Creation of the Social Contingency Fund (Note 22)	15,159,652	12,359,652
(Reversal) cash dividends declared payable (Note 22)	-	(140,000,000)

The accompanying notes are an integral part of the financial statements



***Banco Nacional de Crédito, C.A., Banco Universal***  
**Notes to the financial statements**  
**June 30, 2017 and December 31, 2016**

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**1. Activities and regulatory environment**

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

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

Most of the Bank's assets are located in the Bolivarian Republic of Venezuela. At June 30, 2017 and December 31, 2016, the Bank has 174 and 171 offices and external counters, respectively, a branch in Curacao, a main office and 3,139 and 3,270 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 June 30, 2017 and December 31, 2016 were approved for issue by the Board of Directors on July 12 and January 11, 2017, respectively.

In August 2003, the Superintendency of Banking Sector Institutions (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.

The new Law on Banking Sector Institutions (hereinafter the Law on Banking Sector Institutions) was issued by the Venezuelan government on November 13, 2014 through Official Gazette of December 8, 2014 and repealed the Law of December 2010.

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; extends disqualification instances to act as directors; prohibits the formation of financial groups understood as a group of banks, non-banking institutions, financial institutions and companies constituting a decision-making or management unit; establishes parameters to define connecting criteria, requires boards of directors to approve lending operations exceeding 5% of equity; establishes a social contribution of 5% of pre-tax income for the fulfillment of social responsibilities to finance projects developed by communal councils, limits consumer credits to 20% of the bank's loan portfolio, transactions for a single debtor to 10% of equity, one economic group to 20% and to an additional 10% with bank or other appropriate guarantees; and establishes parameters to define debtor in relation to this limitation, among others.

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

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

***Banco Nacional de Crédito, C.A., Banco Universal***  
**Notes to the financial statements**  
**June 30, 2017 and December 31, 2016**

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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.

**Curacao Branch**

The banking activities of the Bank's Curacao Branch (hereinafter the Branch) are regulated by the Law of Banks of Curacao and St. Maarten. 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).

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

On February 18, 2009, SUDEBAN, with the approval of the BCV's Board of Directors and the Higher Banking Council, resolved to take control of Stanford Bank, S.A., Banco Comercial (hereinafter Stanford Bank). On May 5, 2009, SUDEBAN, through Notice SBIF-DSB-06532, notified the Bank that it was qualified to participate in the auction for the acquisition of Stanford Bank. On May 8, 2009, the Bank won the bid to purchase Stanford Bank at an auction conducted at the headquarters of the People's Power Ministry for the Economy and Finance offering Bs 240,007,777. The merger by absorption of Stanford Bank into the Bank was approved at a Special Shareholders' Meeting of Stanford Bank held on May 14, 2009. Likewise, on May 21, 2009, SUDEBAN, through Resolution published in Official Gazette No. 39,183, resolved to cease the intervention of Stanford Bank after it was acquired by the Bank. Subsequently, at a Special Shareholders' Meeting of the Bank held on May 26, 2009, the merger by absorption of Stanford Bank was approved, and the Board of Directors was authorized to conduct the merger. On May 27, 2009, the Bank sent a communication to SUDEBAN that included the minutes of the Special Shareholders' Meeting held on May 26, 2009, the Merger Plan and a request for authorization to make the merger effective at June 30, 2009. Subsequently, through Resolution No. 249.09 published in Official Gazette No. 39,193 on June 4, 2009, SUDEBAN authorized the merger by absorption of Stanford Bank into the Bank and indicated that the merger would become effective when the minutes were registered with the relevant Mercantile Registry. The merger became effective on June 8, 2009.

Other laws that regulate the Bank's activities are described below:

**Agricultural Loan Law**

The Agricultural Loan Law requires the People's Power Ministry for Economy and Finance and the People's Power Ministry for Agriculture and Land to jointly fix within the first month of each year the minimum percentage of the loan portfolio to be earmarked by each commercial and universal bank to finance agriculture.

On April 25, 2017, through a joint Resolution, the People's Power Ministries for Productive Agriculture and Land, Economy and Finance and Fish Farming and Aquaculture and Urban Agriculture, established the minimum percentages of the loan portfolio to be earmarked by each universal bank to finance agriculture during 2017. This percentage is calculated based on the average of the gross loan portfolio balances of each bank for the immediately prior six-month period as follows: March 15%, April 17%, May 20%, June 22%, July 15%, August 16%, September 17%, October 18%, November 19%, December 20% for 2017; January 13% and February 14% for 2018 (for the six-month period ended December 31, 2016: July, August and September 25%, and October, November and December 26% on the average of the gross loan portfolio balances at December 31, 2015 and 2014) (Note 6).

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Under this Resolution, resources to be granted as part of the agricultural loan portfolio based on the production cycles, winter and north summer, should meet the following percentages by sector: plant (short term) 63%; plant (medium or long-term) up to 5%; ruminants up to 7%; poultry and swine up to 8%; fishing and aquaculture 5%; mechanization up to 10%; and rural bank program 2%. This Resolution also establishes that the total of medium and long-term loans to be granted in the production cycles, winter and north summer, should not exceed 24% of the portfolio.

Also the Resolution establishes that banks shall discount 0.5% of agricultural loans settled and transfer this amount to Banco Agrícola de Venezuela, C.A., Banco Universal on a monthly basis. This balance will be attributable to the respective loans and, therefore, financed under the same terms and conditions established for each credit operation.

According to the Resolution, only 5% of loans earmarked for primary agricultural production may be granted without guarantees to borrowers meeting the following conditions:

1. Borrowers must be individuals or companies.
2. Borrowers may not have another agricultural loan with any public or private universal bank or with any bank in the process of becoming universal at the loan application date.
3. Borrowers must be registered in the Single Mandatory Permanent Registry for Agricultural Producers.
4. The primary production project must be viable and have the endorsement of the Minister for Agriculture and Land, prior presentation of the explanatory technical report before the Agricultural Loan Monitoring Committee.

To comply with the aforementioned percentages, financial institutions may alternatively place funds with public banks or contribute them to the Fund for Social Agricultural Development (FONDAS) in the form of capital contributions to Sociedad de Garantías Recíprocas para el Sector Agropecuario, Forestal, Pesquero y Afines, S.A. (S.G.R. SOGARSA, S.A.), provided that the receiving entity ultimately uses the funds to grant agricultural loans, in accordance with the terms and conditions approved by the Agricultural Loan Monitoring Committee. Any such funds that are not used directly by the receiving entity for agricultural loans may be returned at the Bank's request after it has solved the loan deficit that motivated the contribution of funds in the first place, but in no event before the financial instrument agreed between the parties matures.

**Law on Benefits and Payment Facilities for Agricultural Debts on Strategic Crops for Food Security and Sovereignty**

The Law on Benefits and Payment Facilities for Agricultural Debts on Strategic Crops for Food Security and Sovereignty was enacted on August 3, 2009. On September 17, 2009, April 1, 2011 and July 2, 2012, through a joint Resolution, the People's Power Ministry for Planning and Finance and the People's Power Ministry for Agriculture and Land established the special terms and conditions for debt restructuring and the procedures and requirements for filing and issuing response notices for agricultural debt restructuring and relief requests.

**Agricultural Aid Law**

The new Agricultural Aid Law became effective on June 19, 2014. This Law establishes the rules governing benefits, payment facilities and restructuring of agricultural loans for the production of strategic crops for food security and sovereignty when repayment is partially or fully impacted by environmental, biological or physical damages that significantly affect the production and development capacity of productive units.

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This Law will benefit individuals or corporations that had received agricultural loans to sow crops, purchase raw materials, machinery, equipment and livestock, build and improve infrastructure, reactivate distribution centers and finance working capital in relation to the production of strategic crops.

The beneficiaries who received loans to finance the strategic crops defined under the Law shall be granted partial or full debt relief by public and private banks.

**Law for Creating, Supporting, Promoting and Developing the Microfinancial Business Sector**

This Law aims to create, support, promote and develop the microfinancial sector to facilitate the prompt and timely access to financial and non-financial services, to popular community and self-managed associations, family companies, self-employed and unemployed individuals and to any other type of community association that develops or has the intention of developing an economic activity, with the purpose of integrating them to the country's economic and social dynamics.

In addition, the Law on Banking Sector Institutions establishes that banks must earmark 3% of their gross loan portfolio at prior semester closing for microcredits or contributions to institutions that create, support, promote and develop the microfinancial and small business sector in Venezuela.

On September 24, 2015, through Resolution No. 109-15, SUDEBAN established that banks shall earmark their gross microcredit loan portfolio as follows:

- a. Up to 40% to finance commercialization activities.
- b. Up to 40% to finance public transportation.
- c. No less than 20% to other activities, such as communal services and artisan activities, among others.

**Special Law for Home Mortgagor Protection**

This Law requires banks and other financial institutions regulated by the Law on Banking Sector Institutions to grant mortgage loans for acquisition, construction, self-construction, expansion or remodeling of primary residences, based on a percentage of their annual loan portfolio, excluding loans granted under the Housing Loan Law. Under this Law, loans will bear a social interest rate.

The BCV, through an Official Notice, established special social interest rates applicable as from September 2011 for primary residence mortgages and construction loans, granted or to be granted from the financial institutions' own resources as follows:

- a. The maximum annual social interest rate applicable to loans granted under the Special Law for Home Mortgagor Protection is 10.66%.
- b. The maximum annual social interest rate applicable to mortgage loans for the acquisition of primary residences, granted or to be granted from the financial institutions' own resources varies between 4.66% and 8.66%, depending on the monthly family income.
- c. The maximum annual social interest rate applicable to mortgage loans for the construction of primary residences, granted or to be granted from the financial institutions' own resources is 9.66%.
- d. The maximum annual social interest rate applicable to mortgage loans for the improvement, expansion and self-construction of primary residences varies between 4.66% and 6.66%, depending on the monthly family income.

The People's Power Ministry for Housing established that maximum monthly installments for mortgage loan payments shall not exceed 35% of the monthly family income.

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Mortgage loans may be granted for up to the full value of the real property pledged, based on its appraisal value and the monthly family income.

On February 14, 2017, Decree No. 2,721, published in Official Gazette No. 41,095, fixed at 20% the minimum percentage of the gross loan portfolio at December 31, 2017 to be earmarked by each banking sector institution from its own resources for new mortgages for the acquisition, construction or self-construction of primary residences. This percentage shall be distributed based on the gross loan portfolio at December 31, 2016, taking into account the financed activity and the monthly family income of the loan applicants (Note 6).

The percentage for the construction of residences shall be distributed as follows:

- a. 65% to mortgage loans for construction of residences
- b. 30% to mortgage loans for the acquisition of primary residences.
- c. 5% to mortgage loans for the self-construction, improvement and expansion of primary residences.

On August 2, 2011, the People's Power Ministry for Housing established the financing conditions for each type of loan regardless of the source of funds. Some of these conditions are: maximum debt capacity of the loan applicant or co-applicant, required guarantees, and the general requirements for the loan applicant and co-applicant. On September 6, 2011, the People's Power Ministry for Planning and Finance set the annual social interest rates at between 1.4% and 4.66%.

On February 5, 2013, the People's Power Ministry for Housing issued Resolutions Nos. 10 and 11 containing the guidelines for granting loans for the self-construction, expansion or improvement of primary residences, as well as the rules for the creation and setting of payment terms for housing loans.

Compliance with and distribution of the aforementioned percentages are measured at December 31 of each year.

**Law on Tourism Investments and Loans**

On November 17, 2014, the Law on Tourism Investments and Loans was issued, and published in Extraordinary Official Gazette No. 6,153 of November 18, 2014. This Law requires the People's Power Ministry for Tourism to fix within the first month of each year the percentage of the gross loan portfolio to be earmarked by banks to finance tourism, which in no event shall be less than 3%. Short, medium and long-term loans must be included in the loan portfolio percentage. The interest rate may only be modified for the benefit of the loan applicant and loans shall be repaid in equal consecutive monthly installments.

In addition, this Law establishes amortization periods between 5 and 15 years depending on the activities to be conducted by loan applicants. This Law also establishes special conditions in respect of terms, interest rates and subsidies, among others, for projects to be executed in tourist areas, potential tourist areas or endogenous tourist development areas.

Furthermore, tourism guarantees are created within the National System for Reciprocal Guarantees for loans granted.

On March 28, 2017, the People's Power Ministry for Tourism established the minimum compliance percentage of the gross loan portfolio to be earmarked by each universal bank to finance tourism for 2017. This percentage is calculated based on the average of the gross loan portfolio balances at December 31, 2016 and 2015 and must be applied as follows: 2.5% and 5.25% at June 30 and December 31, 2017, respectively (minimum percentage of 5.25% of the average of the gross loan portfolio balances at December 31, 2015 and 2014 during the six-month period ended December 31, 2016) (Note 6).

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Through a Resolution published in Official Gazette No. 40,274 on October 17, 2013, the People's Power Ministry for Tourism established a single voluntary contribution from banks for the purchase of Class "B" shares from Sociedad de Garantías Recíprocas para la Pequeña y Mediana Empresa del Sector Turismo, S.A. (S.G.R. SOGATUR, S.A.). The purpose of this contribution is to pledge small and medium-sized tourist entrepreneurs or service providers, as well as organized communities, to secure repayment of tourism loans granted by banks. The entire purchase of shares will be accounted for as part of the tourism loan portfolio compliance (Notes 5 and 6).

Through a joint Resolution, published in Official Gazette No. 39,402 on April 13, 2010, the People's Power Ministries for Tourism and for Planning and Finance established the grace periods for tourism loans. These grace periods range from 1 to 3 years depending on the activity that is being financed. Loans for tourism projects to be developed in tourist areas will have the maximum grace periods considering the type of activity to be developed.

**Manufacturing loans**

The Manufacturing Loan Law published on April 17, 2012 requires the People's Power Ministries in charge of finance and industries to jointly fix within the first month of each year, and with the binding opinion of SUDEBAN and the BCV, the terms, conditions, periods and minimum percentages of the loan portfolio to be earmarked by each universal bank to finance manufacturing activities. In no event shall the minimum percentage fall below 10% of each bank's gross loan portfolio for the immediately prior year.

Through Resolution No. 13-07-03 of July 30, 2013, the BCV established that, as from August 2013, interest on manufacturing loans charged by banks shall not exceed 18% per annum.

Through joint Resolution No. 040 published in Official Gazette No. 41,118 on March 21, 2017, the People's Power Ministry for the Economy and Finance established the strategic sectors to which at least 60% of the manufacturing loan portfolio resources shall be allocated, and a minimum percentage of 40% to finance small and medium-sized companies, joint ventures and state companies, whose main activity is part of the Classification of Venezuelan Economic Activities (CAEV). In addition, trading operations should not jointly exceed 5% of the total manufacturing loan portfolio. Measurement and compliance percentage of the manufacturing loan portfolio is 8% at June 30, 2017 and 10% at December 31, 2017 (10% at December 31, 2016) (Note 6).

**BCV regulations**

The BCV has established regulations on lending and deposit rates to be applied by banks and restrictions on certain service fees. It has also established maximum rates to be charged for commissions, fees or surcharges on each type of transaction. In addition, through Resolution No. 13-03-02 of March 26, 2013, the BCV established that banks may only charge their customers for commissions established by this regulatory entity.

Regarding lending rates, the BCV established that banks may not charge for lending operations, except for consumer loans, an annual interest or discount rate higher than the rate periodically set by the BCV's Board of Directors for discount, rediscount, repurchase and advance operations, reduced by 5.5%, except in the case of agricultural, tourism, manufacturing and mortgage loans for primary residences (Note 6). As from June 5, 2009, the annual interest rate to be charged by the BCV on discount, rediscount and advance operations, except as regards operations conducted under special regimes, was set at 29.5%.

Also, through Resolution No. 13-11-02 of November 19, 2013, the BCV established that interest rates to be paid by banks on savings deposits for individuals with daily balances of up to Bs 20,000 shall not be less than 16% per annum, and no less than 12.5% per annum on savings deposits with daily balances higher than Bs 20,000. Interest on savings deposits paid by banks to companies shall not be less than 12.5% per annum, calculated on daily balances, regardless of account balance. In addition, interest rates on time and certificates of deposits, regardless of their term of maturity, shall not be less than 14.5% per annum.

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In addition, the BCV established that banks may not charge commissions, fees or surcharges to their customers for transactions, operations or services directly related to savings accounts. Banks may charge a commission amounting to the existing balance of dormant savings and current accounts that have been closed if it is below Bs 1. In addition, banks may not charge commissions, fees or surcharges for operations other than those published by the BCV.

The BCV established the maximum discount rates or commissions to be charged by banks to affiliated businesses for authorizing and processing point-of-sale operations through credit, debit and prepaid cards or any other financing or electronic payment instrument.

On November 30, 2016, through an Official Notice published in Official Gazette No. 41,042, the BCV replaces Official Notice of August 30, 2016 regarding commissions, fees and surcharges to be charged by banks to their customers on all transactions and activities covered by this Official Notice. Through this Official Notice, the BCV also ratified that banks may only charge their customers up to Bs 83 for the second plus savings account books issued in the year. Likewise, the BCV sets monthly maintenance fees at Bs 50 on non-interest-bearing checking accounts (individuals), Bs 75 on non-interest-bearing checking accounts (companies), Bs 75 on interest-bearing checking accounts (individuals) and Bs 83 on interest-bearing checking accounts (companies). In addition, the BCV established maximum commissions, fees or surcharges on all transactions covered by the Official Notice. This Resolution became effective on December 1, 2016.

Through Resolution No. 10-10-02 issued on June 30, 2011, the BCV reduced by 3 percentage points the 17% minimum legal reserve that banks are required to maintain at the BCV, as per the previous Resolution of October 26, 2010, provided that they use the available resources to purchase instruments issued within the framework of Venezuela's Great Housing Mission. The terms and conditions of these investments will be as established by the BCV.

Through Resolution No. 13-04-01 of April 26, 2013, the BCV ratified that the calculation of the legal reserve to be allocated by financial institutions that purchased Dematerialized Certificates of Participation issued by the Simón Bolívar Fund 2013 will be made in conformity with terms established in Resolution No. 10-10-02.

Resolution No. 14-03-02, issued on March 13, 2014, modifies the legal reserve rules and requires a minimum reserve of 21.5% of total net liabilities, total investments assigned and marginal balance, and 31% of the amount corresponding to the increase of marginal balance.

Through Resolution No. 15-07-01 of July 2, 2015, the BCV ratified that the calculation of the legal reserve to be allocated by financial institutions that purchased Dematerialized Certificates of Participation issued by the Simón Bolívar Fund 2015 will be made in conformity with terms established in Resolution No. 14-03-02.

Through Resolution No. 13-03-01 of March 21, 2013, the BCV established that individuals residing in Venezuela will be allowed to have demand deposits in foreign currency in local banks.

Through Resolution No. 16-09-01, published on September 27, 2016, the BCV established that banking institutions that purchased Agriculture Certificates of Participation issued by Banco de Desarrollo Económico y Social de Venezuela (BANDES), maturing in September 2017, may deduct from the legal reserve an amount equivalent to that paid by each banking institution when purchasing on the primary market and up to the business day previous to these instruments' maturity date referred to in this Resolution.

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**Other regulations**

***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. During the six-month periods ended June 30, 2017 and December 31, 2016, the Bank recorded expenses in this connection of Bs 119,556,982 and Bs 41,305,440, included under sundry operating expenses (Note 18). In addition, at June 30, 2017, the Bank maintains an advance in this connection of Bs 119,556,982 under other assets, which will be amortized in the second semester of 2017 (Note 11).

In November 2014, the Venezuelan government enacted the Reform of the Law for the Advancement of Science, Technology and Innovation. This legal instrument creates the National Fund for Science, Technology and Innovation (FONACIT), which shall be responsible for managing, collecting, controlling, verifying, and quantitatively and qualitatively determining the contributions for science, technology and innovation and their applications. Likewise, the Reform indicates that taxpayers may apply to use the contributions to science, technology and innovation, provided that they develop annual projects, plans, programs and activities for the priority areas defined by the national authority responsible for matters related to science, technology and innovation and their applications and submit them within the third quarter of each year. Subsequently, within the first quarter of each year, users of the contributions for science, technology and innovation must submit to FONACIT a technical and administrative report of the activities conducted in this connection during the prior year. In addition, these Regulations require the payment and declaration of contributions within the second quarter after the closing of the period in which gross income was generated.

***Antidrug Law***

The Antidrug Law was published in Official Gazette No. 39,510 on September 15, 2010. 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. Companies belonging to economic groups will make contributions on consolidated basis.

FONA shall use these contributions to finance plans, projects and programs for the prevention of illegal drug traffic.

The contributions to FONA shall be distributed as follows: 40% for prevention projects for the contributor's employees and their families; 25% for child welfare protection programs; 25% for antidrug traffic programs and 10% to finance FONA's operating costs. In addition, companies are required to employ rehabilitated individuals to facilitate their social reintegration.

Resolution No. 004-2011 was published in Official Gazette No. 39,643 on March 28, 2011 to establish the regulations for payment of contributions and special contributions according to the Law.

The Decree-Law for the creation of FONA was modified through Decree No. 9,359, published in Official Gazette No. 40,095 on January 22, 2013. This modification is aimed to adapting and aligning the organizational structure of the Fund, as well as updating and adapting its attributions as a collection entity.

For the six-month periods ended June 30, 2017 and December 31, 2016, the Bank recorded expenses in this connection of Bs 206,773,294 and Bs 74,807,642, respectively, included under sundry operating expenses (Note 18).

***Law on Exchange Control Regime and Related Offenses***

The Reform of the Law on Exchange Control Regime and Related Offenses was published on December 30, 2015. This Law establishes the parameters for the purchase of foreign currency by individuals and public entities, as well as exchange offenses and applicable penalties and regulates the terms and conditions under which foreign currency administration entities apply the capacities granted



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thereto by the legal system, in accordance with the exchange agreements established for such purposes, and the guidelines for the execution of this policy. The Law on Exchange Control Regime applies to individuals, public and private companies participating in exchange operations as buyers, managers, intermediaries, verifiers or beneficiaries. This Law defines foreign currency as any currency other than the bolivar, which is the currency of legal tender of the Bolivarian Republic of Venezuela. This definition includes deposits with local and foreign banks and financial institutions, transfers, bank checks and notes, securities, as well as any other asset or liability denominated or that may be realized or settled in foreign currency under the terms established by the BCV and according to the Venezuelan legal system.

Under this Law, an exchange operation is the trading in bolivars of any foreign currency through companies authorized by rules specifically issued by the BCV to this effect, which have complied with the requirements established by the competent authority and operate in the exchange market. An exchange market is the place or mechanisms established by the competent authorities in which, in an orderly manner, concur bidders and buyers to trade foreign currency at the exchange rates applicable in accordance with regulations issued in this connection.

Under this Law, the National Foreign Trade Center (CENCOEX) shall assign and supervise foreign currency, including but not limited to, cover expenses from public powers and to meet society's essential requirements, such as goods and services declared of prime necessity, i.e. drugs, food, housing and education.

Foreign currency trading shall be conducted under the terms and conditions provided in the exchange agreements governing these mechanisms, as well as other standards enacted in the development thereof, and the respective auction notices. Without prejudice to the access to mechanisms administered by the competent authorities of the exchange control regime through CENCOEX, individuals and companies may purchase foreign currency through foreign currency operations offered by: individuals and private companies, Petróleos de Venezuela, S.A. (PDVSA), the BCV and state banks.

***Law against Organized Crime and Terrorism Financing***

The Law against Organized Crime and Terrorism Financing was published in Official Gazette No. 39,912 on April 30, 2012 to prevent, investigate, prosecute, typify and punish offenses involving organized criminal groups and terrorism.

***Sports and Physical Education Law***

The Sports and Physical Education Law was passed on August 23, 2011. 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. Subsequently, the first Partial Regulations to this Law were published on February 28, 2012 to establish the method for declaring and paying this contribution, the former within 190 days of period end. Through Circular SIB-II-GGR-GNP-12159 of May 4, 2012, SUDEBAN established regulations on how this contribution must be paid and recorded.

During the six-month periods ended June 30, 2017 and December 31, 2016, the Bank recorded expenses in this connection of Bs 124,338,022 and Bs 49,701,959, respectively, included within sundry operating expenses (Note 18).

***New Labor Law***

The new Labor Law (LOTTT) was published in Official Gazette No. 39,916 on May 7, 2012. This Law incorporates certain changes to the previous Labor Law (LOT) of June 19, 1997 and its Reform of May 6, 2011, particularly with respect to the 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.

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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 June 30, 2017 and December 31, 2016 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 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 June 30, 2017 and December 31, 2016, 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) 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-13992 of July 12, 2016, 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 June 30, 2017; this supplementary information will be presented for purposes of comparison with the information at the end of the second semester of 2017.
- 2) 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) 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.

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- 4) The Accounting Manual establishes that loans whose original repayment schedule, term, or other conditions have been modified at the request of the debtor must be reclassified within rescheduled loans. In addition, the Accounting Manual establishes that loans classified as overdue must be written off within 24 months after inclusion in this category. Loans in litigation must be fully provided for after 24 months in the in-litigation category. In addition, overdue monthly loan installments that have been repaid must be classified to the category to which they pertained before being classified as overdue. Likewise, when a debtor repays pending loan installments of a loan in litigation, thereby terminating the lawsuit, the loan must be reclassified to the category to which it pertained before being classified as in litigation or overdue. VEN NIF do not establish specific accounting criteria; however, they establish that for financial assets carried at amortized cost, expected losses will be recognized in the results for the period in which they were identified.
- 5) 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.
- 6) At June 30, 2017 and December 31, 2016, the Bank, in conformity with SUDEBAN rules, maintains a general 1% allowance of the loan portfolio balance and a countercyclical allowance of 0.75%. VEN NIF require that the Bank first assess whether objective evidence of impairment exists individually for financial assets carried at amortized cost that are individually significant, or collectively for loans that are not individually significant, as well as expected credit losses. Impairment losses identified are recognized in the results for the period.
- 7) In conformity with SUDEBAN rules, the Bank sets aside the general and countercyclical allowance for the loan portfolio with a charge to the results for the period. VEN NIF require that these allowances be recorded as a restricted amount of retained earnings in equity, provided that they do not meet the conditions established in VEN NIF.
- 8) In accordance with SUDEBAN prudential rules, investments in trading securities may not remain in this category for more than 90 days after they have been classified, and the investments in available-for-sale securities may not remain in this category indefinitely after they have been classified. In conformity with VEN NIF, investments in available-for-sale securities may remain in this category indefinitely.
- 9) 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
- 10) 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.
- 11) 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.

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- 12) The Accounting Manual establishes that transfers between investment categories or sales of investments for reasons other than those established in said Accounting Manual must be authorized by SUDEBAN. The sale or transfer of held-to-maturity investments shall not be considered to be inconsistent with their original classification under the following circumstances:

- a) A significant deterioration in the issuer's creditworthiness;
- b) A change in tax law that eliminates or reduces the tax-exempt status of interest on the debt security;
- c) A major business combination or major disposition that required the sale or transfer of the security to maintain the enterprise's existing interest rate risk position or credit risk policy;
- d) A change in statutory or regulatory requirements significantly modifying either what constitutes a permissible investment or the maximum level of investments in certain kinds of securities;
- e) A significant increase by the regulator in the industry's capital requirements; and
- f) A significant increase in the risk weights of debt securities used for regulatory risk-based capital purposes. Changes in circumstances and other events that are isolated, nonrecurring and unusual and that could not have been reasonably anticipated may cause an entity to sell or transfer held-to-maturity investments without calling into question the entity's intent to hold other securities to maturity.

VEN NIF do not establish authorization requirements for transfers among different categories of financial instruments; however, when and only when an entity changes its business model for managing financial assets, it shall reclassify all affected financial assets.

- 13) In accordance with SUDEBAN rules, available-for-sale assets reclassified to the held-to-maturity category are 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 financial assets shall be measured at fair value at the reclassification date, and transfers of fair value with changes in other comprehensive income at amortized cost; cumulative gains or losses previously recognized in other comprehensive income are removed from equity and adjusted against the fair value of the financial asset at the reclassification date.

- 14) 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.
- 15) Under SUDEBAN accounting rules, revaluation of property and equipment should be recorded in equity by increasing the value of the asset as an adjustment from revaluation of property and equipment; this value should not exceed the Bank's primary equity (Tier 1) at December 31, 2016. According to VEN NIF when an item of property and equipment is revalued, all other assets in the same class should also be revalued, and such increase should be recognized in other comprehensive income.

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- 16) 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.
- 17) The Bank computes a deferred tax asset or liability in respect of temporary differences between the tax base and carrying amounts in the financial statements, except for provisions for losses on other than high risk or unrecoverable loans, which generate a deferred tax asset, and surplus from revaluation of property and equipment recorded in equity, since it is recorded according to SUDEBAN resolution No. 025.17 of March 28, 2017. A deferred tax asset is not recognized for any amount exceeding future taxable income. In accordance with VEN NIF, a deferred tax asset is recognized in respect of all temporary differences between the carrying amount of assets and liabilities and their tax bases, except for the differences arising from the tax and book inflation adjustment, provided that its realization is assured beyond any reasonable doubt.
- 18) SUDEBAN rules require foreign currency balances and transactions to be measured at the prevailing official exchange rate established by the BCV of Bs 9.975/US\$1 or their equivalent in other currencies at the financial statement reporting date. In conformity with VEN NIF, foreign currency balances and transactions shall be measured and recorded taking into consideration a comprehensive assessment of the entity's financial position, its monetary position in foreign currency and the financial impact of the applicable exchange regulations. In addition, instructions issued by the FCCPV on this matter state that:
- Foreign currency items shall be measured: a) at the official exchange rates established in the different exchange agreements issued by the BCV and the Venezuelan government, or b) on the basis of best estimates of future cash flows in bolivars expected to be required or received to settle liabilities or realize assets at the transaction or balance sheet date, using the exchange or settlement mechanisms permitted under Venezuelan law.
  - Foreign currency assets required to be sold to the BCV must be measured at the official exchange rates established by the BCV.
  - Foreign currency assets not required to be sold to the BCV must be measured: a) on the basis of the liabilities that are not reasonably expected to be settled with foreign currency purchased from the Venezuelan government at the official exchange rate, or b) on the basis of best estimates of future cash flows in bolivars expected to be received to realize these assets at the transaction or balance sheet date, using the exchange or settlement mechanisms permitted under Venezuelan law.
- 19) 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.
- 20) 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.
- 21) SUDEBAN established that expenses incurred in relation to the contribution to the National Community Council Fund provided in Article No. 46 of the Law on Banking Sector Institutions shall be recorded as a prepaid expense within other assets and amortized during the six-month period in which the contribution was paid. Under VEN NIF, this contribution must be expensed as incurred.

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- 22) SUDEBAN established that expenses incurred in relation to the contribution under the Sports and Physical Education Law shall be expensed when paid. Under VEN NIF, this contribution must be expensed as incurred.
- 23) 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.
- 24) The Accounting Manual establishes that transactions with derivative instruments, whose contractual rights and obligations will be exercised in the future, shall be classified as memorandum accounts under contingent debtor accounts until they materialize. VEN NIF establish that agreements for transactions with derivative instruments shall be recognized in the balance sheet.

The accounting policies followed by the Bank are:

**a) Foreign currency**

Foreign currency balances and transactions are recorded at the official exchange rate in effect at the transaction date. Foreign currency balances at June 30, 2017 and December 31, 2016, are shown at the official exchange rate of Bs 9.975/US\$1.

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

Through Resolution No. 074.16 of April 7, 2016, SUDEBAN established that: a) gains resulting from changes in the official exchange rate must be recorded in equity and may only be used, subject to previous approval, to offset losses, create contingency provisions for assets, offset deferred expenses (including goodwill), increase capital stock (Note 22), and b) exchange gains and losses arising from exchange fluctuations of the U.S. dollar with respect to other foreign currencies are recorded in net results for the period (Notes 17 and 18).

**b) Consolidation and translation of financial statements in foreign currency**

The accompanying consolidated financial statements include the accounts of Banco Nacional de Crédito, C.A., Banco Universal and its Curacao Branch.

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

Assets and liabilities, and income accounts of the Branch expressed in U.S. dollars were translated into bolivars at the official exchange rate of Bs 9.975/US\$1 at June 30, 2017 and December 31, 2016.

**c) Investment securities**

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

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

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

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

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

Investments in available-for-sale debt and equity securities are recorded at fair value and unrealized gains or losses, net of income tax, resulting from differences in fair value are included in equity. If investments in available-for-sale securities correspond to instruments denominated in foreign currency, the fair value will be determined in foreign currency and then translated at the official exchange rate in effect. Gains or losses from fluctuation in the exchange rate are included in equity. Permanent losses from impairment in the fair value of these investments are recorded in the income statement under other operating expenses for the period in which they occur. Any subsequent recovery in fair value is recognized as an unrealized gain, net of income tax, in equity (Notes 5-a and 22).

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

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

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

The Bank assesses monthly, if circumstances require it, whether there is any objective evidence that a financial asset or group of financial assets is impaired. An impairment in the fair value of held-to-maturity securities is charged to the results for the period when management considers that it is other than temporary. Certain factors identified as indicators of impairment are: 1) a prolonged period where fair value remains substantially below cost; 2) the financial difficulty of the issuer; 3) a fall in the issuer's credit rating; 4) the disappearance of an active market for the security; and 5) the Bank's intention and ability to hold the investment long enough to allow for recovery of fair value, among others. For the six-month periods ended June 30, 2017 and December 31, 2016, the Bank has identified no unrecorded permanent impairment in the value of its investments (Note 5-b).

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

***Restricted investments***

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

***Investments in other securities***

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

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

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**d) Loan portfolio**

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

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

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

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

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

***Investment securities***

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

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

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

The Bank performs a quarterly review of at least 90% 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 June 30, 2017 and December 31, 2016 will be favorable to the Bank (Note 27). However, this opinion is based on events to date; the outcome of these lawsuits could differ from that expected.

**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 one 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 three years until 2020.

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

Based on the provisions of the LOTTT and the prevailing collective labor agreement, employees are entitled to length-of-service benefits (Note 1). Under the LOTTT, length-of-service benefits are calculated based on the last salary earned by the employee upon employment termination.

At June 30, 2017 and December 31, 2016, length-of-service benefits are calculated based on the provisions of the LOTTT and paid as follows:

- a) The Bank accrues guaranteed length-of-service benefits equivalent to 15 days of salary per quarter, up to a maximum of 60 days of salary per year of service, calculated based on the last salary earned by the employee at each quarter closing. Length-of-service benefits are mandatory after the first month of uninterrupted service. After the second year of service the Bank accrues for each employee 2 additional days of salary per year of service (or any portion over 6 months), up to a maximum of 30 days of salary (guarantee fund).

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- b) In the event of termination of employment, for whichever reason, the Bank calculates length-of-service benefits based on 30 days of salary per year of service or any portion over 6 months, considering the average salary earned by the employee (retrospective calculation) or the last salary earned when this is higher.

Guaranteed length-of-service benefits are calculated and deposited monthly in the Bank's trust fund in accounts on behalf of each employee.

- c) Employees receive the higher of total amounts accrued in the guarantee fund as described in a) above and the amount calculated upon termination of employment as described in b) above.

Employees' last salary, termination date and total amounts to be accrued in connection with each employee are all uncertainties at each period end. At June 30, 2017 and December 31, 2016, employee salaries may differ from future salaries due to changes in salaries, bonuses and other payments.

During the six-month periods ended June 30, 2017 and December 31, 2016, the effect of the retrospective scheme was determined using a non-actuarial calculation, which consisted in determining length-of-service benefits as described in b) above. 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 June 30, 2017 and December 31, 2016, this additional liability amounted to Bs 3,447,388,056 and Bs 840,775,191, respectively, included under accruals and other liabilities (Note 15).

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 June 30, 2017 and December 31, 2016, 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 have 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 June 30, 2017 and December 31, 2016, the Bank has recorded Bs 909,730,875 and Bs 395,704,423, respectively, in this connection, shown under salaries and employee benefits. At June 30, 2017, the Bank maintains accruals of Bs 569,627,642 to cover expenses 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 20 days of salary based on length of service. For the six-month periods ended June 30, 2017 and December 31, 2016, the Bank recorded expenses in this connection for Bs 512,615,114 and Bs 107,982,757, respectively, shown under salaries and employee benefits. At June 30, 2017 and December 31, 2016, the Bank maintains accruals of Bs 736,487,924 and Bs 186,074,465, respectively, to cover expenses in this connection (Note 15).

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**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 income and recorded as income when earned (Note 15).

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

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

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

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 June 30, 2017 and December 31, 2016, no permanent losses were identified.

**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, foreign exchange, market, interest rate, 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 or mortgage guarantees, collateral or certificates of deposit after assessing specific borrower characteristics.

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***Market risk***

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

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

***Foreign exchange risk***

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

***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***

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 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.

***Fiduciary activities***

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 June 30, 2017, trust fund assets amount to Bs 12,462,932,414 (Bs 8,152,252,855 at December 31, 2016), shown under memorandum accounts (Note 20).

**3. Cash and due from banks**

At June 30, 2017, the balance of the account with the BCV mainly includes Bs 213,690,495,689 in respect of the legal reserve deposit in local currency (Bs 89,716,476,422 at December 31, 2016) (Note 26).

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In addition, at June 30, 2017, the account with the BCV includes Bs 85,859,231,823 (Bs 32,662,906,249,718 at December 31, 2016) in respect of demand deposits held by the Bank at the BCV.

At June 30, 2017 and December 31, 2016, the account with the BCV includes US\$21,000, equivalent to Bs 209,475 in connection with brokerage in the purchase and sale of foreign currency through the Supplementary Foreign Currency Administration System (SICAD). This amount is yet to be transferred to the parties awarded (Notes 4 and 15).

At June 30, 2017 and December 31, 2016, the Bank has cash and due from banks for US\$ 2,441,782 and US\$1,974,751, respectively, equivalent to Bs 24,356,774 and Bs 19,698,142, deposited at BNC International Banking Corporation, in respect of deposits received in accordance with Exchange Agreement No. 20 (Notes 4, 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 31 and, consequently, are authorized to maintain the aforementioned deposits in their correspondent accounts. This extraordinary measure shall be effective until June 30, 2017. Through Notice SIB-II-GGIBPV-GIBPV4-29083 of October 26, 2016, SUDEBAN agreed to the use of this correspondent account.

At June 30, 2017 and December 31, 2016, pending cash items relate to clearinghouse operations conducted by the BCV and other banks.

**4. Foreign currency assets and liabilities**

**a) Exchange control regime**

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

Purchases in bolivars of securities in foreign currency issued by the Bolivarian Republic of Venezuela, whose trading had been suspended, were regulated in July 2003.

The Venezuelan government and the BCV published Exchange Agreement No. 33 in Extraordinary Official Gazette No. 6,171 on February 10, 2015. This Agreement establishes that foreign currency transactions conducted through the Marginal Foreign Exchange System (SIMADI) refer to the trading in bolivars of cash and securities in foreign currency issued by the Bolivarian Republic of Venezuela, its decentralized agencies or any other issuer, whether public or private, foreign or local, registered and quoted on the international markets. Under this Exchange Agreement, banks, exchange offices, authorized securities dealers and the Bicentennial Public Stock Exchange may participate as exchange brokers.

In addition, this Exchange Agreement establishes that the exchange rates for the trading of foreign currency will be set by the parties involved in the transaction. The BCV shall publish on a daily basis on its web page the reference exchange rate corresponding to the weighted average exchange rate of operations transacted during the day on the markets.

The Venezuelan government and the BCV enacted Exchange Agreement No. 35 in Official Gazette No. 40,865 on March 9, 2016. This Agreement establishes the protected foreign exchange rate (DIPRO) at Bs 9.975/US\$1 (purchase) and Bs 10/US\$1 (sale), for the imports of the food and health sectors, raw materials and supplies for the production of these sectors, pensions for the old-age population, partial disability, disability and survivor's pension paid by the Venezuelan Social Security Institute, expenses for recovery of health, sports, culture, scientific research, and expenses required by the public-sector entities in conformity with Exchange Agreement No. 11, among others.

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Exchange Agreement No. 35 also establishes a supplementary floating exchange rate (DICOM), for transactions described under Article No. 19 of Exchange Agreement No. 1 of February 5, 2003, sale of foreign currency by Petróleos de Venezuela, S.A. and its subsidiaries, transactions for the payment of purchases and cash advances using credit cards when travelling abroad and other foreign currency transactions not expressly included in this Agreement. The DICOM exchange rate started from the last exchange rate defined through SIMADI which, at March 10, 2016, was Bs 206.4035/US\$1 (purchase) and Bs 206.9209/US\$1 (sale). At December 31, 2016, the last exchange rate defined through DICOM was Bs 673.7617/US\$1

The Venezuelan government and the BCV published Exchange Agreement No. 38 in Extraordinary Official Gazette No. 6,300 on May 19, 2017. This Agreement establishes that individuals and private companies wishing to submit offers, and the Central Bank of Venezuela (BCV) are authorized to bid in foreign currency auctions conducted through DICOM. Foreign currency auctions will operate on the basis of an administered floating exchange rate system within monitored variable bands to be announced by the BCV. DICOM will be managed, regulated and directed by the Foreign Currency Auction Committee, which is part of the BCV. Individuals will be entitled to purchase up to US\$500 per quarter; companies will be entitled to purchase, on a monthly basis, an amount equivalent to 30% of their average monthly gross income restated and declared in the income tax return of the immediately prior fiscal year, up to a maximum amount of US\$400,000. Companies demanding higher amounts must submit a request with the Foreign Currency Auction Committee, which may approve or deny the request. These requests should not exceed US\$9,600,000 per year. At the bid process closing, the Foreign Currency Auction Committee will proceed to the award reflected on the system and will notify on the results. The Bank, as an operator, is authorized to offer this service to its clients. The exchange rate published by the BCV on May 30, 2017, as a result of the first foreign currency auction, was Bs 2,010/US\$1. At June 30, 2017, the last exchange rate defined through this system was Bs 2,633.40/US\$1.

**b) Applicable exchange rates**

Between July 1, 2016 and June 30, 2017, the exchange rate for transactions in U.S. dollars is Bs 9.975/US\$ for all transactions.

At June 30, 2017 and December 31, 2016, the exchange rate for transactions in euros is Bs 11,3915/€1 and Bs 10,4997/€1, respectively.

**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):

	June 30, 2017				
	US\$				
	Bank	Curacao Branch	Eliminations	Total	Equivalent in bolivars
<b>Assets</b>					
Cash and due from banks					
Cash	1,403,983	-	-	1,403,983	14,004,730
Central Bank of Venezuela	21,000	-	-	21,000	209,475
Foreign and correspondent banks	11,251,593	16,916,146	(31,277)	28,136,462	280,661,204
Investment securities	12,034,147	29,396,921	-	41,431,068	413,274,907
Loan portfolio					
Current	-	2,822,029	-	2,822,029	28,149,739
Outstanding letters of credit negotiated	4,548,368	5,247,450	-	9,795,818	97,713,285
Overdue	-	7,793,941	-	7,793,941	77,744,561
Overdue letters of credit negotiated	6,892,896	-	-	6,892,896	68,756,638
Allowance for losses on loan portfolio	(6,823,967)	(14,019,790)	-	(20,843,757)	(207,916,476)
Interest and commissions receivable, net of provision	131,934	1,659,136	-	1,791,070	17,865,923
Investments in subsidiaries, affiliates and branches and agencies abroad	1,638,073	-	(1,638,073)	-	-
Available-for-sale assets	-	6,625,000	-	6,625,000	66,084,375
Property and equipment	-	23,516	-	23,516	234,572
Other assets, net of provision	606,443	12,363	-	618,806	6,172,590
Total assets	31,704,470	56,476,712	(1,669,350)	86,511,832	862,955,523

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	June 30, 2017				
	US\$				Equivalent in bolivars
	Bank	Curacao Branch	Eliminations	Total	
<b>Liabilities and Equity</b>					
Liabilities					
Customer deposits	2,441,782	52,180,302	(31,277)	54,590,807	544,543,300
Interest and commissions payable	-	8,889	-	8,889	88,668
Accruals and other liabilities	<u>3,514,320</u>	<u>2,649,448</u>	<u>-</u>	<u>6,163,768</u>	<u>61,483,586</u>
Total liabilities	<u>5,956,102</u>	<u>54,838,639</u>	<u>(31,277)</u>	<u>60,763,464</u>	<u>606,115,554</u>
Equity					
Assigned capital	-	7,599,462	(7,599,462)	-	-
Capital reserves	-	1,777,332	(1,777,332)	-	-
Retained earnings	-	(7,088,478)	7,088,478	-	-
Net unrealized loss on investment securities	-	(650,243)	650,243	-	-
Total equity	-	<u>1,638,073</u>	<u>(1,638,073)</u>	-	-
Total liabilities and equity	<u>5,956,102</u>	<u>56,476,712</u>	<u>(1,669,350)</u>	<u>60,763,464</u>	<u>606,115,554</u>
Contingent accounts	-	1,027,800	-	1,027,800	10,252,305
Memorandum accounts	119,852,206	14,628,242	-	134,480,448	1,341,442,469

	December 31, 2016				
	US\$				Equivalent in bolivars
	Bank	Curacao Branch	Eliminations	Total	
<b>Assets</b>					
Cash and due from banks					
Cash	1,377,708	-	-	1,377,708	13,742,637
Central Bank of Venezuela	21,000	-	-	21,000	209,475
Foreign and correspondent banks	8,535,108	23,095,462	(81,241)	31,549,329	314,704,557
Investment securities	18,903,705	25,144,037	-	44,047,742	439,376,211
Loan portfolio					
Current	446,600	13,063,793	-	13,510,393	134,766,170
Outstanding letters of credit negotiated	11,238,313	-	-	11,238,313	112,102,172
Overdue letters of credit	6,871,140	-	-	6,871,140	68,539,622
Overdue	-	3,183,657	-	3,183,657	31,756,979
Allowance for losses on loan portfolio	(6,802,429)	(14,019,676)	-	(20,822,105)	(207,700,497)
Interest and commissions receivable, net of provision	226,886	2,645,389	-	2,872,275	28,650,933
Investments in subsidiaries, affiliates and branches and agencies abroad	1,389,134	-	(1,389,134)	-	-
Property and equipment	-	26,457	-	26,457	263,909
Other assets, net of provision	<u>380,922</u>	<u>21,692</u>	<u>-</u>	<u>402,614</u>	<u>4,016,085</u>
Total assets	<u>42,588,087</u>	<u>53,160,811</u>	<u>(1,470,375)</u>	<u>94,278,523</u>	<u>940,428,253</u>
<b>Liabilities and Equity</b>					
Liabilities					
Customer deposits	1,974,751	49,366,440	(81,241)	51,259,950	511,318,001
Interest and commissions payable	-	7,914	-	7,914	78,942
Accruals and other liabilities	<u>3,255,886</u>	<u>2,397,437</u>	<u>-</u>	<u>5,653,323</u>	<u>56,391,897</u>
Total liabilities	<u>5,230,637</u>	<u>51,771,791</u>	<u>(81,241)</u>	<u>56,921,187</u>	<u>567,788,840</u>
Equity					
Assigned capital	-	7,599,462	(7,599,462)	-	-
Capital reserves	-	1,617,129	(1,617,129)	-	-
Retained earnings	-	(7,729,292)	7,729,292	-	-
Net unrealized loss on investment securities	-	(98,165)	98,165	-	-
Total equity	-	<u>1,389,134</u>	<u>(1,389,134)</u>	-	-
Total liabilities and equity	<u>5,230,637</u>	<u>53,160,925</u>	<u>(1,470,375)</u>	<u>56,921,187</u>	<u>567,788,840</u>
Contingent accounts	350,436	4,786,509	-	5,136,945	51,241,026
Memorandum accounts	233,329,413	18,393,379	-	251,722,792	2,510,934,850

At June 30, 2017, the Bank has a net monetary asset position in foreign currency of US\$16,819,103, equivalent to Bs 167,770,552 (US\$22,732,742, equivalent to Bs 226,759,102 at December 31, 2016), calculated based on the rules laid down by the BCV. This amount does not exceed the maximum limit set by the BCV, which at June 30, 2017 and December 31, 2016 is 30% of the Bank's equity, equivalent to US\$2,129,096,821 and US\$745,580,809, respectively.

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At June 30, 2017, calculation of the net foreign currency position does not include International Sovereign Bonds 2024 with a book value of US\$84 (International Sovereign Bonds 2024 and 2026 with a book value of US\$2,634 at December 31, 2016), Principal and Interest Covered Bonds (TICCs) with a book value of US\$8,797,280 (US\$14,403,890 at December 31, 2016) (Note 5), and interest receivable in connection with these securities of US\$131,901 (US\$218,184 at December 31, 2016)

At June 30, 2017 and December 31, 2016, investment securities include TICCs issued by the Bolivarian Republic of Venezuela, payable in local currency and referenced to the U.S. dollar at the official exchange rate of Bs 9.975/US\$1, and have foreign exchange indexing clauses at variable quarterly yields.

During the six-month period ended June 30, 2017, the Bank recorded exchange gains and losses of Bs 2,924,807 and Bs 708,565, respectively (Bs 666,724 and Bs 2,648,323, respectively, during the six-month period ended December 31, 2016), arising from exchange fluctuations of the U.S. dollar with respect to other foreign currencies (Notes 17 and 18).

## 5. Investment securities

Investments in debt securities, shares and other have been classified in the financial statements based on their intended use as shown below:

	June 30, 2017	December 31, 2016
	(In bolivars)	
<b>Investments</b>		
Available for sale	18,189,144,313	17,678,033,338
Held to maturity	9,328,817,527	9,887,516,770
Deposits with the BCV and overnight deposits	2,101,117,000	1,768,517,000
Restricted	129,097,264	114,951,401
Other securities	7,302,841,244	7,627,655,244
Provision for investment securities	(101,280)	(101,280)
	<u>37,050,916,068</u>	<u>37,076,572,473</u>

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

These investments are shown at fair value and comprise the following:

	June 30, 2017		
	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 (TIFs), with a par value of Bs 2,859,977,786, annual yield at between 9.88% and 18%, maturing between October 2017 and March 2033	3,261,466,140	314,788,804	3,576,254,944 (1) - (a)
Vebonos, with a par value of Bs 3,119,916,713, annual yield at between 10.29% and 15.54%, maturing between November 2017 and July 2033	3,554,534,982	534,054,978	4,088,589,960 (1) - (a)
Principal and Interest Covered Bonds (TICCs), payable in bolivars, with a reference par value of US\$72,800, 5.25% annual yield, maturing in March 2019 (Note 4)	558,961	162,923	721,884 (2) - (a)
Global Bonds, with a par value of US\$800, 9.25% annual yield, maturing in September 2027 (Note 4)	5,865	(1,857)	4,008 (1) - (b)
	<u>6,816,565,948</u>	<u>849,004,848</u>	<u>7,665,570,796</u>
<b>Debt securities issued by Venezuelan financial public-sector companies</b>			
Agriculture BANDES Certificates of Participation, with a par value of Bs 10,394,055,374, 4% annual yield, maturing in September 2017	10,394,055,374	-	10,394,055,374 (3) - (a)
<b>Bonds and debt securities issued by Venezuelan non-financial public-sector companies</b>			
PDVSA Bonds, issued by Petróleos de Venezuela, S.A., with a par value of US\$15,000,000, 8.5% annual yield, maturing in October 2020 (Note 4)	114,613,748	(6,888,236)	107,725,512 (1) - (d), (e) and (f)
Global Bond, issued by C.A. La Electricidad de Caracas, with a par value of US\$250,000, 8.5% annual yield, maturing in April 2018 (Note 4)	1,213,608	536,755	1,750,363 (1) - (c)
	<u>115,827,356</u>	<u>(6,351,481)</u>	<u>109,475,875</u>



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<b>June 30, 2017</b>				
	<b>Acquisition cost</b>	<b>Net unrealized gain (loss)</b>	<b>Book value (equivalent to fair value)</b>	
		(In bolivars)		
<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 of Bs 1,800 each	19,571,400	-	19,571,400	(3) - (g)
Sociedad de Garantías Recíprocas (SGR) del Estado Aragua, C.A., 10,128 common shares, with a par value of Bs 10 each, 1.7% owned	101,280	-	101,280	(3) - (g)
S.G.R. - SOGAMIC, S.A., Sociedad de Garantías Recíprocas del Sector Microfinanciero, S.A., 17,500 common shares, with a par value of Bs 10 each, 3.10% owned	175,000	-	175,000	(3) - (g)
S.G.R. - SOGARSA, S.A., Sociedad de Garantías Recíprocas para el Sector Agropecuario Forestal Pesquero y Afines, S.A., 3,000 shares, with a par value of Bs 10 each, 0.028% owned	30,000	-	30,000	(3) - (g)
	<u>19,877,680</u>	-	<u>19,877,680</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	299,280	(134,692)	164,588	(1) - (f)
	<u>17,346,625,638</u>	842,518,675	<u>18,189,144,313</u>	
Unrealized gain on transfer of available-for-sale securities as per SUDEBAN Notice SIB-II-CCD-36481		474,911		
		<u>842,993,586</u>		
<b>December 31, 2016</b>				
	<b>Acquisition cost</b>	<b>Net unrealized gain (loss)</b>	<b>Book value (equivalent to fair value)</b>	
		(In bolivars)		
<b>Securities issued or guaranteed by the Venezuelan government</b>				
Fixed Interest Bonds (TIFs), with a par value of Bs 2,859,977,786, annual yield at between 9.88% and 18%, maturing between October 2017 and March 2033	3,261,466,144	129,775,832	3,391,241,976	(1) - (a)
Vebonos, with a par value of Bs 3,121,083,380, annual yield at between 10.56% and 15.79%, maturing between November 2017 and July 2033	3,555,897,072	239,636,345	3,795,533,417	(1) - (a)
Sovereign Bonds in foreign currency, with a par value of US\$3,004,500, annual yield at between 7.75% and 11.75%, maturing between October 2019 and 2026 (Note 4)	16,978,448	(307,225)	16,671,223	(1) - (c), (e) and (f)
Principal and Interest Covered Bonds (TICCs), payable in bolivars, with a reference par value of US\$335,001, annual yield at between 5.25% and 6.25%, maturing between April 2017 and March 2019 (Note 4)	2,832,775	533,196	3,365,971	(2) - (a)
Global Bonds, with a par value of US\$3,000,800, 9.25% annual yield, maturing in September 2027 (Note 4)	15,679,084	(164,222)	15,514,862	(1) - (b) and (d)
	<u>6,852,853,523</u>	<u>369,473,926</u>	<u>7,222,327,449</u>	
<b>Debt securities issued by Venezuelan financial public-sector companies</b>				
Agriculture BANDES Certificates of Participation, with a par value of Bs 10,394,055,374, 4% annual yield, maturing in September 2017	10,394,055,374	-	10,394,055,374	(4) - (a)
<b>Bonds and debt securities issued by Venezuelan non-financial public-sector companies</b>				
PDVSA Bonds issued by Petróleos de Venezuela, S.A., with a par value of US\$6,077,866, annual yield at between 5.25% and 12.75%, maturing between April 2017 and 2037 (Note 4)	38,869,219	(382,927)	38,486,292	(1) - (c), (d), (e) and (f)
Global Bond issued by C.A. La Electricidad de Caracas, with a par value of US\$500,000, 8.5% annual yield, maturing in April 2018 (Note 4)	3,221,773	(86,730)	3,135,043	(1) - (e) and (f)
	<u>42,090,992</u>	<u>(469,657)</u>	<u>41,621,335</u>	
<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 of Bs 1,800 each	19,571,400	-	19,571,400	(3) - (g)
Sociedad de Garantías Recíprocas (SGR) del Estado Aragua, C.A., 10,128 common shares, with a par value of Bs 10 each, 1.7% owned	101,280	-	101,280	(3) - (g)
S.G.R. - SOGAMIC, S.A., Sociedad de Garantías Recíprocas del Sector Microfinanciero, S.A., 17,500 common shares, with a par value of Bs 10 each, 3.10% owned	175,000	-	175,000	(3) - (g)
S.G.R. - SOGARSA, S.A., Sociedad de Garantías Recíprocas para el Sector Agropecuario Forestal Pesquero y Afines S.A., 3,000 shares, with a par value of Bs 10 each, 0.028% owned	30,000	-	30,000	(3) - (g)
	<u>19,877,680</u>	-	<u>19,877,680</u>	

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	December 31, 2016		
	Acquisition cost	Net unrealized gain (loss) (In bolivars)	Book value (equivalent to fair value)
<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	299,280	(147,780)	151,500 (1) - (e)
	<u>17,309,176,849</u>	368,856,489	<u>17,678,033,338</u>
Unrealized gain on transfer of available-for-sale investments according to SUDEBAN Notice SIB-II-CCD-36481		251,090	
		<u>369,107,579</u>	

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

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

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

**Custodians of investments**

(a) Central Bank of Venezuela

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

(c) Euroclear Bank, S.A.

(d) Pershing LLC

(e) Morgan Stanley Smith Barney

(f) Morgan Stanley Private Wealth Management

(g) Shares held in custody of private companies, S.G.R. del Estado Aragua, C.A.; S.G.R. del Estado Falcón, C.A.; S.G.R. - SOGAMIC, S.A.; S.G.R. - SOGARSA, S.A.; 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 June 30, 2017 and December 31, 2016.

Through Notice SIB-II-CCD-36481 of November 12, 2012, SUDEBAN instructed the Bank to transfer the balances of non-convertible bearer bonds (2012 issue) issued by Fondo de Desarrollo Nacional FONDEN, S.A. for Bs 209,187,351 and those issued by Petróleos de Venezuela, S.A. for Bs 91,359,660 from the available-for-sale portfolio to the held-to-maturity portfolio, in conformity with Circular SIB-II-GGR-GNP-CCD-15075 of May 30, 2012. At December 31, 2012, the Bank calculated the fair value of the available-for-sale investments at the date of transfer and recorded an unrealized loss on these investments of Bs 7,680,340 in a separate equity account, which will be amortized until these securities mature. At June 30, 2017 and December 31, 2016, the balance of this unrealized gain is Bs 474,911 and Bs 251,090, respectively.

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

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

	June 30, 2017	December 31, 2016
	(In bolivars)	
<b>Unrealized gain</b>		
Securities issued or guaranteed by the Venezuelan government in local currency	848,843,782	369,412,177
Securities issued or guaranteed by the Venezuelan government in foreign currency	162,923	533,196
Bonds and debt securities issued by Venezuelan non-financial public-sector companies	<u>536,755</u>	<u>-</u>
	<u>849,543,460</u>	<u>369,945,373</u>
<b>Unrealized loss</b>		
Securities issued or guaranteed by the Venezuelan government in foreign currency	(1,857)	(471,447)
Bonds and debt securities issued by Venezuelan non-financial public-sector companies	(6,888,236)	(469,657)
Debt securities issued by foreign financial private-sector companies	<u>(134,692)</u>	<u>(147,780)</u>
	<u>(7,024,785)</u>	<u>(1,088,884)</u>
	842,518,675	368,856,489
Unrealized gain on transfer of available-for-sale securities as per SUDEBAN Notice SIB-II-CCD-36481	<u>474,911</u>	<u>251,090</u>
Net unrealized gain on available-for-sale securities	<u>842,993,586</u>	<u>369,107,579</u>

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

	Fair value	
	June 30, 2017	December 31, 2016
	(In bolivars)	
Up to 6 months	10,435,172,347	2,846,923
6 months to 1 year	646,211,032	10,436,046,935
1 to 5 years	2,906,416,339	2,737,441,403
Over 5 years	4,181,466,915	4,481,820,397
Without maturity	<u>19,877,680</u>	<u>19,877,680</u>
	<u>18,189,144,313</u>	<u>17,678,033,338</u>

During the six-month period ended June 30, 2017, the Bank sold investments in available-for-sale securities for Bs 3,224,266,409 (Bs 14,187,869,277 during the six-month period ended December 31, 2016), resulting in gains and losses of Bs 11,337,614 and Bs 6,110,389, respectively, (Bs 130,584,560 and Bs 30,280,021, respectively, for the six-month period ended December 31, 2016), shown under other operating income and other operating expenses, respectively (Notes 17 and 18).

During the six-month period ended June 30, 2017, the Bank sold through DICOM Global Bonds from the Venezuelan government, including accumulated yields receivable, with a book value of US\$8,526,294, equivalent to Bs 85,049,784, recording a gain of Bs 5,915,297,258 in equity (securities and yields receivable with a book value of US\$4,147,000, equivalent to Bs 41,366,325 during the six-month period ended December 31, 2016, recording a gain of Bs 1,469,164,622 in equity).

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

Investments in held-to-maturity securities are shown at amortized cost and comprise debt securities that the Bank has the firm intention and ability to hold until maturity. These securities comprise the following:

	June 30, 2017			
	Acquisition cost	Amortized cost	Fair value	
		(In bolivars)		
<b>Securities issued or guaranteed by the Venezuelan government</b>				
Fixed Interest Bonds (TIFs), with a par value of Bs 1,407,088,823, annual yield between 9.88% and 18%, maturing between October 2017 and January 2026	1,753,160,626	1,591,005,978	1,660,228,113	(1) - (a)
Vebonos, with a par value of Bs 1,085,920,272, annual yield between 10.29% and 15.54%, maturing between April 2018 and February 2025	1,478,395,035	1,351,443,992	1,467,437,358	(1) - (a)
Principal and Interest Covered Bonds (TICCs), payable in bolivars, with a reference par value of US\$8,972,519, 5.25% annual yield, maturing in March 2019 (Note 4)	78,278,433	87,030,953	89,960,017	(2) - (a)
Sovereign Bonds in foreign currency, with a par value of US\$100, 8.25% annual yield, maturing in October 2024 (Note 4)	766	835	434	(1) - (b)
	<u>3,309,834,860</u>	<u>3,029,481,758</u>	<u>3,217,625,922</u>	
<b>Bonds and debt securities issued by Venezuelan non-financial public-sector companies</b>				
Dematerialized Certificates of Participation issued by Fondo Simón Bolívar para la Reconstrucción, S.A., with a par value of Bs 6,087,030,691, annual yield between 4.66% and 6.05%, maturing between June 2023 and November 2024	6,087,030,691	6,087,030,691	6,087,030,691	(3) - (a)
Agriculture Bonds issued by Fondo de Desarrollo Nacional FONDEN, S.A., with a par value of Bs 30,000,000, 9.10% annual yield, maturing in July 2017 (Note 6)	30,420,390	30,003,232	30,000,000	(1) - (a)
PDVSA Bonds issued by Petróleos de Venezuela, S.A., with a par value of US\$900, annual yield between 5.35% and 5.5%, maturing between Abril 2027 and 2037 (Note 4)	4,510	5,728	3,220	(1) - (b)
	<u>6,117,455,591</u>	<u>6,117,039,651</u>	<u>6,117,033,911</u>	
<b>Certificates of deposit with foreign financial institutions</b>				
Certificates of deposit with Banco Do Brasil, S.A., with a par value of US\$11,000,000, annual yield between 1.19% and 1.95%, maturing between July, August and October 2017	109,725,000	109,725,000	109,725,000	(3) - (c)
Certificates of deposit with Itaú Unibanco, S.A., with a par value of US\$6,000,000, annual yield between 1.25% and 1.41%, maturing in July 2017	59,850,000	59,850,000	59,850,000	(3) - (d)
Certificates of deposit with Mercantil Commercebank, N.A., with a par value of US\$1,275,300, 0.6% annual yield, maturing in January 2018	12,721,118	12,721,118	12,721,118	(3) - (e)
	<u>182,296,118</u>	<u>182,296,118</u>	<u>182,296,118</u>	
	<u>9,609,586,569</u>	<u>9,328,817,527</u>	<u>9,516,955,951</u>	
	December 31, 2016			
	Acquisition cost	Amortized cost	Fair value	
		(In bolivars)		
<b>Securities issued or guaranteed by the Venezuelan government</b>				
Fixed Interest Bonds (TIFs), with a par value of Bs 1,707,088,823, annual yield between 9.88% and 18%, maturing between February 2017 and January 2026	2,091,407,626	1,912,298,811	2,022,423,486	(1) - (a)
Vebonos, with a par value of Bs 1,093,156,134, annual yield between 9.4% and 15.79%, maturing between March 2017 and February 2025	1,485,491,871	1,377,653,495	1,402,007,663	(1) - (a)
Principal and Interest Covered Bonds (TICCs), payable in bolivars, with a reference par value of US\$14,327,848, annual yield between 5.25% and 6.25%, maturing between Abril 2017 and March 2019 (Note 4)	142,319,762	140,312,835	143,885,305	(2) - (a)
Sovereign Bonds in foreign currency, with a par value of US\$100, 8.25% annual yield, maturing in October 2024 (Note 4)	766	824	464	(1) - (b)
	<u>3,719,220,025</u>	<u>3,430,265,965</u>	<u>3,568,316,918</u>	
<b>Bonds and debt securities issued by Venezuelan non-financial public-sector companies</b>				
Dematerialized Certificates of Participation issued by Fondo Simón Bolívar para la Reconstrucción, S.A., with a par value of Bs 6,087,030,691, annual yield between 4.66% and 6.05%, maturing between June 2023 and November 2024	6,087,030,691	6,087,030,691	6,087,030,691	(3) - (a)
Agriculture Bonds issued by Fondo de Desarrollo Nacional FONDEN, S.A., with a par value of Bs 180,000,000, 9.10% annual yield, maturing between April and July 2017 (Note 6)	191,063,990	180,689,485	188,940,540	(1) - (a)
PDVSA Bonds issued by Petróleos de Venezuela, S.A., with a par value of US\$900, annual yield between 5.35% and 5.5%, maturing between Abril 2027 and 2037 (Note 4)	4,510	5,629	3,384	(1) - (b)
	<u>6,278,099,191</u>	<u>6,267,725,805</u>	<u>6,275,974,615</u>	

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	<b>December 31, 2016</b>			
	<b>Acquisition cost</b>	<b>Amortized cost</b>	<b>Fair value</b>	
	(In bolivars)			
<b>Certificates of deposit with foreign financial institutions</b>				
Certificates of deposit with Banco Do Brasil, S.A., with a par value of US\$13,000,000, annual yield between 0.58% and 1.89%, maturing between January and May 2017	129,675,000	129,675,000	129,675,000	(3) - (c)
<b>Certificates of deposit with Itaú Unibanco, S.A., with a par value of US\$6,000,000, annual yield between 1.03% and 1.12%, maturing between January and February 2017</b>	<u>59,850,000</u>	<u>59,850,000</u>	<u>59,850,000</u>	(3) - (d)
	<u>189,525,000</u>	<u>189,525,000</u>	<u>189,525,000</u>	
	<u>10,186,844,216</u>	<u>9,887,516,770</u>	<u>10,033,816,533</u>	

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

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

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

**Custodians of investments**

(a) Central Bank of Venezuela

(b) Euroclear Bank, S.A.

(c) Banco Do Brasil

(d) Itaú Unibanco, S.A.

(e) Mercantil Commercebank, N.A.

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

	<b>June 30, 2017</b>		<b>December 31, 2016</b>	
	<b>Amortized cost</b>	<b>Fair value</b>	<b>Amortized cost</b>	<b>Fair value</b>
	(In bolivars)			
Less than 1 year	700,237,557	750,438,819	783,692,595	810,826,285
1 to 5 years	382,872,149	402,927,615	771,636,994	844,273,550
5 to 10 years	8,245,703,439	8,363,587,019	8,332,181,552	8,378,713,306
Over 10 years	<u>4,382</u>	<u>2,498</u>	<u>5,629</u>	<u>3,392</u>
	<u>9,328,817,527</u>	<u>9,516,955,951</u>	<u>9,887,516,770</u>	<u>10,033,816,533</u>

At June 30, 2017, the Bank has agriculture bonds issued by Fondo Nacional de Desarrollo Nacional FONDEN, S.A. for Bs 30,003,232 (Bs 180,689,485 at December 31, 2016). Through Notice SIB-II-CCD-06140 of March 1, 2013, SUDEBAN informed the Bank that the maximum amount of agriculture bonds that may be included in the agricultural loan portfolio is Bs 473,381,100, which may be computed as part of the agricultural loans that the Bank is required to grant (Note 6).

At June 30, 2017 and December 31, 2016, the Bank has Dematerialized Certificates of Participation issued by Fondo Simón Bolívar para la Reconstrucción, S.A. for Bs 6,087,030,691, which may be deducted from the legal reserve amount required of financial institutions (Note 26).

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

At June 30, 2017 and December 31, 2016, the Bank has an account in the name of the BCV at the Euroclear Bank to hold in custody all foreign currency securities held by other foreign financial institutions, as set out in Article 51 of the Law on Banking Sector Institutions. Pershing LLC, Morgan Stanley Smith Barney and Morgan Stanley Private Wealth Management only hold in custody securities of the Branch; and Banco Do Brasil, S.A, Mercantil Commercebank, N.A. and Itaú Unibanco, S.A. only have deposits and certificates of deposit.

***Banco Nacional de Crédito, C.A., Banco Universal***  
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At June 30, 2017, unrealized losses of Bs 6,141 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.

**c) Deposits with the Central Bank of Venezuela and overnight deposits**

These investments are recorded at realizable value, representing cost or par value and comprise the following:

	June 30, 2017	December 31, 2016
	(In bolivars)	
Certificate of deposit with the Central Bank of Venezuela, with a par value of Bs 2,101,117,000, annual yield between 6% and 7%, maturing between July and August 2017 (with a par value of Bs 1,768,517,000, annual yield between 6% and 7%, maturing between January and February 2017 at December 31, 2016)	<u>2.101.117.000</u>	<u>1.768.517.000</u>

**d) Restricted investments**

These investments are shown at par value, which is considered as fair value, and comprise the following:

	June 30, 2017		December 31, 2016	
	Amortized cost	Fair value	Amortized cost	Fair value
	(In bolivars)			
<b>Other restricted investments</b>				
Certificates of deposit				
Social Contingency Fund (Note 22)	58,774,959	58,774,959	47,629,861	47,629,861 (1)
Trust fund with Mercantil, C.A., Banco Universal	36,747,391	36,747,391	35,114,508	35,114,508 (1)
PNC Bank, with a par value of US\$1,774,572 (Note 4)	17,602,713	17,602,713	16,276,734	16,276,734 (1)
JP Morgan Chase Bank, with a par value of US\$1,601,223 (Note 4)	<u>15,972,201</u>	<u>15,972,201</u>	<u>15,930,298</u>	<u>15,930,298 (1)</u>
	<u>129,097,264</u>	<u>129,097,264</u>	<u>114,951,401</u>	<u>114,951,401</u>

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

At June 30, 2017 and December 31, 2016, the certificates of deposit with JP Morgan Chase Bank and PNC Bank are used as collateral to guarantee VISA and MasterCard credit card operations, respectively.

At June 30, 2017 and December 31, 2016, the certificate of deposit in a trust fund with Mercantil, C.A., Banco Universal is used as collateral to guarantee Maestro debit card operations.

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**e) Investments in other securities**

These investments are shown at par value and comprise the following:

	June 30, 2017	December 31, 2016	
			(In bolivars)
<b>Other liabilities</b>			
Bolivarian Housing Securities issued by Fondo Simón Bolívar para la Reconstrucción, S.A., with a par value of Bs 7,302,841,244, annual yield between 4.66% and 6.48%, maturing between June 2020 and February 2028 (par value of Bs 7,554,130,244, annual yield between 4.66% and 6.48%, maturing between June 2017 and February 2028)	7,302,841,244	7,554,130,244	(1) - (a)
Special mortgage securities issued by Banco Nacional de Vivienda y Hábitat (BANAVIH), with a par value of Bs 73,525,000 2% annual yield, maturing in November 2021	<u>-</u>	<u>73,525,000</u>	(1) - (a)
	<u>7,302,841,244</u>	<u>7,627,655,244</u>	

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

**Custodian of investments**

(a) Central Bank of Venezuela

At June 30, 2017 and December 31, 2016, the Bank has Bolivarian Housing Securities issued by Fondo Simón Bolívar para la Reconstrucción, S.A. for Bs 7,302,841,244 and Bs 7,554,130,244, respectively. In addition, at December 31 2016, the Bank has Bolivarian Housing Securities issued by Fondo Simón Bolívar para la Reconstrucción, S.A. for Bs 251,289,000, which corresponds to the substitution of Dematerialized Certificates of Participation issued by BANDES, which matured in June 2017. These investments were computed for the construction mortgage loan portfolio until the year ended December 31, 2015.

At December 31, 2016, the Bank maintained special mortgage securities for Bs 73,525,000, which were computed in the construction mortgage loan portfolio at December 31, 2011 (Note 6).

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

The Bank's control environment includes policies and procedures to determine investment risks by entity and economic sector. At June 30, 2017, the Bank has investment securities issued or guaranteed by the Venezuelan government of Bs 36,804,581,700, representing 99.34% of its investment securities portfolio (Bs 36,752,066,892, representing 99.12% of its investment securities portfolio at December 31, 2016).

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**6. Loan portfolio**

The loan portfolio is classified by economic activity, guarantee, maturity and type of loan as follows:

	June 30, 2017			Total
	Current	Rescheduled	Overdue	
	(In bolivars)			
<b>Economic activity</b>				
Wholesale and retail trade, restaurants and hotels	253,367,400,254	-	239,317,069	253,606,717,323
Communal, social and consumer services	180,250,139,327	250,108	20,689,050	180,271,078,485
Agriculture, fishing and forestry	59,427,898,749	33,181,697	62,500,000	59,523,580,446
Manufacturing	23,302,462,735	-	-	23,302,462,735
Financial businesses, insurance, real estate and services	8,187,306,728	-	1,811,700	8,189,118,428
Transportation, warehousing and communications	2,380,719,944	-	412,337	2,381,132,281
Construction	1,344,843,449	-	-	1,344,843,449
Utilities	677,976,718	-	-	677,976,718
Mining and oil	183,829,212	-	193,536	184,022,748
	<u>529,122,577,116</u>	<u>33,431,805</u>	<u>324,923,692</u>	529,480,932,613
Allowance for losses on loan portfolio, includes US\$20,843,757				<u>(10,361,933,636)</u>
				<u>519,118,998,977</u>
<b>Guarantee</b>				
Endorsement	226,173,551,483	93,750	54,389,631	226,228,034,864
Collateral	82,832,399,740	432,400	6,855,084	82,839,687,224
Real property mortgage	34,127,212,980	870,000	63,541,107	34,191,624,087
Pledge	23,656,876,691	62,500	-	23,656,939,191
Written instruments	12,218,576,698	-	-	12,218,576,698
Chattel mortgage	3,120,632,063	490,000	-	3,121,122,063
Other guarantees	2,245,094,001	-	700,840	2,245,794,841
Non-possessory pledge	361,799,461	232,600	-	362,032,061
Unsecured	<u>144,386,433,999</u>	<u>31,250,555</u>	<u>199,437,030</u>	<u>144,617,121,584</u>
	<u>529,122,577,116</u>	<u>33,431,805</u>	<u>324,923,692</u>	<u>529,480,932,613</u>
<b>Maturity</b>				
Overdue	-	-	324,923,692	324,923,692
Up to 30 days	117,930,959,637	36,000	-	117,930,995,637
31 to 60 days	114,653,075,473	-	-	114,653,075,473
61 to 90 days	167,476,568,610	-	-	167,476,568,610
91 to 180 days	49,944,157,130	283,067	-	49,944,440,197
181 to 360 days	31,920,482,022	547,750	-	31,921,029,772
Over 360 days	<u>47,197,334,244</u>	<u>32,564,988</u>	<u>-</u>	<u>47,229,899,232</u>
	<u>529,122,577,116</u>	<u>33,431,805</u>	<u>324,923,692</u>	<u>529,480,932,613</u>
	December 31, 2016			Total
	Current	Rescheduled	Overdue	
	(In bolivars)			
<b>Economic activity</b>				
Wholesale and retail trade, restaurants and hotels	186,287,414,167	-	1,973,052	186,289,387,219
Agriculture, fishing and forestry	18,151,943,876	37,897,004	-	18,189,840,880
Financial businesses, insurance, real estate and services	18,093,290,917	-	80,709,095	18,174,000,012
Manufacturing	13,440,509,491	-	68,539,626	13,509,049,117
Communal, social and consumer services	7,640,444,621	500,216	2,495,410	7,643,440,247
Construction	4,126,069,823	-	-	4,126,069,823
Transportation, warehousing and communications	3,644,950,425	-	-	3,644,950,425
Utilities	1,491,495,710	-	-	1,491,495,710
Mining and oil	1,207,183,733	-	31,756,982	1,238,940,715
	<u>254,083,302,763</u>	<u>38,397,220</u>	<u>185,474,165</u>	254,307,174,148
Allowance for losses on loan portfolio, includes US\$20,822,105				<u>(5,439,305,913)</u>
				<u>248,867,868,235</u>



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	December 31, 2016			Total
	Current	Rescheduled	Overdue	
	(In bolivars)			
<b>Guarantee</b>				
Endorsement	82,450,591,016	122,625	2,308,927	82,453,022,568
Collateral	46,655,027,657	824,883	1,970,451	46,657,822,991
Real property mortgage	15,471,769,311	1,033,724	2,361,262	15,475,164,297
Written instruments	14,623,233,497	-	-	14,623,233,497
Other guarantees	445,545,432	-	46,929	445,592,361
Pledge	5,080,642,369	78,125	-	5,080,720,494
Chattel mortgage	1,827,100,600	590,000	-	1,827,690,600
Non-possessory pledge	3,971,706,248	290,500	-	3,971,996,748
Unsecured	<u>83,557,686,633</u>	<u>35,457,363</u>	<u>178,786,596</u>	<u>83,771,930,592</u>
	<u>254,083,302,763</u>	<u>38,397,220</u>	<u>185,474,165</u>	<u>254,307,174,148</u>
<b>Maturity</b>				
Overdue	-	-	185,474,165	185,474,165
Up to 30 days	51,486,736,254	18,724	-	51,486,754,978
31 to 60 days	49,203,494,429	186,667	-	49,203,681,096
61 to 90 days	44,160,450,622	-	-	44,160,450,622
91 to 180 days	34,940,951,365	104,750	-	34,941,056,115
181 to 360 days	28,375,199,796	566,133	-	28,375,765,929
Over 360 days	<u>45,916,470,297</u>	<u>37,520,946</u>	<u>-</u>	<u>45,953,991,243</u>
	<u>254,083,302,763</u>	<u>38,397,220</u>	<u>185,474,165</u>	<u>254,307,174,148</u>

Below is a breakdown of the loan portfolio by type of loan:

	June 30, 2017	December 31, 2016
	(In bolivars)	
<b>Type of loan</b>		
Fixed term, includes US\$4,840,687 (US\$4,864,328 at December 31, 2016) (Note 4)	327,401,572,460	129,248,358,187
Agriculture	59,523,580,446	18,189,840,880
Installment, includes US\$1,165,000 (US\$1,380,000 at December 31, 2016) (Note 4)	56,211,317,508	58,615,757,822
Manufacturing	23,302,462,735	13,361,687,242
Factoring and discounts, includes US\$4,610,283 (US\$10,003,123 at December 31, 2016) (Note 4)	22,028,830,225	5,769,721,557
Credit cards	19,053,747,583	13,891,029,884
Microcredits	8,606,510,418	4,476,492,907
Mortgage	7,741,004,343	6,121,599,400
Tourism	4,449,142,478	3,576,822,738
Vehicles	589,402,584	418,353,849
Financial leases	263,390,912	390,281,339
Letters of credit, equivalent to US\$15,086,940 and €1,402,604 (US\$16,961,498 and €1,514,873 at December 31, 2016) (Note 4)	166,469,980	185,096,651
Employee loans	142,459,842	61,148,453
Checking accounts	<u>1,041,099</u>	<u>983,239</u>
	<u>529,480,932,613</u>	<u>254,307,174,148</u>

Through Resolution No. 332.11 of December 22, 2011, SUDEBAN established the parameters to set aside provisions for loans or microcredits granted to individuals or corporations whose assets were subject to expropriation, occupation or intervention by the Venezuelan government, effective from December 1, 2011 to November 30, 2013. A modification of this Resolution was published in Official Gazette No. 40,304 of November 28, 2013, extending the effective period until November 30, 2014. In addition, through Circular SIB-II-GGR-GNP-21051 of June 30, 2015, SUDEBAN established the indefinite application of measures provided in Resolution No. 332.11. At June 30, 2017 and December 31, 2016, the Bank applied the aforementioned Resolution to loans amounting to Bs 567,577,915 and Bs 280,687,833, respectively. Through Resolution No. 310.11 of December 1, 2011, SUDEBAN allows banks that granted mortgage loans to housing constructors, whose projects have been expropriated, occupied or intervened by the Venezuelan government and that assumed work completion, to defer the expenses, charges or losses that may arise from work completion for a term of no less than 10 years and no more than 15 years. During the first six-month period of 2016, the Bank requested SUDEBAN to defer the estimated losses from the execution of these projects that will not be recovered through the sale of housing units. Through Notice SIB-II-GGIBPVGIBPV4-154476 of May 27, 2016, SUDEBAN authorized the deferral for up to 15 years.

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At June 30, 2017, the Bank maintains Bs 408,918,232 (Bs 431,848,227 at December 31, 2016) in this connection within other assets (Note 11).

At December 31, 2015, the Branch had an overdue loan for US\$3,300,000 with the debtor Siderúrgica del Turbio, S.A. (SIDETUR), in regard to which the Bank initiated legal actions. On April 14, 2016, the Branch received a Resolution of the First Instance Court of Curacao in regard to file No. EJ 74192/2015, in which it is established that the Branch may apply the collateral security of Bs 38,068,799 recording a partial collection of the loan amounting to US\$116,343. At June 30, 2017 and December 31, 2016, the Bank continues to take legal actions through its external legal advisors for the purpose of receiving advisory on the trial filed against the debtor and recover the amount of the loan pending collection.

In accordance with SUDEBAN rules, at June 30, 2017 and December 31, 2016, the Bank maintains a general allowance of Bs 6,041,926,772 and Bs 3,094,960,077, respectively, for losses on the loan portfolio, and a countercyclical allowance of Bs 3,971,106,995 and Bs 1,907,303,806, respectively, (Note 2-e).

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

	<b>Six-month periods ended</b>	
	<b>June 30, 2017</b>	<b>December 31, 2016</b>
	(In bolivars)	
Balance at the beginning of the period	5,439,305,913	2,801,547,904
Provided in the period	5,041,606,385	2,667,782,775
Release of allowance for losses on loan portfolio	-	(2,116,639)
Write-offs of uncollectible loans	(130,848,805)	(45,428,314)
Reclassification to provision for interest receivable (Note 7)	11,230,330	16,921,337
Reclassification from (to) provision for contingent loans (Note 16)	433,131	598,850
Adjustment from exchange differences in respect of letters of credit in euros	<u>206,682</u>	<u>-</u>
Balance at the end of the period	<u>10,361,933,636</u>	<u>5,439,305,913</u>

During the six-month periods ended June 30, 2017 and December 31, 2016, the Bank wrote off loans of Bs 130,848,805 and Bs 45,428,314, respectively, against the allowance for losses on the loan portfolio.

Through Notice SIB-II-GGR-GA-26598 of October 4, 2016 and Notice SIB-II-GGIBPV-GIBPV4-33192 of December 2, 2016, SUDEBAN authorized the Branch to release excess allowances for losses on loan portfolio for US\$176,611 and US\$35,584, equivalent to Bs 1,761,690 and Bs 354,949, respectively, and recorded income, shown within income from financial assets recovered.

At June 30, 2017, overdue loans on which interest is no longer accrued amount to Bs 324,923,692 (Bs 185,474,165 at December 31, 2016). In addition, at June 30, 2017, memorandum accounts include Bs 88,569,166 (Bs 64,195,774 at December 31, 2016), in respect of interest not recognized as income from loans on which interest is no longer accrued (Note 20).

During the six-month period ended June 30, 2017, the Bank recovered loans written off in previous periods of Bs 50,019,415, shown in the income statement within income from financial assets recovered (Bs 26,817,812 during the six-month period ended December 31, 2016).

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At December 31, 2016, the Bank has collection and extension processing fees, for a maximum percentage of up to 3% of the extended balance, Bs 731,104,072, which is part of service fees under other income (Note 17). Through Notice SIB-II-GGIBPV-GIBPV4-29952 of November 2, 2016, SUDEBAN requested the Bank to suspend the aforementioned fee collection, considering that the table authorized by the BCV does not include within current fees and commissions any group associated with processing and collection expenses for extended loans.

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

June 30, 2017						
Activity	Balance maintained in bolivars	Earmarked %	Required %	Number of debtors	Maximum annual interest rate %	Calculation basis
Agriculture (a)	59,553,613,678	23.43	22	326	13	Gross loan portfolio at December 31, 2016
Small businesses	8,606,510,418	3.39	3	3,124	24	Gross loan portfolio at December 31, 2016
Mortgages	156,239,774	0.06	-	30	Between 4.66 and 10.66	Gross loan portfolio at December 31, 2016 to be applied according to the borrower's monthly household income
Tourism (b)	4,468,713,878	2.62	2.50	25	11.62	Average balance of the gross loan portfolio at December 31, 2016 and 2015
Manufacturing	23,302,462,735	9.17	8	53	18	Gross loan portfolio at December 31, 2016
December, 31 2016						
Activity	Balance maintained in bolivars	Earmarked %	Required %	Number of debtors	Maximum annual interest rate %	Calculation basis
Agriculture (a)	18,370,560,365	29.84	26	332	13	Average gross loan portfolio balance at December 31, 2015 and 2014
Small businesses	4,476,492,907	3.76	3	3,365	24	Gross loan portfolio at June 30, 2016
Mortgages	812,929,729	0.93	20	3,150	24	Gross loan portfolio at December 31, 2015 to be applied according to the borrower's monthly household income
Tourism (b)	3,596,394,138	5.84	5.25	27	11.62	Average balance of the gross loan portfolio at December 31, 2015 and 2014
Manufacturing	13,361,687,242	15.31	10	66	18	Gross loan portfolio at December 31, 2015

(a) At June 30, 2017, the Bank maintains an agricultural loan portfolio for Bs 59,523,580,446, agriculture bonds issued by the Venezuelan government for Bs 30,003,232 in Class "B" shares from Sociedad de Garantías Recíprocas para el Sector Agropecuario Forestal Pesquero y Afines, S.A. (SOGARSA). These shares are imputable to the agricultural loan portfolio compliance (Bs 18,189,840,880, Bs 180,689,485 and Bs 30,000, respectively, at December 31, 2016) (Note 5-a and b).

(b) At June 30, 2017 and December 31, 2016, the Bank maintains a tourism loan portfolio for Bs 4,449,142,478 and Bs 3,576,822,738, respectively, and Bs 19,571,400 in Class "B" shares from Sociedad de Garantías Recíprocas para la Pequeña y Mediana Empresa del Sector Turismo, S.A. (SOGATUR). These shares are imputable to the tourism loan portfolio compliance (Note 5-a).

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**7. Interest and commissions receivable**

Interest and commissions receivable comprise the following:

	June 30, 2017	December 31, 2016
	(In bolivars)	
<b>Interest receivable on investment securities</b>		
Available for sale, includes US\$235,144 (US\$228,542 at December 31, 2016) (Note 4)	428,394,693	222,738,822
Held to maturity, includes US\$171,128 (US\$254,415 at December 31, 2016) (Note 4)	155,344,500	169,957,952
Other securities	86,814,572	88,305,003
Deposits with the BCV and overnight deposits	<u>10,693,196</u>	<u>5,980,361</u>
	<u>681,246,961</u>	<u>486,982,138</u>
<b>Interest receivable on loan portfolio</b>		
Current, includes US\$11,039 (US\$2,389,318 at December 31, 2016) (Note 4)	2,485,770,737	1,773,931,624
Microcredits	73,601,837	41,772,425
Overdue, includes US\$1,225,206 (US\$32,001 at December 31, 2016) (Note 4)	54,005,199	17,678,634
Rescheduled	700,317	800,573
Agricultural	<u>58,853</u>	<u>71,415</u>
	<u>2,614,136,943</u>	<u>1,834,254,671</u>
<b>Commissions receivable</b>		
Trust fund (Note 20)	<u>10,730,569</u>	<u>6,806,482</u>
<b>Interest and commissions receivable on other accounts receivable</b>		
Interest receivable on resale agreements equivalent to US\$180,439 (Notes 9 and 4)	<u>1,799,882</u>	-
	3,307,914,355	2,328,043,291
Provision for interest receivable and other, includes US\$31,886 (US\$32,001 at December 31, 2016) (Note 4)	<u>(43,439,883)</u>	<u>(17,978,845)</u>
	<u>3,264,474,472</u>	<u>2,310,064,446</u>

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

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

	<u>Six-month periods ended</u> June 30, 2017	December 31, 2016
	(In bolivars)	
Balance at the beginning of the period	17,978,845	21,296,987
Provided in the period	52,018,418	17,430,500
Write-off of interest receivable on loans	(15,275,300)	(3,775,555)
Reclassification to provision for other assets (Note 11)	(51,750)	(51,750)
Reclassification to allowance for losses on loan portfolio (Note 6)	<u>(11,230,330)</u>	<u>(16,921,337)</u>
Balance at the end of the period	<u>43,439,883</u>	<u>17,978,845</u>

During the six-month periods ended June 30, 2017 and December 31, 2016, the Bank wrote off interest receivable of Bs 15,275,300 and Bs 3,775,555, respectively, against the provision for interest receivable and other.

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During the six-month period ended June 30, 2017, the Bank collected interest of Bs 11,175,977 written off in previous periods, shown in the income statement within income from financial assets recovered (Bs 3,538,860 during the six-month period ended December 31, 2016).

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

In October 2008, the Bank requested authorization from SUDEBAN to open a branch in Willemstad, Curacao. 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.

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.

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

**Balance sheet**

	<b>June 30, 2017</b>		<b>December 31, 2016</b>	
	<b>US\$</b>	<b>Equivalent in bolivars</b>	<b>US\$</b>	<b>Equivalent in bolivars</b>
<b>Assets</b>				
Cash and due from banks	16,916,146	168,738,556	23,095,577	230,378,380
Investment securities	29,396,921	293,234,287	25,144,037	250,811,769
Loan portfolio	1,843,630	18,390,209	2,227,774	22,222,045
Interest and commissions receivable	1,659,136	16,549,882	2,645,389	26,387,755
Available-for-sale assets	6,625,000	66,084,375	-	-
Property and equipment	23,516	234,572	26,457	263,909
Other assets	12,363	123,321	21,692	216,378
<b>Total assets</b>	<b>56,476,712</b>	<b>563,355,202</b>	<b>53,160,926</b>	<b>530,280,236</b>
<b>Liabilities and Equity</b>				
<b>Liabilities</b>				
Customer deposits	52,180,302	520,498,512	49,366,440	492,430,239
Interest and commissions payable	8,889	88,668	7,914	78,942
Accruals and other liabilities	2,649,448	26,428,244	2,397,438	23,914,444
	<b>54,838,639</b>	<b>547,015,424</b>	<b>51,771,792</b>	<b>516,423,625</b>
<b>Equity</b>				
Capital assigned	7,599,462	75,804,633	7,599,462	75,804,633
Capital reserves	1,777,332	17,728,887	1,617,129	16,130,862
Retained earnings	(7,088,478)	(70,707,568)	(7,729,292)	(77,099,688)
Unrealized loss on investments in available-for-sale securities	(650,243)	(6,486,174)	(98,165)	(979,196)
<b>Total equity</b>	<b>1,638,073</b>	<b>16,339,778</b>	<b>1,389,134</b>	<b>13,856,611</b>
<b>Total liabilities and equity</b>	<b>56,476,712</b>	<b>563,355,202</b>	<b>53,160,926</b>	<b>530,280,236</b>

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**Income statement**

	Six-month periods ended			
	June 30, 2017		December 31, 2017	
	US\$	Equivalent in bolivars	US\$	Equivalent in bolivars
Interest income	633,696	6,321,118	334,634	3,337,973
Interest expense	(57,636)	(574,919)	(59,122)	(589,742)
Expenses from uncollectible loans	(5,188)	(51,750)	(5,188)	(51,750)
Other operating income	1,002,476	9,999,693	263,036	2,623,783
Other operating expenses	(632,958)	(6,313,756)	(65,172)	(650,091)
Operating expenses	(138,401)	(1,380,550)	(146,508)	(1,461,417)
Sundry operating income	1,527	15,232	2,769	27,621
Income tax expense	(2,499)	(24,928)	(2,000)	(19,950)
Net loss for the period	<u>801,017</u>	<u>7,990,140</u>	<u>322,449</u>	<u>3,216,427</u>

At June 30, 2017 and December 31, 2016, the Branch's assets, liabilities and results were consolidated in the Bank's financial statements.

The equivalent amounts in bolivars shown in the above financial statements at June 30, 2017 and December 31, 2016 have been translated at the official exchange rate of Bs 9.975/US\$1 (Note 2-b).

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

At June 30, 2017, available-for-sale assets include the following securities received as payment:

	Acquisition cost	Book value	Fair value
	(In U.S. dollars)		
<b>Security issued or guaranteed by the Venezuelan government</b>			
Sovereign bonds in foreign currency, with a par value of US\$6,625,000, 9.25% annual yield, maturing in September 2025	<u>66,084,375</u>	<u>66,084,375</u>	<u>33,192,860</u> (1) - (a)

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

**Custodians of investments**

(a) Euroclear Bank, S.A.

During the six-month period ended June 30, 2017, interest income in respect of the asset received as payment amounted to US\$114,051, equivalent to Bs 1,137,662, shown in the income statement within income from available-for-sale assets. In addition, at June 30, 2017, yield receivable in connection with this security amounts to US\$180,439, equivalent to Bs 1,799,882, shown in the balance sheet within interest and commissions receivable (Note 7).

At June 30, 2017, available-for-sale-assets relate to the "Payment and release agreement" (the agreement) signed in April 2017 with the debtor Cargill de Venezuela, S.R.L., for collection of loans amounting to US\$5,255,348, equivalent to Bs 52,422,096 and related yield receivable of US\$1,393,835, equivalent to Bs 13,903,504, which were fully provided for and deferred, respectively. In this regard, the Bank received and recorded a security issued or guaranteed by the Bolivarian Republic of Venezuela, at its par value of US\$6,625,000, equivalent to Bs 66,084,375, since management intends to request SUDEBAN authorization for holding it to maturity. The fair value of this security at the date of the agreement was US\$3,442,350, equivalent to Bs 34,337,441 and yield receivable of US\$66,388, equivalent to Bs 662,220. In addition, on May 5, 2017, the Bank sent a request to SUDEBAN for authorization to release the provision for losses on loan portfolio amounting to US\$5,294,763, equivalent to Bs 52,815,261

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in connection with the aforementioned loans. This request included information on accounting records, the payment agreement and the special source of loans that led management to enter into the agreement. Accruals and other liabilities include US\$1,393,835 and US\$42,205, equivalent to Bs 13,903,504 and Bs 420,995, respectively, in connection with deferred income from the loan collected and the difference between the security received as payment and the amount of the loan and interest, respectively. To date, management is awaiting a response and comments from the regulatory entity about this transaction, so as to make the necessary adjustments on the Bank's financial statements.

At June 30, 2017 and December 31, 2016, the Bank has withdrawn available-for-sale assets for Bs 17,662,247, respectively, shown in other memorandum accounts under personal and real property written off since they are overdue for more than 3 years (Note 20).

**10. Property and equipment**

Property and equipment comprises the following:

	Useful life (years)	June 30, 2017			December 31, 2016		
		Cost	Accumulated depreciation	Net	Cost	Accumulated depreciation	Net
(In bolivars)							
Land		6,143,574,917	-	6,143,574,917	109,582,657	-	109,582,657
Buildings and facilities	40	30,145,286,707	(358,919,032)	29,786,367,675	7,532,125,059	(214,626,697)	7,317,498,362
Computer hardware, includes US\$17,441 (US\$19,665 at December 31, 2016) (Note 4)	4	3,968,332,111	(1,130,439,915)	2,837,892,196	3,048,467,358	(709,494,363)	2,338,972,995
Furniture and equipment, includes US\$6,075 (US\$6,792 at December 31, 2016) (Note 4)	Between 4 and 10	4,534,526,006	(556,552,345)	3,977,973,661	2,586,688,306	(380,419,813)	2,206,268,493
Vehicles	5	118,011,185	(28,470,159)	89,541,026	118,200,983	(17,083,991)	101,116,992
Equipment for Chip project	10	8,700,969	(4,716,105)	3,984,864	8,700,969	(4,281,056)	4,419,913
Construction in progress		<u>1,878,045,148</u>	<u>-</u>	<u>1,878,045,148</u>	<u>502,865,975</u>	<u>-</u>	<u>502,865,975</u>
		46,796,477,043	(2,079,097,556)	44,717,379,487	13,906,631,307	(1,325,905,920)	12,580,725,387
Other property		<u>16,482,413</u>	<u>-</u>	<u>16,482,413</u>	<u>16,482,413</u>	<u>-</u>	<u>16,482,413</u>
		<u>46,812,959,456</u>	<u>(2,079,097,556)</u>	<u>44,733,861,900</u>	<u>13,923,113,720</u>	<u>(1,325,905,920)</u>	<u>12,597,207,800</u>

At June 30, 2017 and December 31, 2016, the balance of construction in progress is in respect of construction and remodeling work to the Bank's main office and to existing and new agencies, which is in compliance with the Accounting Manual.

Below is the movement in property and equipment for the six-month periods ended June 30, 2017 and December 31, 2016:

	Balances at December 31, 2016	Additions	Revaluation	Disposals	Capitalizations	Balances at June 30, 2017
(In bolivars)						
<b>Cost</b>						
Land	109,582,657	6,033,992,260	-	-	-	6,143,574,917
Buildings and facilities	7,532,125,059	337,224,508	21,925,209,597	-	350,727,543	30,145,286,707
Computer hardware	3,048,467,358	934,295,152	-	(14,430,399)	-	3,968,332,111
Furniture and equipment	2,586,688,306	1,953,751,890	-	(5,914,190)	-	4,534,526,006
Vehicles	118,200,983	-	-	(189,798)	-	118,011,185
Equipment for Chip project	8,700,969	-	-	-	-	8,700,969
Construction in progress	502,865,975	1,729,475,556	-	(3,568,840)	(350,727,543)	1,878,045,148
Other property	<u>16,482,413</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,482,413</u>
	<u>13,923,113,720</u>	<u>10,988,739,366</u>	<u>21,925,209,597</u>	<u>(24,103,227)</u>	<u>-</u>	<u>46,812,959,456</u>
<b>Accumulated depreciation</b>						
Buildings and facilities	214,626,697	98,614,815	45,677,520	-	-	358,919,032
Computer hardware	709,494,363	422,266,803	-	(1,321,251)	-	1,130,439,915
Furniture and equipment	380,419,813	178,070,764	-	(1,938,232)	-	556,552,345
Vehicles	17,083,991	11,575,966	-	(189,798)	-	28,470,159
Equipment for Chip project	<u>4,281,056</u>	<u>435,049</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,716,105</u>
	<u>1,325,905,920</u>	<u>710,963,397</u>	<u>45,677,520</u>	<u>(3,449,281)</u>	<u>-</u>	<u>2,079,097,556</u>
	<u>12,597,207,800</u>					<u>44,733,861,900</u>

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	Balances at June 30, 2016	Additions	Revaluation (In bolivars)	Disposal	Capitalizations	Balances at December 31, 2016
<b>Cost</b>						
Land	109,582,657	-	-	-	-	109,582,657
Buildings and facilities	5,988,152,162	1,240,974,410	-	-	302,998,487	7,532,125,059
Computer hardware	2,172,169,066	887,235,963	-	(10,937,671)	-	3,048,467,358
Furniture and equipment	1,636,329,218	953,462,958	-	(3,103,870)	-	2,586,688,306
Vehicles	81,439,383	37,600,000	-	(838,400)	-	118,200,983
Equipment for Chip project	8,700,969	-	-	-	-	8,700,969
Construction in progress	66,853,529	745,824,761	-	(6,813,828)	(302,998,487)	502,865,975
Other property	16,482,413	-	-	-	-	16,482,413
	<u>10,079,709,397</u>	<u>3,865,098,092</u>	<u>-</u>	<u>(21,693,769)</u>	<u>-</u>	<u>13,923,113,720</u>
<b>Accumulated depreciation</b>						
Buildings and facilities	130,811,385	83,815,312	-	-	-	214,626,697
Computer hardware	404,372,454	312,197,616	-	(7,075,707)	-	709,494,363
Furniture and equipment	264,809,335	116,681,349	-	(1,070,871)	-	380,419,813
Vehicles	7,261,146	10,374,525	-	(551,680)	-	17,083,991
Equipment for Chip project	3,846,008	435,048	-	-	-	4,281,056
	<u>811,100,328</u>	<u>523,503,850</u>	<u>-</u>	<u>(8,698,258)</u>	<u>-</u>	<u>1,325,905,920</u>
	<u>9,268,609,069</u>					<u>12,597,207,800</u>

During the six-month period ended June 30, 2017, the Bank recorded depreciation expense of Bs 756,640,917 (Bs 523,503,850 during the six-month period ended December 31, 2016), shown in the income statement under general and administrative expenses (Note 19).

During the six-month period ended June 30, 2017, to comply with SUDEBAN Resolution No. 025.17 of March 28, 2017, the Bank hired an independent appraiser certified by this entity to conduct an appraisal of the Bank's Main Office and Corporate Office (Altamira), and record these assets at their revalued amounts. The accounting effect of this appraisal on the Bank's financial statements, upon consideration of the parameters set by SUDEBAN, was an increase in property and equipment of Bs 21,925,209,597, with a charge to the equity account adjustment from revaluation of property and equipment.

## 11. Other assets

Other assets comprise the following:

	June 30, 2017	December 31, 2016
	(In bolivars)	
<b>Deferred expenses</b>		
Leasehold improvements, net of amortization	555,569,497	1,200,633,418
Deferred loss on mortgage loans to companies whose real property was subject to intervention from the Venezuelan government (Note 6)	408,918,233	431,848,227
Licenses, includes US\$11,703 and €63 (US\$25,523 and €234 at December 31, 2016) (Note 4)	120,662,066	189,605,854
Operating system (software), includes US\$20,269 (US\$34,218 at December 31, 2016) (Note 4)	93,457,104	26,933,343
Other deferred expenses	-	1,249,516
	<u>1,178,606,900</u>	<u>1,850,270,358</u>
Advances on purchase options on premises owned by the Bank	6,773,607,039	6,670,447,034
Advances to suppliers	3,852,013,688	1,935,954,880
Prepaid taxes and subscriptions (Note 16)	2,015,794,736	897,996,414
Inventories of chip credit and debit cards	1,312,775,607	187,116,358
Stationery and sundry supplies	1,122,231,286	749,879,528
Deferred tax asset (Note 16)	891,343,284	440,908,026
Other prepaid expenses, includes US\$552,220 (US\$146,244 at December 31, 2016) (Note 4)	690,260,575	467,284,572
Other sundry accounts receivable, includes US\$12,737 and €15,000 (US\$191,707 at December 31, 2016) (Note 4)	414,754,718	133,372,706
Credit card-related accounts receivable and balance offsettings	142,478,633	173,516,641
Contribution under the Law for the Advancement of Science, Technology and Innovation (Note 1)	119,556,982	-
Bank insurance	110,605,915	176,943,805
Claims	27,144,621	-
Guarantee deposits, includes US\$4,675 (Note 4)	16,636,582	9,346,582
Accounts receivable from employees	13,750,099	18,612,296
Matured financial instruments receivable, equivalent to US\$31,125 (US\$25,938 at December 31, 2016) (Note 4)	310,472	258,727
Accounts receivable from the Mandatory Housing Savings Fund	-	18,841
Pending items	<u>173,521,268</u>	<u>250,378,281</u>
	<u>18,855,392,405</u>	<u>13,962,305,049</u>
Provision for other assets, includes US\$31,125 (US\$25,937 at December 31, 2016) (Note 4)	<u>(177,679,133)</u>	<u>(92,368,067)</u>
	<u>18,677,713,272</u>	<u>13,869,936,982</u>



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At June 30, 2017, advances for purchase options on premises owned by the Bank were granted to purchase administrative offices and bank agencies for Bs 6,136,824,915 and Bs 636,782,124, respectively (Bs 6,136,824,915 and Bs 533,622,119 to purchase administrative offices and bank agencies at December 31, 2016).

At June 30, 2017 and December 31, 2016, advances to suppliers of Bs 3,852,013,688 and Bs 1,935,954,880, respectively, relate mainly to purchases of equipment, teller machines and remodeling of agencies and the administrative headquarters.

At June 30, 2017, stationery and sundry supplies include stationery for Bs 550,843,527, office supplies for Bs 517,701,698 and cleaning and other supplies for Bs 53,686,061 (Bs 366,887,567, Bs 335,577,408 and Bs 47,414,553, respectively, at December 31, 2016).

At June 30, 2017, other prepaid expenses include Bs 173,094,228 for advertising and marketing, Bs 124,798,934 for purchase of software licenses, Bs 134,849,107 for insurance policies, and Bs 257,518,306 for other prepaid expenses (Bs 305,901,259, Bs 23,056,957, Bs 44,795,419 and Bs 93,530,937, respectively, at December 31, 2016).

At June 30, 2017 and December 31, 2016, other sundry accounts receivable relate mainly to uniforms for Bs 121,054,274 and Bs 20,581,514, respectively; accounts receivable from employees in connection with insurance policies and reimbursable expenses of Bs 68,853,468 and Bs 17,263,615, respectively; claims and in-transit operations for debit and credit card transactions of Bs 56,785,994 and Bs 51,868,723, respectively, and other accounts receivable for Bs 1,189,966 and Bs 1,128,795, respectively. Furthermore, at June 30, 2017 and December 31, 2016, other sundry accounts receivable include Bs 10,502,678 and Bs 4,878,459, respectively, in connection with tax on financial transactions reimbursed to tax exempt clients, withheld by the Bank and paid to the Tax Authorities, and taxes withheld from third parties, for which the Bank maintains a provision of Bs 5,961,155 at June 30, 2017 (Bs 2,219,293 at December 31, 2016), shown as part of the provision for other assets. At June 30, 2017 and December 31, 2016, other sundry accounts receivable include Bs 156,368,338 and Bs 37,651,600 for recovery processing of assets to be submitted to the insurance Company.

Through a joint resolution issued on July 29, 2011, the People's Power Ministry for Planning and Finance and the People's Power Ministry for Communes and Social Protection established 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 2017 and July 2016, the Bank paid Bs 347,026,100 and Bs 116,584,361, respectively, in this connection (Note 18).

Deferred expenses comprise the following:

	June 30, 2017			December 31, 2016		
	Cost	Accumulated amortization	Book value	Cost	Accumulated amortization	Book value
(In bolivars)						
Leasehold improvements	714,494,314	(158,924,817)	555,569,497	1,319,301,591	(118,668,173)	1,200,633,418
Licenses, includes US\$11,766 (US\$25,769 at December 31, 2016) (Note 4)	334,012,234	(213,350,168)	120,662,066	301,268,799	(111,662,945)	189,605,854
Operating system (software), includes US\$20,269 (US\$34,218 at December 31, 2016) (Note 4)	125,638,281	(32,181,177)	93,457,104	53,344,129	(26,410,786)	26,933,343
Deferred loss on mortgage loans to companies whose real property was subject to intervention from the Venezuelan government	458,599,887	(49,681,654)	408,918,233	458,599,887	(26,751,660)	431,848,227
Other deferred expenses	-	-	-	9,315,566	(8,066,050)	1,249,516
	<u>1,632,744,716</u>	<u>(454,137,816)</u>	<u>1,178,606,900</u>	<u>2,141,829,972</u>	<u>(291,559,614)</u>	<u>1,850,270,358</u>

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Below is the movement in deferred expenses for the six-month periods ended June 30, 2017 and December 31, 2016:

	Balances at December 31, 2016	Additions	Disposals	Balances at June 30, 2017
		(In bolivars)		
<b>Cost</b>				
Leasehold improvements	1,319,301,591	417,265,775	(1,022,073,052)	714,494,314
Licenses	301,268,799	78,541,024	(45,797,589)	334,012,234
Operating system (software)	53,344,129	90,845,176	(18,551,024)	125,638,281
Deferred loss on mortgage loans to companies whose real property was subject to intervention from the Venezuelan government	458,599,887	-	-	458,599,887
Other deferred expenses	<u>9,315,566</u>	<u>-</u>	<u>(9,315,566)</u>	<u>-</u>
	<u>2,141,829,972</u>	<u>586,651,975</u>	<u>(1,095,737,231)</u>	<u>1,632,744,716</u>
<b>Accumulated amortization</b>				
Leasehold improvements	118,668,173	65,187,913	(24,931,269)	158,924,817
Licenses	111,662,945	147,484,812	(45,797,589)	213,350,168
Operating system (software)	26,410,786	24,321,415	(18,551,024)	32,181,177
Deferred loss on mortgage loans to companies whose real property was subject to intervention from the Venezuelan government	26,751,660	22,929,994	-	49,681,654
Other deferred expenses	<u>8,066,050</u>	<u>1,249,516</u>	<u>(9,315,566)</u>	<u>-</u>
	<u>291,559,614</u>	<u>261,173,650</u>	<u>(98,595,448)</u>	<u>454,137,816</u>
	<u>1,850,270,358</u>			<u>1,178,606,900</u>
	Balances at June 30, 2016	Additions	Disposals	Balances at December 31, 2016
		(In bolivars)		
<b>Cost</b>				
Leasehold improvements	405,783,600	928,290,550	(14,772,559)	1,319,301,591
Chip project expenses	468,236	-	(468,236)	-
Licenses	106,462,104	238,283,853	(43,477,158)	301,268,799
Operating system (software)	44,566,593	28,608,092	(19,830,556)	53,344,129
Deferred loss on mortgage loans to companies whose real property was subject to intervention from the Venezuelan government	458,599,887	-	-	458,599,887
Other deferred expenses	<u>9,315,566</u>	<u>-</u>	<u>-</u>	<u>9,315,566</u>
	<u>1,025,195,986</u>	<u>1,195,182,495</u>	<u>(78,548,509)</u>	<u>2,141,829,972</u>
<b>Accumulated amortization</b>				
Leasehold improvements	95,028,360	38,412,372	(14,772,559)	118,668,173
Chip project expenses	448,726	19,510	(468,236)	-
Licenses	62,746,077	92,394,026	(43,477,158)	111,662,945
Operating system (software)	25,582,657	20,658,685	(19,830,556)	26,410,786
Deferred loss on mortgage loans to companies whose real property was subject to intervention from the Venezuelan government	3,821,666	22,929,994	-	26,751,660
Other deferred expenses	<u>4,376,300</u>	<u>3,689,750</u>	<u>-</u>	<u>8,066,050</u>
	<u>192,003,786</u>	<u>178,104,337</u>	<u>(78,548,509)</u>	<u>291,559,614</u>
	<u>833,192,200</u>			<u>1,850,270,358</u>

Leasehold improvements include additions in the first semester of 2017 for Bs 417,265,775 (Bs 928,290,550 during the six-month period ended December 31, 2016) mainly in respect of improvements to the Bank's agencies.

The additions to licenses are mainly in respect of purchases of licenses for administration of credit card operations.

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During the six-month period ended June 30, 2017, the Bank recorded amortization of deferred expenses of Bs 261,173,310 (Bs 178,104,337 during the six-month period ended December 31, 2016), shown in the income statement under general and administrative expenses (Note 19).

The balance of pending items comprises the following:

	June 30, 2017	December 31, 2016
	(In bolivars)	
In-transit operations	165,573,431	46,215,387
Internet deposit remittances	2,493,909	166,392
Teller machines and remittances in foreign currency	2,030,876	192,690,188
Difference in exchange for credit cards	1,971,051	7,137,408
Cash shortages	831,379	3,805,138
Other pending items	<u>620,622</u>	<u>363,768</u>
	<u>173,521,268</u>	<u>250,378,281</u>

At June 30, 2017 and December 31, 2016, in-transit operations in respect of internet deposit remittances amounting to Bs 165,573,431 and Bs 46,215,387, respectively, relate to in-transit cash remittances from customer deposits, which clear in the first days of July and January 2017, respectively.

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.

Below is the movement in the provision for other assets:

	<u>Six-month periods ended</u>	
	June 30, 2017	December 31, 2016
	(In bolivars)	
Balance at the beginning of the period	92,368,067	68,553,904
Provided in the period (Note 18)	87,000,000	28,950,000
Reclassification of interest receivable (Note 7)	51,750	51,750
Write-offs of unrecoverable accounts	<u>(1,740,684)</u>	<u>(5,187,587)</u>
Balance at the end of the period	<u>177,679,133</u>	<u>92,368,067</u>

## **12. Customer deposits**

Customer deposits comprise the following:

	June 30, 2017	December 31, 2016
	(In bolivars)	
<b>Checking account deposits and certificates</b>		
Non-interest-bearing checking accounts	531,678,197,406	259,209,188,703
Interest-bearing checking accounts	90,875,015,545	38,480,601,119
Checking accounts under Exchange Agreement No. 20, equivalent to US\$2,441,782 (US\$1,974,751 at December 31, 2016) (Note 4)	24,356,774	19,698,142
<b>Demand deposits and certificates</b>		
Non-negotiable demand deposits, bearing annual interest between 1% and 9%, maturing in January 2017	93,908,579,431	33,057,180,357
Public, State and Municipal Administration	<u>9,305,009,229</u>	<u>3,136,130,676</u>
	<u>725,791,158,385</u>	<u>333,902,798,997</u>

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	June 30, 2017	December 31, 2016
	(In bolivars)	
<b>Other demand deposits</b>		
Cashier's checks	5,815,565,597	3,315,421,836
Trust fund liabilities (Note 20)	957,767,928	1,504,365,388
Advance collections from credit card holders	74,928,688	75,880,092
Housing Savings Fund liabilities (Note 20)	10,054,302	2,676,717
Advance deposits for letters of credit	-	565
	<u>6,858,316,515</u>	<u>4,898,344,598</u>
 Savings deposits, bearing 16% annual interest for savings deposits for individuals with daily balances under Bs 20,000, 12.50% for other deposits in bolivars, and 0.125% for deposits in U.S. dollars, includes US\$41,877,796 and €3,624,229 (US\$41,245,709 and €1,609,516 at December 31, 2016) (Note 4)	 <u>115,047,772,930</u>	 <u>74,466,214,997</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\$3,749,559 (US\$4,990,313 at December 31, 2016), with the following maturities (Note 4)		
Up to 30 days	2,858,847,152	4,798,584,279
31 to 60 days	1,999,317,658	1,672,519,758
61 to 90 days	4,715,657,709	2,371,770,635
91 to 180 days	542,655,431	209,603,657
181 to 360 days	35,996,084	11,998,000
Over 361 days	<u>1,200,000</u>	<u>2,650,000</u>
	<u>10,153,674,034</u>	<u>9,067,126,329</u>
 Restricted customer deposits, includes US\$1,355,000 and €900,000 (US\$1,355,000 at December 31, 2016) (Note 4)	 <u>23,768,430</u>	 <u>13,516,125</u>
	<u>857,874,690,294</u>	<u>422,348,001,046</u>

At June 30, 2017 and December 31, 2016, restricted customer deposits correspond to guarantee deposits for loans granted by the Branch. At June 30, 2017 and December 31, 2016, the Branch has a guarantee on these deposits, which has been correctly set up.

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

	June, 30 2017	December 31, 2016
	(In bolivars)	
Non-interest-bearing checking accounts	23,080,140,136	8,752,518,467
Non-negotiable demand deposits	9,305,009,229	3,136,130,676
Interest-bearing checking accounts, at 0.25% annual interest	9,184,916,182	3,527,930,120
Savings deposits, at 12.5% annual interest	4,279,251,963	4,584,061,702
Time deposits, at 14.5% annual interest	<u>3,332,689,410</u>	<u>253,233,690</u>
	<u>49,182,006,920</u>	<u>20,253,874,655</u>

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**13. Borrowings**

Borrowings comprise the following:

	June 30, 2017	December 31, 2016
	(In bolivars)	
<b>Borrowings from Venezuelan financial institutions, up to one year</b>		
Demand deposits		
Non-interest bearing checking account with Bancrerer, Banco Microfinanciero, C.A.	47,439,087	-
Non-interest bearing checking account with Mi Banco, Banco Microfinanciero, C.A.	8,024,428	4,102,454
Non-interest bearing checking account with Banplus, Banco Universal, C.A.	41,723	41,777
Certificate of deposit with Banco de Comercio Exterior (BANCOEX), maturing in January 2017, with annual interest at between 6% and 7.5%	<u>-</u>	<u>78,502,079</u>
	<u>55,505,238</u>	<u>82,646,310</u>
<b>Borrowings from foreign financial institutions, up to one year</b>		
Demand deposits		
Checking account with BNC International Banking Corporation, at 0.25% per annum (Note 23)	10,257,778	144,102
Non-interest bearing checking account with Arca International Bank, Inc.	1,226,158	-
Non-interest bearing checking account with Bancaribe Curacao Bank, N.V.	<u>626,695</u>	<u>626,694</u>
	<u>12,110,631</u>	<u>770,796</u>
	<u>67,615,869</u>	<u>83,417,106</u>

Through Resolution No. 113.14 of August 13, 2014, SUDEBAN set interbank deposit limits, which should be the lower amount resulting from comparing 10% of the total equity of the placing financial institution at the previous month end with 10% of the total equity of the receiving financial institution at the previous month end.

**14. Interest and commissions payable**

Interest and commissions payable comprise the following:

	June 30, 2017	December 31, 2016
	(In bolivars)	
<b>Expenses payable on customer deposits</b>		
Non-negotiable demand deposits	111,031,343	90,758,925
Time deposits, includes US\$8,889 (US\$7,914 at December 31, 2016) (Note 4)	77,089,794	87,548,376
Deposits in interest-bearing checking accounts	<u>4,844,134</u>	<u>1,169,897</u>
	192,965,271	179,477,198
<b>Expenses payable on borrowings</b>		
Expenses payable on borrowings	<u>-</u>	<u>123,393</u>
	<u>192,965,271</u>	<u>179,600,591</u>

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**15. Accruals and other liabilities**

Accruals and other liabilities comprise the following:

	June 30, 2017	December 31, 2016
	(In bolivars)	
Pending items, includes US\$21,000 (Note 4)	11,312,581,391	4,957,767,294
Income tax provision, includes US\$2,131 (US\$4,175 at December 31, 2016) (Notes 4 and 16)	8,127,773,227	3,115,881,331
Accrual for length-of-service benefits (Note 2-j)	3,447,388,056	840,775,191
Deferred interest income, includes US\$2,624,915 (US\$2,385,879 at December 31, 2016) (Notes 2-k and 4)	3,282,633,917	1,115,863,278
Withholding tax, includes US\$1,415 (Note 4)	1,455,635,847	748,221,711
Suppliers and other sundry payables, includes US\$18,051 (US\$1,559 at December 31, 2016) (Note 4)	1,180,376,207	726,414,793
Tax on economic activities and other taxes payable (Note 16)	979,781,906	442,012,978
Vacations and vacation bonus payable, includes US\$1,675 (US\$3,148 at December 31, 2016) (Notes 2-j and 4)	736,487,924	186,074,465
Profit sharing (Note 2-j)	569,627,642	-
Fees for credit and debit card services	466,163,599	293,273,831
Cashier's checks	239,613,754	166,179,719
Contribution for the prevention of money laundering and terrorism financing	206,773,294	97,009,917
Leases	173,632,963	74,861,449
Sports and Physical Education Law (Note 1)	142,144,408	62,022,156
Labor contributions and withholdings payable, includes US\$1,261 (Note 4)	135,190,050	48,555,494
Professional fees payable	105,442,675	64,815,863
Other personnel expenses	105,109,573	5,061,094
Other provisions	96,664,524	82,420,650
Ezequiel Zamora Fund withholdings	89,682,995	7,476,608
Audit provision	60,000,000	19,040,000
Accounts payable in foreign currency, equivalent to US\$3,482,858 and €9,161 (US\$3,234,885 at December 31, 2016) (Note 4)	34,845,868	32,267,984
Provision for contingent loans (Note 20)	2,036,665	2,067,662
Advertising payable	994,321	497,162
Other	11,665,996	2,489,148
	<u>32,962,246,802</u>	<u>13,091,049,778</u>

Deferred interest income mainly relates to loan interest collected in advance and yield on loan portfolio with a collection term over 6 months, commissions and gain on sale of deferred securities.

At June 30, 2017 and December 31, 2016, other provisions include Bs 14,962,500, equivalent to US\$1,500,000, in connection with accounts payable to CADIVI (currently CENCOEX) on credit card transactions abroad from 2006 to 2009 and the first 10 days of January 2010, according to communication PREVECPGSCO-00001 of January 2, 2012, received from CADIVI. On May 28 and November 9, 2012, May 22 and September 30, 2013, June 5, 2015 and October 24, 2016, the Bank has reiterated its request to the BCV for renewal of the authorization to sell foreign currency. At June 30, 2017, the Bank is awaiting for the respective authorizations from the BCV to sell foreign currency.

Furthermore, other provisions at June 30, 2017 and December 31, 2016, include a provision for municipal taxes, fines and interest of Bs 7,971,586. At June 30, 2017 and December 31, 2016, include Bs 26,296,347 and Bs 12,294,482, respectively, in connection with other provisions; at June 30, 2017 and December 31, 2016, it includes a provision for money laundering prevention projects for Bs 4,910,355 and Bs 4,668,346, respectively. Through Notice SIB-II-GGIBPV-GIBPV4-10112 of April 6, 2016, SUDEBAN ordered the Bank to cease its practice to pay interest on contributions pending capitalization; however, to avoid reversals in the aforementioned accrual, SUDEBAN ordered to maintain this liability, which at January 2016 amounted to Bs 47,146,007, to cover possible future contingencies. At June 30, 2017 and December 31, 2016, the Bank maintains Bs 42,523,736 in this connection.

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At June 30, 2017 and December 31, 2016, fees for credit and debit card services of Bs 466,163,599 and Bs 293,273,831, respectively, mainly correspond to fees for the use of the VISA, Maestro, MasterCard and Suiche 7B trademarks and to point-of-sale and teller machine transactions. At June 30, 2017 and December 31, 2016, the Bank recorded expenses in this connection of Bs 2,123,520,813 and Bs 1,173,083,817, respectively, included within service fees under other operating expenses (Note 18).

At June 30, 2017 and December 31, 2016, accounts payable in foreign currency are mainly in respect of interest payable to clients for intermediation of securities in foreign currency. The Bank pays interest to customers on a monthly basis. In case customer information available is not sufficient to complete the transfers, the Bank issues an annual press release informing such customers of the situation.

At June 30, 2017 and December 31, 2016, suppliers and other sundry payables are mainly in respect of accounts payable for services of Bs 986,581,352 and Bs 508,686,646, respectively, pending claims, returns and credit cards of Bs 167,803,332 and Bs 204,238,767, respectively, and other accounts payable of Bs 25,991,523 and Bs 13,489,380, respectively.

Below is the movement in the provision for contingent loans:

	<b>Six-month periods ended</b>	
	<b>June 30, 2017</b>	<b>December 31, 2016</b>
	(In bolivars)	
Balance at the beginning of the period	2,067,662	2,653,400
Provided for the period	402,134	13,112
Reclassification to allowance for losses on loan portfolio (Note 6)	<u>(433,131)</u>	<u>(598,850)</u>
Balance at the end of the period	<u>2,036,665</u>	<u>2,067,662</u>

The balance of pending items comprises the following:

	<b>June 30, 2017</b>	<b>December 31, 2016</b>
	(In bolivars)	
Point-of-sale transactions payable	9,330,943,051	4,219,932,755
Collection of government and municipal taxes	1,306,082,187	437,191,936
Other pending items	371,865,374	85,960,406
Suiche 7B transactions payable	184,514,400	162,490,648
Commissions to the Central Bank of Venezuela	69,534,811	32,769,783
Credit card transactions	24,241,040	-
Difference in exchange for credit cards	16,778,186	7,222,711
Automatic voucher differences	4,259,578	665,209
Cash surplus	4,153,289	11,324,371
In-transit operations through SICAD, equivalent to US\$21,000 (Note 4)	<u>209,475</u>	<u>209,475</u>
	<u>11,312,581,391</u>	<u>4,957,767,294</u>

At June 30, 2017 and December 31, 2016, point-of-sale transactions payable correspond to the use of points of sale of other financial institutions by Bank customers. Most of these transactions clear in the month following period closing.

At June 30, 2017 and December 31, 2016, collection of government and municipal taxes includes national and municipal taxes paid by individuals and corporations to the Tax Authorities between July 6 and 7, 2017 and January 2, 2017, respectively.

Suiche 7B transactions payable correspond to cash withdrawals from teller machines of other financial institutions by Bank customers. Most of these transactions clear in the month following period closing.

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At June 30, 2017 and December 31, 2016, in-transit operations through SICAD for Bs 209,475 relate to foreign currency trading pending liquidation to individuals awarded in BCV's auctions.

**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 a reconciliation between book income and net tax loss for the six-month period ended June 30, 2017:

	(In bolivars)
Statutory tax rate (%)	<u>40</u>
Book income before tax	20,020,145,767
<b>Difference between book income and taxable income</b>	
Effect of the annual inflation adjustment	(53,430,821)
Other provisions	352,878,365
Loan portfolio, net	50,443,299
Interest on loan portfolio and other	40,737,476
Other assets	85,259,324
Tax-exempt income, net of related expenses	(1,033,276,057)
Social contributions	59,928,510
Municipal taxes	525,525,609
Other effects, net	<u>197,067,952</u>
Tax debt in Venezuela	20,245,279,424
Taxable income from foreign source	<u>4,720,576</u>
	<u>20,250,000,000</u>
Income tax expense in Venezuela	<u>8,100,000,000</u>

For the six-month periods ended June 30, 2017 and December 31, 2016, the Bank computed income tax expense in Venezuela of Bs 8,100,000,000 and Bs 2,479,711,785, respectively.

During the six-month period ended June 30, 2017, the Branch recorded estimated income tax expense of US\$2,499 (US\$2,000 during the six-month period ended December 31, 2016). 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).



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The tax expense comprises the following:

	<b>Six-month periods ended</b>	
	<b>June 30, 2017</b>	<b>December 31, 2016</b>
	(In bolivars)	
<b>Income tax</b>		
Current	8,100,024,919	2,479,731,735
Deferred	<u>(450,435,258)</u>	<u>(465,434,509)</u>
	<u>7,649,589,661</u>	<u>2,014,297,226</u>

At June 30, 2017 and December 31, 2016, the Bank maintains an income tax provision of Bs 8,127,773,227 and Bs 3,115,881,331, respectively, which includes US\$2,131 and US\$4,175, respectively, in connection with the Branch (Note 15). In addition, at June 30, 2017 and December 31, 2016, the Bank has prepaid income tax amounting to Bs 1,855,035,060 and Bs 874,049,476, 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 asset in its financial statements when there is reasonable expectation that future tax results will allow its realization. Furthermore, the Accounting Manual establishes, among other things, that the Bank may not recognize a deferred tax asset 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 June 30, 2017 and December 31, 2016 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 June 30, 2017, the Bank maintains a deferred tax asset of Bs 891,343,284, included under other assets (Bs 440,908,026 at December 31, 2016) (Note 11).

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

	<b>June 30, 2017</b>	<b>December 31, 2016</b>
	(In bolivars)	
<b>Assets</b>		
Inflation adjustment for tax purposes pending amortization on property and equipment	432,516,778	379,888,306
Other provisions and accruals	670,845,336	275,810,847
Allowance for losses on loan portfolio and provision for interest receivable	<u>126,599,912</u>	<u>30,505,364</u>
	<u>1,229,962,026</u>	<u>686,204,517</u>
<b>Liabilities</b>		
Deferred losses on mortgage loans	164,370,782	143,658,521
Prepaid expenses	<u>174,247,960</u>	<u>101,637,970</u>
	<u>338,618,742</u>	<u>245,296,491</u>
Deferred income tax asset	<u>891,343,284</u>	<u>440,908,026</u>

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The movements in the deferred income tax asset accounts for the six-month periods ended June 30, 2017 and December 31, 2016 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 (In bolivars)	Deferred losses on mortgage loans	Prepaid expenses	Total deferred tax asset (liability)
At June 30, 2016	-	116,196,997	7,803,968	(136,160,599)	(12,366,849)	(24,526,483)
Charged (credited) to the income statement	<u>379,888,306</u>	<u>159,613,850</u>	<u>22,701,396</u>	<u>(7,497,922)</u>	<u>(89,271,121)</u>	<u>465,434,509</u>
At December 31, 2016	379,888,306	275,810,847	30,505,364	(143,658,521)	(101,637,970)	440,908,026
Charged (credited) to the income statement	<u>52,628,472</u>	<u>395,034,489</u>	<u>96,094,548</u>	<u>(20,712,261)</u>	<u>(72,609,990)</u>	<u>450,435,258</u>
At June 30, 2017	<u>432,516,778</u>	<u>670,845,336</u>	<u>126,599,912</u>	<u>(164,370,782)</u>	<u>(174,247,960)</u>	<u>891,343,284</u>

**c) Transfer pricing**

According to transfer-pricing regulations, taxpayers that conduct transactions with related parties abroad are required to calculate income, costs and deductions applying the methodology set out in the Law. The Bank conducts transactions with related parties abroad. In June 2017, the Bank filed the transfer pricing return (PT-99) for information purposes at December 31, 2016.

**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 June 30, 2017 and December 31, 2016, the Bank recorded a tax expense of Bs 1,519,392,505 and Bs 586,024,307, respectively, in connection with the economic activities conducted in its offices nationwide, shown under general and administrative expenses (Note 19). At June 30, 2017, the balance pending payment in this connection amounts to Bs 950,378,456 (Bs 424,852,847 at December 31, 2016), and is shown under accruals and other liabilities within tax on economic activities and other taxes payable (Note 15).

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

On December 30, 2015, the Venezuelan government enacted the Law on Tax on Large Financial Transactions, whose tax rate is 0.75% applicable to operations made by incorporated and unincorporated entities that have been qualified by Seniat's System for Liquidation and Self-liquidation of Customs Duties as special taxpayers and by incorporated and unincorporated entities legally bound to them or that make payments on their behalf. Similarly, Venezuelan banks and financial institutions also pay this tax based on the transactions laid down in the aforementioned Law that give rise to such payment. This tax is effective as from February 1, 2016. During the six-month period ended June 30, 2017, the Bank recognized expenses of Bs 272,609,278 in this connection (Bs 150,999,562 during the six-month period ended December 31, 2016), shown under general and administrative expenses (Note 19).

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**17. Other operating income**

Other operating income comprises the following:

	<b>Six-month periods ended</b>	
	<b>June 30, 2017</b>	<b>December 31, 2016</b>
	(In bolivars)	
Service fees (Notes 2-k and 6)	8,597,637,501	5,002,368,599
Commissions on trust funds (Note 20)	59,239,825	36,706,163
Gain on sale of investments in available-for-sale securities (Note 5-a)	11,337,614	130,584,560
Exchange gain (Note 4)	2,924,807	666,724
Income from amortization of discount on held-to-maturity investments	820,020	857,844
	<u>8,671,959,767</u>	<u>5,171,183,890</u>

Sundry operating income comprises the following:

	<b>Six-month periods ended</b>	
	<b>June 30, 2017</b>	<b>December 31, 2016</b>
	(In bolivars)	
Other	17,036,236	16,508,320
Income from expenses recovered	<u>10,398,847</u>	<u>12,252,802</u>
	27,435,083	28,761,122

**18. Other operating expenses**

Other operating expenses comprise the following:

	<b>Six-month periods ended</b>	
	<b>June 30, 2017</b>	<b>December 31, 2016</b>
	(In bolivars)	
Service fees (Notes 2-k and 15)	2,123,520,813	1,173,083,817
Amortization of premiums on held-to-maturity investments	41,858,939	58,203,253
Loss on sale of investments in available-for-sale securities (Note 5-a)	6,110,389	30,280,021
Exchange loss (Note 4)	<u>708,565</u>	<u>2,648,323</u>
	<u>2,172,198,706</u>	<u>1,264,215,414</u>

Sundry operating expenses comprise the following:

	<b>Six-month periods ended</b>	
	<b>June 30, 2017</b>	<b>December 31, 2016</b>
	(In bolivars)	
Contribution to the National Fund for Communal Councils (Note 11)	347,026,100	116,584,361
Contribution for the Antidrug Law (Note 1)	206,773,294	74,807,642
Contribution for the Sports and Physical Education Law (Note 1)	124,338,022	49,701,959
Contribution for the Law for the Advancement of Science, Technology and Innovation (Note 1)	119,556,982	41,305,440
Provision for other assets (Note 11)	87,000,000	28,950,000
Other	1,048,831	5,519,818
Provision for pending vacation	-	<u>14,177,211</u>
	<u>885,743,229</u>	<u>331,046,431</u>

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**19. General and administrative expenses**

General and administrative expenses comprise the following:

	<b>Six-month periods ended</b>	
	<b>June 30, 2017</b>	<b>December 31, 2016</b>
	(In bolivars)	
Transportation of valuables and surveillance	3,917,611,274	2,136,729,519
Maintenance and repairs	2,329,730,560	989,732,016
Tax on economic activities (Note 16)	1,519,392,505	586,024,307
Stationery and office supplies	1,277,082,899	730,198,756
Outsourced services	1,047,529,401	765,330,491
Sundry general expenses	1,024,634,790	350,064,812
Transportation and communication expenses	1,015,129,553	845,471,762
Consulting and external audit	986,913,294	586,759,473
Leases	881,538,630	578,674,017
Depreciation and impairment of property and equipment (Note 10)	756,640,917	523,503,850
Tax on Large Financial Transactions (Note 16)	272,609,278	150,999,562
Amortization of deferred expenses (Note 11)	261,173,311	178,104,337
Advertising	224,358,677	190,236,086
Insurance	130,532,456	71,683,146
Infrastructure expenses	119,300,776	153,070,094
Legal advice	83,991,955	92,896,065
Legal expenses	40,514,360	11,951,086
Public relations	33,807,839	22,330,904
Utilities	33,600,848	15,868,777
Other	1,226,931	1,343,333
Other taxes and contributions	11,559,778	1,308,051
	<u>15,968,880,032</u>	<u>8,982,280,444</u>

**20. Memorandum accounts**

Memorandum accounts comprise the following:

	<b>June 30, 2017</b>	<b>December 31, 2016</b>
	(In bolivars)	
<b>Contingent debtor accounts</b>		
Credit card lines of credit (Note 21)	18,889,664,669	11,647,415,283
Purchases of financial futures (Note 5-c)	2,101,117,000	1,768,517,000
Guarantees granted, includes US\$4,790,873 at December 31, 2016 (Note 21)	203,046,112	242,907,069
Lines of credit for discounts and factoring (Note 21)	32,889,765	30,290,805
Letters of credit issued but not negotiated, includes €900,000 (US\$346,072 at December 31, 2016) (Note 21)	10,872,698	4,072,461
	<u>21,237,590,244</u>	<u>13,693,202,618</u>
<b>Assets received in trust</b>	<u>12,462,932,414</u>	<u>8,152,252,855</u>
<b>Debtor accounts from other special trust services (Housing Loan System)</b>	<u>5,439,351,462</u>	<u>3,395,569,053</u>

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	June 30, 2017	December 31, 2016
	(In bolivars)	
<b>Other debtor memorandum accounts</b>		
Guarantees received, includes US\$50,805,654 (US\$88,214,482 at December 31, 2016) (Note 4)	1,227,405,132,223	504,375,474,112
Lines of credit available, includes US\$500,000 (Notes 4 and 21)	158,870,822,028	56,482,467,241
Assets held in custody, includes US\$64,905,561 (US\$140,299,976 at December 31, 2016) (Note 4)	8,444,547,718	6,271,734,927
Performance bonds from suppliers	493,708,600	12,116,800
Uncollectible accounts written off	452,973,048	352,403,443
Debt reconciling and written off items, includes US\$537,238 and €9,568 (US\$537,238 and €9,047 at December 31, 2016) (Note 4)	104,503,474	102,891,978
Securities held by other financial institutions, equivalent to US\$10,422,724 (US\$11,378,024 at December 31, 2016) (Note 4)	103,966,669	113,495,787
Deferred interest receivable on loans overdue and in litigation, includes US\$159,083 (US\$127,069 at December 31, 2016) (Notes 4 and 6)	88,569,166	64,195,774
Guarantees on collateral granted	41,289,849	67,544,339
Guarantees in foreign currency, equivalent to US\$3,830,093 (US\$3,753,293 at December 31, 2016) (Note 4)	38,205,183	37,439,103
Personal and real property written off (Note 9)	17,662,247	17,662,247
Collections in foreign currency, equivalent to US\$1,664,007 (Note 4)	16,598,470	16,598,470
Other, includes US\$595,036 (US\$79,255 at December 31, 2016) (Note 4)	6,659,067	3,089,872
Taxes receivable	1,616,964	1,616,964
Currency awarded through SICAD, equivalent to US\$23,684 (Note 4)	236,250	236,250
	<u>1,396,086,490,956</u>	<u>567,918,967,307</u>
	<u>1,435,226,365,076</u>	<u>593,159,991,833</u>

At June 30, 2017 and December 31, 2016, securities in custody of other financial institutions of Bs 103,966,669 and Bs 113,495,787, respectively, are held in Commerzbank, A.G.

At June 30, 2017, in accordance with the Accounting Manual, the Bank has set aside a general and specific provision for contingent debtor accounts of Bs 2,036,665 (Bs 2,067,662 at December 31, 2016), shown under accruals and other liabilities (Note 15).

Below is a breakdown of assets received in trust:

	June 30, 2017	December 31, 2016
	(In bolivars)	
<b>Type of trust fund</b>		
Length-of-service benefits	11,011,034,591	7,545,261,475
Administration	1,072,168,812	353,356,723
Investment	379,729,011	253,634,657
	<u>12,462,932,414</u>	<u>8,152,252,855</u>

At June 30, 2017, combined trust fund assets include Bs 5,748,876,563 in respect of trust funds opened by government agencies, representing 46.13% of total assets received in trust (Bs 3,082,454,997, representing 37.81% at December 31, 2016).

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

	June 30, 2017	December 31, 2016
	(In bolivars)	
<b>Assets</b>		
<b>Cash and due from banks</b> (Note 12)	<u>957,767,928</u>	<u>1,504,365,388</u>
<b>Investment securities</b>	<u>6,122,365,718</u>	<u>3,436,855,918</u>
<b>Loan portfolio</b>	<u>4,846,385,068</u>	<u>3,072,138,814</u>
Loans and advances to beneficiaries of length-of-service benefits	4,846,378,641	3,072,132,387
Loans receivable	<u>6,427</u>	<u>6,427</u>
<b>Interest receivable on investment securities</b>	<u>123,753,973</u>	<u>63,482,710</u>
<b>Other assets</b>	<u>412,659,727</u>	<u>75,410,025</u>
<b>Total assets</b>	<u>12,462,932,414</u>	<u>8,152,252,855</u>
<b>Liabilities and Equity</b>		
<b>Liabilities</b>		
Other liabilities	<u>14,679,641</u>	<u>10,440,339</u>
<b>Total liabilities</b>	<u>14,679,641</u>	<u>10,440,339</u>
<b>Equity</b>		
Capital assigned to trusts	12,060,300,321	7,819,469,400
Retained earnings	<u>387,952,452</u>	<u>322,343,116</u>
<b>Total equity</b>	<u>12,448,252,773</u>	<u>8,141,812,516</u>
<b>Total liabilities and equity</b>	<u>12,462,932,414</u>	<u>8,152,252,855</u>

At June 30, 2017 and December 31, 2016, cash and due from banks includes Bs 957,767,928 and Bs 1,504,365,388, 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 period ended June 30, 2017 and December 31, 2016, the Bank's trust fund earned income of Bs 25,136,694 and Bs 12,074,775, respectively, from cash and due from banks.

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

	Acquisition cost	June 30, 2017 Amortized cost	Fair value	
	(In bolivars)			
<b>Securities issued or guaranteed by the Venezuelan government</b>				
Vebonos, with a par value of Bs 1,324,231,155, annual yield between 10.29% and 15.54%, maturing between November 2017 and July 2033	1,528,173,612	1,488,303,659	1,739,887,724	(1)-(a)
Fixed Interest Bond (TIFs), with a par value of Bs 985,282,750, annual yield between 14.50% and 18%, maturing between April 2018 and March 2033	<u>1,124,191,177</u>	<u>1,103,168,782</u>	<u>1,259,411,795</u>	(1)-(a)
	<u>2,652,364,789</u>	<u>2,591,472,441</u>	<u>2,999,299,519</u>	
<b>Debt securities issued by Venezuelan non-financial private-sector companies</b>				
<b>Debenture bonds</b>				
FVI Fondo de Valores Inmobiliarios, with a par value of Bs 70,000,000, annual yield between 8.59% and 9.27%, maturing between September 2017 and May 2022	70,000,000	70,000,000	70,000,000	(2)-(b)
Corporación Digitel, C.A., with a par value of Bs 90,284,000, annual yield between 15.61% and 16.32%, maturing between November 2017 and 2018	90,436,840	90,299,944	90,284,000	(2)-(b)
Netuno, C.A., with a par value of Bs 5,000,000, 14% annual yield, maturing in January 2018	5,000,000	5,000,000	5,000,000	(2)-(b)
Cerámica Carabobo, S.A., with a par value of Bs 250,000,000, 15.23% annual yield, maturing in February 2019	250,000,000	250,000,000	250,000,000	(2)-(b)
Toyota Services de Venezuela, C.A., with a par value of Bs 120,000,000, 18.5% annual yield, maturing in October, 2021	120,000,000	120,000,000	120,000,000	(2)-(b)
Inelectra, S.A.C.A., with a par value of Bs 300,000,000, 19% annual yield, maturing between October and December 2019	<u>300,000,000</u>	<u>300,000,000</u>	<u>300,000,000</u>	(2)-(b)
Carried forward	835,436,840	835,299,944	835,284,000	

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	<b>June 30, 2017</b>		
	<b>Acquisition cost</b>	<b>Amortized cost</b>	<b>Fair value</b>
	(In bolivars)		
Brought forward	835,436,840	835,299,944	835,284,000
Automercados Plaza's, C.A., with a par value of Bs 200,000,000, 18% annual yield, maturing in March 2020	200,000,000	200,000,000	200,000,000 (2)-(b)
Corimon C.A., with a par value of Bs 400,000,000, 20% annual yield, maturing in February 2020	400,000,000	400,000,000	400,000,000 (2)-(b)
Dominguez & Cia., S.A., with a par value of Bs 40,000,000, 17.5% annual yield, maturing in March 2020	40,000,000	40,000,000	40,000,000 (2)-(b)
La Montserratina, C.A., with a par value of Bs 500,000,000, 21% annual yield, maturing in May 2021	500,000,000	500,000,000	500,000,000 (2)-(b)
Avior Airlines, C.A., with a par value of Bs 200,000,000, 20% annual yield, maturing in May 2020	200,000,000	200,000,000	200,000,000 (2)-(b)
Ron Santa Teresa, C.A., with a par value of Bs 400,000,000, 22% annual yield, maturing in February 2021	400,000,000	400,000,000	400,000,000 (2)-(b)
Titularizadora Univerprima, C.A., with a par value of Bs 200,035,000, 17% annual yield, maturing in April 2018	200,035,000	200,035,000	200,035,000 (2)-(b)
Corporación Grupo Químico, C.A., with a par value of Bs 350,000,000, 18% annual yield, maturing in September 2019	<u>350,000,000</u>	<u>350,000,000</u>	<u>350,000,000</u> (2)-(b)
	<u>3,125,471,840</u>	<u>3,125,334,944</u>	<u>3,125,319,000</u>
<b>Debt securities issued by Venezuelan financial private-sector companies</b>			
Banco Occidental de Descuento, Banco Universal, C.A., with a par value of Bs 405,558,333, 14.5% annual yield, maturing in August 2017	<u>405,558,333</u>	<u>405,558,333</u>	<u>405,558,333</u> (2)-(c)
	<u>6,183,394,962</u>	<u>6,122,365,718</u>	<u>6,530,176,852</u>
	<b>December 31, 2016</b>		
	<b>Acquisition cost</b>	<b>Amortized cost</b>	<b>Fair value</b>
	(In bolivars)		
<b>Securities issued or guaranteed by the Venezuelan government</b>			
Vebonos, with a par value of Bs 1,016,867,000, annual yield between 9.4% and 15.79%, maturing between March 2017 and July 2033	1,152,630,799	1,117,861,128	1,243,672,193 (1) - (a)
Fixed Interest Bond (TIFs), with a par value of Bs 984,415,750, annual yield between 14.5% and 18%, maturing between April 2018 and March 2033	<u>937,476,903</u>	<u>921,293,388</u>	<u>1,015,488,157</u> (1) - (a)
	<u>2,090,107,702</u>	<u>2,039,154,516</u>	<u>2,259,160,350</u>
<b>Debt securities issued by Venezuelan non-financial private-sector companies</b>			
<b>Debenture bonds</b>			
Corporación Grupo Químico, C.A., with a par value of Bs 350,000,000, 18% annual yield, maturing in September 2019	350,000,000	350,000,000	350,000,000 (2) - (b)
Inelectra, S.A.C.A., with a par value of Bs 300,000,000, 19% annual yield, maturing in December 2019	300,000,000	300,000,000	300,000,000 (2) - (b)
Cerámica Carabobo, S.A., with a par value of Bs 250,000,000, 15% annual yield, maturing in February 2019	250,000,000	250,000,000	250,000,000 (2) - (b)
Toyota Services de Venezuela, C.A., with a par value of Bs 120,000,000, 18.5% annual yield, maturing in October 2021	120,000,000	120,000,000	120,000,000 (2) - (b)
Corporación Digitel, C.A., with a par value of Bs 90,284,000, annual yield between 16.55% and 17.03%, maturing between November 2017 and 2018	90,436,840	90,319,736	90,284,000 (2) - (b)
FVI Fondo de Valores Inmobiliarios, with a par value of Bs 70,000,000, annual yield between 8.71% and 8.62%, maturing between September 2017 and May 2022	70,000,000	70,000,000	70,000,000 (2) - (b)
Netuno, C.A., with a par value of Bs 5,000,000, 14% annual yield, maturing in January 2018	<u>5,000,000</u>	<u>5,000,000</u>	<u>5,000,000</u> (2) - (b)
	<u>1,185,436,840</u>	<u>1,185,319,736</u>	<u>1,185,284,000</u>
<b>Debt securities issued by Venezuelan financial private-sector companies</b>			
Banco Caroní, C.A. Banco Universal, with a par value of Bs 106,926,437, 13.5% annual yield, maturing in January 2017	106,926,437	106,926,437	106,926,437 (2) - (d)
Banco Occidental de Descuento, Banco Universal, C.A., with a par value of Bs 73,727,453, 14.5% annual yield, maturing in August 2016	73,727,453	73,727,453	73,727,453 (2) - (c)
100% Banco, C.A., Banco Universal, with a par value of Bs 31,727,776, 14.5% annual yield, maturing in January 2017	<u>31,727,776</u>	<u>31,727,776</u>	<u>31,727,776</u> (2) - (e)
	<u>212,381,666</u>	<u>212,381,666</u>	<u>212,381,666</u>
	<u>3,487,926,208</u>	<u>3,436,855,918</u>	<u>3,656,826,016</u>

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

(2) Corresponds to par value or acquisition cost, which is considered as fair market value.

**Custodians of investments**

- (a) Central Bank of Venezuela
- (b) Caja Venezolana de Valores, S.A.
- (c) Banco Occidental de Descuento, Banco Universal, C.A.
- (d) Banco Caroní, C.A. Banco Universal
- (e) 100% Banco, C.A., Banco Universal

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Below is the classification of investment securities according to maturity:

	<b>June 30, 2017</b>		<b>December 31, 2016</b>	
	<b>Amortized cost</b>	<b>Fair value</b>	<b>Amortized cost</b>	<b>Fair value</b>
	(In bolivars)			
Up to 6 months	444,858,277	445,308,637	215,935,278	215,994,112
6 months to 1 year	294,519,984	299,611,167	39,319,736	39,665,252
1 to 5 years	3,366,382,540	3,471,587,694	1,626,495,945	1,694,531,413
Over 5 years	<u>2,016,604,917</u>	<u>2,313,669,354</u>	<u>1,555,104,959</u>	<u>1,706,635,239</u>
	<u>6,122,365,718</u>	<u>6,530,176,852</u>	<u>3,436,855,918</u>	<u>3,656,826,016</u>

At June 30, 2017, interest receivable on investment securities amounts to Bs 123,753,973 (Bs 63,482,710 at December 31, 2016).

At June 30, 2017 and December 31, 2016, 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 June 30, 2017, loans and advances to beneficiaries of the length-of-service benefit trust fund include Bs 373,451,911 (Bs 262,227,081 at December 31, 2016) from Bank employees; Bs 2,240,902,841 from private length-of-service benefit trust funds, and Bs 2,232,023,889, from government agencies (Bs 1,603,622,241 and Bs 1,206,283,065, respectively, at December 31, 2016).

At June 30, 2017 and December 31, 2016, fiduciary remuneration payable to the Bank amounts to Bs 10,730,570 and Bs 6,806,482, respectively, and is included under other liabilities. This remuneration 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 June 30, 2017 amounted to Bs 59,239,825 (Bs 36,706,163 during the six-month period ended December 31, 2016) (Note 17). At June 30, 2017, length-of-service benefit trust funds in favor of Bank employees amount to Bs 1,162,469,159 (Bs 638,303,688 at December 31, 2016).

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 June 30, 2017 and December 31, 2016, the Venezuelan government or its decentralized agencies have not set up trust funds at the Bank.



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**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:

	June 30, 2017	December 31, 2016
	(In bolivars)	
<b>Assets</b>		
Cash and due from banks (Note 12)	10,054,302	2,676,717
Investment securities	5,284,811,025	3,236,309,831
Loan portfolio	144,065,788	156,137,974
Interest receivable	308,152	332,336
Other assets	<u>112,195</u>	<u>112,195</u>
Total assets	<u>5,439,351,462</u>	<u>3,395,569,053</u>
<b>Liabilities</b>		
Contributions to the Housing Savings Fund	5,138,197,835	3,099,971,482
Liabilities to BANAVIH	<u>243,717,303</u>	<u>241,413,362</u>
Total liabilities	<u>5,381,915,138</u>	<u>3,341,384,844</u>
Income	<u>57,436,324</u>	<u>54,184,209</u>
Total liabilities and income	<u>5,439,351,462</u>	<u>3,395,569,053</u>

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

At June 30, 2017, the Bank has an investment trust in BANAVIH for Bs 5,284,811,025 (Bs 3,236,309,831 at December 31, 2016) 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 June 30, 2017, the Bank has granted loans out of BANAVIH resources of Bs 144,065,788 (Bs 156,137,974 at December 31, 2016). These loans bear annual interest between 4.66% and 8.55%.

At December 31, 2016, the Housing Savings Fund has 1,493 debtors (1,589 debtors at June 30, 2016).

During the six-month period ended June 30, 2017, the Bank recorded income of Bs 723,226 (Bs 680,424 during the six-month period ended December 31, 2016) 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 June 30, 2017 and December 31, 2016, these guarantees earned annual commissions of 1%. These commissions are recorded monthly while the guarantees are in force.

At June 30, 2017, Bank guarantees amount to Bs 203,046,112 (Bs 242,907,069 at December 31, 2016) (Note 20).

**b) Credit limits**

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

**c) Letters of credit**

Letters of credit usually mature within 90 days, and are renewable. They are generally issued to finance a trade agreement for the shipment of goods from a seller to a buyer. At June 30, 2017 and December 31, 2016, the Bank charged a commission of between 0.5% and 2% on the amount of letters of credit. Unused letters of credit at June 30, 2017 amount to Bs 10,872,698 (Bs 4,072,461 at December 31, 2016) (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 and investment securities.

**22. Equity**

**a) Capital stock and authorized capital**

At June 30, 2017 and December 31, 2016, the Bank's paid-in capital amounts to Bs 3,031,930,372 and Bs 2,471,930,372, respectively, represented by 3,031,930,372 and 2,471,930,372 non-convertible common shares of the same class with a par value of Bs 1 each, fully subscribed and paid-in. The Bank complies with the minimum capital required under the current legislation.

At a Special Shareholders' Meeting held on March 25, 2015, it was resolved to increase capital to up to Bs 400,000,000, through the public offering of non-convertible common shares with a par value of Bs 1 at a premium. On October 5, 2015, and upon a favorable pronouncement from OSFIN, SUDEBAN issued Notice SIB-II-GGR-GA-32006 authorizing the capital increase. On November 18, 2015, through Notice DSNV-CJU-3250, the SNV issued a statement and clarification in response to the Bank's request and allowed the reception of the voluntary contributions made by the shareholders before receiving its

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authorization. On May 23, 2016, through Resolution No. 016/2016, the SNV authorized the public offering and listing of shares in the National Securities Registry. During the six-month period ended December 31, 2016, the Bank received contributions in this connection from its shareholders for Bs 1,923,320,878, shown under contributions pending capitalization.

At a Regular Shareholders' Meeting held on September 28, 2015, it was resolved to declare and pay dividends, and to increase capital to up to Bs 450,000,000 as stock dividends with a charge to restricted surplus. On July 28, 2016, and upon a favorable pronouncement from OSFIN, SUDEBAN issued Notice SIB-II-GGR-GA-21534 authorizing the capital increase. On November 16, 2016, through Resolution No. 035/2016, the SNV authorized the public offering and listing of shares in the National Securities Registry.

At a Regular Shareholders' Meeting held on March 30, 2016, it was resolved to declare and pay dividends for Bs 560,000,000, to be distributed as follows: Bs 140,000,000 payable in cash with a charge to unappropriated surplus, and Bs 420,000,000 through a stock dividend payable with a charge to restricted surplus. Through Notice SIB-II-GGIBPV-GIBPV4-13040 dated April 29, 2016, SUDEBAN instructed the Bank to record a cash dividend payable. On October 5, 2016, and upon a favorable pronouncement from OSFIN, SUDEBAN issued Notice SIB-II-GGR-GA-26867 authorizing the capital increase. Additionally, in the aforementioned Notice, SUDEBAN authorized the Bank to record a cash dividend payable of Bs 140,000,000 in equity under share premium and paid-in surplus, taking into consideration that at the aforementioned Regular Shareholders' Meeting it was unanimously resolved to provide the resources to increase the Bank's capital stock. Through Resolution No. DSNV-0099-2017 of January 26, 2017, the SNV authorized the public offering and listing of shares in the National Securities Registry.

At a Regular Shareholders' Meeting held on September 28, 2016, it was resolved to declare and pay dividends for Bs 660,000,000, to be distributed as follows: Bs 165,000,000 payable in cash with a charge to unappropriated surplus, and Bs 495,000,000 through a stock dividend payable with a charge to restricted surplus. On October 28, 2016, through Notice SIB-II-GGIBPV-GIBPV4-29452, SUDEBAN authorized the Bank to record the cash dividend of Bs 165,000,000 in equity under share premium and paid-in surplus, taking into consideration that at the aforementioned Regular Shareholders' Meeting it was unanimously resolved to provide the resources to increase the Bank's capital stock. To date, the Bank is awaiting a response from SUDEBAN and the SNV.

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

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

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Shares subscribed by shareholders for the six-month periods ended June 30, 2017 and December 31, 2016 are identified as non-convertible common shares as follows:

	June 30, 2017		December 31, 2016	
	Number of shares	Equity %	Number of shares	Equity %
<b>Shareholders</b>				
Nogueroles García, Jorge Luis	289,544,472	9.5498	236,065,374	9.5498
Valores Torre Casa, C.A.	215,060,319	7.0932	175,197,356	7.0875
Nogueroles López, José María	196,621,611	6.4850	160,305,442	6.4850
Halabi Harb, Anuar	177,455,241	5.8529	144,342,476	5.8393
Alintio International, S.L.	150,105,095	4.9508	122,380,563	4.9508
Curbelo Pérez, Juan Ramón	119,713,959	3.9484	97,602,694	3.9484
Zasuma Inversiones, C.A.	116,450,606	3.8408	94,942,085	3.8408
De Guruceaga López, Gonzalo Francisco	115,002,744	3.7931	93,761,644	3.7931
Inversiones Clatal, C.A.	93,782,376	3.0932	76,460,696	3.0932
Osio Montiel, Carmen Inés	78,759,366	2.5977	64,212,448	2.5977
Kozma Solymosy, Nicolás A.	64,859,172	2.1392	52,879,631	2.1392
Inversiones Grial, C.A.	56,789,465	1.8730	42,690,584	1.7270
Tamayo Degwitz, Carlos Enrique	56,551,115	1.8652	46,106,079	1.8652
Inversiones Tosuman, C.A.	56,534,857	1.8646	46,092,824	1.8646
Teleacción A.C., C.A.	54,396,952	1.7941	44,688,956	1.8079
García Arroyo, Sagrario	51,849,824	1.7101	42,273,120	1.7101
Puig Miret, Jaime	42,342,432	1.3966	34,521,751	1.3966
Consorcio Toyomarca, S.A. (Toyomarca, S.A.)	42,182,706	1.3913	34,391,526	1.3913
Somoza Mosquera, David	41,742,800	1.3768	34,032,873	1.3768
Kozma Ingenuo, Alejandro Nicolás	38,341,159	1.2646	31,259,517	1.2646
Kozma Ingenuo, Carolina María	38,341,159	1.2646	31,259,517	1.2646
Chaar, Mouada	34,440,909	1.1359	28,079,647	1.1359
Inversiones Fernández, S.A.	33,466,007	1.1038	27,284,811	1.1038
Nogueroles García, María Monsterrat	33,416,575	1.1022	27,244,507	1.1022
Eurobuilding Internacional, C.A.	28,745,987	0.9481	23,436,581	0.9481
Valores Agropecuarios La Florida, C.A.	28,022,829	0.9243	22,846,991	0.9243
Valores Abezur, C.A.	26,834,681	0.8851	21,878,295	0.8851
Herrera de la Sota, Mercedes de la Concepción	25,820,746	0.8516	24,549,893	0.9931
Benacerraf Herrera, Andrés Gonzalo	23,498,322	0.7750	22,341,775	0.9038
Benacerraf Herrera, Mercedes Cecilia	23,498,322	0.7750	22,341,775	0.9038
Benacerraf Herrera, Jorge Fortunato	23,466,550	0.7740	22,311,567	0.9026
Tracto Agro Valencia, C.A.	22,936,308	0.7565	15,230,395	0.6161
Grupo Inmobiliario Gonariz, C.A.	21,379,726	0.7052	17,430,874	0.7052
Cedeño, Eligio	21,369,411	0.7048	17,422,465	0.7048
Promociones Ojinaga, C.A.	20,612,703	0.6799	17,078,646	0.6909
Other	<u>567,993,866</u>	<u>18.7336</u>	<u>456,984,994</u>	<u>18.4868</u>
	<u>3,031,930,372</u>	<u>100.0000</u>	<u>2,471,930,372</u>	<u>100.0000</u>

**b) Capital reserves and retained earnings**

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 June 30, 2017 and December 31, 2016, capital reserves includes Bs 3,031,930,372 and Bs 2,022,246,794, in connection with the legal reserve.

At June 30, 2017 and December 31, 2016, capital reserves include Bs 996,124 in respect of voluntary reserves.

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.

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

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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 June 30, 2017, the Bank recorded the social contingency fund of Bs 15,159,652, which includes capital and interest (Bs 12,359,652 at December 31, 2016), with a charge to unappropriated surplus and a credit to capital reserves. On July 7, 2017, the Bank transferred Bs 14,359,748 to the investment trust fund with Banco Exterior, C.A. Banco Universal and made the accounting record with a debit to restricted investments and a credit to cash maintained at the BCV (Bs 10,456,397 on January 10, 2017 during the six-month period ended December 31, 2016). Furthermore, at June 30, 2017, the Bank capitalized Bs 799,904, in connection with interest income, net generated by this trust fund (Bs 1,903,255 at December 31, 2016). At June 30, 2017 and December 31, 2016, capital reserves include Bs 73,134,707 and Bs 57,975,055, in respect of the Social Contingency Fund.

In compliance with SUDEBAN Resolution No. 329.99, during the six-month period ended June 30, 2017, the Bank reclassified Bs 5,676,441,194 (Bs 1,968,889,674 at December 31, 2016) to restricted surplus, equivalent to 50% of income for the six-month period, net of appropriations to reserves and Branch income. At June 30, 2017 and December 31, 2016, restricted surplus amounts to Bs 8,645,091,129 and Bs 3,388,649,935, respectively. These amounts may be used for capital stock increase, but not for cash dividend distribution.

Below is the movement in restricted surplus balances:

	<b>Resolution No. 329.99</b>
	(In bolivars)
Balance at June 30, 2016	1,869,760,261
Capital increase through stock dividends declared	(450,000,000)
Appropriation of 50% of income for the period	<u>1,968,889,674</u>
Balance at December 31, 2016	3,388,649,935
Capital increase through stock dividends declared	(420,000,000)
Appropriation of 50% of income for the period	<u>5,676,441,194</u>
Balance at June 30, 2017	<u>8,645,091,129</u>

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

At June 30, 2017 and December 31, 2016, exchange gain from holding foreign currency assets and liabilities comprises the following:

	(In bolivars)
Balance at June 30, 2016	3,816,281,707
Net gain on sale of foreign currency assets through DICOM (Note 5-a)	<u>1,469,164,622</u>
Balance at December 31, 2016	5,285,446,329
Net gain on sale of foreign currency assets through DICOM (Note 5-a)	<u>5,915,297,258</u>
Balance at June 30, 2017	<u>11,200,743,587</u>

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

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**d) Risk-based capital ratio**

Through Resolution No. 305.09 of July 2009, SUDEBAN establishes the following in connection with total risk-based capital ratio: a) contributions pending capitalization and treasury stock are considered as primary equity (Tier 1); b) goodwill and investments in Venezuelan financial subsidiaries or affiliates must be deducted from the primary equity (Tier 1); and c) 50% of pending cash items, overnight deposits and deposits and credits related to microcredits, agriculture, manufacturing and tourism activities must be included into the risk category. Furthermore, this Resolution establishes a new 75% risk weighting applicable to overnight deposits in local currency.

Through Circular SIB-II-GGR-GNP-10189 of April 7, 2016, SUDEBAN granted the following regulatory exceptions: a) to calculate capital to risk asset ratio, bonds and debt securities issued by the Central Bank of Venezuela, deposits with the Central Bank of Venezuela, cash and due from banks with the Central Bank of Venezuela (including the legal reserve) and bonds and debt securities issued by Petróleos de Venezuela, S.A. (PDVSA), will temporarily be deducted from total assets.

Through Circular SIB-II-GGR-GNP-12738 of April 27, 2016, SUDEBAN informed banking institutions that the effects of determining the capital adequacy ratio must include, as part of the determination of the primary equity (Tier 1), the amount of the general and countercyclical allowance.

Through Circular SIB-II-GGR-GNP-28283 of October 20, 2016, SUDEBAN informed banking institutions that Agriculture BANDES Certificates of Participation maturing in September 2017 will exceptionally be computed as 0% risk-weighted items to calculate total risk-based capital ratio. Furthermore, to calculate capital to risk asset ratio, the amount of this investment should be deducted from total assets.

Through Circular SIB-II-GGR-GNP-34903 of December 30, 2016, SUDEBAN granted the following regulatory exceptions applicable to indicators for the December 31, 2016 closing: a) to calculate capital to risk asset ratio, pending cash items, as well as the monthly variation of cash under cash and due from banks, will temporarily be deducted from total assets; b) to calculate total risk-based capital ratio, pending cash items will exceptionally be computed as 0% risk-weighted items. During the six-month period ended June 30, 2017, SUDEBAN ordered the banking system to maintain this Circular in force for monthly calculation of the indicators.

At June 30, 2017 and December 31, 2016, the minimum total risk-based capital and equity-to-total assets will be 12% and 9%, respectively.

At June 30, 2017 and December 31, 2016, the Bank calculates the total risk-based capital ratio and capital to risk asset ratio in conformity with current regulations.

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

	<u>June 30, 2017</u>		<u>December 31, 2016</u>	
	Required %	Maintained %	Required %	Maintained %
Total risk-based capital	12	14.74	12	11.13
Equity-to-total assets	9	13.49	9	10.24

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

In the ordinary course of business, the Bank conducts commercial transactions with related companies. Because of those relationships, certain transactions may have taken place on terms other than those that would characterize transactions between unrelated companies.

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

	June 30, 2017	December 31, 2016
	(In bolivars)	
<b>Assets</b>		
Cash and due from banks		
Foreign and correspondent banks, equivalent to US\$29,759 (US\$89,952 at December 31, 2016)	296,849	897,273
Exchange Agreement No. 20 for US\$2,441,782 (US\$1,974,751 at December 31, 2016) (Note 3)	<u>24,356,774</u>	<u>19,698,142</u>
	<u>24,653,623</u>	<u>20,595,415</u>
<b>Liabilities</b>		
Borrowings (Note 13)		
Interest-bearing checking accounts, with 0.25% annual interest	<u>10,257,778</u>	<u>144,102</u>
<b>Expenses for the period</b>		
Interest expense		
Expenses from borrowings	<u>1,097</u>	<u>1,056</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 June 30, 2017 and December 31, 2016, the biannual fee is 0.08% of the average of the Bank's assets; it is payable monthly. This fee is shown under operating expenses.

Through Resolution No. 114.16 of June 30, 2016, SUDEBAN established that the contribution for the second semester of 2016, payable by private banking institutions subject to the supervision and control of this Superintendency within the first 5 business days of each month, is 0.08% of the Bank's average assets at the May and June 2016 month-end.

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

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**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. 14-03-02 of March 13, 2014, the BCV requires financial institutions to maintain a minimum legal reserve deposit at such institute equal to a percentage of their placements, deposits, liabilities and investments assigned, excluding liabilities with the BCV, FOGADE and other financial institutions; liabilities arising from funds received from the Venezuelan government, local or foreign entities to finance special programs in the country (once these funds have been allocated); liabilities arising from funds received from financial institutions to finance and promote exports as required by Law (once these funds have been allocated) and; liabilities in foreign currency resulting from its offices abroad and those resulting from transactions with other banks and financial institutions for which the latter have, in turn, created a reserve pursuant to the legal reserve regulations. Liabilities arising from resources provided by Mandatory Housing Savings Funds required under the Venezuelan Housing Loan Law and managed by financial institutions in trust funds will not be computed. In addition, through Resolutions Nos. 12-05-02 and 13-04-01 published in Official Gazettes Nos. 39,933 and 40,155 on May 29, 2012 and on April 26, 2013, respectively, the BCV reduced the legal reserve amount to be allocated by financial institutions that purchased dematerialized certificates of participation issued by the Simón Bolívar Fund by the balance of such certificates. For the six-month periods ended June 30, 2017 and December 31, 2016, the Bank maintains Bs 6,087,030,691, respectively, in this connection (Note 5-b).

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

**27. Contingencies**

At June 30, 2017 and December 31, 2016, 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 53,144,713 and Bs 58,333,964 at June 30, 2017 and December 31, 2016, respectively. In the opinion of Bank management and its external legal advisors, these claims are not well grounded in law and, therefore, should not have a material adverse effect on the Bank's financial position and results of operations.

Bank management and its legal advisors believe that most of these assessments are not well grounded in law and, consequently, that the outcome of these claims will be favorable to the Bank. At June 30, 2017 and December 31, 2016, the Bank has set aside no provision in this connection.

Except for the aforementioned assessments, management is not aware of any other pending tax, labor or other claim that may have a significant effect on the Bank's financial position or result of operations.



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

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

	June 30, 2017							
	Maturity							
	December 31, 2017	June 30, 2018	December 31, 2018	June 30, 2019	December 31, 2019	June 30, 2020	Beyond June 30, 2020	Total
	(In bolivars)							
<b>Assets</b>								
Cash and due from banks	338,977,938,474	-	-	-	-	-	-	338,977,938,474
Investment securities	12,788,059,863	1,044,106,051	204,571,413	912,841,146	33,161,212	280,756,845	21,787,520,818	37,051,017,348
Loan portfolio	450,254,826,726	31,925,655,497	10,034,373,266	11,756,618,203	9,009,794,001	7,557,587,266	8,942,077,654	529,480,932,613
Interest and commissions receivable	3,307,914,355	-	-	-	-	-	-	3,307,914,355
Available-for-sale assets	-	-	-	-	-	-	66,084,375	66,084,375
	<u>805,328,739,418</u>	<u>32,969,761,548</u>	<u>10,238,944,679</u>	<u>12,669,459,349</u>	<u>9,042,955,213</u>	<u>7,838,344,111</u>	<u>30,795,682,847</u>	<u>908,883,887,165</u>
<b>Liabilities</b>								
Customer deposits	857,837,693,710	35,796,584	1,200,000	-	-	-	-	857,874,690,294
Borrowings	67,615,869	-	-	-	-	-	-	67,615,869
Interest and commissions payable	192,965,271	-	-	-	-	-	-	192,965,271
	<u>858,098,274,850</u>	<u>35,796,584</u>	<u>1,200,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>858,135,271,434</u>

	December 31, 2016							
	Maturity							
	June 30, 2017	December 31, 2017	June 30, 2018	December 31, 2018	June 30, 2019	December 31, 2019	Beyond December 31, 2019	Total
	(In bolivars)							
<b>Assets</b>								
Cash and due from banks	145,770,980,498	-	-	-	-	-	-	145,770,980,498
Investment securities	2,858,320,150	10,519,115,440	1,061,369,627	210,613,339	789,025,155	49,979,669	21,588,250,373	37,076,673,753
Loan portfolio	179,977,416,976	28,384,344,430	11,600,644,338	4,710,858,578	7,320,652,898	9,949,701,876	12,363,555,052	254,307,174,148
Interest and commissions receivable	2,328,043,291	-	-	-	-	-	-	2,328,043,291
	<u>330,934,760,915</u>	<u>38,903,459,870</u>	<u>12,662,013,965</u>	<u>4,921,471,917</u>	<u>8,109,678,053</u>	<u>9,999,681,545</u>	<u>33,951,805,425</u>	<u>439,482,871,690</u>
<b>Liabilities</b>								
Customer deposits	422,333,353,046	11,998,000	2,650,000	-	-	-	-	422,348,001,046
Borrowings	83,417,106	-	-	-	-	-	-	83,417,106
Interest and commissions payable	179,600,591	-	-	-	-	-	-	179,600,591
	<u>422,596,370,743</u>	<u>11,998,000</u>	<u>2,650,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>422,611,018,743</u>

**29. Fair value of financial instruments**

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

	June 30, 2017		December 31, 2016	
	Book value	Estimated fair value	Book value	Estimated fair value
	(In bolivars)			
<b>Assets</b>				
Cash and due from banks	338,977,938,474	338,977,938,474	145,770,980,498	145,770,980,498
Investment securities, net	37,050,916,068	37,239,054,492	37,076,572,473	37,222,973,516
Loan portfolio, net	519,118,998,977	519,118,998,977	248,867,868,235	248,867,868,235
Interest and commissions receivable, net	3,264,474,472	3,264,474,472	2,310,064,446	2,310,064,446
Available-for-sale assets	66,084,375	33,192,860	-	-
	<u>898,478,412,366</u>	<u>898,633,659,275</u>	<u>434,025,485,652</u>	<u>434,171,886,695</u>
<b>Liabilities</b>				
Customer deposits	857,874,690,294	857,874,690,294	422,348,001,046	422,348,001,046
Borrowings	67,615,869	67,615,869	83,417,106	83,417,106
Interest and commissions payable	192,965,271	192,965,271	179,600,591	179,600,591
	<u>858,135,271,434</u>	<u>858,135,271,434</u>	<u>422,611,018,743</u>	<u>422,611,018,743</u>

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**Short-term financial instruments**

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

**Investment securities**

The fair value of investments in available-for-sale and held-to-maturity securities was determined using quoted market prices, reference prices determined from trading operations on the secondary market, the present value of estimated future cash flows and quoted market prices of financial instruments with similar characteristics (Note 5-a and b). 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 June 30, 2017 and December 31, 2016, 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.