

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

Report of Independent Accountant and Financial
Statements

June 30, 2018



Report of Independent Accountant

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

Report on the financial statements

We have audited the accompanying financial statements of Banco Nacional de Crédito, C.A., Banco Universal (the Bank) and its Curacao Branch, which comprise the balance sheet as at June 30, 2018, and the statements of income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting rules and instructions of the Superintendency of Banking Sector Institutions (SUDEBAN), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Independent accountant's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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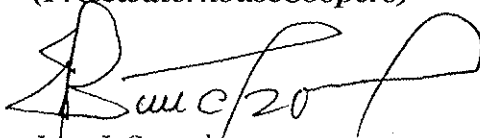
Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Banco Nacional de Crédito, C.A., Banco Universal and its Curacao Branch as at June 30, 2018, and their financial performance and their cash flows for the six-month period then ended, in conformity with the accounting rules and instructions of SUDEBAN.

Emphasis on matter

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

Pacheco, Apostólico y Asociados
(PricewaterhouseCoopers)

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

Juan J. Camacho
CPC 16072
CP 498
SNV 22

August 22, 2018

Banco Nacional de Crédito, C.A., Banco Universal
Balance sheet
June 30, 2018 and December 31, 2017

	June 30, 2018	December 31, 2017
	(In bolivars)	
Assets		
Cash and due from banks	<u>31,084,510,086,065</u>	<u>2,566,587,176,741</u>
Cash	258,029,386,352	13,862,171,127
Central Bank of Venezuela (Notes 3, 4 and 26)	26,041,310,990,115	2,472,231,356,386
Venezuelan banks and other financial institutions	232,140,010,245	10,026,819,679
Foreign and correspondent banks (Notes 3 and 4)	3,222,842,245,476	468,698,864
Pending cash items (Note 3)	1,330,187,453,877	69,998,130,685
Investment securities (Note 5)	<u>6,211,238,892,575</u>	<u>72,489,322,764</u>
Deposits with the BCV and overnight deposits	581,884,776,000	6,627,419,000
Investments in available-for-sale securities	1,275,707,554,019	18,473,795,401
Investments in held-to-maturity securities	3,772,065,226,139	9,976,801,659
Restricted investments	389,355,647,417	108,465,460
Investments in other securities	192,225,689,000	37,302,841,244
Loan portfolio (Note 6)	<u>44,220,217,992,269</u>	<u>1,592,216,430,586</u>
Current	45,676,651,565,786	1,622,158,787,324
Rescheduled	21,852,369	27,790,852
Overdue	74,186,507,765	51,825,025
(Allowance for losses on loan portfolio)	(1,530,641,933,651)	(30,021,972,615)
Interest and commissions receivable (Note 7)	<u>88,572,663,327</u>	<u>9,765,020,979</u>
Interest receivable on investment securities	75,612,050,241	1,048,912,721
Interest receivable on loan portfolio	69,615,134,180	8,768,573,180
Commissions receivable	753,589,059	25,388,643
Interest and commissions receivable on other accounts receivable	2,479,034,631	-
(Provision for interest receivable and other)	(59,887,144,784)	(77,853,565)
Available-for-sale assets (Note 9)	<u>43,113,388,959</u>	<u>57,915,727</u>
Property and equipment (Note 10)	<u>711,667,378,958</u>	<u>91,606,700,491</u>
Other assets (Note 11)	<u>1,277,241,272,575</u>	<u>78,474,748,400</u>
Total assets	<u>83,636,561,674,728</u>	<u>4,411,197,315,688</u>
Memorandum accounts (Note 20)		
Contingent debtor accounts	3,785,082,081,263	53,181,978,434
Assets received in trust	1,669,761,701,436	30,454,120,461
Debtor accounts from other special trust services (Housing Loan System)	40,796,818,672	11,319,040,167
Other debtor memorandum accounts	85,420,013,281,310	3,532,541,215,873
	<u>90,915,653,882,681</u>	<u>3,627,496,354,935</u>

The accompanying notes are an integral part of the financial statements

Banco Nacional de Crédito, C.A., Banco Universal
Balance sheet
June 30, 2018 and December 31, 2017

	June 30, 2018	December 31, 2017
	(In bolivars)	
Liabilities and Equity		
Customer deposits (Note 12)	<u>73,853,813,130,959</u>	<u>4,075,317,661,828</u>
Demand deposits	<u>60,102,385,955,467</u>	<u>3,516,576,901,892</u>
Non-interest-bearing checking accounts	51,849,310,974,245	3,136,395,812,027
Interest-bearing checking accounts	4,545,531,316,575	237,136,784,813
Checking accounts under Exchange Agreement No. 20	1,427,252,497,122	51,709,822
Demand deposits and certificates	2,280,291,167,525	142,992,595,230
Other demand deposits	1,808,873,297,298	21,168,211,959
Savings deposits	10,741,760,918,508	515,170,443,484
Time deposits	924,833,686,936	22,377,818,959
Restricted customer deposits	275,959,272,750	24,285,534
Borrowings (Note 13)	<u>3,120,643,697</u>	<u>137,966,254</u>
Venezuelan financial institutions, up to one year	2,874,858,769	126,959,030
Foreign financial institutions, up to one year	245,784,928	11,007,224
Interest and commissions payable (Note 14)	<u>9,200,684,041</u>	<u>365,025,830</u>
Expenses payable on customer deposits	<u>9,200,684,041</u>	<u>365,025,830</u>
Accruals and other liabilities (Note 15)	<u>4,881,793,126,668</u>	<u>162,785,883,030</u>
Total liabilities	<u>78,747,927,585,365</u>	<u>4,238,606,536,942</u>
Equity (Note 22)		
Capital stock	3,691,930,372	3,031,930,372
Contributions pending capitalization	38,070,921,053	23,383,714,351
Capital reserves	3,799,680,506	3,121,220,855
Retained earnings	999,524,869,009	57,778,185,629
Adjustment from revaluation of property and equipment	46,333,412,470	46,333,412,470
Exchange gain from holding foreign currency assets and liabilities	3,796,848,374,341	38,146,664,196
Net unrealized gain on investments in available-for-sale securities (Note 5)	<u>364,901,612</u>	<u>795,650,873</u>
Total equity	<u>4,888,634,089,363</u>	<u>172,590,778,746</u>
Total liabilities and equity	<u>83,636,561,674,728</u>	<u>4,411,197,315,688</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, 2018 and December 31, 2017

	June 30, 2018	December 31, 2017
	(In bolivars)	
Interest income	<u>3,829,634,148,453</u>	<u>178,590,910,879</u>
Income from cash and due from banks	6,092,241,519	42,083
Income from investment securities	66,014,483,391	1,898,056,197
Income from loan portfolio	3,733,104,583,246	176,664,706,461
Income from other accounts receivable	24,422,628,684	28,106,138
Other interest income	211,613	-
Interest expense	<u>(171,038,769,043)</u>	<u>(20,612,025,654)</u>
Expenses from customer deposits	(170,859,743,739)	(20,584,889,110)
Expenses from borrowings	-	(6,416,667)
Other interest expense	(179,025,304)	(20,719,877)
Gross financial margin	<u>3,658,595,379,410</u>	<u>157,978,885,225</u>
Income from financial assets recovered	141,985,166	100,987,015
Expenses from uncollectible loans and other accounts receivable (Notes 6, 7 and 15)	<u>(903,994,882,939)</u>	<u>(19,927,223,765)</u>
Net financial margin	2,754,742,481,637	138,152,648,475
Other operating income (Note 17)	794,777,774,396	44,618,677,189
Other operating expenses (Note 18)	<u>(420,689,243,834)</u>	<u>(9,790,615,418)</u>
Financial intermediation margin	<u>3,128,831,012,199</u>	<u>172,980,710,246</u>
Operating expenses	<u>(1,422,478,915,725)</u>	<u>(86,284,738,594)</u>
Salaries and employee benefits (Note 2-j)	(514,612,895,403)	(22,488,452,661)
General and administrative expenses (Note 19)	(876,191,538,473)	(57,223,869,181)
Fees paid to the Social Bank Deposit Protection Fund (Note 24)	(28,808,584,142)	(5,862,741,228)
Fees paid to the Superintendency of Banking Sector Institutions (Note 25)	<u>(2,865,897,707)</u>	<u>(709,675,524)</u>
Gross operating margin	1,706,352,096,474	86,695,971,652
Income from available-for-sale assets (Notes 9 and 20)	1,589,123,734	1,102,854,799
Sundry operating income	1,064,497,703	139,790,473
Expenses from available-for-sale assets	(9,652,621)	-
Sundry operating expenses (Note 18)	<u>(33,382,823,715)</u>	<u>(2,275,734,543)</u>
Net operating margin	<u>1,675,613,241,575</u>	<u>85,662,882,381</u>
Extraordinary expenses	<u>(639,698,612)</u>	<u>(780,846,765)</u>
Gross income before tax	1,674,973,542,963	84,882,035,616
Income tax (Note 16)	<u>(732,053,399,932)</u>	<u>(45,736,811,595)</u>
Net income	<u>942,920,143,031</u>	<u>39,145,224,021</u>
Appropriation of net income		
Legal reserve	660,000,000	-
Retained earnings	<u>942,260,143,031</u>	<u>39,145,224,021</u>
	<u>942,920,143,031</u>	<u>39,145,224,021</u>
Provision for the Antidrug Law (Notes 1 and 18)	<u>16,751,988,324</u>	<u>763,588,121</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, 2018 and December 31, 2017

	Paid-in capital stock	Share premium and contributions pending capitalization	Capital reserves	Retained earnings				Adjustment from revaluation of property and equipment	Exchange gain from holding foreign currency assets and liabilities	Unrealized gain on investment securities (Note 5)	Total equity	
				Unappropriated surplus	Restricted surplus	Non-distributable surplus	Cumulative loss					Total
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
Contributions pending capitalization (Note 22)	-	11,346,304,654	-	-	-	-	-	-	-	-	-	11,346,304,654
Adjustment of investments in available-for-sale securities to market value	-	-	-	-	-	-	-	-	-	-	(47,342,713)	(47,342,713)
Exchange difference from collection of letters of credit in foreign currency (Note 6)	-	-	-	-	-	-	-	-	-	26,945,920,609	-	26,945,920,609
Net income	-	-	-	39,145,224,021	-	-	-	39,145,224,021	-	-	-	39,145,224,021
Creation of the Social Contingency Fund (Note 22)	-	-	15,159,652	(15,159,652)	-	-	-	(15,159,652)	-	-	-	-
Reclassification of net income of the Curacao Branch (Note 22)	-	-	-	(49,337,296)	-	49,337,296	-	-	-	-	-	-
Adjustment from revaluation of property and equipment (Note 10)	-	-	-	-	-	-	-	-	24,408,202,873	-	-	24,408,202,873
Reclassification to restricted surplus of 50% of net income for the period (Note 22)	-	-	-	(19,547,943,363)	19,547,943,363	-	-	-	-	-	-	-
Balances at December 31, 2017	3,031,930,372	23,383,714,351	3,121,220,855	29,618,759,637	28,193,034,492	86,967,101	(120,575,601)	57,778,185,629	46,333,412,470	38,146,664,196	795,650,873	172,590,778,746
Contributions pending capitalization (Note 22)	-	14,852,206,702	-	-	-	-	-	-	-	-	-	14,852,206,702
Capital stock increase (Note 22)	660,000,000	(165,000,000)	-	-	(495,000,000)	-	-	(495,000,000)	-	-	-	-
Adjustment of investments in available-for-sale securities to market value	-	-	-	-	-	-	-	-	-	-	(430,749,261)	(430,749,261)
Net income	-	-	-	942,920,143,031	-	-	-	942,920,143,031	-	-	-	942,920,143,031
Legal reserve (Note 22)	-	-	660,000,000	(660,000,000)	-	-	-	(660,000,000)	-	-	-	-
Creation of the Social Contingency Fund (Note 22)	-	-	18,459,651	(18,459,651)	-	-	-	(18,459,651)	-	-	-	-
Reclassification of net income of the Curacao Branch (Note 22)	-	-	-	160,729,756,630	-	-	(160,729,756,630)	-	-	-	-	-
Exchange gain, net (Note 4)	-	-	-	-	-	-	-	-	-	3,758,701,710,145	-	3,758,701,710,145
Reclassification to restricted surplus of 50% of net income for the period (Note 22)	-	-	-	(471,130,071,516)	471,130,071,516	-	-	-	-	-	-	-
Balances at June 30, 2018	<u>3,691,930,372</u>	<u>38,070,921,053</u>	<u>3,799,680,506</u>	<u>661,460,128,131</u>	<u>498,828,106,008</u>	<u>86,967,101</u>	<u>(160,850,332,231)</u>	<u>999,524,869,009</u>	<u>46,333,412,470</u>	<u>3,796,848,374,341</u>	<u>364,901,612</u>	<u>4,888,634,089,363</u>

Net income per share (Note 2-n)

	Six-month periods ended	
	June 30, 2018	December 31, 2017
Weighted average of outstanding shares	<u>3,503,358,943</u>	<u>3,031,930,372</u>
Income per share	<u>Bs 269.147</u>	<u>Bs 12.911</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, 2018 and December 31, 2017

	June 30, 2018	December 31, 2017
	(In bolivars)	
Cash flows from operating activities		
Net income	942,920,143,031	39,145,224,021
Adjustments to reconcile net income to net cash provided by operating activities		
Investment securities written off	-	(101,280)
Allowance for losses on loan portfolio	844,664,100,273	19,802,670,452
Provision for contingent loans	7,129,196	4,825,694
Release of allowance for losses on loan portfolio		(34,166,998)
Provision for interest receivable	59,323,653,470	119,727,619
Provision for other assets	237,403,254	-
Depreciation of property and equipment and amortization of deferred charges	21,471,614,141	3,122,521,425
Accrual for length-of-service benefits	229,800,932,494	3,404,080,052
Transfers to trust fund and payment of length-of-service benefits	(14,139,739,062)	(1,243,080,052)
Income tax provision	715,168,974,954	36,450,029,879
Deferred income tax	16,884,424,978	9,286,781,716
Net change in		
Overnight deposits	(575,257,357,000)	(4,526,302,000)
Interest and commissions receivable	(26,290,374,434)	(6,620,274,126)
Other assets	(1,139,825,363,944)	(61,200,351,898)
Accruals and other liabilities	2,948,650,599,291	81,920,998,939
Net cash provided by operating activities	<u>4,023,616,140,642</u>	<u>119,632,583,443</u>
Cash flows from financing activities		
Contributions pending capitalization	14,852,206,702	11,346,304,654
Net change in		
Customer deposits	69,339,046,671,369	3,217,442,971,534
Borrowings	2,982,677,443	70,350,385
Interest and commissions payable	7,829,482,138	172,060,559
Net cash provided by financing activities	<u>69,364,711,037,652</u>	<u>3,229,031,687,132</u>
Cash flows from investing activities		
Loans granted during the period	(81,909,446,610,351)	(2,342,259,679,048)
Loans collected during the period	38,497,621,739,030	1,276,339,664,594
Net change in		
Investments in available-for-sale securities	(1,257,664,507,879)	(331,993,801)
Investments in held-to-maturity securities	(1,382,124,429,354)	(639,815,484)
Restricted investments	(389,247,181,957)	20,631,804
Investments in other securities	(154,922,847,756)	(30,000,000,000)
Property and equipment	(624,122,609,951)	(24,183,840,373)
Net cash used in investing activities	<u>(47,219,906,448,218)</u>	<u>(1,121,055,032,308)</u>
Cash and due from banks		
Net change in cash and cash equivalents	26,168,420,730,076	2,227,609,238,267
Exchange gain	2,349,502,179,248	
At the beginning of the period	<u>2,566,587,176,741</u>	<u>338,977,938,474</u>
At the end of the period	<u>31,084,510,086,065</u>	<u>2,566,587,176,741</u>
Supplementary information on non-cash activities		
Write-off of uncollectible loans (Note 6)	104,013,753,793	183,916,915
Write-off of uncollectible loans (interest) (Note 7)	16,107,406	9,809,747
Reclassification of excess in (Notes 6, 7 and 11)		
Interest receivable to allowance for losses on loan portfolio	(96,330,883)	(75,452,440)
Interest receivable to other assets	(595,128,450)	(51,750)
Change in net unrealized gain on investments in available-for-sale securities (Note 5-b)	430,749,261	47,342,713
Loans collected through assets received as payment	43,113,388,959	57,915,727
Adjustment from revaluation of property and equipment (Note 10)	-	24,408,202,873
Creation of the Social Contingency Fund (Note 22)	18,459,651	15,159,652
Exchange difference from collection of letters of credit in foreign currency	-	26,945,920,609
exchange gain, net, recorded in equity		
Cash and due from banks	2,349,502,179,248	-
Loan portfolio	100,335,264,121	-
Investment securities	2,379,963,995,126	-
Interest and commissions receivable	111,840,921,384	-
Other assets	73,435,841,388	-
Property and equipment	3,152,404,754	-
Available-for-sale assets	3,560,999,746	-
Customer deposits	(439,448,797,762)	-
Accruals and other liabilities	(822,634,921,787)	-
Interest and commissions payable	(1,006,176,073)	-

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, 2018 and December 31, 2017

1. Activities and regulatory environment

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

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

Most of the Bank's assets are located in the Bolivarian Republic of Venezuela. At June 30, 2018 and December 31, 2017, the Bank has 178 and 179 offices and external counters, respectively, a branch in Curacao, a main office and 2,671 and 3,139 employees, respectively.

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

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

The Bank's financial statements at June 30, 2018 and December 31, 2017 were approved for issue by the Board of Directors on July 11, 2018 and January 10, 2018, respectively.

Branch in Curacao

In October 2008, the Bank requested authorization from the Superintendency of Banking Sector Institutions (SUDEBAN) to open a branch in Willemstad, Curacao (hereinafter the Branch). SUDEBAN, through Notice SBIF-DSB-II-GGTE-GEE-07154 of May 18, 2009, and the Central Bank of Curacao and St. Maarten, through Communication Lcm/ni/2009-001159 of November 5, 2009, authorized the opening of this branch.

The Branch's activities are ruled by the Law on Banking Sector Institutions and the Law of Banks of Curacao and St. Maarten, regulations issued by the Central Bank of Curacao and St. Maarten, as well as the prudential rules and other instructions of SUDEBAN, the Higher Authority of the National Financial System (OSFIN) and the Central Bank of Venezuela (BCV). The Branch is not an economically independent entity and conducts transactions following the Bank's guidelines. The Branch operates under an off-shore license granted by the Central Bank of Curacao and St. Maarten and SUDEBAN in Venezuela. Capital assigned to the Branch has been contributed by the Bank (Note 8).

Trust fund

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

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

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

Banco Nacional de Crédito, C.A, Banco Universal
Notes to the financial statements
June 30, 2018 and December 31, 2017

Regulatory environment

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

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

Law on Banking Sector Institutions

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

Law of the National Financial System

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

Central Bank of Venezuela (BCV)

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

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

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

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

Subsequent event

Monetary redenomination

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

Banco Nacional de Crédito, C.A, Banco Universal
Notes to the financial statements
June 30, 2018 and December 31, 2017

Law for the Advancement of Science, Technology and Innovation

This Law establishes that the country's major corporations will annually earmark 0.5% of gross income generated in Venezuela in the prior year to investments in science, technology and innovation and their applications. Contributions must be paid and declared within the second quarter after the closing of the period in which gross income was generated. During the six-month periods ended June 30, 2018 and December 31, 2017, the Bank recorded expenses in this connection of Bs 726,753,116 and Bs 119,556,982, respectively, included under sundry operating expenses (Note 18).

Antidrug Law

This Law requires all private corporations, consortia and business-oriented public entities with 50 or more employees to contribute 1% of their annual operating income to the National Antidrug Fund (FONA) within 60 days of their respective year end. These contributions will be used to finance plans and projects for the prevention of illegal drug trafficking. Companies belonging to economic groups will make contributions on a consolidated basis. For the six-month periods ended June 30, 2018 and December 31, 2017, the Bank recorded expenses in this connection of Bs 16,751,988,323 and Bs 763,588,121, respectively, included under sundry operating expenses (Note 18).

Sports and Physical Education Law

This Law seeks to regulate physical education and the sponsorship, organization and management of sporting activities as public services. Companies subject to this Law must contribute 1% of their net or accounting income to the activities contemplated therein. During the six-month periods ended June 30, 2018 and December 31, 2017, the Bank recorded expenses in this connection of Bs 11,177,010,945 and Bs 391,139,684, respectively, included within sundry operating expenses (Note 18).

New Labor Law

The most relevant aspects of the New Labor Law (LOTTT) include: calculation of certain employee benefits, such as vacation bonus, profit sharing, maternity leave, and the retrospective accrual of length-of-service benefits. In addition, the LOTTT reduces working hours and extends job security for parents. This Law became effective upon its publication in Official Gazette.

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

Subsequent event

On August 17, 2018, the Venezuelan government announced a series of tax, labor and exchange measures, which will be effective as from their publication in the Official Gazette. Management considers that these new measures, as established in the accounting standards, are events that do not require adjustments to the financial statements at June 30, 2018; however, they could have significant impacts on the Company's balance sheet, income statement and cash flow statement. To date, management is awaiting for the corresponding regulations to be published in Official Gazette and is assessing their future impacts on its financial statements.

Banco Nacional de Crédito, C.A, Banco Universal
Notes to the financial statements
June 30, 2018 and December 31, 2017

2. Basis of preparation

The accompanying financial statements at June 30, 2018 and December 31, 2017 have been prepared based on the accounting rules and instructions of SUDEBAN included in the Accounting Manual, which differ in certain material respects from accounting principles generally accepted in Venezuela (VEN NIF) published by the FCCPV, of mandatory application in Venezuela as from January 1, 2008. VEN NIF are mainly based on International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), except for certain criteria concerning adjustments for inflation and the valuation of foreign currency assets and liabilities, among others.

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, 2018 and December 31, 2017, the main differences identified by management between the accounting rules and instructions of SUDEBAN and VEN NIF that affect the Bank are the following:

1) Inflation-adjusted financial statements

VEN NIF require that the effects of inflation on the financial statements be recognized, provided that inflation for the year exceeds one digit. SUDEBAN has stipulated that inflation-adjusted financial statements must be provided as supplementary information. Through Circular SIB-II-GGR-GNP-13834 of August 17, 2018, SUDEBAN deferred the presentation of the supplementary financial statements prepared under generally accepted accounting principles, effective at December 31, 2007 (PCGA-Ven), and inflation-adjusted financial statements for the six-month period ended June 30, 2018; this supplementary information will be presented for purposes of comparison with the information at the end of the second semester of 2018.

2) Other comprehensive income

In accordance with the Accounting Manual, the financial statements comprise the balance sheet, the income statement, the statement of changes in equity, the cash flow statement and the set of notes that include a summary of significant accounting policies and other explanatory information. According to VEN NIF, the statement of other comprehensive income is also shown as part of the financial statements, either as part of the income statement or in the form of a stand-alone section.

3) Cash equivalents

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

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

Discounts or premiums on held-to-maturity investments are amortized over the term of the security with a debit or credit to gains or losses for the period under other income and other operating expenses, respectively. According to VEN NIF, the amortization of the premium or discount of investments carried at amortized cost, is part of income from effective interest of securities, therefore, it would be recorded as part of interest income.

5) Permanent losses on investment securities

Subsequent recoveries of permanent losses arising from impairment in the fair value of investment securities do not affect the new cost basis. For VEN NIF impairment losses recognize expected credit losses over the life of the assets for all financial instruments in respect of which credit risk has significantly increased since initial recognition; therefore, impairment losses in respect of this financial instrument will be adjusted at an amount equal to credit losses expected over the next 12 months.

Banco Nacional de Crédito, C.A, Banco Universal
Notes to the financial statements
June 30, 2018 and December 31, 2017

6) Investments in other securities

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

7) Valuation of reclassified securities

a) Reclassification of held-to-maturity securities to available-for-sale securities

According to VEN NIF, when investments measured at amortized cost are reclassified to investments at fair value and such transfer is due to a change in their original intended use not qualified as an isolated, external, nonrecurring or unusual event affecting the Bank, all investments remaining in this category must be reclassified to investments at fair value. According to SUDEBAN rules, reclassifications of held-to-maturity securities must be approved by SUDEBAN.

b) Reclassification of available-for-sale securities to held-to-maturity securities

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

8) Overdue loan portfolio

The Accounting Manual establishes that interest earned on overdue or in-litigation loans shall not be recognized as income but shall be recorded under memorandum accounts, as shall all subsequent interest earned. VEN NIF establish that for financial instruments carried at amortized cost, the amount of the impairment is the difference between the instrument's carrying amount and the present value of estimated future cash flows generated by the instrument, discounted at the original effective interest rate. Impairment exists when the present value of an instrument's future cash flows is lower than the carrying amount, in which case interest income shall be recognized in the income statement, taking into account the effective interest rate applied to future cash flows for determining impairment losses.

9) Rescheduled loan portfolio

The Accounting Manual establishes that loans whose original repayment schedule, term, or other conditions have been modified at the request of the debtor must be reclassified within rescheduled loans. In addition, the Accounting Manual establishes that loans classified as overdue must be written off within 24 months after inclusion in this category. Loans in litigation must be fully provided for after 24 months in the in-litigation category. In addition, overdue monthly loan installments that have been repaid must be classified to the category to which they pertained before being classified as overdue. Likewise, when a debtor repays pending loan installments of a loan in litigation, thereby terminating the lawsuit, the loan must be reclassified to the category to which it pertained before being classified as in litigation or overdue. VEN NIF do not establish specific accounting criteria; however, any measurement of expected credit losses from a financial instrument shall reflect: a) an unbiased and probability-weighted amount that is determined by evaluating the range of possible outcomes; b) the time value of money; and c) reasonable and supportable information, that is available without undue cost or effort at the reporting date, about past events, current conditions and forecasts of future economic conditions.

Banco Nacional de Crédito, C.A, Banco Universal
Notes to the financial statements
June 30, 2018 and December 31, 2017

10) Allowance for losses on loan portfolio

Allowances for losses on the loan portfolio are determined based on a collectibility assessment for individual loans, a global risk assessment for loans not assessed individually and a general allowance of 1% over loan balances at month end, except for microcredits, which are subject to a general 2% allowance. In addition to the minimum general and specific allowances required for the loan portfolio, SUDEBAN established a general countercyclical allowance equivalent to 0.75% of the gross loan portfolio balance. VEN NIF require the allowance for losses on the loan portfolio to be determined based on asset recoverability, considering the fair value of guarantees, and do not provide for a general allowance, which would have to be accounted for as a reduction of retained earnings in the statement of changes in equity.

11) Commissions collected and deferred income

Accounting practices used by banks require commissions receivable on loans to be recorded as income when collected. In addition, interest on current and rescheduled loans collectible after 6 months or more is recorded as deferred income under accruals and other liabilities when earned and as income when collected. According to VEN NIF, these commissions should be initially recognized as part of the loan value, and should be amortized as income over the term of the loan forming part of income from effective loan interest.

12) Assets received as payment and idle assets

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

13) Property and equipment

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

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

14) Leasehold improvements

Significant leasehold improvements are recorded as amortizable expenses and included under other assets. According to VEN NIF, they must be shown as part of property and equipment. Gains or losses on the sale of personal and real property are shown in the income statement.

15) Provisions

The Accounting Manual establishes timeframes to record provisions for bank reconciling items, matured securities, pending items and accounts receivable forming part of other assets, loan portfolio interest suspension, interest receivable and recognition of certain assets, among others. VEN NIF do not establish timeframes for creating provisions for these items; provisions are recorded based on best estimates of collection or recovery.

Banco Nacional de Crédito, C.A, Banco Universal
Notes to the financial statements
June 30, 2018 and December 31, 2017

16) Deferred tax

The Bank computes a deferred tax asset or liability in respect of temporary differences between the tax base and carrying amounts in the financial statements, except for provisions for losses on other than high risk or unrecoverable loans, which generate a deferred tax asset, and surplus from revaluation of property and equipment, and exchange gain recorded in equity, since they are recorded according to SUDEBAN rules and instructions. A deferred tax asset is not recognized for any amount exceeding future taxable income. In accordance with VEN NIF, a deferred tax asset is recognized in respect of all temporary differences between the carrying amount of assets and liabilities and their tax bases, provided that its realization is assured beyond any reasonable doubt.

17) Foreign currency

Foreign currency transactions, mainly in U.S. dollars, are recorded at the official exchange rate in effect at the transaction date and balances are adjusted to the official rate prevailing at year end. The assets, liabilities and equity of the Branch abroad are translated at the effective exchange rate. Income accounts are translated at the average official exchange rate for the period. VEN NIF establish two options for measuring foreign currency transactions and balances: a) at the official exchange rates established in the exchange agreements issued by the BCV or b) on the basis of best estimates of future cash flows in bolivars expected to be obtained using the exchange or settlement mechanisms permitted under Venezuelan law. VEN NIF establish that exchange gains and losses on available-for-sale or held-to-maturity securities must be included in the income statement.

SUDEBAN established that gains or losses resulting from foreign exchange fluctuations must be recorded in equity. Under VEN NIF, gains and losses resulting from foreign exchange fluctuations must be recorded in the income statement for the period in which they occur.

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

The accounting policies followed by the Bank are:

a) Foreign currency

Foreign currency balances and transactions are recorded at the official exchange rate in effect at the transaction date. At June 30, 2018 and December 31, 2017, foreign currency balances and transactions are shown at the official exchange rate of Bs 114,712.50/US\$1 and 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. 008.18 of February 8, 2018, SUDEBAN established that: a) gains resulting from changes in the official exchange rate must be recorded in equity and may only be used, subject to previous approval, to offset losses, create contingency provisions for assets, offset deferred expenses (including goodwill), increase capital stock (Note 22), and b) exchange gains and losses arising from exchange fluctuations of the U.S. dollar with respect to other foreign currencies are recorded in net results for the period (Notes 17 and 18).

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

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

Banco Nacional de Crédito, C.A, Banco Universal
Notes to the financial statements
June 30, 2018 and December 31, 2017

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 114,712.50/US\$1 and Bs 9.975/US\$1 at June 30, 2018 and December 31, 2017, Note 8.

c) Investment securities

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

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

Deposits with the BCV and overnight deposits

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

Investments in available-for-sale securities

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

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

Investments in held-to-maturity securities

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

The Bank assesses monthly, if circumstances require it, whether there is any objective evidence that a financial asset or group of financial assets is impaired. An impairment in the fair value of held-to-maturity securities is charged to the results for the period when management considers that it is other than temporary. Certain factors identified as indicators of impairment are: 1) a prolonged period where fair value remains substantially below cost; 2) the financial difficulty of the issuer; 3) a fall in the issuer's credit rating; 4) the disappearance of an active market for the security; and 5) the Bank's intention and ability to hold the investment long enough to allow for recovery of fair value, among others. For the six-month periods ended June 30, 2018 and December 31, 2017, the Bank has identified no unrecorded permanent impairment in the value of its investments (Note 5-c).

Banco Nacional de Crédito, C.A, Banco Universal
Notes to the financial statements
June 30, 2018 and December 31, 2017

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

Restricted investments

Restricted investments originating from other investment categories are measured using the same criteria used to record those investments from which they are derived. Securities or loans which the Bank contractually sells and commits to repurchase at an agreed date and price, i.e., for which the Bank acts as the reporting entity, are valued using the same criteria as for investments in trading securities (Note 5-d).

Investments in other securities

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

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

d) Loan portfolio

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

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

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

e) Use of estimates in the preparation of financial statements

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

Investment securities

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

Banco Nacional de Crédito, C.A, Banco Universal
Notes to the financial statements
June 30, 2018 and December 31, 2017

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

Allowance for losses on loan portfolio and provision for contingent loans

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

Provision for other assets

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

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, 2018 and December 31, 2017 be favorable to the Bank (Note 27). However, this opinion is based on events to date; the outcome of these lawsuits could differ from that expected.

f) Available-for-sale assets

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

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

g) Property and equipment

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

h) Deferred expenses

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

i) Income tax

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

Banco Nacional de Crédito, C.A, Banco Universal
Notes to the financial statements
June 30, 2018 and December 31, 2017

j) Employee benefits

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

Accrual for length-of-service benefits

Based on the provisions of the LOTT and the Bank's Collective Labor Agreement, length-of-service benefits are a vested right of employees. Under the LOTT, the Bank transfers guaranteed length-of-service benefits monthly to a trust fund on behalf of each employee. In addition, the LOTT establishes that length-of-service benefits will be calculated retrospectively upon termination of employment considering the last salary earned by the employee and length of service. The LOTT requires the payment to employees at employment termination of the higher of retrospective length-of-service benefits and total amounts accrued in the employee's trust fund. During the six-month periods ended June 30, 2018 and December 31, 2017, the effect of the retrospective scheme was determined using a non-actuarial calculation, which consisted in determining length-of-service benefits according to Article N° 142 b) of the LOTT. An additional expense and an additional liability were recognized for employees whose benefits in the guarantee fund are less than the amount calculated using the retrospective scheme. At June 30, 2018 and December 31, 2017, this additional liability amounted to Bs 220,756,624,298 and Bs 5,095,430,866, respectively, included under accruals and other liabilities (Note 15).

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, 2018 and December 31, 2017, employee salaries may differ from future salaries due to changes in salaries, bonuses and other payments.

Under certain conditions, the LOTT 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, 2018 and December 31, 2017, the method used by the Bank to calculate length-of-service benefits comply with the provisions set out by SUDEBAN, the LOTT and the prevailing Collective Labor Agreement.

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

Profit sharing

Under the Collective Labor Agreement, the Bank is required to pay a share of its annual profits to its employees of up to 150 days of salary. Expenses incurred in this connection during the first six-month period of each year are paid in April and July, and the remaining amount in November. For the six-month periods ended June 30, 2018 and December 31, 2017, the Bank has recorded Bs 46,362,701,389 and Bs 3,450,155,932, respectively, in this connection, shown under salaries and employee benefits. At June 30, 2018, the Bank maintains an accrual of Bs 40,961,066,472 to cover expenses in this connection (Note 15).

Vacation leave and vacation bonus

The LOTT and the Collective Labor Agreement grant each employee a minimum of 15 days of vacation leave each year and a vacation bonus of 23 days of salary based on length of service. For the six-month periods ended June 30, 2018 and December 31, 2017, the Bank recorded expenses in this connection for Bs 36,821,191,694 and Bs 552,919,639, respectively, shown under salaries and employee benefits. At June 30, 2018 and December 31, 2017, the Bank maintains accruals of Bs 40,161,450,696 and Bs 988,989,153, respectively, to cover expenses in this connection (Note 15).

Banco Nacional de Crédito, C.A, Banco Universal
Notes to the financial statements
June 30, 2018 and December 31, 2017

k) Recognition of revenue and expenses

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

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

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

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

Service fees (mainly from point-of-sale transactions and use of credit cards) are recorded as income or expense when collected or paid, respectively, at the transaction date, and are shown within other operating income and other operating expenses, respectively (Notes 17 and 18).

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

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

l) Residual value

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

m) Assets received in trust

Assets received in trust are valued using the same parameters used by the Bank to value its own assets, except for investment securities, which are shown at cost and subsequently adjusted for amortization of premiums or discounts. Any permanent impairment in the value of these investments is recorded in trust fund results for the period in which it occurs. During the six-month periods ended June 30, 2018 and December 31, 2017, no permanent losses were identified.

The Bank acts as custodian, administrator and manager of third-party investments. As a result, in certain cases, the Bank purchases and sells a wide range of financial instruments. These trust fund assets are not included in the Bank's assets. At June 30, 2018, trust fund assets amount to Bs 1,669,761,701,436 (Bs 30,454,120,461 at December 31, 2017), shown under memorandum accounts (Note 20).

n) Net income per share

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

o) Cash flows

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

p) Financial risk management

The Bank is mainly exposed to credit and market risks (foreign exchange and interest rate risk), liquidity and operational risks. Below is the risk policy used by the Bank for each type of risk:

Banco Nacional de Crédito, C.A, Banco Universal
Notes to the financial statements
June 30, 2018 and December 31, 2017

Credit risk

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

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

Market risk

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

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

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

1) Foreign exchange risk

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

2) Interest rate risk

The Bank assumes exposure from the effects of fluctuations in market interest rate levels on its financial position and cash flows.

Interest margins may increase as a result of such changes but may diminish or lead to losses in the event of unexpected movements.

The Bank analyzes its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration renewal of existing positions, alternative financing and hedging. Based on these scenarios, the Bank calculates the impact on profit and loss of a given interest rate shift.

Simulations are performed regularly. Based on various scenarios, the Bank manages its cash flow interest rate risk.

Liquidity risk

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

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

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

Operational risk

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

Banco Nacional de Crédito, C.A, Banco Universal
Notes to the financial statements
June 30, 2018 and December 31, 2017

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

3. Cash and due from banks

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

	June 30, 2018	December 31, 2017
	(In bolivars)	
Demand deposits	10,589,359,767,154	1,544,778,433,506
Legal reserve (Note 26)	15,449,542,260,461	927,425,836,815
Other deposits with the BCV, include US\$21,000 (US\$2,715,395 at December 31, 2017) (Notes 4 and 15)	<u>2,408,962,500</u>	<u>27,086,065</u>
	<u>26,041,310,990,115</u>	<u>2,472,231,356,386</u>

At June 30, 2018 and December 31, 2017, the Bank has cash and due from foreign and correspondent banks for US\$12,441,996 and US\$2,489,547, equivalent to Bs 1,427,252,497,121 and Bs 24,833,232, respectively, deposited at BNC International Banking Corporation, in respect of deposits received in accordance with Exchange Agreement No. 20 (Notes 12 and 23). Through Circular VOI-GOC-BLOC/132 of October 13, 2016, the BCV agreed to exempt financial institutions from the obligation of transferring to BCV accounts all deposits in foreign currency received in accordance with Exchange Agreements Nos. 20 and 30 and, consequently, are authorized to maintain the aforementioned deposits in their correspondent accounts. To date, the Bank is awaiting instructions from regulatory entities to transfer funds in this connection.

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

At June 30, 2018 and December 31, 2017, pending cash items relate to clearinghouse operations conducted by the BCV and other banks.

4. Foreign currency assets and liabilities

a) Exchange control regime

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

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

The Venezuelan government and the BCV enacted Exchange Agreement No. 38 on May 19, 2017 to establish the new DICOM exchange rate system. This is a foreign currency auction system through which the BCV, individuals and private-sector companies may offer and purchase foreign currency. Public entities may only participate as bidders. Companies may purchase an amount equivalent to 30%

Banco Nacional de Crédito, C.A, Banco Universal
Notes to the financial statements
June 30, 2018 and December 31, 2017

of their average gross monthly income of the previous tax year per month, up to a maximum of US\$400,000; individuals may purchase up to US\$500 per quarter. At June 30, 2018 and December 31, 2017, the last exchange rate defined through this system was Bs 3,345/US\$1 and Bs 2,640/US\$1, respectively.

The Venezuelan government and the BCV enacted Exchange Agreement No. 39 on January 26, 2018. This Agreement establishes the DICOM exchange rate system, which is a foreign currency auction system through which the BCV, individuals and private-sector companies may offer and purchase foreign currency. Public entities may only participate as bidders. Companies may purchase, on a monthly basis, an amount equivalent to 30% of their average monthly gross income of the prior fiscal year, up to a maximum of €340,000, or its equivalent in another currency; individuals may purchase up to US\$420 per quarter. This Exchange Agreement repeals Exchange Agreements Nos. 35 and 38, with the exception of Article No. 7 of the latter. At June 30, 2018, the DICOM exchange rate is Bs 114,712.50/US\$1.

Annulment of the exchange control regime and related offenses

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

b) Applicable exchange rates

At June 30, 2018 and December 31, 2017, the exchange rate for transactions in U.S. dollars is Bs 114.712,50/US\$1 y Bs 9.975/US\$1, respectively, for all transactions.

At June 30, 2018 and December 31, 2017, the exchange rate for transactions in euros is Bs 11.966/€1 and Bs 133,915.373/€1 and Bs 11.966, respectively.

During the six-month period ended June 30, 2018, the Bank recorded net exchange gains of Bs 3,758,701,710,145, arising from exchange rate fluctuations of the U.S. dollar, recorded in equity under exchange gain from holding foreign currency assets and liabilities.

c) Net global position in foreign currency

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

	June 30, 2018					December 31, 2017				
	US\$				Equivalent in bolivars	US\$				Equivalent in bolivars
Bank	Curacao Branch	Eliminations	Total	Bank		Curacao Branch	Eliminations	Total		
Assets										
Cash and due from banks										
Cash	1,380,743	-	-	1,380,743	158,388,481,388	1,285,558	-	-	1,285,558	12,823,441
Central Bank of Venezuela (Note 3)	21,000	-	-	21,000	2,408,962,500	2,715,395	-	-	2,715,395	27,086,065
Foreign and correspondent banks	20,359,187	8,492,183	(756,417)	28,094,953	3,222,842,245,476	11,699,556	35,319,096	(31,297)	46,987,355	468,698,864
Investment securities (Note 5)	27,479,752	24,686,675	-	52,166,427	5,984,141,257,238	12,119,595	21,825,228	-	33,944,823	338,599,609
Loan portfolio (Note 6)										
Current	-	15,759,508	-	15,759,508	1,807,812,561,450	-	3,513,416	-	3,513,416	35,046,325
Outstanding letters of credit negotiated	-	-	-	-	-	-	9,862,681	-	9,862,681	98,380,243
Overdue	-	645,000	-	645,000	73,989,562,500	-	730,000	-	730,000	7,281,750
Overdue letters of credit negotiated	-	-	-	-	-	-	-	-	-	-
(Allowance for losses on loan portfolio)	-	(5,826,674)	-	(5,826,674)	(668,392,341,225)	-	(6,624,731)	-	(6,624,731)	(66,081,692)
Interest and commissions receivable (Note 7)	340,874	44,386	-	385,260	44,194,137,750	134,609	206,283	-	340,892	3,400,398
Investments in subsidiaries, affiliates and branches (Note 8)	5,815,347	-	(5,815,347)	-	-	7,220,782	-	(7,220,782)	-	-
Available-for-sale assets (Note 9)	-	375,418	-	375,418	43,065,137,325	-	-	-	-	-
Property and equipment (Note 10)	-	23,684	-	23,684	2,716,850,850	-	27,458	-	27,458	273,894
Other assets (Note 11)	691,668	8,291	-	699,959	80,294,046,788	248,345	7,024	-	255,369	2,547,306
Total assets	56,088,571	44,208,471	(6,571,764)	93,725,278	10,751,460,902,040	35,423,840	64,866,455	(7,252,079)	93,038,216	928,056,203

Banco Nacional de Crédito, C.A, Banco Universal
Notes to the financial statements
June 30, 2018 and December 31, 2017

	June 30, 2018					December 31, 2017				
	US\$					US\$				
	Bank	Curacao Branch	Eliminations	Total	Equivalent in bolivars	Bank	Curacao Branch	Eliminations	Total	Equivalent in bolivars
Liabilities and Equity										
Liabilities										
Customer deposits (Note 12)	12,441,996	38,240,217	(31,316)	50,650,897	5,810,291,022,113	5,183,941	57,566,730	(31,297)	62,719,374	625,625,756
Interest and commissions payable (Note 14)	-	53,038	-	53,038	6,084,121,575	-	29,326	-	29,326	292,527
Accruals and other liabilities (Note 15)	<u>3,819,371</u>	<u>99,869</u>	<u>(725,101)</u>	<u>3,194,139</u>	<u>366,407,670,038</u>	<u>4,708,336</u>	<u>49,617</u>	<u>-</u>	<u>4,757,953</u>	<u>47,460,581</u>
Total liabilities	<u>16,261,367</u>	<u>38,393,124</u>	<u>(756,417)</u>	<u>53,898,074</u>	<u>6,182,782,813,726</u>	<u>9,892,277</u>	<u>57,645,673</u>	<u>(31,297)</u>	<u>67,506,653</u>	<u>673,378,864</u>
Equity										
Assigned capital	-	7,599,462	(7,599,462)	-	-	-	7,599,462	(7,599,462)	-	-
Capital reserves	-	2,766,551	(2,766,551)	-	-	-	2,766,551	(2,766,551)	-	-
Retained earnings	-	(4,532,756)	4,532,756	-	-	-	(3,131,602)	3,131,602	-	-
Net unrealized loss on available-for-sale securities	-	(17,910)	17,910	-	-	-	(13,629)	13,629	-	-
Total equity	-	<u>5,815,347</u>	<u>(5,815,347)</u>	-	-	-	<u>7,220,782</u>	<u>(7,220,782)</u>	-	-
Total liabilities and equity	<u>16,261,367</u>	<u>44,208,471</u>	<u>(6,571,764)</u>	<u>53,898,074</u>	<u>6,182,782,813,726</u>	<u>9,892,277</u>	<u>64,866,455</u>	<u>(7,252,079)</u>	<u>67,506,653</u>	<u>673,378,864</u>
Contingent accounts (Note 20)	-	1,050,660	-	1,050,660	120,523,835,250	-	1,079,640	-	1,079,640	10,769,399
Memorandum accounts (Note 20)	79,509,518	10,658,943	-	90,168,461	10,343,449,582,463	95,488,606	10,757,851	-	106,246,457	1,059,808,409

At June 30, 2018 and December 31, 2017, the Bank has a net monetary asset position in foreign currency of US\$16,008,182, equivalent to Bs 1,836,338,586,617 and US\$16,525,005, equivalent to Bs 164,836,925, respectively, calculated based on the rules laid down by the BCV. These amounts do not exceed the maximum limit set by the BCV, which at June 30, 2018 and December 31, 2017 is 60% and 30%, respectively, of the Bank's equity, equivalent to US\$25,569,842 and US\$5,190,700,113, respectively.

At June 30, 2018 and December 31, 2017, calculation of the net foreign currency position does not include Principal and Interest Covered Bonds (TICCs) with a book value of US\$24,216,277 and US\$8,871,898, respectively, Bonds issued by the Venezuelan government and PDVSA, with a book value of US\$909 and US\$84, respectively. Furthermore, at June 30, 2018, calculation includes US\$398,161 in connection with memorandum account balances.

At June 30, 2018 and December 31, 2017, investment securities include Principal and Interest Covered Bonds (TICCs) issued by the Bolivarian Republic of Venezuela, payable in local currency and referenced to the U.S. dollar at the official exchange rate of Bs 114,712.50/US\$1 and Bs 9.975/US\$1, respectively, and have foreign exchange indexing clauses at variable quarterly yields.

During the six-month period ended June 30, 2018, the Bank recorded exchange gains and losses of Bs 10,474,284,751 and Bs 17,341,642,551, respectively (Bs 3,537,423 and Bs 846,211, respectively, during the six-month period ended December 31, 2017), arising from exchange rate fluctuations of the U.S. dollar with respect to other foreign currencies (Notes 17 and 18).

5. Investment securities

Investment securities comprise the following:

	June 30, 2018	December 31, 2017
	(In bolivars)	
Investments		
Deposits with the BCV and overnight deposits	581,884,776,000	6,627,419,000
Available for sale	1,275,707,554,019	18,473,795,401
Held to maturity	3,772,065,226,139	9,976,801,659
Restricted	389,355,647,417	108,465,460
Other securities	<u>192,225,689,000</u>	<u>37,302,841,244</u>
	<u>6,211,238,892,575</u>	<u>72,489,322,764</u>

Banco Nacional de Crédito, C.A, Banco Universal

Notes to the financial statements

June 30, 2018 and December 31, 2017

a) Deposits with the BCV and overnight deposits

Deposits with the BCV and overnight deposits comprise the following:

	June 30, 2018	December 31, 2017	
	(In bolivars)		
Certificate of deposit with the BCV, at par value, annual yield between 6% and 7%, maturing between January and February 2018 (annual yield between 6% and 7%, maturing between July and August 2017 at December 31, 2017)	8,322,276,000	6,627,419,000	(1) - (a)
Overnight deposits at Banco Do Brasil, with a par value of US\$5,000,000, 1.30% annual yield, maturing in July 2018 (Note 4)	<u>573,562,500,000</u>	<u>-</u>	(1) - (b)
	<u>581,884,776,000</u>	<u>6,627,419,000</u>	

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

Custodians of investments

(a) Central Bank of Venezuela

(b) Banco Do Brasil

b) Investment in available-for-sale securities

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

	June 30, 2018			December 31, 2017				
	Acquisition cost	Net unrealized gain (loss)	Book value (equivalent to fair value)	Acquisition cost	Net unrealized gain (loss)	Book value (equivalent to fair value)		
(In bolivars)								
Securities issued or guaranteed by the Venezuela government								
Fixed Interest Bonds (TIFs), with a par value of Bs 2,606,105,247, annual yield between 13.25% and 16.5%, maturing between August 2018 and January 2037 (Bs 3,123,922,786, annual yield between 9.88% and 18%, maturing between August 2018 and January 2037, at December 31, 2017)	2,931,947,650	305,800,367	3,237,748,017	(1) - (a)	3,571,874,155	308,917,949	3,880,792,104	(1) - (a)
Vebonos, with a par value of Bs 2,976,661,000, annual yield between 13.17% and 15.12%, maturing between March 2019 and August 2037 (Bs 2,977,828,661, annual yield between 10.07% and 15.32%, maturing between February and November 2018, at December 31, 2017)	3,288,148,766	339,285,379	3,627,434,145	(1) - (a)	3,289,512,108	483,152,756	3,772,664,864	(1) - (a)
Treasury Notes, with a par value of Bs 408,056,000, annual yield between 0.72% and 4.50%, maturing between February and November 2018	-	-	-	-	402,510,078	3,088,914	405,598,992	(1) - (a)
Principal and Interest Covered Bonds (TICCs), payable in bolivars, with a par value of US\$74,500, 5.25% annual yield, maturing in March 2019 (US\$74,500, 5.25% annual yield, maturing in March 2019, at December 31, 2017) (Note 4)	-	-	-	-	-	-	-	-
Global Bonds, with a par value of US\$800, 9.25% annual yield, maturing in September 2027 (Note 4)	6,710,536,712	1,815,635,037	8,526,171,749	(2) - (a)	583,525	159,033	742,558	(2) - (a)
	<u>67,450,950</u>	<u>(41,342,385)</u>	<u>26,108,565</u>	(1) - (b)	<u>5,865</u>	<u>(4,087)</u>	<u>1,778</u>	(1) - (b)
	<u>12,998,084,078</u>	<u>2,419,378,398</u>	<u>15,417,462,476</u>		<u>7,264,485,731</u>	<u>795,314,565</u>	<u>8,059,800,296</u>	
Debt securities issued by Venezuela financial public-sector companies								
Agriculture BANDES Certificates of Participation, at par value, 4% annual yield, maturing in October 2018	<u>10,394,055,000</u>	<u>-</u>	<u>10,394,055,000</u>	(3) - (a)	<u>10,394,055,374</u>	<u>-</u>	<u>10,394,055,374</u>	(3) - (a)
Equity in Venezuelan non-financial private-sector companies								
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) - (f)	19,571,400	-	19,571,400	(3) - (f)
S.G.R. - SOGAMIC, S.A., Sociedad de Garantías Recíprocas del Sector Microfinanciero, S.A., 17,500 shares, with a par value of Bs 10 each, 3.10% owned	175,000	-	175,000	(3) - (f)	175,000	-	175,000	(3) - (f)
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) - (f)	30,000	-	30,000	(3) - (f)
	<u>19,776,400</u>	<u>-</u>	<u>19,776,400</u>		<u>19,776,400</u>	<u>-</u>	<u>19,776,400</u>	
Debt securities issued by foreign financial private-sector companies								
International Cooperatief UA, with a par value of US\$100,000, 10.38% annual yield, maturing in September 2020 (Note 4)	<u>3,441,719,138</u>	<u>(2,294,594,138)</u>	<u>1,147,125,000</u>	(1) - (c)	<u>299,280</u>	<u>(135,949)</u>	<u>163,331</u>	(1) - (c)
Debt securities issued by foreign non-financial public-sector entities								
Treasury Notes, issued by the United States of America, with a par value of US\$10,899,000, maturing between July and August 2018								
	<u>1,248,489,017,791</u>	<u>240,117,352</u>	<u>1,248,729,135,143</u>	(d) y (e)	<u>-</u>	<u>-</u>	<u>-</u>	
	<u>1,275,342,652,407</u>	<u>364,901,612</u>	<u>1,275,707,554,019</u>		<u>17,678,616,785</u>	<u>795,178,616</u>	<u>18,473,795,401</u>	
Unrealized gain on transfer of available-for-sale securities as per SUDEBAN Notice SIB-II-CCD-36481								
	<u>-</u>	<u>-</u>	<u>-</u>		<u>472,257</u>	<u>-</u>	<u>472,257</u>	
	<u>-</u>	<u>364,901,612</u>	<u>364,901,612</u>		<u>795,650,873</u>	<u>-</u>	<u>795,650,873</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 TICCs is their equivalent amount in bolivars at the official exchange rate.

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

Custodians of investments

(a) Central Bank of Venezuela

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

(c) Morgan Stanley Private Wealth Management

(d) Pershing LLC

(e) Morgan Stanley Smith Barney

(f) Shares held in custody of private companies, S.G.R- SOGAMIC, S.A.; S.G.R. - SOGARSA, S.A.; and S.G.R. - SOGATUR, S.A.

Banco Nacional de Crédito, C.A, Banco Universal
Notes to the financial statements
June 30, 2018 and December 31, 2017

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, 2018 and December 31, 2017.

Through Circular SIB-II-GGR-GNP-28283 of October 20, 2016, SUDEBAN informed banking institutions that Agriculture BANDES Certificates of Participation held by the Bank at June 30, 2018 and December 31, 2017, should be accounted for as part of investments in available-for-sale securities and shall be recorded at acquisition cost.

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, 2018	December 31, 2017
	(In bolivars)	
Unrealized gain		
Securities issued or guaranteed by the Venezuelan government in local currency	645,085,746	795,159,619
Principal and Interest Covered Bonds (TICCs) payable in bolivars	1,815,635,037	159,033
Debt securities issued by foreign non-financial public-sector entities	<u>240,117,352</u>	<u>240,117,352</u>
	<u>2,700,838,135</u>	<u>795,318,652</u>
Unrealized loss		
Securities issued or guaranteed by the Venezuelan government in foreign currency	(41,342,385)	(4,087)
Debt securities issued by foreign financial private-sector companies	<u>(2,294,594,138)</u>	<u>(135,949)</u>
	<u>(2,335,936,523)</u>	<u>(140,036)</u>
	364,901,612	795,178,616
Unrealized gain on transfer of available-for-sale securities as per SUDEBAN Notice SIB-II-CCD-36481	-	<u>472,257</u>
Net unrealized gain on available-for-sale securities	<u>364,901,612</u>	<u>795,650,873</u>

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

	<u>Fair value</u>	
	<u>June 30, 2018</u>	<u>December 31, 2017</u>
	(In bolivars)	
Up to 6 months	1,259,168,208,577	954,337,975
6 months to 1 year	9,176,088,910	10,486,817,394
1 to 5 years	3,004,836,442	2,261,662,178
Over 5 years	4,338,643,690	4,751,201,454
Without maturity	<u>19,776,400</u>	<u>19,776,400</u>
	<u>1,275,707,554,019</u>	<u>18,473,795,401</u>

During the six-month period ended June 30, 2018, the Bank sold investments in available-for-sale securities for Bs 2,239,805,039,140 (Bs 5,645,985,028 during the six-month period ended December 31, 2017), resulting in gains and losses of Bs 6,130,536,909 and Bs 119,994,932, respectively (Bs 92,810,964 and Bs 18,354,613, respectively, for the six-month period ended December 31, 2017), shown under other operating income and other operating expenses, respectively (Notes 17 and 18).

Banco Nacional de Crédito, C.A, Banco Universal

Notes to the financial statements

June 30, 2018 and December 31, 2017

c) Investments in held-to-maturity securities

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

	June 30, 2018			December 31, 2017		
	Acquisition cost	Amortized cost	Fair value	Acquisition cost	Amortized cost	Fair value
(In bolivars)						
Securities issued or guaranteed by the Venezuelan government						
Vebonos, with a par value of Bs 1,687,254,000, annual yield between 14.37% and 15.12%, maturing between June 2020 and February 2025 (Bs 1,688,618,216, annual yield between 10.07% and 15.32%, maturing between April 2018 and February 2025, at December 31, 2017)	2,212,665,819	2,020,169,647	2,058,573,641 (1) - (a)	2,214,008,345	2,067,153,215	2,229,824,997 (1) - (a)
Fixed Interest Bonds (TIFs), with a par value of Bs 928,296,753.00, annual yield between 9.875% and 16.25%, maturing between August 2018 and January 2026 (Bs 1,355,268,063, annual yield between 9.88% and 18%, maturing between April 2018 and January 2026, at December 31, 2017)	1,209,563,271	1,073,388,335	1,156,417,797 (1) - (a)	1,686,908,451	1,518,614,051	1,722,065,385 (1) - (a)
Principal and Interest Covered Bonds (TICCs), payable in bolivars, with a par value of US\$23,061,519, 5.25% annual yield, maturing in March 2019 (Note 4)	2,678,134,779,009	2,769,383,483,321	2,639,280,614,817 (2) - (a)	78,278,433	87,754,625	89,431,066 (2) - (a)
Sovereign Bonds with a par value of US\$6,625,100, annual yield between 8.25% and 9.25%, maturing between October 2024 and September 2027 (Note 4)	<u>385,313,754,917</u>	<u>216,221,410,878</u>	<u>216,214,664,909</u> (1) - (b)	<u>766</u>	<u>846</u>	<u>208</u> (1) - (b)
	<u>3,066,870,763,016</u>	<u>2,988,698,452,181</u>	<u>2,858,710,271,164</u>	<u>3,979,195,995</u>	<u>3,673,522,737</u>	<u>4,041,321,656</u>
Bonds and debt securities issued by Venezuelan non-financial public-sector companies						
Dematerialized Certificates of Participation issued by Fondo Simón Bolívar para la Reconstrucción, S.A., with a par value, annual yield between 4.66% and 6.05%, maturing between June 2023 and November 2024 (Note 26)	6,087,028,000	6,087,028,000	6,087,028,000 (3) - (a)	6,087,030,691	6,087,030,691	6,087,030,691 (3) - (a)
PDVSA Bonds issued by Petróleos de Venezuela, S.A., with a par value of US\$900, annual yield between 5.38% and 9.25%, maturing between April 2027 and 2037 (US\$900, annual yield between 5.38% and 5.5%, maturing between April 2027 and 2037, at June 30, 2017) (Note 4)	<u>51,863,816</u>	<u>68,144,708</u>	<u>23,070,978</u> (1) - (b)	<u>33,509,288</u>	<u>33,952,113</u>	<u>33,952,113</u> (1) - (b)
	<u>6,138,891,816</u>	<u>6,155,172,708</u>	<u>6,110,098,978</u>	<u>6,120,539,979</u>	<u>6,120,982,804</u>	<u>6,120,982,804</u>
Certificates of deposit with foreign financial institutions						
Certificates of deposits with Banco Do Brasil, S.A., with a par value of US\$3,000,000, annual yield between 1.91% and 2.11%, maturing in July 2018 (US\$11,000,000, annual yield between 1.40% and 1.58%, maturing in January 2018, at December 31, 2017) (Note 4)	344,137,500,000	344,137,500,000	344,137,500,000 (3) - (c)	109,725,000	109,725,000	109,725,000 (3) - (c)
Certificates of deposits with Itaú Unibanco, S.A., with a par value of US\$2,500,000, annual yield between 2.02% and 2.04%, maturing in January 2018, (US\$6,000,000, annual yield between 1.39% and 1.71%, maturing between January and February 2018, at December 31, 2017) (Note 4)	286,781,250,000	286,781,250,000	286,781,250,000 (3) - (d)	59,850,000	59,850,000	59,850,000 (3) - (d)
Certificates of deposits with Mercantil Commercebank, N.A., with a par value of US\$1,275,300, 0.6% annual yield, maturing in August 2018 (Note 4)	<u>146,292,851,250</u>	<u>146,292,851,250</u>	<u>146,292,851,250</u> (3) - (e)	<u>12,721,118</u>	<u>12,721,118</u>	<u>12,721,118</u> (3) - (e)
	<u>777,211,601,250</u>	<u>777,211,601,250</u>	<u>777,211,601,250</u>	<u>182,296,118</u>	<u>182,296,118</u>	<u>182,296,118</u>
	<u>3,850,221,256,082</u>	<u>3,772,065,226,139</u>	<u>3,642,031,971,507</u>	<u>10,282,032,092</u>	<u>9,976,801,659</u>	<u>10,344,600,578</u>

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

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

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

Custodians of investments

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

During the six-month period ended June 30, 2018, the Bank recorded US\$1,684,304 equivalent to Bs 193,210,748,984, in connection with impairment losses from investments in held-to-maturity securities, shown under other operating expenses (Note 18).

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

	June 30, 2018		December 31, 2017	
	Amortized cost	Fair value	Amortized cost	Fair value
(In bolivars)				
Less than 1 year	777,354,721,250	777,358,220,054	761,331,575	831,826,792
1 to 5 years	2,771,216,554,995	2,641,927,358,845	1,949,986,209	1,982,057,340
5 to 10 years	223,442,046,938	222,728,472,336	7,265,479,427	7,511,491,709
Over 10 years	<u>51,902,956</u>	<u>17,920,272</u>	<u>4,448</u>	<u>1,652</u>
	<u>3,772,065,226,139</u>	<u>3,642,031,971,507</u>	<u>9,976,801,659</u>	<u>10,325,377,493</u>

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

At June 30, 2018 and December 31, 2017, the Bank has an account in the name of the BCV at the Euroclear Bank to hold in custody all foreign currency securities held by other foreign financial institutions, as set out in Article 51 of the Law on Banking Sector Institutions. Pershing LLC, Morgan Stanley Smith Barney and Morgan Stanley Private Wealth Management only hold in custody securities of the Branch; and Banco Do Brasil, S.A, Mercantil Commercebank, N.A. and Itaú Unibanco, S.A. only have deposits and certificates of deposit.

Banco Nacional de Crédito, C.A, Banco Universal
Notes to the financial statements
June 30, 2018 and December 31, 2017

At June 30, 2018 and December 31, 2017, unrealized losses of Bs 130,154,690,299 and Bs 19,223,723, respectively, on held-to-maturity securities issued by the Bolivarian Republic of Venezuela are considered temporary since management believes that from the standpoint of the issuer's credit risk, interest rate risk and liquidity risk, the decrease in these securities' fair value is temporary. In addition, the Bank has the intention and ability to hold these securities to maturity. Accordingly, the Bank has identified no impairment in the value of these investments.

Subsequent event

In August 2018, the BCV early redeemed TICC's maturing in March 2019 for which it paid principal at the exchange rate of Bs 172,800/US\$1 and interest pending payment at that date.

d) Restricted investments

Restricted investments comprise the following:

	June 30, 2018		December 31, 2017		
	Amortized cost	Fair value	Amortized cost	Fair value	
	(In bolivars)				
Certificates of deposit					
Social Contingency Fund (Note 22)	89,984,931	89,984,931	74,777,215	74,777,215	(1)
PNC Bank, with a par value of US\$1,774,227 (US\$1,768,577 at December 31, 2017) (Note 4)	203,526,003,266	203,526,003,266	17,641,557	17,641,557	(1)
JP Morgan Chase Bank, with a par value of US\$1,619,175 (US\$1,608,690 at December 31, 2017) (Note 4)	<u>185,739,659,220</u>	<u>185,739,659,220</u>	<u>16,046,688</u>	<u>16,046,688</u>	(1)
	<u>389,355,647,417</u>	<u>389,355,647,417</u>	<u>108,465,460</u>	<u>108,465,460</u>	

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

At June 30, 2018 and December 31, 2017, the certificates of deposit with JP Morgan Chase Bank and PNC Bank are used as collateral to guarantee VISA and MasterCard credit card operations, respectively.

e) Investments in other securities

Investments in other securities comprise the following:

	June 30, 2018	December 31, 2017	
	(In bolivars)		
BANDES securities, issued by Banco de Desarrollo Económico y Social de Venezuela, with a par value, 10% annual yield, maturing between August 2022 and May 2024 (maturing between August 2022 and May 2024 at December 31, 2017)	184,956,345,000	30,000,000,000	(1) - (a)
Bolivarian Housing Securities issued by Fondo Simón Bolívar para la Reconstrucción, S.A., with a par value, annual yield between 4.66% and 6.48%, maturing between June 2020 and February 2028	<u>7,269,344,000</u>	<u>7,302,841,244</u>	(1) - (a)
	<u>192,225,689,000</u>	<u>37,302,841,244</u>	

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

Custodian of investments

(a) Central Bank of Venezuela

At June 30, 2018 and December 31, 2017, the Bank maintains BANDES securities issued by Banco de Desarrollo Económico y Social de Venezuela for Bs 184,956,345,000 and Bs 30,000,000,000, respectively. Through Circular SIB-II-GGR-GNP-15282 of June 25, 2017, SUDEBAN informed banking institutions that BANDES securities will exceptionally be computed as 0% risk-weighted items to calculate the capital adequacy ratio and that they will not be deducted from total assets to calculate the accounting capital ratio.

Banco Nacional de Crédito, C.A, Banco Universal

Notes to the financial statements

June 30, 2018 and December 31, 2017

At June 30, 2018 and December 31, 2017, the Bank has Bolivarian Housing Securities issued by Fondo Simón Bolívar para la Reconstrucción, S.A. These investments were computed for the construction mortgage loan portfolio until the year ended December 31, 2015.

The Bank 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, 2018, the Bank has investment securities issued or guaranteed by the Venezuelan government of Bs 3,221,213,107,365, representing 51.86% of its investment securities portfolio (Bs 72,178,621,455, representing 99.58% of its investment securities portfolio at December 31, 2017).

6. Loan portfolio

The loan portfolio is classified as follows:

	June 30, 2018				December 31, 2017			
	Current	Rescheduled	Overdue	Total	Current	Rescheduled	Overdue	Total
	(In bolivars)							
Economic activity								
Wholesale and retail trade, restaurants and hotels	34,561,965,552,868	-	-	34,561,965,552,868	1,120,102,411,244	-	723,593	1,120,103,134,837
Manufacturing	3,860,196,343,155	-	-	3,860,196,343,155	258,425,366,661	-	-	258,425,366,661
Financial businesses, insurance, real estate and services	2,584,944,457,682	-	196,610,366	2,585,141,068,048	41,260,489,282	-	40,552,123	41,301,041,405
Communal, social and consumer services	2,368,951,095,403	-	331,613	2,368,951,427,016	107,589,529,824	-	-	107,589,529,824
Agriculture, fishing and forestry	1,897,722,701,148	21,852,369	-	1,897,744,553,517	71,841,164,186	-	2,680,134	71,843,844,320
Transportation, warehousing and communications	401,943,493,665	-	73,989,562,500	475,933,056,165	20,628,495,947	-	7,866,271	20,636,362,218
Construction	250,418,161	-	3,286	250,421,447	660,920,730	-	-	660,920,730
Mining and oil	1,268,532,295	-	2,904	1,268,535,199	-	-	-	-
Utilities	231,813,889	-	-	231,813,889	381,877,155	-	-	381,877,155
	<u>45,676,651,565,786</u>	<u>21,852,369</u>	<u>74,186,507,765</u>	<u>45,750,859,925,920</u>	<u>1,622,158,787,324</u>	<u>27,790,852</u>	<u>51,825,025</u>	<u>1,622,238,403,201</u>
Allowance for losses on loan portfolio, includes US\$5,826,674 (US\$6,624,731 at December 31, 2017) (Note 4)				<u>(1,530,641,933,651)</u>				<u>(30,021,972,615)</u>
				<u>44,220,217,992,269</u>				<u>1,592,216,430,586</u>
Guarantee								
Endorsement	24,574,780,824,474	-	73,989,562,500	24,648,770,386,974	863,280,775,331	28,875	-	863,280,804,206
Unsecured	18,981,063,534,000	21,080,902	196,058,538	18,981,280,673,440	557,838,591,894	26,442,777	43,953,326	557,908,987,997
Collateral	750,319,324,339	74,667	-	750,319,399,006	114,451,795,299	112,000	7,515,094	114,459,422,393
Real property mortgage	183,181,762,656	580,000	886,727	183,183,229,383	52,411,439,175	725,000	356,605	52,412,520,780
Written instruments	453,458,561,325	-	-	453,458,561,325	19,551,514,431	-	-	19,551,514,431
Pledge	431,866,949,885	-	-	431,866,949,885	9,084,927,889	62,500	-	9,084,990,389
Other guarantees	301,119,859,256	-	-	301,119,859,256	3,962,919,522	-	-	3,962,919,522
Chattel mortgage	722,076,854	-	-	722,076,854	1,296,412,171	245,000	-	1,296,657,171
Non-possessory pledge	138,672,997	116,800	-	138,789,797	280,411,612	174,700	-	280,586,312
	<u>45,676,651,565,786</u>	<u>21,852,369</u>	<u>74,186,507,765</u>	<u>45,750,859,925,920</u>	<u>1,622,158,787,324</u>	<u>27,790,852</u>	<u>51,825,025</u>	<u>1,622,238,403,201</u>
Maturity								
Overdue	-	-	73,989,562,500	73,989,562,500	-	-	51,825,025	51,825,025
Up to 30 days	35,437,904,110,949	-	177,119,425	35,438,081,230,374	841,833,727,129	-	-	841,833,727,129
31 to 60 days	1,803,112,210,670	-	5,229	1,803,112,215,899	526,276,667,824	28,875	-	526,276,696,699
61 to 90 days	6,810,360,219,899	-	572,827	6,810,360,792,726	59,396,636,679	-	-	59,396,636,679
91 to 180 days	145,853,265,260	-	985,488	145,854,250,748	33,498,269,955	245,000	-	33,498,514,955
181 to 360 days	170,346,359,041	191,467	2,307,903	170,348,858,411	54,162,567,189	-	-	54,162,567,189
Over 360 days	<u>1,309,055,399,967</u>	<u>21,660,902</u>	<u>15,954,393</u>	<u>1,309,093,015,262</u>	<u>106,990,918,548</u>	<u>27,516,977</u>	-	<u>107,018,435,525</u>
	<u>45,676,651,565,786</u>	<u>21,852,369</u>	<u>74,186,507,765</u>	<u>45,750,859,925,920</u>	<u>1,622,158,787,324</u>	<u>27,790,852</u>	<u>51,825,025</u>	<u>1,622,238,403,201</u>
Type of loan								
Fixed term, includes US\$3,574,447 (US\$3,231,749, at December 31, 2017) (Note 4)	32,958,407,408,904	-	73,989,562,500	33,032,396,971,404	999,148,418,047	-	7,281,749	999,155,699,796
Factoring and discounts	4,209,754,771,008	-	-	4,209,754,771,008	93,514,438,923	-	-	93,514,438,923
Manufacturing	3,860,196,343,155	-	-	3,860,196,343,155	258,425,366,661	-	-	258,425,366,661
Agriculture	1,897,722,701,148	21,852,369	-	1,897,744,553,517	107,589,529,825	27,790,852	-	107,617,320,677
Letters of credit, equivalent to US\$6,681,742 and €1,159,260 (US\$9,862,681 at December 31, 2017) (Note 4)	921,721,936,917	-	-	921,721,936,917	98,380,244	-	-	98,380,244
Installment, includes US\$4,795,000 (US\$1,011,667, at December 31, 2017) (Note 4)	665,380,416,773	-	2,251,276	665,382,668,049	73,340,278,179	-	3,770,000	73,344,048,179
Credit cards	654,492,963,140	-	19,946,885	654,512,910,025	34,974,162,795	-	37,367,503	35,011,530,298
Mortgage	197,278,857,171	-	886,727	197,279,743,898	13,214,874,757	-	356,605	13,215,231,362
Microcredits	159,309,675,881	-	97,681	159,309,773,562	22,613,006,026	-	363,292	22,613,369,318
Tourism	135,587,308,517	-	-	135,587,308,517	16,566,591,360	-	-	16,566,591,360
Employee loans	15,670,383,022	-	-	15,670,383,022	436,941,923	-	-	436,941,923
Vehicles	1,127,300,150	-	-	1,127,300,150	2,211,369,969	-	-	2,211,369,969
Financial leases	1,500,000	-	-	1,500,000	25,428,615	-	-	25,428,615
Checking accounts	-	-	173,762,696	173,762,696	-	-	2,685,876	2,685,876
	<u>45,676,651,565,786</u>	<u>21,852,369</u>	<u>74,186,507,765</u>	<u>45,750,859,925,920</u>	<u>1,622,158,787,324</u>	<u>27,790,852</u>	<u>51,825,025</u>	<u>1,622,238,403,201</u>

Banco Nacional de Crédito, C.A, Banco Universal
Notes to the financial statements
June 30, 2018 and December 31, 2017

In accordance with SUDEBAN rules, at June 30 2018 and December 31 2017, the Bank maintains a general allowance of Bs 459,098,109,935 and Bs 17,339,159,476, respectively, for losses on the loan portfolio, and a countercyclical allowance and Bs 343,129,036,421 Bs 12,167,139,795, respectively, (Note 2-e).

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

	<u>Six-month periods ended</u>	
	<u>June 30,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
	(In bolivars)	
Balance at the beginning of the period	30,021,972,615	10,361,933,636
Provided in the period	844,664,100,273	19,802,670,452
Release of allowance for losses on loan portfolio, equivalent to US\$3,425,263	-	(34,166,998)
Write-offs of uncollectible loans (it includes US\$5,019,452 at December 31, 2017)	(104,013,753,793)	(183,916,915)
Reclassification from provision for interest receivable, includes US\$212 (US\$21,483 at December 31, 2017) (Note 7)	96,330,883	75,452,440
Adjustment from exchange differences in respect of letters of credit in euros	<u>759,873,283,673</u>	<u>-</u>
Balance at the end of the period	<u>1,530,641,933,651</u>	<u>30,021,972,615</u>

On May 11, 2018, the Branch entered into a "Payment Agreement" with the debtor Importaciones BOIA, C.A. for collection of letters of credit amounting to US\$1,790,292, for which a provision of US\$1,105,505 had been set aside. In this regard, the Branch received cash for US\$501,163, and investment securities issued or guaranteed by the Bolivarian Republic of Venezuela, with a par value of US\$1,287,000. The fair value of these securities was US\$375,418 and yield receivable amounted to US\$7,759; they mature in October 2019 (Note 9). As a result of this transaction, the Branch wrote off the allowance for losses on loan portfolio for US\$905,952, equivalent to Bs 103,924,018,800. On June 19, 2018, the Branch requested authorization from SUDEBAN to reclassify these securities to investments in available-for-sale securities. To date, SUDEBAN has not answered this request.

Through Notice SIB-II-GGIBPV-GIBPV6-19310 of September 13, 2017, SUDEBAN instructed the Bank to derecognize the balance of the loan pending collection from Siderúrgica del Turbio, S.A. (SIDETUR) for US\$3,183,657, after the collateral security was applied following the Resolution of the First Instance Court of Curacao, since the Accounting Manual does not provide for partial collections for goods received as payment. Therefore, for the six-month period ended December 31, 2017, the Branch derecognized the aforementioned loan with a charge to the provision of US\$3,183,657, equivalent to Bs 31,756,979.

During the six-month periods ended June 30, 2018 and December 31, 2017, the Bank wrote off others loans of Bs 104,013,753,793 and Bs 133,904,838, respectively, against the allowance for losses on the loan portfolio.

During the six-month periods ended June 30, 2017, the Branch entered into the "Payment and release agreement" (the agreement) with the debtor Cargill de Venezuela, S.R.L., for collection of loans and related yield receivable amounting to US\$6,649,183. In this regard, the Branch received and recorded a security issued or guaranteed by the Bolivarian Republic of Venezuela, at its par value of US\$6,625,000, since management intends to hold it to maturity. The fair value of this security at the date of the agreement was US\$3,442,350. In addition, on May 5, 2017, the Branch requested authorization from SUDEBAN, through the Bank, to release the allowance for losses on loan portfolio amounting to US\$5,294,763 in connection with the aforementioned loans. The Branch maintained under accruals and other liabilities US\$1,436,040 in connection with deferred income related to the aforementioned loans.

Banco Nacional de Crédito, C.A, Banco Universal
Notes to the financial statements
June 30, 2018 and December 31, 2017

On September 6, 2017, SUDEBAN, through Notice SIB-II-GGIBPV-GIBPV6-18898, instructed the Branch to derecognize and release the allowance for losses on loan portfolio and to release deferred income of US\$1,830,085, US\$3,425,263 and US\$1,436,040, respectively (equivalent to Bs 18,255,096, Bs 34,166,998 and Bs 14,436,040, respectively, at the exchange rate in effect at December 31, 2017), with a credit to investments in held-to-maturity securities for US\$3,266,125 (equivalent to Bs 32,579,597 at the exchange rate in effect at December 31, 2017). In this regard, the Branch recorded US\$3,425,263 in the income statement for the six-month period ended December 31, 2017 within income from financial assets recovered (equivalent to Bs 34,166,998 at the exchange rate in effect at December 31, 2017), in connection with this loan.

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

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

Activity	June 30, 2018					December 31, 2017					Calculation basis
	Balance maintained in bolivars	Earmarked %	Required %	Number of debtors	Maximum annual interest rate %	Balance maintained in bolivars	Earmarked %	Required %	Number of debtors	Maximum annual interest rate %	
Agriculture (a)	1,908,138,638,517	31,48	28,00	243	13	118,011,406,051	22,29	20	295	13	Gross loan portfolio from previous quarter (six-month period prior to December 31, 2017)
Small businesses	159,309,773,562	9,82	3,00	1,498	24	22,613,369,318	4,27	3	2,437	24	Gross loan portfolio at December 31, 2017
Mortgages	29,033,861	-	-	3	Between 4.66 and 10.66	1,054,625,155	0,41	20	2,267	Between 4.66 and 10.66	Gross loan portfolio at December 31, 2017
Tourism (b)	135,606,879,917	8,36	2,50	27	11,62	16,586,162,760	9,72	5,25	26	11,62	Gross loan portfolio from previous year (average balance of gross loan portfolio for the last two years at December 31, 2017)
Manufacturing	3,860,196,343,155	237,98	-	54	Between 16,2 and 18	258,425,366,661	101,68	10	100	18	Gross loan portfolio from previous year

(a) At June 30, 2018 and December 31, 2017, the Bank maintains an agricultural loan portfolio for Bs 1,897,744,553,517 and Bs 107,617,720,677, respectively. It also has Agriculture BANDES Certificates of Participation for Bs 10,394,055,000 and Bs 30,000 in Class "B" shares from Sociedad de Garantías Recíprocas para el Sector Agropecuario Forestal Pesquero y Afines, S.A. (SOGARSA). These shares are imputable to the agricultural loan portfolio compliance (Note 5-b).

(b) At June 30, 2018 and December 31, 2017, the Bank maintains a tourism loan portfolio for Bs 135,687,308,517 and Bs 16,566,591,360, respectively, and Bs 19,571,400 in Class "B" shares from Sociedad de Garantías Recíprocas para la Pequeña y Mediana Empresa del Sector Turismo, S.A. (SOGATUR). These shares are imputable to the tourism loan portfolio compliance (Note 5-b).

The Bank's control environment includes policies and procedures to determine credit risks by client and economic sector. Concentration of risk is limited since loans are granted to a variety of economic sectors and a large number of clients. At June 30, 2018 and December 31, 2017, the Bank's loan portfolio does not have significant risk concentrations in terms of individual clients and groups of related companies.

Banco Nacional de Crédito, C.A, Banco Universal
Notes to the financial statements
June 30, 2018 and December 31, 2017

7. Interest and commissions receivable

Interest and commissions receivable comprise the following:

	June 30, 2018	December 31, 2017
	(In bolivars)	
Interest receivable on investment securities		
Other securities	3,030,623,404	637,705,917
Available for sale, includes US\$3,075 (US\$3,753 at December 31, 2017) (Note 4)	759,551,066	219,059,353
Held to maturity, includes US\$624,177 (US\$322,244 at December 31, 2017) (Note 4)	71,740,361,030	161,129,761
Deposits with the BCV and overnight deposits, includes US\$ 363 (Note 4)	<u>81,514,741</u>	<u>31,017,690</u>
	<u>75,612,050,241</u>	<u>1,048,912,721</u>
Interest receivable on loan portfolio		
Current, includes US\$36,621 (US\$14,895 at December 31, 2017) (Note 4)	67,029,348,126	8,491,984,166
Microcredits	1,329,533,534	203,124,471
Overdue, includes US\$10,190 (US\$10,403 at December 31, 2017) (Note 4)	1,255,750,487	72,823,773
Rescheduled	466,517	592,672
Agricultural	<u>35,516</u>	<u>48,098</u>
	<u>69,615,134,180</u>	<u>8,768,573,180</u>
Commissions receivable		
Trust fund (Note 20)	<u>753,589,059</u>	<u>25,388,643</u>
Interest and commissions receivable on other accounts receivable		
Interest receivable on resale agreements, equivalents to US\$21,611 (Notes 4 and 9)	<u>2,479,034,631</u>	-
	148,459,808,111	9,842,874,544
Provision for interest receivable and other, includes US\$521,269 (US\$10,403 at December 31, 2017) (Note 4)	<u>(59,887,144,784)</u>	<u>(77,853,565)</u>
	<u>88,572,663,327</u>	<u>9,765,020,979</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, 2018	December 31, 2017
	(In bolivars)	
Balance at the beginning of the period	77,853,565	43,439,883
Provided in the period, includes US\$516,266	59,323,653,470	119,727,619
Write-off of interest receivable on loans	(16,107,406)	(9,809,747)
Reclassification to provision for other assets, equivalents to US\$5,188 (Note 11)	(595,128,450)	-
	-	(51,750)
Reclassification to allowance for losses on loan portfolio, includes US\$212 (US\$21,483 at December 31, 2017) (Note 6)	(96,330,883)	(75,452,440)
Adjustment from exchange differences	<u>1,193,204,488</u>	-
Balance at the end of the period	<u>59,887,144,784</u>	<u>77,853,565</u>

During the six-month periods ended June 30, 2018 and December 31, 2017, the Bank wrote off interest receivable of Bs 16,107,406 and Bs 9,809,747, respectively, against the provision for interest receivable and other.

Banco Nacional de Crédito, C.A, Banco Universal
Notes to the financial statements
June 30, 2018 and December 31, 2017

8. Investments in subsidiaries, affiliates and branches

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

At June 30, 2018 and December 31, 2017, the Branch's capital assigned of US\$7,599,462 corresponds to contributions received by the Bank approved by the Board of Directors.

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

Balance sheet

	June 30, 2018		December 31, 2017	
	US\$	Equivalent in bolivars	US\$	Equivalent in bolivars
Assets				
Cash and due from banks	8,492,182	974,159,427,676	35,319,096	352,307,983
Investment securities	24,686,676	2,831,870,320,650	21,825,228	217,706,649
Loan portfolio	10,577,834	1,213,409,782,725	7,481,366	74,626,626
Interest and commissions receivable	44,386	5,091,629,025	206,283	2,057,673
Available-for-sale assets	375,418	43,065,137,325	-	-
Property and equipment	23,684	2,716,850,850	27,458	273,894
Other assets	8,291	951,081,338	7,024	70,064
Total assets	44,208,471	5,071,264,229,589	64,866,455	647,042,889
Liabilities and Equity				
Liabilities				
Customer deposits	38,240,217	4,386,630,892,613	57,566,730	574,228,132
Interest and commissions payable	53,038	6,084,121,575	29,326	292,527
Accruals and other liabilities	99,869	11,456,222,663	49,617	494,930
	38,393,124	4,404,171,236,851	57,645,673	575,015,589
Equity				
Capital assigned	7,599,462	871,753,284,675	7,599,462	75,804,633
Capital reserves	2,766,551	317,357,981,588	2,766,551	27,596,346
Retained earnings	(4,532,756)	(519,963,772,650)	(3,131,602)	(31,237,730)
Unrealized loss on investments in available-for-sale securities	(17,910)	(2,054,500,875)	(13,629)	(135,949)
Total equity	5,815,347	667,092,992,738	7,220,782	72,027,300
Total liabilities and equity	44,208,471	5,071,264,229,589	64,866,455	647,042,889

Banco Nacional de Crédito, C.A, Banco Universal
Notes to the financial statements
June 30, 2018 and December 31, 2017

Income statement

	Six-month periods ended			
	June 30, 2018		December 31, 2017	
	US\$	Equivalent in bolivars	US\$	Equivalent in bolivars
Interest income	1,071,813	122,950,348,763	2,215,703	22,101,637
Interest expense	(80,047)	(9,182,391,488)	(90,216)	(899,905)
Income from financial assets recovered	-	-	3,425,263	34,166,999
Expenses from uncollectible loans	(623,950)	(71,574,864,375)	(1,033,361)	(10,307,776)
Other operating income	307,357	35,257,689,863	921,955	9,196,901
Other operating expenses	(1,956,932)	(224,484,440,455)	(521,642)	(5,203,379)
Operating expenses	(133,549)	(15,319,739,663)	(197,929)	(1,974,342)
Income from available-for-sale assets	13,853	1,589,112,263	224,698	2,241,332
Sundry operating income	1,774	203,499,975	4,619	46,075
Income tax	(1,473)	(168,971,513)	(2,995)	(29,875)
Net income	<u>(1,401,154)</u>	<u>(160,729,756,630)</u>	<u>4,946,095</u>	<u>49,337,297</u>

At June 30, 2018 and December 31, 2017, the Branch's assets, liabilities and results were integrated into the Bank's financial statements.

The equivalent amounts in bolivars shown in the above financial statements at June 30, 2018 and December 31, 2017 have been translated at the official exchange rate of Bs 114,712.50/US\$1 and Bs 9.975/US\$1 (Note 2-b), respectively.

9. Available-for-sale assets

Available-for-sale assets comprise the following:

	June 30, 2018	December 31, 2017	
	(In bolivars)		
Personal property received as payment	48,263,105	57,915,727	
Securities received as payment			
Sovereign Bonds, with a par value of US\$1,287,000, shown at cost of US\$375,418, 7.75% annual yield, maturing in October 2019 (Note 6)	<u>43,065,125,854</u>	<u>-</u>	(1) - (a)
	<u>43,113,388,959</u>	<u>57,915,727</u>	

(1) At June 30, 2018, with an estimated fair value of US\$350,128, equivalent to Bs 40,164,098,349 from trading operations on the secondary market per valuation screens.

Custodian of investments

(a) Euroclear Bank, S.A.

During the six-month period ended June 30, 2018, interest income in respect of the security received as payment amounted to US\$13,853, equivalent to Bs 1,589,123,734, shown as part of net income for the period within income from available-for-sale assets (US\$224,698, equivalent to Bs 2,241,363 at December 31, 2017). In addition, at June 30, 2018, yield receivable in connection with this security amounts to US\$21,611, equivalent to Bs 2,479,034,631, shown in the balance sheet within interest and commissions receivable (Note 7).

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

At June 30, 2018 and December 31, 2017, the Bank has withdrawn available-for-sale assets for Bs 11,688,533, shown in other memorandum accounts under personal and real property written off since they are overdue for more than three years (Note 20).

Banco Nacional de Crédito, C.A, Banco Universal
Notes to the financial statements
June 30, 2018 and December 31, 2017

10. Property and equipment

Property and equipment comprises the following:

	Land	Buildings and facilities	Computer hardware	Furniture and equipment	Vehicles (In bolivars)	Equipment for Chip project	Construction in progress	Other property	Total
Balances at June 30, 2017									
Cost	6,143,574,917	30,145,286,707	3,968,332,111	4,534,526,006	118,011,185	8,700,969	1,878,045,148	16,482,413	46,812,959,456
Accumulated depreciation	-	(358,919,032)	(1,130,439,815)	(556,552,345)	(28,470,159)	(4,716,105)	-	-	(2,079,097,556)
Net	<u>6,143,574,917</u>	<u>29,786,367,675</u>	<u>2,837,892,196</u>	<u>3,977,973,661</u>	<u>89,541,026</u>	<u>3,984,864</u>	<u>1,878,045,148</u>	<u>16,482,413</u>	<u>44,733,861,900</u>
Balances at December 31, 2017									
Opening balance	6,143,574,917	29,786,367,675	2,837,892,196	3,977,973,661	89,541,026	3,984,864	1,878,045,148	16,482,413	44,733,861,900
Additions	-	1,260,178,772	10,001,223,169	6,315,214,392	1,356,414,000	-	5,301,925,006	-	24,234,955,339
Revaluation	-	24,408,202,873	-	-	-	-	-	-	24,408,202,873
Disposals	-	-	(353,810)	(2,820,901)	-	-	(51,312,784)	-	(54,487,495)
Capitalizations	-	6,294,597,846	-	27,822,863	-	-	(6,322,420,709)	-	-
Depreciation expense	-	(470,525,475)	(783,838,288)	(365,036,269)	(99,369,575)	(435,048)	-	-	(1,719,204,655)
Withdrawals from accumulated depreciation	-	67,318	516,796	2,788,415	-	-	-	-	3,372,529
Closing balance	<u>6,143,574,917</u>	<u>61,278,889,009</u>	<u>12,055,440,063</u>	<u>9,955,942,161</u>	<u>1,346,585,451</u>	<u>3,549,816</u>	<u>806,236,661</u>	<u>16,482,413</u>	<u>91,606,700,491</u>
Balances at December 31, 2017									
Cost (includes US\$83,164)	6,143,574,917	62,108,266,198	13,969,201,470	10,874,742,360	1,474,425,185	8,700,969	806,236,661	16,482,413	95,401,630,173
Accumulated depreciation (includes US\$ 55,706)	-	(829,377,189)	(1,913,761,407)	(918,800,199)	(127,839,734)	(5,151,153)	-	-	(3,794,929,682)
Net	<u>6,143,574,917</u>	<u>61,278,889,009</u>	<u>12,055,440,063</u>	<u>9,955,942,161</u>	<u>1,346,585,451</u>	<u>3,549,816</u>	<u>806,236,661</u>	<u>16,482,413</u>	<u>91,606,700,491</u>
Balances at June 30, 2018									
Opening balance	6,143,574,917	61,278,889,009	12,055,440,063	9,955,942,161	1,346,585,451	3,549,816	806,236,661	16,482,413	91,606,700,491
Additions	-	386,447,624,198	81,735,661,691	84,231,958,345	-	-	71,707,387,758	-	624,122,631,992
Adjustment from exchange differences	-	-	7,023,378,984	2,515,741,805	-	-	-	-	9,539,120,789
Disposals	-	-	(802,766)	-	-	(22,041)	-	-	(824,807)
Adjustment from exchange differences on accumulated depreciation	-	-	(5,329,971,697)	(1,056,744,338)	-	-	-	-	(6,386,716,035)
Depreciation expense	-	(787,212,096)	(5,099,926,369)	(1,179,054,374)	(147,028,085)	(1,115,314)	-	-	(7,214,336,238)
Withdrawals from accumulated depreciation	-	-	802,766	-	-	-	-	-	802,766
Closing balance	<u>6,143,574,917</u>	<u>446,939,301,111</u>	<u>90,384,582,672</u>	<u>94,467,843,599</u>	<u>1,199,557,366</u>	<u>2,412,461</u>	<u>72,513,624,419</u>	<u>16,482,413</u>	<u>711,667,378,958</u>
Balances at June 30, 2018									
Cost (includes US\$83,164)	6,143,574,917	448,555,890,396	102,727,439,379	97,622,442,510	1,474,425,185	8,678,928	72,513,624,419	16,482,413	729,062,558,147
Accumulated depreciation (includes US\$59,480)	-	(1,616,589,285)	(12,342,856,707)	(3,154,598,911)	(274,867,819)	(6,266,467)	-	-	(17,395,179,189)
Net	<u>6,143,574,917</u>	<u>446,939,301,111</u>	<u>90,384,582,672</u>	<u>94,467,843,599</u>	<u>1,199,557,366</u>	<u>2,412,461</u>	<u>72,513,624,419</u>	<u>16,482,413</u>	<u>711,667,378,958</u>

Below are the useful lives by type of asset:

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

At June 30, 2018 and December 31, 2017, the balance of construction in progress is in respect of construction and remodeling work to the Bank's main office and to existing and new agencies, which is in compliance with the Accounting Manual.

During the six-month period ended June 30, 2018, the Bank recorded depreciation expense of Bs 7,214,336,238 (Bs 1,719,204,655 during the six-month period ended December 31, 2017), shown in the income statement under general and administrative expenses (Note 19).

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

Banco Nacional de Crédito, C.A, Banco Universal
Notes to the financial statements
June 30, 2018 and December 31, 2017

11. Other assets

Other assets comprise the following:

	June 30, 2018	December 31, 2017
	(In bolivars)	
Deferred expenses		
Licenses, includes US\$12,870 y €4,353 (US\$16,658 and €6,137 at December 31, 2018) (Note 4)	26,157,313,181	7,820,995,765
Leasehold improvements, net of amortization	21,008,115,988	3,921,139,583
Deferred loss on mortgage loans to companies whose real property was subject to intervention from the Venezuelan government (Note 6)	363,058,244	385,988,238
Operating system (software), includes US\$3,851 (US\$9,248 at December 31, 2017) (Note 4)	<u>555,199,344</u>	<u>258,212,098</u>
	48,083,686,757	12,386,335,684
Advances to suppliers	690,441,527,096	32,505,261,648
Advances on purchase options on premises owned by the Bank	206,854,247,039	6,773,607,039
Other prepaid expenses, includes US\$14,044 (US\$30,288 at December 31, 2017) (Note 4)	33,260,782,765	3,467,185,588
Stationery and sundry supplies	75,433,824,816	13,406,958,516
Pending items	46,378,292,171	4,034,114,780
Prepaid taxes and subscriptions (Note 16)	27,803,619,426	1,908,054,370
Inventories of chip credit and debit cards	26,527,084,825	1,070,254,120
Other sundry accounts receivable, includes US\$861 (US\$1,020 and at December 31, 2017) (Note 4)	23,229,611,785	2,159,745,867
Credit card-related accounts receivable and balance off settings	11,957,646,637	853,019,821
Bank insurance, includes US\$657,979 (US\$161,881 at December 31, 2017) (Note 4)	85,464,095,834	1,614,765
Matured financial instruments receivable, equivalent to US\$10,375 (US\$36,313 at December 31, 2017) (Note 4)	1,190,142,188	362,217
Contribution under the Law for the Advancement of Science, Technology and Innovation (Note 1)	730,173,131	-
Accounts receivable from employees, includes US\$24,199 at December 31, 2017 (Note 4)	657,040,037	34,057,817
Guarantee deposits, includes US\$4,675 (Note 4)	589,392,059	48,210,518
Debt items pending reconciliation, includes US\$2,070	<u>237,403,254</u>	<u>-</u>
	<u>1,278,838,569,820</u>	<u>78,648,782,749</u>
Provision for other assets, includes US\$12,445 (US\$36,313 at December 31, 2017) (Note 4)	<u>(1,597,297,245)</u>	<u>(174,034,349)</u>
	<u>1,277,241,272,575</u>	<u>78,474,748,400</u>

At June 30, 2018 and December 31, 2017, advances to suppliers of Bs 690,441,527,096 and Bs 32,505,261, respectively, relate mainly to purchases of equipment, teller machines and remodeling of agencies and the administrative headquarters.

At June 30, 2018 and December 31, 2017, advances for purchase options on premises owned by the Bank were granted to purchase administrative offices and bank agencies for Bs 6,854,247,039 and Bs 200,000,000,000 (Bs 6,136,824,915 and Bs 636,782,124, respectively, at December 31, 2017).

At June 30, 2018, stationery and sundry supplies include office supplies for Bs 56,803,573,864; stationery for Bs 14,463,426,402; and cleaning and other supplies for Bs 4,166,824,550 (Bs 7,878,124,302, Bs 4,323,906,846 and Bs 1,204,927,368, respectively, at December 31, 2017).

At June 30, 2018, bank insurance includes US\$657,979, equivalent to Bs 75,478,381,624 and Bs 8,980,931,300 in respect of insurance premiums covering electronic and computer crime (US\$161,881, equivalent to Bs 1,614,765 according to the exchange rate at December 31, 2017).

At June 30, 2018, other sundry accounts receivable correspond mainly to claims and in-transit operations for debit and credit card transactions amounting to Bs 18,102,288,023; recovery processing of assets to be submitted to the insurance company for Bs 851,179,238; accounts receivable from employees in connection with insurance policies and reimbursable expenses for Bs 282,326,882; uniforms for Bs 358,701,433; tax on financial transactions reimbursed to tax exempt clients for Bs 162,747,743; and other accounts receivable for Bs 3,472,368,466 (Bs 779,120,830, Bs 176,407,379, Bs 138,346,953, Bs 116,625,207, Bs 3,285,336 and Bs 945,960,162, respectively, at December 31, 2017).

Banco Nacional de Crédito, C.A, Banco Universal
Notes to the financial statements
June 30, 2018 and December 31, 2017

On July 29, 2011, the Venezuelan government issued a resolution to establish the mechanisms to assign resources for financing projects developed by communal councils or other forms of social organization. In accordance with this Resolution, banks will earmark 5% of their gross pre-tax income to the National Communal Council Fund (SAFONACC) within 30 days of period end. On August 22, 2011, SUDEBAN issued Resolution No. 233.11 to require banks to record this social contribution as a prepaid expense forming part of other assets and to amortize it at a rate of 1/6 per month in the income statement within sundry operating expenses beginning in January or July, as appropriate to each six-month period. In January 2018 and July 2017, the Bank paid Bs 4,244,100,287 and Bs 1,001,006,042, respectively, in this connection (Note 18).

Deferred expenses comprise the following:

	June 30, 2018			December 31, 2017		
	Cost	Accumulated amortization	Book value	Cost	Accumulated amortization	Book value
	(In bolivars)					
Licenses	41,404,131,857	(15,246,818,676)	26,157,313,181	9,019,868,322	(1,198,872,557)	7,820,995,765
Leasehold improvements	21,569,404,614	(561,288,626)	21,008,115,988	4,148,282,886	(227,143,303)	3,921,139,583
Deferred loss on mortgage loans to companies whose real property was subject to intervention from the Venezuelan government	458,599,887	(95,541,643)	363,058,244	458,599,887	(72,611,649)	385,988,238
Operating system (software)	<u>13,290,320,365</u>	<u>(12,735,121,021)</u>	<u>555,199,344</u>	<u>363,880,677</u>	<u>(105,668,579)</u>	<u>258,212,098</u>
	<u>76,722,456,723</u>	<u>(28,638,769,966)</u>	<u>48,083,686,757</u>	<u>13,990,631,772</u>	<u>(1,604,296,088)</u>	<u>12,386,335,684</u>

During the six-month periods ended June 30, 2018 and December 31, 2017, the Bank recorded amortization of deferred expenses of Bs 14,257,277,903 and Bs 1,403,316,770, respectively, shown in the income statement under general and administrative expenses (Note 19).

The balance of pending items comprises the following:

	June 30, 2018	December 31, 2017
	(In bolivars)	
In-transit operations		
Interbank Mobile Payment	26,845,342,649	1,406,580,790
MasterCard credit card	19,085,822,581	2,093,823,505
Teller machines and remittances in foreign currency	365,501,179	288,488,683
Internet deposit remittances	38,160,100	176,834,969
Cash shortages	38,545,918	4,955,847
Other pending items	<u>4,919,744</u>	<u>63,430,986</u>
	<u>46,378,292,171</u>	<u>4,034,114,780</u>

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

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

Banco Nacional de Crédito, C.A, Banco Universal
Notes to the financial statements
June 30, 2018 and December 31, 2017

Below is the movement in the provision for other assets:

	<u>Six-month periods ended</u>	
	<u>June 30, 2018</u>	<u>December 31, 2017</u>
	(In bolivars)	
Balance at the beginning of the period	174,034,349	177,679,133
Provided in the period (Note 18)	237,403,254	-
Reclassification of interest receivable, equivalent to US\$5,188 (Note 7)	595,128,450	51,750
Write-offs of unrecoverable accounts, includes US\$ 31,126 at June 30, 2018	(3,574,513,339)	(3,696,534)
Adjustment from exchange differences	<u>4,165,244,531</u>	<u>-</u>
Balance at the end of the period	<u>1,597,297,245</u>	<u>174,034,349</u>

12. Customer deposits

Customer deposits comprise the following:

	<u>June 30, 2018</u>	<u>December 31, 2017</u>
	(In bolivars)	
Checking account deposits and certificates		
Non-interest-bearing checking accounts	51,849,310,974,245	3,136,395,812,027
Interest-bearing checking accounts	4,545,531,316,575	237,136,784,813
Checking accounts under Exchange Agreement No. 20, equivalent to US\$12,441,996 (US\$5,183,942 at December 31, 2017) (Notes 3 and 4)	1,427,252,497,122	51,709,822
Demand deposits and certificates		
Non-negotiable demand deposits, bearing annual interest between 1% and 9%, maturing in January 2017	1,974,215,776,217	127,992,595,230
Public, State and Municipal Administration	<u>306,075,391,308</u>	<u>15,000,000,000</u>
	<u>60,102,385,955,467</u>	<u>3,516,576,901,892</u>
Other demand deposits		
Cashier's checks	239,022,951,831	11,367,227,043
Trust fund liabilities (Note 20)	1,557,945,381,958	8,623,489,205
Advance collections from credit card holders	11,613,809,047	1,145,374,292
Housing Savings Fund liabilities (Note 20)	<u>291,154,462</u>	<u>32,121,419</u>
	<u>1,808,873,297,298</u>	<u>21,168,211,959</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\$31,646,391 and €17,885 (US\$49,744,396 and €18,048 at December 31, 2017) (Note 4)	<u>10,741,760,918,508</u>	<u>515,170,443,484</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\$4,167,287 (US\$5,334,746 at December 31, 2017), with the following maturities (Note 4)		
Up to 30 days	430,031,433,127	3,465,059,722
31 to 60 days	14,327,380,759	12,834,848,973
61 to 90 days	350,337,080,386	4,866,936,938
91 to 180 days	27,717,822,664	1,165,168,326
181 to 360 days	102,418,770,000	45,805,000
Over 361 days	<u>1,200,000</u>	<u>-</u>
	<u>924,833,686,936</u>	<u>22,377,818,959</u>
Restricted customer deposits, includes US\$1,355,000 and €900,000 (Note 4)	<u>275,959,272,750</u>	<u>24,285,534</u>
	<u>73,853,813,130,959</u>	<u>4,075,317,661,828</u>

Banco Nacional de Crédito, C.A, Banco Universal
Notes to the financial statements
June 30, 2018 and December 31, 2017

At June 30, 2018 and December 31, 2017, restricted customer deposits correspond to guarantee deposits for loans granted by the Branch. At June 30, 2018 and December 31, 2017, the Branch has a guarantee on these deposits, which has been correctly set up.

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

	June 30, 2018	December 31, 2017
	(In bolivars)	
Non-interest-bearing checking accounts	1,078,239,033,121	84,415,007,904
Non-negotiable demand deposits	390,444,931,499	26,802,402,096
Interest-bearing checking accounts, at 0.25% annual interest	109,491,867,265	20,158,600,594
Savings deposits, at 12.5% annual interest	306,075,391,308	15,000,000,000
Time deposits, at 14.5% annual interest	<u>250,040,500,000</u>	<u>284,750,147</u>
	<u>2,134,291,723,193</u>	<u>146,660,760,741</u>

13. Borrowings

Borrowings comprise the following:

	June 30, 2018	December 31, 2017
	(In bolivars)	
Borrowings from Venezuelan financial institutions, up to one year		
Demand deposits, non-interest bearing checking account with Bancrecer, Banco Microfinanciero, C.A.	2,761,514,197	121,121,939
Mi Banco, Banco Microfinanciero, C.A.	113,302,335	5,795,083
Banplus, Banco Universal, C.A.	<u>42,237</u>	<u>42,008</u>
	<u>2,874,858,769</u>	<u>126,959,030</u>
Borrowings from foreign financial institutions, up to one year		
Demand deposits, checking account BNC International Banking Corporation, at 0.25% per annum (Note 23)	10,283,809	10,270,893
Demand deposits, non-interest bearing checking account with Arca International Bank, Inc.	234,874,425	109,637
Bancaribe Curacao Bank, N.V.	<u>626,694</u>	<u>626,694</u>
	<u>245,784,928</u>	<u>11,007,224</u>
	<u>3,120,643,697</u>	<u>137,966,254</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, 2018	December 31, 2017
	(In bolivars)	
Expenses payable on customer deposits		
Time deposits, includes US\$53,038 (US\$29,326 at December 31, 2017) (Note 4)	8,197,230,154	197,341,371
Non-negotiable demand deposits	1,003,453,887	162,190,270
Deposits in interest-bearing checking accounts	<u>-</u>	<u>5,494,189</u>
	<u>9,200,684,041</u>	<u>365,025,830</u>

Banco Nacional de Crédito, C.A, Banco Universal
Notes to the financial statements
June 30, 2018 and December 31, 2017

15. Accruals and other liabilities

Accruals and other liabilities comprise the following:

	June 30, 2018	December 31, 2017
	(In bolivars)	
Pending items, includes US\$ 23,070 (US\$21,000 at December 31, 2018) (Note 4)	2,530,637,487,101	74,020,747,246
Income tax provision, includes US\$2,057 (US\$5,126 at December 31, 2017) (Notes 4 and 16)	720,173,466,506	44,577,803,107
Deferred interest income, includes US\$849 at December 31, 2017 (Notes 2-k and 4)	382,533,832,845	9,787,477,901
Deferred income tax liability (Note 16)	25,279,863,410	8,395,438,432
Withholding tax, includes US\$1,414 (US\$1,417 at December 31, 2017) (Note 4)	312,724,108,687	8,064,292,109
Accrual for length-of-service benefits (Note 2-j)	220,756,624,298	5,095,430,866
Suppliers and other sundry payables, includes US\$94,274 (US\$41,813 at December 31, 2017) (Note 4)	68,013,206,197	4,891,816,607
Tax on economic activities and other taxes payable (Note 16)	57,336,899,909	2,666,464,024
Fees for credit and debit card services	37,516,230,811	1,448,626,356
Vacations and vacation bonus payable (Notes 2-j and 4)	40,161,450,686	988,989,153
Contribution for the prevention of money laundering and terrorism financing	16,665,321,922	970,361,415
Sports and Physical Education Law (Note 1)	11,050,634,499	500,348,239
Professional fees payable	4,248,448,943	382,277,947
Labor contributions and withholdings payable, includes US\$1,275 (US\$1,261 at December 2017) (Note 4)	3,163,848,681	303,994,908
Profit sharing payable	40,961,066,472	-
Leases	3,718,556,405	220,852,289
Cashier's checks	14,813,852,605	155,283,627
Ezequiel Zamora Fund withholdings	8,286,008,075	154,070,000
Other provisions	296,282,556	95,886,522
Accounts payable in foreign currency, equivalent to US\$3,058,770 and €10,648 (US\$4,674,969 and €10,309 at December 31, 2017) (Note 4)	352,305,004,005	46,756,178
Provision for contingent loans (Note 20)	13,991,555	6,862,359
Other personnel expenses	<u>31,136,940,500</u>	<u>2,141,446</u>
	<u>4,881,793,126.66</u>	<u>162,785,883,030</u>

At June 30, 2018 and December 31, 2017, fees for credit and debit card services of Bs 37,516,230,811 and Bs 1,448,626,356, respectively, mainly correspond to fees for the use of the VISA, Maestro, MasterCard and Suiche 7B trademarks and to point-of-sale and teller machine transactions. During the six-month periods ended June 30, 2018 and December 31, 2017, the Bank recorded expenses in this connection of Bs 175,872,777,023 and Bs 9,674,430,668, respectively, included within service fees under other operating expenses (Note 18).

At June 30, 2018 and December 31, 2017, suppliers and other sundry payables are mainly in respect of accounts payable for services of Bs 38,808,935,856 and Bs 2,888,971,046, respectively; pending claims, returns and credit cards of Bs 18,068,720,400 and Bs 1,925,130,154, respectively; and other accounts payable of Bs 11,135,549,941 and Bs 77,715,407, respectively.

At June 30, 2018 and December 31, 2017, withheld taxes relate mainly to withholdings from third parties in connection with: income tax for Bs 157,065,465,677 and Bs 4,973,837,670, respectively; tax on large financial transactions for Bs 74,769,614,370 and Bs 1,972,388,425, respectively; value added tax for Bs 40,587,188,418 and Bs 574,202,148, respectively; stamp duty for Bs 40,115,993,243 and Bs 538,450,466, respectively, and other taxes for Bs 185,846,979 and Bs 3,298,886, respectively, which were paid to the Tax Authorities during July and January 2018, respectively.

Banco Nacional de Crédito, C.A, Banco Universal
Notes to the financial statements
June 30, 2018 and December 31, 2017

At June 30, 2018 and December 31, 2017, accounts payable in foreign currency include US\$2,872,118 (equivalent to Bs 329,467,852,135) and US\$2,879,992 (equivalent to Bs 28,727,920 at the exchange rate in effect at December 31, 2017), respectively, in connection with interest payable on customer securities held in custody by the Bank, which have not been claimed to date.

Below is the movement in the provision for contingent loans:

	<u>Six-month periods ended</u>	
	<u>June 30,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
	(In bolivars)	
Balance at the beginning of the period	6,862,359	2,036,665
Provided for the period	<u>7,129,196</u>	<u>4,825,694</u>
Balance at the end of the period	<u>13,991,555</u>	<u>6,862,359</u>

The balance of pending items comprises the following:

	<u>June 30,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
		(In bolivars)
Point-of-sale transactions payable	1,632,305,507,435	68,789,234,364
Checks received for credit transactions	-	3,266,284,032
Mobile payment transactions payable	18,124,700,087	1,115,415,660
Collection of government and municipal taxes	51,643,468,722	301,745,026
Suiche 7B transactions payable	424,838,688	264,520,127
Credit card transactions	883,688,937	189,175,982
Commissions to the Central Bank of Venezuela	1,002,055,908	81,209,579
Other pending items	-	6,028,461
Cash surplus	24,366,735	5,165,765
Difference in exchange for credit cards	2,056,621,772	1,040,067
Automatic voucher differences	1,042,301,945	698,708
In-transit operations through SICAD, equivalent to US\$21,000 (Note 4)	2,408,962,500	209,475
Advance received on sale of agency	723,734,300,000	-
Pending employee payments	11,044,527,800	-
Debit items in foreign currency pending recording	237,403,254	-
In-transit operations	<u>85,704,743,318</u>	<u>20,000</u>
	<u>2,530,637,487,101</u>	<u>74,020,747,246</u>

At June 30, 2018 and December 31, 2017, point-of-sale transactions payable correspond to the use of points of sale of other financial institutions by Bank customers. Most of these transactions clear in the month following period closing.

During the six-month period ended June 30, 2018, the Bank received an advance of Bs 723,734,300,000 for the sale of an agency which is fully operational. The sale will be formalized upon fulfillment of all legal requirements.

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

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

Banco Nacional de Crédito, C.A, Banco Universal
Notes to the financial statements
June 30, 2018 and December 31, 2017

16. Taxes

a) Income tax

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

The Income Tax Law published on December 30, 2015 in Official Gazette No. 6,210, establishes, among other things, a 40% proportional income tax for institutions engaged in banking and financial activities; these institutions are excluded from the inflation adjustment for tax purposes set forth in this Law. The Law also establishes that net operating losses may be carried forward for 3 years and offset up to a maximum of 25% of annual income.

Below is the reconciliation between book income and net taxable income for the six-month period ended June 30, 2018:

	(In bolivars)
Statutory tax rate (%)	<u>40</u>
Book income before tax	1,674,973,542,963
Difference between book income and taxable income	
Effect of the annual inflation adjustment	(39,922,659)
Other provisions	14,802,692,231
Loan portfolio, net	35,735,821,806
Other assets	(7,002,224,579)
Tax-exempt income, net of related expenses	66,995,532,304
Social contributions	162,243,327
Municipal taxes	52,559,957,060
Other effects, net	<u>(133,700,874,529)</u>
Tax debt in Venezuela	1,704,486,767,924
Taxable income from foreign source	<u>83,013,240,680</u>
	<u>1,787,500,008,604</u>
Income tax expense in Venezuela	<u>715,000,003,442</u>

During the six-month period ended June 30, 2018, the Branch recorded estimated income tax expense of US\$1,473 equivalent to Bs 168,971,512 (US\$2,995 equivalent to Bs 29,875 at the exchange rate in effect at December 31, 2017). On June 27, 2013, the Curacao Tax Authorities approved the extension of Tax Ruling No. UR 15-1483 until December 31, 2018; according to this ruling, the Branch must calculate tax payable on the basis of 7% of the costs of its activities since the commencement of Branch operations, except for disbursement costs and interest on debt with a tax rate of 22%. Disbursements include costs of services provided by third parties which are not considered part of the Branch's activities, except for service fees, office and equipment leasing and telecommunication expenses, among others (Note 8).

The tax expense comprises the following:

	<u>Six-month periods ended</u>	
	<u>June 30,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
	(In bolivars)	
Income tax		
Current	715,168,974,954	36,450,029,879
Deferred liability	<u>16,884,424,978</u>	<u>9,286,781,716</u>
	<u>732,053,399,932</u>	<u>45,736,811,595</u>

Banco Nacional de Crédito, C.A, Banco Universal
Notes to the financial statements
June 30, 2018 and December 31, 2017

At June 30, 2018 and December 31, 2017, the Bank maintains an income tax provision of Bs 720,173,466,506 and Bs 44,577,803,107, respectively, which includes US\$2,057 and US\$5,126, respectively, in connection with the Branch (Note 15). In addition, at June 30, 2018 and December 31, 2017, the Bank has prepaid income tax amounting to Bs 27,406,263,843 and Bs 1,854,870,662, respectively, which are part of other assets and are shown within prepaid taxes and subscriptions (Note 11).

b) Deferred income tax

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

Bank management determined and evaluated the deferred tax recorded. The main differences between the tax base and the carrying amount at June 30, 2018 and December 31, 2017 relate to the provision for high-risk and uncollectible loans, inflation adjustment for tax purposes pending amortization on property and equipment, deferred expenses and sundry provisions. At June 30, 2018, the Bank maintains a deferred tax liability of Bs 25,279,863,410 (Bs 8,395,438,432 at December 31, 2017), included under accruals and other liabilities (Note 15).

The components of the deferred tax liability is as follows:

	June 30, 2018	December 31, 2017
	(In bolivars)	
Assets		
Inflation adjustment for tax purposes pending amortization on property and equipment	17,046,976	425,608,716
Other provisions and accruals	30,195,566,922	1,792,368,173
Allowance for losses on loan portfolio and provision for interest receivable	<u>3,997,988</u>	<u>107,335,977</u>
	<u>30,216,611,886</u>	<u>2,325,312,866</u>
Liabilities		
Deferred losses on mortgage loans	155,025,870	164,006,402
Prepaid expenses	<u>55,341,449,426</u>	<u>10,556,744,896</u>
	<u>55,496,475,296</u>	<u>10,720,751,298</u>
Deferred income tax asset (liability)	(25,279,863,410)	(8,395,438,432)

The movements in the deferred income tax liability accounts for the six-month periods ended June 30, 2018 and December 31, 2017 are summarized below:

	Inflation adjustment for tax purposes pending amortization on property and equipment	Other provisions and accruals	Allowance for losses on loan portfolio and provision for interest receivable	Deferred losses on mortgage loans	Prepaid expenses	Total deferred tax asset (liability)
	(In bolivars)					
At June 30, 2017	432,516,778	670,845,336	126,599,912	(164,370,782)	(174,247,960)	891,343,284
Charged (credited) to the income statement	<u>(6,908,062)</u>	<u>1,121,522,837</u>	<u>(19,263,935)</u>	<u>364,380</u>	<u>(10,382,496,936)</u>	<u>(9,286,781,716)</u>
At December 31, 2017	<u>425,608,716</u>	<u>1,792,368,173</u>	<u>107,335,977</u>	<u>(164,006,402)</u>	<u>(10,556,744,896)</u>	<u>(8,395,438,432)</u>
Charged (credited) to the income statement	<u>(408,561,740)</u>	<u>28,403,198,749</u>	<u>(103,337,989)</u>	<u>8,980,532</u>	<u>(44,784,704,530)</u>	<u>(16,884,424,978)</u>
At June 30, 2018	<u>17,046,976</u>	<u>30,195,566,922</u>	<u>3,997,988</u>	<u>(155,025,870)</u>	<u>(55,341,449,426)</u>	<u>(25,279,863,410)</u>

Banco Nacional de Crédito, C.A, Banco Universal
Notes to the financial statements
June 30, 2018 and December 31, 2017

c) Transfer pricing

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

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, 2018 and December 31, 2017, the Bank recorded a tax expense of Bs 92,600,354,955 and Bs 4,560,906,513, respectively, in connection with the economic activities conducted in its offices nationwide, shown under general and administrative expenses (Note 19). At June 30, 2018, the balance pending payment in this connection amounts to Bs 55,184,750,695 (Bs 2,624,793,635 at December 31, 2017), and is shown under accruals and other liabilities within tax on economic activities and other taxes payable (Note 15).

e) Law on Tax on Large Financial Transactions

On December 30, 2015, the Venezuelan government enacted the Law on Tax on Large Financial Transactions, whose tax rate is 0.75% applicable to operations made by incorporated and unincorporated entities that have been qualified by Seniat's System for Liquidation and Self-liquidation of Customs Duties as special taxpayers and by incorporated and unincorporated entities legally bound to them or that make payments on their behalf. Similarly, Venezuelan banks and financial institutions also pay this tax based on the transactions laid down in the aforementioned Law that give rise to such payment. This tax is effective as from February 1, 2016. During the six-month period ended June 30, 2018, the Bank recognized expenses of 22,937,061,438 shown under general and administrative expenses (Bs 1,062,203,054 during the six-month period ended December 31, 2017) (Note 19).

17. Other operating income

Other operating income comprises the following:

	<u>Six-month periods ended</u>	
	<u>June 30,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
	(In bolivars)	
Service fees (Note 2-k)	754,758,396,579	44,403,895,233
Commissions on trust funds (Note 20)	1,034,726,213	117,200,872
Gain on sale of investment securities (Note 5-b)	6,130,536,909	92,810,964
Exchange gain (Note 4)	10,474,284,751	3,537,423
Income from amortization of discount on held-to-maturity investments	<u>22,379,829,944</u>	<u>1,232,697</u>
	<u>794,777,774,396</u>	<u>44,618,677,189</u>

Banco Nacional de Crédito, C.A, Banco Universal
Notes to the financial statements
June 30, 2018 and December 31, 2017

18. Other operating expenses

Other operating expenses comprise the following:

	<u>Six-month periods ended</u>	
	<u>June 30,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
	(In bolivars)	
Service fees (Notes 2-k and 15)	193,023,887,770	9,730,893,170
Loss on impairment of investment securities (Note 5-c)	193,210,748,984	-
Amortization of premiums on held-to-maturity investments	16,992,969,597	40,521,424
Loss on sale of investment securities (Note 5-b)	119,994,932	18,354,613
Exchange loss (Note 4)	<u>17,341,642,551</u>	<u>846,211</u>
	<u>420,689,243,834</u>	<u>9,790,615,418</u>

Sundry operating expenses comprise the following:

	<u>Six-month periods ended</u>	
	<u>June 30,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
	(In bolivars)	
Contribution to the National Fund for Communal Councils (Note 11)	4,244,100,287	1,001,006,042
Contribution for the Antidrug Law (Note 1)	16,751,988,323	763,588,121
Contribution for the Sports and Physical Education Law (Note 1)	11,177,010,945	391,139,684
Contribution for the Law for the Advancement of Science, Technology and Innovation (Note 1)	726,753,116	119,556,982
Other	245,567,790	443,714
Provision for other assets (Note 11)	<u>237,403,254</u>	<u>-</u>
	<u>33,382,823,715</u>	<u>2,275,734,543</u>

19. General and administrative expenses

General and administrative expenses comprise the following:

	<u>Six-month periods ended</u>	
	<u>June 30,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
	(In bolivars)	
Transportation of valuables and surveillance	110,317,350,623	9,503,479,388
Maintenance and repairs	147,757,403,685	8,663,988,060
Stationery and office supplies	13,978,990,872	7,070,619,969
Sundry general expenses	130,015,792,085	6,921,970,874
Consulting and external audit	123,169,637,070	6,007,401,864
Tax on economic activities (Note 16)	92,600,354,955	4,560,906,513
Outsourced services	47,709,366,163	2,788,382,774
Transportation and communication expenses	30,583,654,815	2,390,493,868
Leases	15,749,922,930	2,280,914,832
Depreciation and impairment of property and equipment (Note 10)	7,214,336,238	1,719,204,655
Amortization of deferred expenses (Note 11)	14,257,277,903	1,403,316,770
Advertising	38,236,109,894	1,242,473,384
Tax on Large Financial Transactions (Note 16)	22,937,061,438	1,062,203,054
Legal advice	7,678,287,991	677,456,585
Insurance	68,388,939,672	293,069,593
Infrastructure expenses	1,932,054,029	274,292,534
Public relations	867,385,960	203,604,444
Utilities	999,169,412	70,687,589
Legal expenses	15,240,708	12,783,427
Other taxes and contributions	539,628,698	71,501,061
Other	<u>1,243,573,333</u>	<u>5,117,943</u>
	<u>876,191,538,473</u>	<u>57,223,869,181</u>

Banco Nacional de Crédito, C.A, Banco Universal
Notes to the financial statements
June 30, 2018 and December 31, 2017

20. Memorandum accounts

Memorandum accounts comprise the following:

	June 30, 2018	December 31, 2017
	(In bolivars)	
Contingent debtor accounts		
Credit card lines of credit (Note 21)	3,654,681,412,715	45,789,360,618
Purchases of financial futures (Note 5-a)	8,322,276,000	6,627,419,000
Guarantees granted (Note 21)	1,398,949,493	685,615,524
Lines of credit for discounts and factoring (Note 21)	155,407,805	68,193,490
Letters of credit issued but not negotiated, includes €900,000 (Notes 4 and 21)	<u>120,524,035,250</u>	<u>11,389,802</u>
	<u>3,785,082,081,263</u>	<u>53,181,978,434</u>
Assets received in trust (Note 2-m)	<u>1,669,761,701,436</u>	<u>30,454,120,461</u>
Debtor accounts from other special trust services (Housing Loan System)	<u>40,796,818,672</u>	<u>11,319,040,167</u>
Other debtor memorandum accounts		
Guarantees received, includes US\$27,619,551 (US\$26,341,526 at December 31, 2017) (Note 4)	50,393,992,515,064	2,768,605,473,439
Lines of credit available but not negotiated	27,747,335,708,839	746,706,387,229
Assets held in custody, includes US\$50,611,815 (US\$63,568,061 at December 31, 2017) (Note 4)	5,856,097,923,750	15,123,101,956
Performance bonds from suppliers	52,570,673,600	1,223,798,600
Uncollectible accounts written off	536,174,799	539,889,909
Debt reconciling and written off items, includes US\$535,988 and € 8,377 (US\$535,988 and €8,378 at December 31, 2017) (Note 4)	62,713,300,970	108,391,148
Securities held by other financial institutions, equivalent to US\$9,616,600 (US\$9,637,000 at December 31, 2017) (Note 4)	1,103,144,227,500	96,129,075
Deferred interest receivable on loans overdue and in litigation, includes US\$13,736 (US\$7,244 at December 31, 2017) (Notes 4 and 6)	1,600,541,563	21,312,097
Guarantees on collateral granted	443,066	41,289,849
Guarantees in foreign currency, equivalent to US\$3,830,093 (Note 4)	-	38,205,183
Collections in foreign currency, equivalent to US\$1,664,007 (Note 4)	190,882,399,546	16,598,470
Personal and real property written off (Note 9)	11,688,533	11,688,533
Other, includes US\$96,982 (US\$628,803 at December 31, 2017) (Note 4)	11,125,830,866	7,097,171
Taxes receivable	1,616,964	1,616,964
Currency awarded through SICAD, equivalent to US\$23,684 (Note 4)	<u>236,250</u>	<u>236,250</u>
	<u>85,420,013,281,310</u>	<u>3,532,541,215,873</u>
	<u>90,915,653,882,681</u>	<u>3,627,496,354,935</u>

At June 30, 2018 and December 31, 2017, securities in custody of other financial institutions of Bs 1,103,144,227,500 and Bs 96,129,075, respectively, are held in Commerzbank, A.G.

At June 30, 2018, in accordance with the Accounting Manual, the Bank has set aside a general and specific provision for contingent debtor accounts of Bs 13,991,555 (Bs 6,862,359 at December 31, 2017), shown under accruals and other liabilities (Note 15).

Banco Nacional de Crédito, C.A, Banco Universal
Notes to the financial statements
June 30, 2018 and December 31, 2017

a) Assets received in trust

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

	June 30, 2018	December 31, 2017
	(In bolivars)	
Assets		
Cash and due from banks (Note 12)	<u>1,557,945,381,958</u>	<u>8,623,489,205</u>
Investment securities	<u>90,630,826,928</u>	<u>13,328,649,983</u>
Loan portfolio	<u>19,946,433,190</u>	<u>8,178,761,645</u>
Loans and advances to beneficiaries of length-of-service benefits	19,908,926,763	8,178,755,218
Loans receivable	<u>37,506,427</u>	<u>6,427</u>
Interest receivable on investment securities	<u>649,133,932</u>	<u>200,486,365</u>
Other assets	<u>589,925,428</u>	<u>122,733,263</u>
Total assets	<u>1,669,761,701,436</u>	<u>30,454,120,461</u>
Liabilities and Equity		
Liabilities		
Other liabilities	<u>809,432,462</u>	<u>29,141,641</u>
Total liabilities	<u>809,432,462</u>	<u>29,141,641</u>
Equity		
Capital assigned to trusts	1,640,848,685,534	29,547,436,205
Retained earnings	<u>28,103,583,440</u>	<u>877,542,615</u>
Total equity	<u>1,668,952,268,974</u>	<u>30,424,978,820</u>
Total liabilities and equity	<u>1,669,761,701,436</u>	<u>30,454,120,461</u>

Below is a breakdown of assets received in trust:

	June 30, 2018	December 31 2017
	(In bolivars)	
Assets received in trust		
Length-of-service benefits	93,921,686,435	29,401,243,356
Administration	1,572,075,750,461	565,644,387
Investment	<u>3,764,264,540</u>	<u>487,232,718</u>
	<u>1,669,761,701,436</u>	<u>30,454,120,461</u>

At June 30, 2018, administration trust fund assets include Bs 1,507,784,299,418 and Bs 50,312,426,473 in respect of trust funds opened in May 2018 by the Carabobo State government and the Maracaibo Municipality, respectively, to carry out public works. Trust fund management expects to disburse these trust funds to their beneficiaries between July and August 2018.

At June 30, 2018 and December 31, 2017, cash and due from banks includes Bs 1,557,945,381,958 and Bs 8,623,489,205, respectively, related to funds received from trust fund operations that are managed through checking accounts with the Bank and are used to receive or pay all funds; they earn 6% annual interest (Note 12). During the six-month periods ended June 30, 2018 and December 31, 2017, the Bank's trust fund earned income of Bs 3,173,700,243 and Bs 94,981,620, respectively, from cash and due from banks.

Banco Nacional de Crédito, C.A, Banco Universal
Notes to the financial statements
June 30, 2018 and December 31, 2017

Below is the classification of investment securities according to maturity:

	<u>June 30, 2018</u>		<u>December 31, 2017</u>	
	<u>Amortized cost</u>	<u>Fair value</u>	<u>Amortized cost</u>	<u>Fair value</u>
	(In bolivars)			
Up to 6 months	14,658,687,139	14,658,684,383	2,182,671,216	2,238,849,801
6 months to 1 year	48,487,733,597	45,105,869,773	1,850,616,983	2,034,559,971
1 to 5 years	19,628,495,168	19,628,495,121	6,641,688,498	6,762,401,387
Over 5 years	<u>7,855,911,024</u>	<u>7,855,913,106</u>	<u>2,653,673,286</u>	<u>2,956,885,684</u>
	<u>90,630,826,928</u>	<u>87,248,962,383</u>	<u>13,328,649,983</u>	<u>13,992,696,843</u>

At June 30, 2018, interest receivable on investment securities amounts to Bs 649,133,932 (Bs 200,486,365 at December 31, 2017)

At June 30, 2018 and December 31, 2017, loans and advances to beneficiaries of the length-of-service benefit trust fund are in respect of loans and advances granted to employees guaranteed by their length-of-service benefits deposited in the trust fund. These interest-free and short-term loans are in respect of length-of-service benefit trust fund plans of public and private-sector companies.

At June 30, 2018, loans and advances to beneficiaries of the length-of-service benefit trust fund include Bs 771,394,615 (Bs 654,859,588 at December 31, 2017) from Bank employees (Notes 1 and 8); Bs 12,206,612,264 from private length-of-service benefit trust funds, and Bs 6,930,919,884, from government agencies (Bs 4,406,537,367 and Bs 3,117,358,263, respectively, at December 31, 2017).

Fiduciary remuneration payable relates to commissions payable to the Bank as set out in the trust fund agreements signed by trustors and the Bank as trustee. It is calculated on the monthly average capital of the trust fund and is deducted from the product or capital, depending on the terms of the contract (Note 7). Furthermore, the commission paid by the trust fund and the trustors to the Bank during the six-month period ended June 30, 2018 amounted to Bs 1,034,726,213 (Bs 117,200,872 during the six-month period ended December 31, 2017) (Note 17).

At June 30, 2018, length-of-service benefit trust funds in favor of Bank employees amount to Bs 10,222,706,236 (Bs 2,189,996,925 at December 31, 2017).

The National Treasury Office published in Official Gazette No. 40,172 of May 22, 2013, Resolution No. 0010 "Administrative Ruling regulating the refund to the Treasury of amounts credited to trust funds set up by the Venezuelan government and its decentralized agencies that have been inactive for over 4 months." This Resolution establishes that bodies and agencies of the Venezuelan government that have set up trust funds with budgetary resources at public or private banks without having made the corresponding disbursements or payments for periods equal or over 4 months, with the exception of labor trust funds, shall refund to the National Treasury account both the trust fund capital and the dividends generated. At June 30, 2018 and December 31, 2017, trust funds set up by the Venezuelan government or its decentralized agencies correspond mainly to length-of-service benefit and administration trust funds, which have been mobilized over the last four months.

Banco Nacional de Crédito, C.A, Banco Universal
Notes to the financial statements
June 30, 2018 and December 31, 2017

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

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

	June 30, 2018	December 31, 2017
	(In bolivars)	
Assets		
Cash and due from banks (Note 12)	291,154,462	32,121,419
Investment securities	40,401,775,063	11,159,254,342
Loan portfolio	103,601,085	127,308,642
Interest receivable	179,198	243,570
Other assets	<u>108,864</u>	<u>112,194</u>
Total assets	<u>40,796,818,672</u>	<u>11,319,040,167</u>
Liabilities		
Contributions to the Housing Savings Fund	40,491,204,385	11,015,211,193
Liabilities to BANAVIH	<u>243,714,356</u>	<u>243,716,487</u>
Total liabilities	<u>40,734,918,741</u>	<u>11,258,927,680</u>
Income	<u>61,899,933</u>	<u>60,112,487</u>
Total liabilities and income	<u>40,796,818,674</u>	<u>11,319,040,167</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, 2018, the Bank has an investment trust in BANAVIH for Bs 40,401,775,063 (Bs 11,159,254,342 at December 31, 2017) in respect of funds from deposits under the Housing Loan Law collected and transferred by the Bank, shown as investment securities in conformity with the Accounting Manual.

According to the Housing Loan Law, monthly mortgage loan repayments will represent between 5% and 20% of the monthly family income. In addition, these loans will bear interest at the social interest rate set by the People's Power Ministry for Housing.

At June 30, 2018, the Bank has granted loans out of BANAVIH resources of Bs 103,601,085 (Bs 127,308,642 at December 31, 2017). These loans bear annual interest between 4.66% and 8.55%.

At June 30, 2018, the Housing Savings Fund has 1,156 debtors (1,344 debtors at December 31, 2017).

During the six-month period ended June 30, 2018, the Bank recorded income Bs 1,194,352 (Bs 913,834 during the six-month period ended December 31, 2017) from commissions charged to BANAVIH for the administration of resources related to the Mandatory Housing Savings Fund, shown under interest income.

Banco Nacional de Crédito, C.A, Banco Universal
Notes to the financial statements
June 30, 2018 and December 31, 2017

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, 2018 and December 31, 2017, these guarantees earned annual commissions of 1%. These commissions are recorded monthly while the guarantees are in force.

At June 30, 2018, Bank guarantees amount to Bs 1,398,949,493 (Bs 685,615,524 at December 31, 2017) (Note 20).

b) Credit limits

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

c) Letters of credit

Letters of credit usually mature within 90 days, and are renewable. They are generally issued to finance a trade agreement for the shipment of goods from a seller to a buyer. At June 30, 2018 and December 31, 2017, 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, 2018 amount to Bs 120,524,035,250 (Bs 11,389,802 at December 31, 2017) (Note 20).

The Bank's exposure to credit loss in the event of noncompliance by customers with terms for extended credit, letters of credit and written guarantees is represented by the notional contractual amounts of these credit-related instruments. The credit policies applied by the Bank for these commitments are the same as those for granting loans.

In general, the Bank evaluates customer eligibility before granting credit. The amount of collateral provided, if required by the Bank, is based on customer credit assessment. The type of collateral varies, but may include accounts receivable, property and equipment or warranties on investment securities.

22. Equity

a) Capital stock and authorized capital

At June 30, 2018 and December 31, 2017, the Bank's paid-in capital amounts to Bs 3,691,930,372 and Bs 3,031,930,372, respectively, represented by 3,691,930,372 and 3,031,930,372 non-convertible common shares of the same class with a par value of Bs 1 each, fully subscribed and paid-in. The Bank complies with the minimum capital required under the current legislation.

At a Regular Shareholders' Meeting held on 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

Banco Nacional de Crédito, C.A, Banco Universal
Notes to the financial statements
June 30, 2018 and December 31, 2017

paid-in surplus, taking into consideration that at the aforementioned Regular Shareholders' Meeting it was unanimously resolved to provide the resources to increase the Bank's capital stock. Through Resolution No. 009/2017 of December 29, 2017, received by the Bank on January 21, 2018, the SNV authorized the public offering and listing of shares in the National Securities Registry.

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

Meeting date	Type of increase	Amount of the increase (In bolivars)	Increase method	Regulatory entities pending authorization
March 29, 2017	Stock dividends	1,900,000,000	25% with a charge to unappropriated surplus and 75% with a charge to restricted surplus	SUDEBAN and SNV
September 27, 2017	Stock dividends	5,600,000,000	25% with a charge to unappropriated surplus and 75% with a charge to restricted surplus	SUDEBAN and SNV
December 20, 2017	Premium capitalization on capital contributions	6,555,451,276	With a charge to share premiums pending capitalization	SUDEBAN and SNV
March 18, 2018	Stock dividends	19,500,000,000	With a charge to unappropriated surplus	SUDEBAN and SNV
August 9, 2018	Cash contribution by the shareholders	1,000,000,000,000	Issue of non-convertible common shares, with a par value of Bs 1 per share, at a premium equivalent to 3.5 times the equity value of the share	SUDEBAN and SNV

At a Special Shareholders' Meeting held on January 25, 2017, it was resolved to increase capital to up to Bs 200,000,000, through the public offering of non-convertible common shares with a par value of Bs 1 at a premium. Through Notice SIB-II-GGIBPV-GIBPV4-00900 of January 25, 2017, SUDEBAN informed that once the capital increase proposed at the aforementioned Shareholders' Meeting is approved, the Bank will be responsible for making the arrangements so that cash contributions to be made by buyers of shares for premiums are sufficient. These contributions should be recorded in equity under contributions pending capitalization so as to comply with current regulations. During the six-month periods ended June 30, 2018 and December 31, 2017, the Bank received contributions of Bs 14,852,206,702 and Bs 11,346,304,654, respectively, from its shareholders in this connection; these contributions are included in equity under contributions pending capitalization. Through Notice SIB-GGIBPV-GIBPV4-16085 of August 3, 2017, SUDEBAN informed it had no objections to the contents of the Shareholders' Meeting minute of January 25, 2017; accordingly, on August 9, 2017, the Bank sent a request to the SNV asking for its authorization to publicly offer up to 200,000,000 new shares, with a par value of Bs 1 each, for a total of up to Bs 200,000,000. On January 25, 2018, and upon favorable pronouncement from OSFIN, SUDEBAN issued Notice SIB-II-GGR-GA-01342 authorizing the capital increase. On April 13, 2018, through Resolution No. DSNV/CJU/321, the SNV authorized the public offering. During July 2018, the Bank placed the public offering, completing the requirements of the Stock Market Law. As a result, the Bank recorded a capital increase of Bs 200,000,000.

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

At a Regular Shareholders' Meeting held on September 27, 2017, it was resolved to declare and pay dividends for Bs 5,600,000,000, to be distributed as follows: Bs 1,400,000,000 payable in cash with a charge to restricted surplus, and Bs 4,200,000,000 through a stock dividend payable with a charge to

Banco Nacional de Crédito, C.A, Banco Universal
Notes to the financial statements
June 30, 2018 and December 31, 2017

unappropriated surplus. To date, the Bank is awaiting a response from SUDEBAN to subsequently request SNV authorization.

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

At a Regular Shareholders' Meeting held on March 18, 2018, it was resolved to declare and pay dividends for Bs 19,500,000,000, payable in cash with a charge to unappropriated surplus. Furthermore, at the aforementioned Meeting, the shareholders unanimously approved to increase capital stock to up to Bs 19,500,000,000, by subscribing and paying shares at a par value of Bs 1. To date, the Bank is awaiting a response from SUDEBAN to subsequently request SNV authorization.

At a Special Shareholders' Meeting on August 9, 2018, the shareholders approved a capital stock increase of up to Bs 1,000,000,000,000, payable in cash with a premium at a price 3.5 times the equity value of the share. To date, the Bank is awaiting a response from SUDEBAN to subsequently request SNV authorization.

Shares subscribed by shareholders for the six-month periods ended June 30, 2018 and December 31, 2017 are identified as non-convertible common shares as follows:

	<u>June 30, 2018</u>		<u>December 31, 2017</u>	
	<u>Number of Shares</u>	<u>Equity %</u>	<u>Number of shares</u>	<u>Equity %</u>
Shareholders				
Nogueroles García, Jorge Luis	352,573,409	9.5498	289,544,472	9.5498
Valores Torre Casa, C.A.	262,341,155	7.1058	215,442,884	7.1058
Nogueroles López, José María	239,596,045	6.4897	196,756,878	6.4895
Halabi Harb, Anuar	216,084,245	5.8529	177,455,241	5.8529
Alintio International, S.L.	182,780,436	4.9508	150,105,095	4.9508
Curbelo Pérez, Juan Ramón	145,773,664	3.9484	119,713,959	3.9484
Zasuma Inversiones, C.A.	141,799,934	3.8408	116,450,606	3.8408
De Guruceaga López, Gonzalo Francisco	140,036,897	3.7931	115,002,744	3.7931
Inversiones Clatal, C.A.	113,937,199	3.0861	93,589,376	3.0868
Castellana Investments Fund. Limited, S.C.C.	112,439,000	3.0455	71,459,178	2.3569
Osio Montiel, Carmen Inés	95,903,947	2.5977	78,759,366	2.5977
Kozma Solymosy, Nicolás A.	78,977,917	2.1392	64,859,172	2.1392
Inversiones Grial, C.A.	72,576,396	1.9658	56,789,465	1.8730
Inversiones Tosuman, C.A.	68,841,539	1.8646	56,534,857	1.8646
Tamayo Degwitz, Carlos Enrique	68,739,568	1.8619	56,451,115	1.8619
Teleacción A.C., C.A.	66,048,289	1.7890	54,240,952	1.7890
García Arroyo, Sagrario	63,136,653	1.7101	51,849,824	1.7101
Puig Miret, Jaime	51,559,662	1.3966	42,342,432	1.3966
Consorcio Toyomarca, S.A. (Toyomarca, S.A.)	51,365,167	1.3913	42,182,706	1.3913
Somoza Mosquera, David	50,829,500	1.3768	41,742,800	1.3768
Kozma Ingenuo, Alejandro Nicolás	46,687,380	1.2646	38,341,159	1.2646
Kozma Ingenuo, Carolina María	46,687,380	1.2646	38,341,159	1.2646
Chaar, Mouada	41,938,111	1.1359	34,440,909	1.1359
Nogueroles García, María Monstserrat	40,690,797	1.1022	33,416,575	1.1022
Eurobuilding Internacional, C.A.	35,003,501	0.9481	28,745,987	0.9481
Valores Agropecuarios La Florida, C.A.	34,122,925	0.9243	28,022,829	0.9243
Tracto Agro Valencia, C.A.	33,984,728	0.9205	23,802,963	0.7851
Valores Abezur, C.A.	32,676,137	0.8851	26,834,681	0.8851
Herrera de la Sota, Mercedes de la Concepción	31,441,486	0.8516	25,820,746	0.8516
Benacerraf Herrera, Mercedes Cecilia	28,613,508	0.7750	23,498,322	0.7750
Benacerraf Herrera, Andrés Gonzalo	28,613,508	0.7750	23,498,322	0.7750
Benacerraf Herrera, Jorge Fortunato	28,574,820	0.7740	23,466,550	0.7740
Grupo Inmobiliario Gonariz, C.A.	26,033,730	0.7052	21,379,726	0.7052
Cedeño, Eligio	26,021,169	0.7048	21,369,411	0.7048
Other	<u>635,500,570</u>	<u>17.2132</u>	<u>549,677,911</u>	<u>18.1295</u>
	<u>3,691,930,372</u>	<u>100.0000</u>	<u>3,031,930,372</u>	<u>100.0000</u>

Banco Nacional de Crédito, C.A, Banco Universal
Notes to the financial statements
June 30, 2018 and December 31, 2017

b) Capital reserves

1) Legal reserve

Based on the provisions set out in its bylaws and the Law on Banking Sector Institutions, the Bank makes an appropriation to the legal reserve every 6 months equivalent to 20% of its biannual net income until the reserve reaches 50% of its capital stock. Once the legal reserve reaches this amount, the Bank's appropriation to the legal reserve will be 10% of its biannual net income until the reserve covers 100% of its capital stock. At June 30, 2018 and December 31, 2017, capital reserves include Bs 3,691,930,372 and Bs 3,031,930,372, respectively, in connection with the legal reserve.

2) Social Contingency Fund

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

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

At June 30, 2018 and December 31, 2017, the Bank recorded the social contingency fund of Bs 18,459,651 and Bs 15,159,652, respectively, which includes capital and interest, with a charge to unappropriated surplus and a credit to capital reserves. At June 30, 2018 and December 31, 2017, capital reserves include Bs 106,754,010 and Bs 88,294,359, in respect of the Social Contingency Fund (Note 5-d).

3) Voluntary reserves

At June 30, 2018 and December 31, 2017, capital reserves include Bs 996,124 in respect of voluntary reserves.

c) Retained earnings

1) Restricted surplus

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

2) Restricted surplus

In compliance with SUDEBAN Resolution No. 329-99, during the six-month period ended June 30, 2018, the Bank reclassified Bs 471,130,071,516 (Bs 19,547,943,363 at December 31, 2017) to restricted surplus, equivalent to 50% of income for the six-month period, net of appropriations to reserves. At June 30, 2018 and December 31, 2017, restricted surplus amounts to Bs 498,828,106,008 and Bs 28,193,034,492, respectively. These amounts may be used for capital stock increase, but not for cash dividend distribution.

Below is the movement in restricted surplus balances:

	Resolution No. 329.99
	(In bolivars)
Balance at June 30, 2017	8,645,091,129
Appropriation of 50% of income for the period	<u>19,547,943,363</u>
Balance at December 31, 2017	28,193,034,492
Capital increase through stock dividends declared	(495,000,000)
Appropriation of 50% of income for the period	<u>471,130,071,516</u>
Balance at June 30, 2018	<u>498,828,106,008</u>

Banco Nacional de Crédito, C.A, Banco Universal
Notes to the financial statements
June 30, 2018 and December 31, 2017

d) Exchange gain from holding foreign currency assets and liabilities

At June 30, 2018 and December 31, 2017, exchange gain from holding foreign currency assets and liabilities comprises the following:

	(In bolivars)
Balance at June 30, 2017	11,200,743,587
Exchange difference from collection of letters of credit (Note 6)	<u>26,945,920,609</u>
Balance at December 31, 2017	38,146,664,196
Net exchange gain (Note 4)	<u>3,758,701,710,145</u>
Balance at June 30, 2018	<u>3,796,848,374,341</u>

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

e) Risk-based capital ratio

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

	Required %	Maintained %	
		June 30, 2018	December 31, 2017
Total risk-based capital	11	11.58	12.77
Equity-to-total assets	7	10.57	11.24

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

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

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

23. Balances and transactions with related companies

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

Banco Nacional de Crédito, C.A, Banco Universal
Notes to the financial statements
June 30, 2018 and December 31, 2017

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

	June 30, 2018	December 31, 2017
	(In bolivars)	
Assets		
Cash and due from banks		
Foreign and correspondent banks for US\$151,479 (US\$6,440 at December 31, 2017)	17,388,024,392	1,409,412
Exchange Agreement No. 20 for US\$12,441,996 (US\$2,624,402 at December 31, 2017) (Notes 4 and 12)	<u>1,427,252,497,122</u>	<u>24,833,232</u>
	<u>1,444,640,521,514</u>	<u>26,242,644</u>
Liabilities		
Borrowings (Note 13)		
Interest-bearing checking accounts, with 0.25% annual interest	<u>10,283,809</u>	<u>10,270,893</u>
Expenses for the period		
Interest expense		
Expenses from borrowings	<u>-</u>	<u>1,696</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, 2018 and December 31, 2017, the biannual fee is 0.1% and 0.08% of the average of the Bank's assets, respectively; it is payable monthly. This fee is shown under operating expenses.

Through Resolution No. 013.18 of June 1, 2018, SUDEBAN established that the contribution for the second semester of 2018, payable by private banking institutions subject to the supervision and control of this Superintendency within the first 5 business days of each month, is 0.1% of the Bank's average assets at the May and June 2018 month-end.

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.

Banco Nacional de Crédito, C.A, Banco Universal
Notes to the financial statements
June 30, 2018 and December 31, 2017

Accordingly, through Resolution No. 14-03-02 of March 13, 2014, the BCV requires financial institutions to maintain a minimum legal reserve deposit at such institute equal to a percentage of their placements, deposits, liabilities and investments assigned, excluding liabilities with the BCV, FOGADE and other financial institutions; liabilities arising from funds received from the Venezuelan government, local or foreign entities to finance special programs in the country (once these funds have been allocated); liabilities arising from funds received from financial institutions to finance and promote exports as required by Law (once these funds have been allocated) and; liabilities in foreign currency resulting from its offices abroad and those resulting from transactions with other banks and financial institutions for which the latter have, in turn, created a reserve pursuant to the legal reserve regulations. Liabilities arising from resources provided by Mandatory Housing Savings Funds required under the Venezuelan Housing Loan Law and managed by financial institutions in trust funds will not be computed. In addition, through Resolutions Nos. 12-05-02 and 13-04-01 published in Official Gazettes Nos. 39,933 and 40,155 on May 29, 2012 and on April 26, 2013, respectively, the BCV reduced the legal reserve amount to be allocated by financial institutions that purchased dematerialized certificates of participation issued by the Simón Bolívar Fund by the balance of such certificates. At June 30, 2018 and December 31, 2017, the Bank maintains Bs 6,087,028,000 and Bs 6,087,030,691, respectively, in this connection (Note 5-c).

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

At June 30, 2018 and December 31, 2017, the legal reserve is 21.5% of all deposits and 31% for marginal increases in deposits, according to the methodology established by the BCV.

27. Contingencies

At June 30, 2018 and December 31, 2017, the Bank is defendant in the following legal proceedings:

Labor

The Bank has received legal claims from individuals in respect of length-of-service and other labor-related benefits amounting to Bs 42,928,831 and Bs 57,001,934, at June 30, 2018 and December 31, 2017, respectively. In the opinion of Bank management and its external legal advisors, these claims are not well grounded in law and, therefore, should not have a material adverse effect on the Bank's financial position and results of operations.

Bank management and its legal advisors believe that most of these assessments are not well grounded in law and, consequently, that the outcome of these claims will be favorable to the Bank. At June 30, 2018 and December 31, 2017, the Bank has set aside no provision in this connection.

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

Banco Nacional de Crédito, C.A, Banco Universal
Notes to the financial statements
June 30, 2018 and December 31, 2017

28. Maturity of financial assets and liabilities

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

	June 30, 2018							Total
	Maturity							
	December 31, 2018	June 30, 2019	December 31, 2019	June 30, 2020	December 31, 2020	June 30, 2021	Beyond June 30, 2021	
	(In bolivars)							
Assets								
Cash and due from banks	31,084,510,086,065	-	-	-	-	-	-	31,084,510,086,065
Investment securities	2,633,415,995,417	2,778,649,556,808	32,586,569	980,996,769	1,430,130,940	1,198,263,836	795,531,362,236	6,211,238,892,575
Loan portfolio	44,271,436,232,322	290,796,983,410	43,655,536,538	72,235,768,066	46,706,380,620	351,713,250,601	674,315,774,363	45,750,859,925,920
Interest and commissions receivable	148,459,808,111	-	-	-	-	-	-	148,459,808,111
Investment securities received as payment	-	-	-	-	43,065,125,854	-	-	43,065,125,854
	<u>78,137,822,121,915</u>	<u>3,069,446,540,218</u>	<u>43,688,123,107</u>	<u>73,216,764,835</u>	<u>91,201,637,414</u>	<u>352,911,514,437</u>	<u>1,469,847,136,599</u>	<u>83,238,133,838,525</u>
Liabilities								
Customer deposits	73,753,687,410,959	100,124,520,000	1,200,000	-	-	-	-	73,853,813,130,959
Borrowings	3,120,643,697	-	-	-	-	-	-	3,120,643,697
Interest and commissions payable	9,200,684,041	-	-	-	-	-	-	9,200,684,041
	<u>73,766,008,738,697</u>	<u>100,124,520,000</u>	<u>1,200,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>73,866,134,458,697</u>

	December 31, 2017							Total
	Maturity							
	June 30, 2018	December 31, 2018	June 30, 2019	December 31, 2019	June 30, 2020	December 31, 2020	Beyond December 31, 2020	
	(In bolivars)							
Assets								
Cash and due from banks	2,566,587,176,741	-	-	-	-	-	-	2,566,587,176,741
Investment securities	8,322,815,428	10,635,332,379	785,625	34,010,561	1,042,652,725	283,574,632	52,170,151,414	72,489,322,764
Loan portfolio	1,461,057,400,487	54,162,567,189	36,448,732,363	15,684,836,291	4,439,903,970	14,878,226,842	35,566,736,059	1,622,238,403,201
Interest and commissions receivable	9,842,874,544	-	-	-	-	-	-	9,842,874,544
Available-for-sale assets	<u>4,045,810,267,200</u>	<u>64,797,899,568</u>	<u>37,234,217,988</u>	<u>15,718,846,852</u>	<u>5,482,556,695</u>	<u>15,161,801,474</u>	<u>86,952,187,473</u>	<u>4,271,157,777,250</u>
Liabilities								
Customer deposits	4,075,271,856,828	45,805,000	-	-	-	-	-	4,075,317,661,828
Borrowings	137,966,254	-	-	-	-	-	-	137,966,254
Interest and commissions payable	365,025,830	-	-	-	-	-	-	365,025,830
	<u>4,075,774,848,912</u>	<u>45,805,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,075,820,653,912</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, 2018		December 31, 2017	
	Book value	Estimated fair value	Book value	Estimated fair value
	(In bolivars)			
Assets				
Cash and due from banks	31,084,510,086,065	31,084,510,086,065	2,566,587,176,741	2,566,587,176,741
Investment securities	6,211,238,892,575	6,081,205,640,039	72,489,322,764	72,857,121,683
Loan portfolio	44,220,217,992,269	44,220,217,992,269	1,592,216,430,586	1,592,216,430,586
Interest and commissions receivable	88,572,663,327	88,572,663,327	9,765,020,979	9,765,020,979
Available-for-sale assets	43,065,125,854	40,164,098,349	57,915,727	57,915,727
	<u>81,647,604,760,090</u>	<u>81,514,670,480,049</u>	<u>4,241,115,866,797</u>	<u>4,241,483,665,716</u>
Liabilities				
Customer deposits	73,853,813,130,959	73,853,813,130,959	4,075,317,661,828	4,075,317,661,828
Borrowings	3,120,643,697	3,120,643,697	137,966,254	137,966,254
Interest and commissions payable	9,200,684,041	9,200,684,041	365,025,830	365,025,830
	<u>73,866,134,458,697</u>	<u>73,866,134,458,697</u>	<u>4,075,820,653,912</u>	<u>4,075,820,653,912</u>

Banco Nacional de Crédito, C.A, Banco Universal
Notes to the financial statements
June 30, 2018 and December 31, 2017

Short-term financial instruments

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

Investment securities

The fair value of investments in available-for-sale, held-to-maturity securities and securities received as payment recorded in available-for-sale assets, was determined using quoted market prices, reference prices determined from trading operations on the secondary market, the present value of estimated future cash flows and quoted market prices of financial instruments with similar characteristics (Notes 5-b and c). 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, 2018 and December 31, 2017, the Bank does not have loans with debtors that individually exceed 10% of its equity or with economic groups exceeding 20% of the Bank's equity, and does not maintain investments or loans exceeding the limits established in the Law on Banking Sector Institutions.