

**BANCO NACIONAL DE COSTA RICA  
AND SUBSIDIARIES**

Financial Information Required by the  
Superintendency General of Financial Entities

Consolidated Financial Statements

June 30, 2016  
*(With corresponding figures for 2015)*

**BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEET**  
**AS OF JUNE 30, 2016 AND DECEMBER 31, AND JUNE 30, 2015**  
(In colones)

<b>ASSETS</b>	<b>Note</b>	<b>June 2016</b>	<b>December 2015</b>	<b>June 2015</b>
<b>Cash and due from banks</b>	<b>4</b>	<b>948,841,271,892</b>	<b>850,267,856,821</b>	<b>842,338,872,816</b>
Cash		58,666,722,409	79,938,812,261	61,019,037,169
Demand deposits in BCCR		726,001,973,345	640,340,750,042	607,446,980,844
Demand deposits in local financial entities		8,556,682,609	20,425,072,298	5,116,964,726
Demand deposits in foreign financial entities		144,484,890,890	103,283,890,249	156,250,586,380
Other cash and due from banks		11,130,991,210	6,279,291,698	12,505,303,697
Accrued interest receivable		11,429	40,273	-
<b>Investments in financial instruments</b>	<b>5</b>	<b>1,190,349,336,774</b>	<b>1,148,614,214,346</b>	<b>1,163,639,429,393</b>
Available-for-sale		1,120,376,729,610	1,098,274,577,490	1,115,716,637,377
Held-to-maturity		27,069,336,275	27,030,439,007	27,231,250,107
Derivative financial instruments		33,225,223,648	13,103,031,815	9,240,051,349
Accrued interest receivable		9,736,775,102	10,340,806,695	11,511,211,266
(Allowance for impairment of investments in financial instruments)		(58,727,861)	(134,640,661)	(59,720,706)
<b>Loan portfolio</b>	<b>6</b>	<b>3,828,637,332,474</b>	<b>3,663,687,932,586</b>	<b>3,404,183,666,226</b>
Current		3,663,192,659,818	3,490,768,356,493	3,240,457,735,967
Past due		124,026,070,003	124,446,457,751	125,730,926,273
Legal collection		89,533,708,411	86,287,327,716	77,602,215,332
Accrued interest receivable		25,579,739,890	25,154,673,605	23,064,192,207
(Allowance for loan impairment)	<b>6-f</b>	(73,694,845,648)	(62,968,882,979)	(62,671,403,553)
<b>Accounts and fees and commissions receivable</b>	<b>7</b>	<b>2,507,615,595</b>	<b>2,364,950,917</b>	<b>2,521,745,343</b>
Fees and commissions receivable		1,143,647,212	1,073,457,946	1,028,305,066
Accounts receivable for brokerage operations		-	34,120	464,803
Accounts receivable for transactions with related parties		89,215,003	180,506,172	77,595,032
Deferred tax and income tax receivable		3,511,235,447	3,462,398,022	3,655,468,973
Other receivables		3,646,410,122	3,567,482,304	3,519,715,133
Accrued interest receivable		2,197,676	1,990,138	1,748,540
(Allowance for impairment of accounts and fees and commissions receivable)		(5,885,089,865)	(5,920,917,785)	(5,761,552,204)
<b>Foreclosed assets</b>	<b>8</b>	<b>15,988,921,330</b>	<b>17,416,744,581</b>	<b>18,032,182,111</b>
Assets and securities acquired in lieu of payment		79,251,336,646	78,575,996,987	78,157,173,788
Other foreclosed assets		832,653	1,770,509	1,756,777
(Allowance for impairment of foreclosed assets and per legal requirements)		(63,263,247,969)	(61,161,022,915)	(60,126,748,454)
<b>Investments in other companies</b>	<b>9</b>	<b>56,336,255,967</b>	<b>53,559,078,256</b>	<b>52,111,124,685</b>
<b>Property and equipment, net</b>	<b>10</b>	<b>175,570,545,528</b>	<b>178,027,486,757</b>	<b>180,412,668,073</b>
<b>Other assets</b>	<b>11</b>	<b>37,244,646,129</b>	<b>34,132,369,067</b>	<b>47,428,574,070</b>
Deferred charges		12,968,194,927	12,659,880,978	19,993,093,106
Intangible assets		3,669,694,939	3,991,214,261	3,784,631,646
Other assets		20,606,756,263	17,481,273,828	23,650,849,318
<b>TOTAL ASSETS</b>		<b>6,255,475,925,689</b>	<b>5,948,070,633,331</b>	<b>5,710,668,262,717</b>

The notes are an integral part of these consolidated financial statements.

Continued...



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEET  
AS OF JUNE 30, 2016 AND DECEMBER 31, AND JUNE 30, 2015  
(In colones)

<b>LIABILITIES AND EQUITY</b>	<b>Note</b>	<b>June 2016</b>	<b>December 2015</b>	<b>June 2015</b>
<b>LIABILITIES</b>				
<b>Obligations with the public</b>	<b>12</b>	<b>4,106,605,019,195</b>	<b>3,968,907,321,801</b>	<b>3,761,879,269,948</b>
Demand obligations		2,418,644,025,762	2,476,060,368,987	2,247,077,297,243
Term obligations		1,631,856,111,889	1,435,677,785,115	1,447,940,182,335
Other obligations		34,558,903,263	36,683,915,704	46,757,673,973
Charges payable		21,545,978,281	20,485,251,995	20,104,116,397
<b>Obligations with BCCR</b>	<b>13</b>	<b>125,644,412</b>	<b>125,644,412</b>	<b>171,772,418</b>
Term obligations		125,644,412	125,644,412	171,539,305
Charges payable		-	-	233,113
<b>Obligations with entities</b>	<b>14-a</b>	<b>1,349,738,053,344</b>	<b>1,210,085,341,685</b>	<b>1,211,186,139,920</b>
Demand obligations		211,658,094,544	272,574,469,925	332,847,801,573
Term obligations		1,128,090,002,371	930,461,049,359	871,302,767,221
Charges payable		9,989,956,429	7,049,822,401	7,035,571,126
<b>Accounts payable and provisions</b>		<b>108,318,483,782</b>	<b>117,301,237,647</b>	<b>101,131,523,920</b>
Accounts payable for brokerage services		1,561,535,972	1,255,898,777	1,050,430,761
Deferred tax	<b>15-c</b>	12,714,052,292	15,312,711,171	16,767,364,363
Provisions	<b>16</b>	25,692,702,623	35,921,720,140	25,459,660,457
Other sundry accounts payable	<b>17</b>	68,350,192,895	64,810,907,559	57,854,068,339
<b>Other liabilities</b>	<b>18</b>	<b>50,678,183,572</b>	<b>42,411,442,867</b>	<b>41,700,268,816</b>
Deferred income		17,896,875,408	14,717,958,057	11,587,578,313
Allowance for stand-by credit losses		1,746,923,668	1,545,597,997	1,516,038,202
Other liabilities		31,034,384,496	26,147,886,813	28,596,652,301
<b>Subordinated obligations</b>	<b>14-b</b>	<b>71,630,455,582</b>	<b>70,347,385,713</b>	<b>69,861,508,667</b>
Subordinated obligations		70,417,100,000	69,152,200,000	68,732,300,000
Charges payable		1,213,355,582	1,195,185,713	1,129,208,667
<b>TOTAL LIABILITIES</b>		<b>5,687,095,839,887</b>	<b>5,409,178,374,125</b>	<b>5,185,930,483,689</b>
<b>EQUITY</b>				
<b>Share capital</b>		<b>118,130,303,482</b>	<b>118,130,303,482</b>	<b>118,130,303,482</b>
Paid-in capital	<b>19-a</b>	118,130,303,482	118,130,303,482	118,130,303,482
<b>Equity adjustments</b>		<b>69,606,136,357</b>	<b>73,595,044,363</b>	<b>77,020,092,269</b>
Surplus from revaluation of property	<b>19-b</b>	60,806,752,437	63,572,929,305	68,571,839,671
Adjustment for valuation of available-for-sale investments	<b>19-c</b>	2,882,373,899	3,303,224,869	2,302,292,149
Adjustment for valuation of restricted financial instruments	<b>19-c</b>	(1,959,479,435)	(435,415,249)	(840,006,709)
Surplus from revaluation of other assets		69,678,787	69,678,787	69,678,787
Adjustment for valuation of investments in other companies	<b>1-d (iv) y 19-d</b>	7,806,810,669	7,084,626,651	6,916,288,371
<b>Equity reserves</b>	<b>19-e</b>	<b>274,311,573,031</b>	<b>247,784,553,250</b>	<b>247,811,397,754</b>
<b>Prior period retained earnings</b>		<b>54,409,461,980</b>	<b>44,435,719,699</b>	<b>46,181,470,030</b>
<b>Income for the year</b>		<b>30,172,791,632</b>	<b>36,801,775,377</b>	<b>17,448,440,253</b>
<b>Equity of the Development Financing Fund</b>	<b>19-f</b>	<b>21,749,819,320</b>	<b>18,144,863,035</b>	<b>18,146,075,240</b>
<b>TOTAL EQUITY</b>		<b>568,380,085,802</b>	<b>538,892,259,206</b>	<b>524,737,779,028</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>6,255,475,925,689</b>	<b>5,948,070,633,331</b>	<b>5,710,668,262,717</b>
<b>DEBIT MEMORANDA ACCOUNTS</b>	<b>20</b>	<b>535,832,129,980</b>	<b>520,000,578,556</b>	<b>510,626,154,799</b>
<b>TRUST ASSETS</b>	<b>21</b>	<b>1,038,416,621,020</b>	<b>986,889,695,199</b>	<b>855,841,136,269</b>
<b>TRUST LIABILITIES</b>		<b>43,828,845,784</b>	<b>47,653,258,628</b>	<b>81,051,994,754</b>
<b>TRUST EQUITY</b>		<b>994,587,775,236</b>	<b>939,236,436,571</b>	<b>774,789,141,515</b>
<b>TRUST MEMORANDA ACCOUNTS</b>		<b>24,884,892,186</b>	<b>20,926,149,777</b>	<b>16,093,636,166</b>
<b>OTHER DEBIT MEMORANDA ACCOUNTS</b>	<b>22</b>	<b>19,073,193,832,256</b>	<b>18,797,308,347,367</b>	<b>19,065,227,178,991</b>
Own debit memoranda accounts		7,449,253,234,424	6,989,146,202,238	7,859,482,148,141
Third-party debit memoranda accounts		2,213,710,526,552	2,111,396,136,345	1,958,341,459,582
Own debit memoranda accounts for custodial activities		395,533,692,432	393,349,566,832	432,955,526,068
Third-party debit memoranda accounts for custodial activities		9,014,696,378,848	9,303,416,441,952	8,814,448,045,200

Juan Carlos Corrales Salas  
General Manager

Gerardo Gómez Solís  
General Accountant

Ricardo Araya Jiménez  
General Auditor

The notes are an integral part of these consolidated financial statements.

**BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2016 AND 2015**  
(In colones)

	Note	June 2016	June 2015	For the six months ended June 30	
				2016	2015
<b>Finance income</b>					
Cash and due from banks	26	411,965,301	201,023,427	288,483,816	112,369,315
Investments in financial instruments	26	22,931,823,002	24,343,455,778	11,330,460,385	12,636,483,332
Loan portfolio	27	171,120,092,773	162,029,672,377	86,271,212,572	81,604,665,900
Gain on foreign exchange differences and development units, net	42-c	-	159,089,140	(696,501,833)	(216,485,007)
Gain on available-for-sale financial instruments		735,494,382	830,388,578	245,410,743	675,451,281
Gain on derivative financial instruments, net	5-b	23,295,307,156	2,871,381,471	9,656,485,448	(4,555,268,865)
Other finance income	28	7,292,750,459	19,442,241,620	4,284,200,390	9,771,463,715
<b>Total finance income</b>		<b>225,787,433,073</b>	<b>209,877,252,391</b>	<b>111,379,751,521</b>	<b>100,028,679,671</b>
<b>Finance expense</b>					
Obligations with the public	29	53,190,525,773	55,909,542,349	26,315,832,507	27,585,094,522
Obligations with BCCR		-	481,739	-	216,339
Obligations with financial entities		25,671,818,138	23,204,506,139	14,077,944,138	13,922,120,251
Subordinated, convertible, and preferred obligations		1,872,509,352	1,827,235,267	936,825,898	891,402,240
Loss on foreign exchange differences and development units, net	42-c	965,538,801	-	965,538,801	-
Loss on available-for-sale financial instruments		31,383,142	46,845,082	17,298,686	14,541,924
Other finance expense	14-a	26,633,422,011	15,634,910,112	12,101,227,723	71,123,011
<b>Total finance expense</b>		<b>108,365,197,217</b>	<b>96,623,520,688</b>	<b>54,414,667,753</b>	<b>42,484,498,287</b>
Allowance for impairment of assets	30	18,132,832,022	23,552,493,913	10,001,644,782	14,831,052,340
Recovery of assets and decrease in allowances	31	4,819,846,414	6,589,128,531	2,759,424,373	3,029,705,838
<b>FINANCE INCOME</b>		<b>104,109,250,248</b>	<b>96,290,366,321</b>	<b>49,722,863,359</b>	<b>45,742,834,882</b>
<b>Other operating income</b>					
Service fees and commissions	32	59,238,622,567	54,103,958,068	29,379,623,846	26,340,141,202
Foreclosed assets		2,628,021,602	800,955,877	2,249,930,535	(5,122,177,330)
Gain on investments in other foreign companies	1-a y 3	1,577,560,791	2,714,905,912	700,232,163	1,563,922,326
Gain on investments in other local companies		16,313,452	4,394,615	16,313,452	-
Foreign currency exchange and arbitrage		12,384,537,787	11,741,437,530	6,411,071,347	5,807,329,691
Other operating income	33	16,797,563,628	11,225,802,165	15,419,247,212	6,626,758,411
<b>Total other operating income</b>		<b>92,642,619,827</b>	<b>80,591,454,167</b>	<b>54,176,418,555</b>	<b>35,215,974,300</b>

The notes are an integral part of these consolidated financial statements.

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**BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2016 AND 2015**  
(In colones)

	Note	June 2016	June 2015	For the six months ended June 30	
				2016	2015
<b>Other operating expenses</b>					
Services fees and commissions		3,646,234,170	3,082,606,066	1,785,775,496	1,405,219,641
Foreclosed assets	34	11,040,192,920	10,935,397,785	5,799,919,433	342,947,318
Sundry assets		724,208,783	986,480,512	689,443,330	24,662,600
Provisions	35	10,632,762,950	9,949,339,847	6,321,628,395	4,756,317,626
Bonuses on fees and commissions of voluntary pension funds		40,238,861	41,652,321	19,196,786	24,158,028
Foreign currency exchange and arbitrage		985,748	1,102,434	556,768	72,870
Other expenses with related parties		-	4,183,673	-	(6,670)
Other operating expenses	36	28,412,026,984	27,078,098,258	14,837,610,281	13,353,337,390
Amortization of deferred direct costs related to credits		225,782,424	5,041,960,663	113,928,955	2,511,035,298
<b>Total other operating expenses</b>		<b>54,722,432,840</b>	<b>57,120,821,559</b>	<b>29,568,059,444</b>	<b>22,417,744,101</b>
<b>GROSS OPERATING INCOME</b>		<b>142,029,437,235</b>	<b>119,760,998,929</b>	<b>74,331,222,470</b>	<b>58,541,065,081</b>
<b>Administrative expenses</b>					
Personnel expenses	37	66,658,563,366	63,087,783,198	33,504,468,231	32,923,464,237
Other administrative expenses	38	31,749,375,683	29,245,499,493	16,361,052,222	15,879,729,595
<b>Total administrative expenses</b>		<b>98,407,939,049</b>	<b>92,333,282,691</b>	<b>49,865,520,453</b>	<b>48,803,193,832</b>
<b>NET OPERATING INCOME BEFORE TAXES AND STATUTORY ALLOCATIONS</b>		<b>43,621,498,186</b>	<b>27,427,716,238</b>	<b>24,465,702,017</b>	<b>9,737,871,249</b>
Current tax expense	15-a	6,412,169,390	5,478,767,420	2,922,794,720	2,109,374,526
Deferred tax expense	15-a	115,798,254	33,288,176	97,615,043	33,283,757
Decrease in current tax for the period	15-a	1,334,895,134	1,248,768,679	1,334,895,134	1,248,768,679
Decrease in prior period income tax	15-b	16,380,331	-	-	-
Increase in deferred income tax	15-a	1,315,702,834	75,416,657	46,055,197	30,781,579
Statutory allocations	39	9,587,717,209	6,104,175,340	5,566,372,024	2,506,061,991
Decrease in statutory allocations	39	-	312,769,615	-	312,769,615
<b>INCOME FOR THE YEAR</b>		<b>30,172,791,632</b>	<b>17,448,440,253</b>	<b>17,259,870,561</b>	<b>6,681,470,848</b>
<b>OTHER COMPREHENSIVE INCOME, NET OF TAX</b>					
Surplus from revaluation of property		537,766,102	5,065,492,324	15,581,000	5,065,492,324
Adjustment for valuation of available-for-sale investments, net of income tax		(420,850,970)	4,048,672,088	(187,936,004)	2,436,700,397
Adjustment for valuation of restricted financial instruments, net of income tax		(1,524,064,186)	1,201,041,227	(1,045,182,627)	478,635,054
Realization of surplus from revaluation of other assets		-	(567,838)	-	(567,838)
Adjustment for valuation of investments in other companies		722,184,018	586,382,050	1,139,224,444	780,924,829
<b>OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX</b>		<b>(684,965,036)</b>	<b>10,901,019,851</b>	<b>(78,313,187)</b>	<b>8,761,184,766</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>29,487,826,596</b>	<b>28,349,460,104</b>	<b>17,181,557,374</b>	<b>15,442,655,614</b>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE SIX MONTHS ENDED JUNE 30, 2015  
(In colones)

Equity adjustments

Note	Share capital	Surplus from revaluation of property	Adjustment for valuation of available-for-sale investments and restricted financial instruments	Surplus from revaluation of other assets	Adjustment for valuation of investments in other companies	Total equity adjustments	Equity reserves	Retained earnings	Equity of the Development Financing Fund	Total
<b>Balances at January 1, 2015</b>	118,130,303,482	63,639,596,055	(3,787,427,875)	70,246,625	6,329,906,321	66,252,321,126	216,895,556,917	80,942,799,347	14,548,173,826	496,769,154,698
<i>Transactions with owners booked directly in equity:</i>										
Legal reserves	-	-	-	-	-	-	28,862,914,419	(28,862,914,419)	-	-
Other statutory reserves	-	-	-	-	-	-	2,052,926,418	(2,052,926,418)	-	-
Statutory allocations - Mandatory pension funds, Employee Protection Law No. 7983	-	-	-	-	-	-	-	(380,835,774)	-	(380,835,774)
Equity of the Development Financing Fund	-	-	-	-	-	-	-	(3,597,901,414)	3,597,901,414	-
Total transactions with owners booked directly in equity	-	-	-	-	-	-	30,915,840,837	(34,894,578,025)	3,597,901,414	(380,835,774)
<i>Comprehensive income for the year:</i>										
Income for the year	-	-	-	-	-	-	-	17,448,440,253	-	17,448,440,253
Adjustment for valuation of available-for-sale investments, net of income tax	5-a	-	4,048,672,088	-	-	4,048,672,088	-	-	-	4,048,672,088
Adjustment for valuation of restricted financial instruments, net of income tax	5-a	-	1,201,041,227	-	-	1,201,041,227	-	-	-	1,201,041,227
Adjustment for revaluation of investments in other companies	1-d (iv)	-	-	-	586,382,050	586,382,050	-	-	-	586,382,050
Surplus from revaluation of property	-	4,932,243,616	-	-	-	4,932,243,616	-	133,248,708	-	5,065,492,324
Surplus from revaluation of other assets	-	-	-	(567,838)	-	(567,838)	-	-	-	(567,838)
Total comprehensive income for the year	-	4,932,243,616	5,249,713,315	(567,838)	586,382,050	10,767,771,143	-	17,581,688,961	-	28,349,460,104
<b>Balances at June 30, 2015</b>	19	118,130,303,482	68,571,839,671	1,462,285,440	69,678,787	6,916,288,371	247,811,397,754	63,629,910,283	18,146,075,240	524,737,779,028

Juan Carlos Corrales Salas  
General Manager

Gerardo Gomez Solis  
General Accountant

Ricardo Araya Jiménez  
General Auditor

The notes are an integral part of these consolidated financial statements.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE SIX MONTHS ENDED JUNE 30, 2016  
(In colones)

Note	Share capital	Equity adjustments				Total equity adjustments	Equity reserves	Retained earnings	Equity of the Development Financing Fund	Total
		Surplus from revaluation of property	Adjustment for valuation of available-for-sale investments and restricted financial instruments	Surplus from revaluation of other assets	Adjustment for valuation of investments in other companies					
<b>Balances at January 1, 2016</b>	118,130,303,482	63,572,929,305	2,867,809,620	69,678,787	7,084,626,651	73,595,044,363	247,784,553,250	81,237,495,076	18,144,863,035	538,892,259,206
<i>Transactions with owners booked directly in equity:</i>										
Legal reserves	-	-	-	-	-	-	23,820,226,227	(23,820,226,227)	-	-
Other statutory reserves	-	-	-	-	-	-	2,706,793,554	(2,706,793,554)	-	-
Equity of the Development Financing Fund	-	-	-	-	-	-	-	(3,604,956,285)	3,604,956,285	-
Total transactions with owners booked directly in equity	-	-	-	-	-	-	26,527,019,781	(30,131,976,066)	3,604,956,285	-
<i>Comprehensive income for the year:</i>										
Income for the year	-	-	-	-	-	-	-	30,172,791,632	-	30,172,791,632
Adjustment for valuation of available-for-sale investments, net of income tax	5-a	-	(420,850,970)	-	-	(420,850,970)	-	-	-	(420,850,970)
Adjustment for valuation of restricted financial instruments, net of income tax	5-a	-	(1,524,064,186)	-	-	(1,524,064,186)	-	-	-	(1,524,064,186)
Adjustment for valuation of investments in other companies	1-d (iv)	-	-	-	722,184,018	722,184,018	-	-	-	722,184,018
Surplus from revaluation of property	-	(2,766,176,868)	-	-	-	(2,766,176,868)	-	3,303,942,970	-	537,766,102
<b>Total comprehensive income for the year</b>	-	(2,766,176,868)	(1,944,915,156)	-	722,184,018	(3,988,908,006)	-	33,476,734,602	-	29,487,826,596
<b>Balances at June 30, 2016</b>	19	118,130,303,482	60,806,752,437	922,894,464	69,678,787	7,806,810,669	69,606,136,357	274,311,573,031	84,582,253,642	568,380,085,802

Juan Carlos Corrales Salas  
General Manager

Gerardo Gómez Solís  
General Accountant

Ricardo Araya Jiménez  
General Auditor

The notes are an integral part of these consolidated financial statements.



**BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2016 AND 2015**  
(In colones)

	Note	2016	2015
<b>Cash flows from operating activities</b>			
Income for the year		30,172,791,632	17,448,440,253
<b>Items not requiring cash</b>			
Gain on sale of idle property and equipment		(92,802)	-
Gain on foreign exchange and development units, net		10,803,506,559	(3,843,261,413)
Loss on allowance for loan impairment, net		13,161,657,860	16,253,823,311
Expense for allowance on impairment of investments, net		(76,967,726)	(280,121)
Loss on allowance for other receivables, net		228,295,474	709,822,192
Loss on allowance for foreclosed assets, net		2,102,225,054	2,938,256,999
Loss on sale of foreclosed assets		2,793,594,032	3,663,765,631
Expense for severance accrual, net of payments		9,447,591,277	(18,076,928,254)
Depreciation and amortization		7,798,308,815	7,348,715,933
Share in net profit of foreign associate		(1,577,560,791)	(2,714,905,912)
Statutory allocations, net		9,587,717,209	5,791,405,724
Deferred tax income, net	15-a	(1,199,904,580)	(42,128,481)
Current tax expense, net	15-a	5,060,893,925	4,229,998,740
Interest income on loan portfolio and investments		(194,051,915,775)	(186,373,128,155)
Interest expense on term obligations with the public and financial entities		62,930,018,281	59,550,087,706
		<u>(42,819,841,556)</u>	<u>(93,116,315,847)</u>
<b>Net (increase) decrease in assets</b>			
Credits and cash advances		(160,945,305,853)	(138,984,798,668)
Foreclosed assets		6,584,817,218	7,103,846,861
Accrued interest receivable on other receivables		(207,538)	824,241
Other assets		(4,627,861,827)	2,730,005,327
		<u>(201,808,399,556)</u>	<u>(222,266,438,086)</u>
<b>Net increase (decrease) in liabilities</b>			
Demand and term obligations		298,631,297,656	193,044,643,951
Other accounts payable and provisions		(22,008,527,422)	(7,930,015,991)
Other liabilities		8,025,568,270	7,821,338,445
		<u>82,839,938,948</u>	<u>(29,330,471,681)</u>
Interest received on loan portfolio and investments		194,230,881,083	183,305,105,927
Income tax paid		(6,535,505,269)	(7,451,254,174)
Interest paid on term obligations with the public and financial entities		(58,929,157,967)	(58,298,124,818)
<b>Net cash from operating activities</b>		<u>211,606,156,795</u>	<u>88,225,255,254</u>
<b>Net cash flows from investing activities</b>			
Increase in financial instruments		(8,317,996,081,083)	(1,040,084,170,769)
Decrease in financial instruments		8,376,958,967,730	931,303,883,725
Acquisition of property and equipment		(5,604,847,346)	(6,001,661,716)
Sale of property and equipment		848,394,053	(7,873,793,007)
Cash investments in other companies		122	665,107,314
<b>Net cash from (used in) investing activities</b>		<u>54,206,433,476</u>	<u>(121,990,634,453)</u>
<b>Net cash flows from financing activities</b>			
Other new financial obligations		97,343,842,690	7,965,160,941
Settlement of obligations		(170,602,634,443)	(6,936,137,155)
<b>Net cash (used in) from financing activities</b>		<u>(73,258,791,753)</u>	<u>1,029,023,786</u>
<b>Net increase (decrease) in cash and cash equivalents</b>		<u>192,553,798,518</u>	<u>(32,736,355,413)</u>
<b>Cash and cash equivalents at beginning of year</b>		<u>1,001,004,712,154</u>	<u>1,005,007,009,161</u>
<b>Cash and cash equivalents at end of year</b>	4	<u>1,193,558,510,672</u>	<u>972,270,653,748</u>

Juan Carlos Corrales Salas  
General Manager

Gerardo Gómez Solís  
General Accountant

Ricardo Araya Jiménez  
General Auditor



# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

June 30, 2016

*(With corresponding figures for 2015)*

### (1) Summary of operations and significant accounting policies

#### (a) Operations

Banco Nacional de Costa Rica (the Bank) is an autonomous, independently managed, public law institution. As a State-owned bank, it is regulated by the Internal Regulations of the National Banking System (IRNBS), the Internal Regulations of the Central Bank of Costa Rica, and the Political Constitution of the Republic of Costa Rica. It is also subject to oversight by the Superintendency General of Financial Entities (SUGEF) and the Comptroller General of the Republic (CGR). The Bank's registered office is located in San José, Costa Rica.

Pursuant to current regulations, the services offered by the Bank have been divided into three departments: Commercial Banking, Mortgage Banking, and Rural Credit Banking.

Pursuant to IRNBS, if a bank divides its services into departments, its operations should be conducted through those departments based on the nature of the operations, rather than as a single banking institution. The Bank's three departments are independent from one another, except for administrative limitations established by the aforementioned regulations. Those regulations also prescribe that earnings should be calculated by combining the gains and losses of all departments and proportionally distributing the resulting net earnings to each department's equity.

Currently, due to major innovations in information technology and telecommunications, and especially because of the competition in the national and international financial sectors, the Bank has become a universal bank that offers services in all sectors of the Costa Rican market. Those services include: personal, business, corporate, and institutional banking, stock trading, pension fund management, investment funds, insurance brokerage, international banking services, and electronic banking services. The Bank aims to improve the quality of life of the largest possible number of people by offering prime financial services that promote the sustainable creation of wealth.

As of June 30, 2016, the Bank has 176 offices (2015: 181 offices), 471 automated teller machines (2015: 466 automated teller machines), and, together with its subsidiaries, a total of 5,915 employees (2015: 5,929 employees). Employees are distributed as follows: Banco Nacional de Costa Rica – 5,498 employees (2015: 5,508 employees); BN Valores Puesto de Bolsa, S.A. – 69 employees (2015: 76 employees); BN Vital Operadora de Planes de Pensiones Complementarias, S.A. – 180 employees (2015: 178 employees); BN Sociedad Administradora de Fondos de Inversión, S.A. – 85 employees (2015: 82 employees); and BN Corredora de Seguros, S.A. – 83 employees (2015: 85 employees). The Bank's website is [www.bncr.fi.cr](http://www.bncr.fi.cr).

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The following subsidiaries are wholly owned by the Bank:

BN Valores Puesto de Bolsa, S.A. (the Brokerage Firm) was organized as a corporation in 1998 under the laws of the Republic of Costa Rica to operate as a brokerage firm and carry out the brokerage activities permitted under the Securities Market Regulatory Law and the general regulations and provisions issued by the Costa Rican National Securities Commission (SUGEVAL). Its main activity is executing securities transactions on the Costa Rican National Stock Exchange (Bolsa Nacional de Valores, S.A.) on behalf of third parties. Such transactions are regulated by the Costa Rican National Stock Exchange, the regulations and provisions issued by SUGEVAL, and the Securities Market Regulatory Law.

BN Sociedad Administradora de Fondos de Inversión, S.A. (the Investment Fund Manager) was organized as a corporation on April 29, 1998 under the laws of the Republic of Costa Rica. Its main activity is managing investment funds on behalf of third parties and managing closed and open investment funds listed in the Costa Rican National Stock Exchange and SUGEVAL.

BN Vital Operadora de Planes de Pensiones Complementarias, S.A. (the Pension Fund Manager) was organized as a corporation on December 31, 1998. In January 1993, the Pension Fund Manager acted as a voluntary pension “trust” called BN Vital. Its main activity is offering supplemental old-age and death benefit plans and promoting medium- and long-term planning and savings. Its activities are governed by Law No. 7523 of the Private Supplemental Pension Fund System and the amendments thereto, the Employee Protection Law (Law No. 7983), and the Regulations on Opening and Operating Regulated Entities and Operating Pension, Compulsory, and Voluntary Retirement Savings Funds as prescribed in the Employee Protection Law, Regulations on Regulated-Entity Investments, and the directives issued by the Pensions Superintendency (SUPEN).

BN Corredora de Seguros, S.A. (the Insurance Brokerage Firm) was organized as a corporation on May 19, 2009 under the laws of the Republic of Costa Rica. Its main activity is insurance brokerage for policies issued by insurance companies authorized to operate in Costa Rica. Its activities are governed by the Insurance Market Regulatory Law (Law No. 8653) and the regulations and provisions issued by the Superintendency General of Insurance (SUGESE). This entity began operations in January 2010.

(Continued)



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The Bank holds 49% ownership interest in the following associate:

Banco Internacional de Costa Rica, S.A. and subsidiary (BICSA) was organized under the laws of the Republic of Panama in 1976. It operates under a general license granted by the Superintendency of Banks of Panama to engage in banking operations in Panama or abroad. BICSA's registered office is located in Panama City, Republic of Panama, calle Manuel María Icaza No. 25. BICSA has a branch in Miami, Florida, United States of America. The Bank holds 49% ownership interest in BICSA. Banco de Costa Rica owns the remaining 51% of shares.

As of June 30, 2016 and 2015, and December 31, 2015, the main components that comprise the financial statements of the entities in which the Bank holds ownership interest are detailed below:

June 2016						
		Brokerage Firm	Pension Fund Manager	Investment Fund Manager	Insurance Brokerage Firm	BICSA
Assets	¢	63,692,634,316	9,293,866,234	7,403,555,362	2,416,837,051	496,233,212,546
Liabilities	¢	44,407,385,944	1,994,877,136	1,118,704,625	625,466,184	439,947,579,879
Equity	¢	19,285,248,372	7,298,989,098	6,284,850,737	1,791,370,867	56,285,632,667
Income for the year	¢	1,350,245,324	598,641,974	911,401,655	521,703,204	1,577,560,791
Memoranda accounts	¢	861,196,907,934	1,080,212,934,283	377,054,056,045	-	-
December 2015						
		Brokerage Firm	Pension Fund Manager	Investment Fund Manager	Insurance Brokerage Firm	BICSA
Assets	¢	70,930,053,316	10,337,310,768	6,259,049,759	1,823,709,312	482,821,702,119
Liabilities	¢	52,613,294,978	3,552,434,945	874,451,763	554,041,650	429,313,247,163
Equity	¢	18,316,758,338	6,784,875,823	5,384,597,996	1,269,667,662	53,508,454,956
Income for the year	¢	2,597,981,538	938,518,219	1,438,073,275	763,959,084	4,410,917,651
Memoranda accounts	¢	1,648,754,705,407	1,042,503,094,625	405,847,015,645	-	-
June 2015						
		Brokerage Firm	Pension Fund Manager	Investment Fund Manager	Insurance Brokerage Firm	BICSA
Assets	¢	69,830,174,905	8,551,341,564	5,133,940,488	2,073,564,660	452,026,840,153
Liabilities	¢	53,215,663,250	1,758,521,993	682,032,818	526,398,838	399,966,338,768
Equity	¢	16,614,511,655	6,792,819,571	4,451,907,670	1,547,165,822	52,060,501,385
Income for the year	¢	1,110,570,764	460,460,338	576,221,282	241,457,243	2,714,905,912
Memoranda accounts	¢	1,675,013,642,052	949,174,766,966	390,065,501,373	-	-

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(b) Basis of preparation

- Statement of compliance

The consolidated financial statements have been prepared in accordance with the accounting regulations issued by the National Financial System Oversight Board (CONASSIF), SUGEF, SUGEVAL, SUPEN, and SUGESE.

- Basis of measurement applied to assets and liabilities

The consolidated financial statements have been prepared on a fair value basis for available-for-sale assets and derivative instruments. Other financial assets and liabilities are stated at amortized cost. The accounting policies have been consistently applied.

(c) Basis of consolidation

*i. Subsidiaries*

Subsidiaries are entities controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

As of June 30, 2016 and 2015, the consolidated financial statements include the financial figures of the following subsidiaries:

Subsidiary	Ownership interest
Brokerage Firm	100%
Pension Fund Manager	100%
Investment Fund Manager	100%
Insurance Brokerage Firm	100%

Subsidiaries were consolidated based on the following accounting principles:

- All subsidiaries which the Bank controls, whether directly or indirectly, are consolidated.
- For cases in which there are long-term financial or legal restrictions on the transfer of funds, or for cases in which the Bank controls the subsidiary temporarily, the subsidiary is not consolidated.

(Continued)



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- On consolidation:
  - The effect of the equity method shown in the parent's unconsolidated financial statements has been eliminated.
  - Balances of accounts related to reciprocal intra-group transactions have been eliminated from the consolidated balance sheet and income statement.
  - Uniform accounting policies have been applied by group entities.
  - All significant intra-group balances and transactions have been eliminated. Profit or loss presented in the consolidated financial statements does not differ from profit or loss presented in the parent's unconsolidated financial statements since the subsidiaries were measured using the equity method when preparing the parent's unconsolidated financial statements.

*ii. Associates*

Associates are those entities in which the Bank has significant influence, but not control. The Bank updates the value of its associates using the equity method from the date that significant influence commences until the date significant influence ceases. As of June 30, 2016 and 2015, the Bank holds 49% ownership interest in BICSA.

(d) Foreign currency

*i. Foreign currency transactions*

Assets and liabilities held in foreign currency are translated into colones at the foreign exchange rate ruling at the balance sheet date, except for transactions that have a contractually agreed exchange rate. Transactions in foreign currency during the year are translated at the exchange rates ruling on the dates of the transactions. Foreign exchange gains and losses arising on translation are recognized in the accounts corresponding to gains or losses on foreign exchange and development units (DU), as appropriate.

*ii. Monetary unit and foreign exchange regulations*

The financial statements and notes thereto are expressed in colones (¢), currency of the Republic of Costa Rica.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

On October 17, 2006, the Central Bank of Costa Rica (BCCR) revised the country's foreign exchange system, replacing mini-devaluations with an adjustable band regime. Under the new system, the Board of Directors of BCCR agreed to establish a rate floor and ceiling, which will be adjusted based on the country's financial and macroeconomic conditions. The adjustable band regime was in effect during all of 2014.

As of February 2, 2015, as part of the transition towards an inflation targeting monetary scheme that requires greater exchange rate flexibility, the Board of Directors of BCCR, in Article 5 of Session No. 5677-2015 of January 30, 2015, declared the migration from the adjustable band regime to a managed float regime. Under the managed float regime, the exchange rate is determined by the market, but BCCR still reserves the right to intervene in the foreign currency market to moderate significant fluctuations in the exchange rate and prevent deviations from the behavior of the variables that explain its medium- and long-term trends.

In accordance with the Chart of Accounts, assets and liabilities denominated in foreign currency should be expressed in colones using the reference buy rate published by BCCR. As of June 30, 2016, the exchange rate was established at ¢541.67 and ¢554.20 (2015: ¢528.71 and ¢540.97) to US\$1.00 for the purchase and sale of U.S. dollars, respectively.

As of June 30, 2016, the exchange rate for the purchase and sale of euros was established at ¢589.91 and ¢619.92 (2015: ¢583.67 and ¢616.55) to €1.00, respectively.

*iii. Valuation method for assets and liabilities denominated in foreign currency*

As of June 30, 2016, assets and liabilities denominated in U.S. dollars were valued at the exchange rate of ¢541.67 to US\$1.00 (2015: ¢528.71 to US\$1.00), which is the reference buy rate published by BCCR as of that date.

As of June 30, 2016, assets and liabilities denominated in euros were valued at the exchange rate of ¢601.20 to €1.00 (2015: ¢592.42 to €1.00). This exchange rate was calculated by multiplying the international exchange rate published by Reuters by the reference buy rate for U.S. dollars published by BCCR on the last business day of the month.

As of June 30, 2016, assets and liabilities denominated in DU were valued at the exchange rate of ¢855.98 to DU 1.00 (2015: ¢861.10 to DU 1.00). This exchange rate is based on the DU value tables published by SUGEVAL.

(Continued)



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

iv. *Financial statements of foreign operations (BICSA)*

The financial statements of BICSA are presented in U.S. dollars, which is the entity's functional currency. As of June 30, 2016 and 2015, the Bank holds 49% ownership interest in BICSA. Accordingly, the Bank should value its investment in that entity using the equity method rather than on a consolidated basis.

The financial statements of foreign operations are translated as follows:

- Monetary assets and liabilities denominated in U.S. dollars have been translated at the closing exchange rate.
- Non-monetary assets and liabilities have been translated at the exchange rate in effect on the date of the transaction (historical rates).
- Equity balances, except profit or loss for the period, have been translated at the exchange rate in effect on the date of the transaction (historical rates).
- Income and expenses have been translated at average exchange rates for the year, except depreciation expense, which has been translated at historical rates.

For the year ended June 30, 2016, a gain of ¢722,184,018 (December and June 2015: gain of ¢754,720,330 and loss of ¢586,382,050, respectively) is presented in equity as an adjustment due to foreign exchange differences on the translation of the financial statements of foreign operations. As of June 30, 2016, the balance of the adjustment for valuation of investments in other companies amounts to ¢7,806,810,669 (December and June 2015: ¢7,084,626,651 and ¢6,916,288,371, respectively).

(e) Financial instruments

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise. Financial instruments include primary instruments, i.e. loan portfolio, investments in financial instruments, other accounts receivable, deposits from the public, financial obligations, and accounts payable.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(i) *Classification*

Investments in financial instruments are recognized using settlement date accounting in accordance with the Accounting Regulations Applicable to Entities Regulated by SUGEF, SUGEVAL, SUPEN, and SUGESE and to Non-financial Issuers effective as of January 1, 2008. Those investments are classified as follows:

- Investments in financial instruments of regulated entities are to be classified as available for sale.
- Own investments in open investment funds are to be classified as held-for-trading financial assets.
- Own investments in closed investment funds are to be classified as available for sale.
- Entities regulated by SUGEVAL and SUGEF may classify other investments in financial instruments as trading instruments, provided there is an express statement of intent to trade them within 90 days from the acquisition date.

The SUGEF Chart of Accounts for Financial Entities does not allow investments in financial instruments to be classified as held to maturity, except for the securities denominated in DU.

As of June 30, 2016, the Bank no longer classifies financial instruments as held to maturity, except for the securities denominated in DU received from the Central Government to capitalize the Bank. Those securities were authorized by the Executive Branch of the Government of Costa Rica as a capital contribution and are funded under Law No. 8703 "Amendment to Law No. 8627 on the Ordinary and Extraordinary Budget of the Republic for Tax Year 2008."

Held-for-trading securities

Held-for-trading securities are stated at fair value and have been acquired for the purpose of short-term profit-taking based on price variations. Variations in the fair value of these securities are recognized in net profit or loss for the year.

(Continued)



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Available-for-sale securities

Available-for-sale securities are financial assets that are not held for trading purposes or originated by the Bank. Available-for-sale instruments include money market placements and certain debt investments. Available-for-sale securities are stated at fair value and interest earned and amortization of premiums and discounts are recognized as income or expenses, as appropriate.

Any changes in the fair value of available-for-sale securities are recognized directly in equity until the securities are sold or considered to be impaired, at which time the cumulative gain or loss previously recognized in equity is transferred to the income statement.

Derivative financial instruments

Derivative financial instruments are recognized initially at fair value. Subsequent to initial recognition, derivative financial instruments are stated at fair value using the fair value method. The Bank does not hold derivative financial instruments for trading purposes.

Derivative instruments accounted for by the fair value method hedge exposure to changes in the fair value of a financial liability recognized in the balance sheet. Any valuation gains or losses are recorded in the income statement.

The valuation methodology applied to derivative financial instruments varies depending on the type of product to be valued. In the case of foreign exchange forward contracts (FX forwards), with short credit positions and maturities generally not exceeding one year, valuation involves comparing the present value of the negotiated forward exchange rate and the current foreign exchange rate. The present value of the negotiated forward exchange rate is calculated by using the difference between the zero coupon rates. In the case of swaps (FX swap or currency swap), valuation involves two steps. In the first step, future cash flows are estimated based on current market prices. The estimation of fixed-rate cash flows does not require assumptions but variable-rate cash flows are estimated based on the rates in effect. Calculating the present value of each type of cash flows requires a valuation rate for each cash flow, which is equivalent to the base rate plus a credit spread.

For fixed-rate cash flows, the base rate is the zero coupon rate. For variable-rate cash flows, the base rate is the benchmark rate plus the spread applicable to the term of the cash flow. The spread is applicable to the Bank's cash flows receivable or payable and depends on the credit rating of the counterparty and the instruments' maturity.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Originated loans and other receivables

Originated loans and other receivables are loans and receivables originated by the Bank providing money to a debtor other than those created with the intention of short-term profit taking. Originated loans and other receivables comprise loans and advances to banks and customers other than loans and bonds purchased from the original issuer.

(ii) *Recognition*

The Bank recognizes available-for-sale assets using settlement date accounting. From this date, any gains or losses arising from changes in the fair value of the assets are recognized in equity, except for gains and losses arising from changes in the fair value of investments in open investment funds, which are recorded in profit or loss.

Originated loans and other receivables are recognized on the date they are transferred to the Bank.

(iii) *Measurement*

Financial instruments are measured initially at fair value, including transaction costs.

Subsequent to initial recognition, all trading and available-for-sale investments and derivative instruments are measured at fair value, except that any investment or instrument that does not have a quoted market price in an active market and which fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses. As of June 30, 2016 and 2015, the market price valuation methodology established by VALMER Costa Rica, S.A. is used. This methodology has been duly approved by SUGEVAL.

For securities issued by foreign entities and listed in open systems such as Bloomberg, the permanent quotes published in these primary sources should be used. Given that the information in open systems is obtained from financial systems all over the world, the last price listed is used as the price of the security. As an exception applicable to all currencies, when it is not possible to obtain a quote from open systems, the security is valued at an amount equivalent to its purchase price.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Internal debt Central Bank bonds received for the capitalization of State-owned banks are classified as held-to-maturity investments, as set forth in Law No. 8703 of December 23, 2008, which reads as follows: "These securities shall be delivered directly to State-owned banks and held to maturity and, therefore, they are not available for sale. Accordingly, these securities shall not be subject to market price valuation." Consequently, the classification applied to these securities is justified by the fact that it is prescribed by law. These securities are recognized at amortized cost and are zero-coupon securities.

The effect of the valuation of trading investments at market price is booked directly in profit or loss.

All non-trading financial assets and liabilities, originated loans and other receivables, and held-to-maturity investments are measured at amortized cost, including transaction costs, less impairment losses. Any premium or discount is included in the carrying amount of the underlying instrument and amortized to interest income or interest expense using the effective interest method.

(iv) *Fair value measurement principles*

The fair value of financial instruments is based on their quoted market price at the consolidated balance sheet date without any deduction for transaction costs.

(v) *Gains and losses on subsequent measurement*

Gains and losses arising from changes in the fair value of available-for-sale assets are recognized directly in equity until an investment is considered to be impaired, at which time the loss is recognized in the income statement. When the financial assets are sold, collected, or otherwise disposed of, the accumulated gain or loss recognized in equity is transferred to the income statement.

(vi) *Derecognition*

A financial asset is derecognized when the Bank loses control over the contractual rights that comprise the asset. This occurs when the rights are realized, expire, or are surrendered to a third party.

Available-for-sale investments that are sold are derecognized and the corresponding account due from the purchaser is recognized on the date the Bank sells the assets.

A financial liability is derecognized when the specific contractual obligation has been paid or settled, or when the obligation has expired.

(Continued)



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(vii) *Offsetting*

Financial assets and liabilities are offset and the net amount presented in the consolidated financial statements when the Bank has a legal right to set off the amounts and it intends to settle them on a net basis.

(viii) *Impairment of financial assets*

The carrying amount of an asset is reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in the income statement for assets carried at cost and treated as a decrease in unrealized gains for assets carried at fair value.

The recoverable amount of an asset is equivalent to the greater of its net selling price and its value in use. The net selling price is equivalent to the value obtained in an arm's length transaction. Value in use is the present value of future cash flows and disbursements expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be linked objectively to an event occurring after an impairment loss was recognized, the impairment loss is reversed through the statement of comprehensive income or the statement of changes in equity, as appropriate.

(ix) *Specific instruments*

Cash and cash equivalents

Cash and cash equivalents include cash on hand, cash deposited in BCCR, deposits in other banks, and highly-liquid short-term investments with original maturities of two months or less.

Demand deposits – overnight

Demand deposits that are classified as overnight deposits at the end of the business day are included in the "Cash and due from banks" account under "Foreign financial entities."

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Investments in financial instruments

Investments that the Bank holds for the purpose of short-term profit-taking are classified as trading instruments. Other investments are classified as available-for-sale assets.

The effect of market price valuation of available-for-sale investments is included in the equity account under the caption "Adjustment for valuation of available-for-sale investments" until those investments are realized or sold.

Regular purchases or sales of financial assets are recognized using settlement date accounting, i.e. are booked on the date the entity's financial asset was exchanged.

Investments in repurchase agreements (term seller positions) and securities with original maturities of less than 180 days are not valued at market prices and are stated at the value of the original agreement.

When a financial asset is acquired with accrued interest, such interest is booked in a separate account as accrued interest receivable.

An allowance is established for the full value of securities that may not be traded in an active financial or stock market due to the legal form of the issuer and the transfer method of the security and for which interest payable is past due.

Loans and advances to banks and customers

Loans originated by the Bank are classified as loan portfolio.

Loans and advances are presented net of allowances to reflect the estimated recoverable amounts.

Securities sold under repurchase agreements

The Bank sells securities under agreements to repurchase them on a certain date in the future at a fixed price. The obligation to repurchase securities sold is reflected as a liability in the balance sheet and stated at the value of the original agreement. The underlying securities are booked in asset accounts. Interest is presented as interest expense in the income statement and accrued interest payable is recognized in the balance sheet.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Securities purchased under reverse repurchase agreements

The Bank purchases securities under agreements to sell them on a certain date in the future at a fixed price. The obligation to sell securities purchased is reflected as an asset in the balance sheet and stated at the value of the original agreement. The underlying securities are booked in asset accounts. Interest earned is presented as interest income in the income statement and accrued interest receivable is recognized in the balance sheet.

(f) Loan Portfolio

SUGEF defines a credit operation as any operation related to any type of underlying instrument or document, except investments in financial instruments, whereby credit risk is assumed either by providing or committing to provide funds or credit facilities, acquiring collection rights, or guaranteeing that obligations with third parties will be honored. Credit operations include loans, guarantees, letters of credit, pre-approved lines of credit, and loans pending disbursement.

The loan portfolio is presented at the amount of outstanding principal. Interest is calculated based on the value of outstanding principal and the contractual interest rates, and is accounted for as income using the accrual method of accounting. The Bank follows the policy of suspending interest accruals on loans when principal or interest payments are more than 180 days past due. The recovery or collection of that interest is recognized as income when collected.

(g) Allowance for loan losses

The allowance for loan losses is based on a periodic assessment of the collectibility of the loan portfolio that considers a number of factors, including current economic conditions, prior experience with the allowance, the portfolio structure, borrower liquidity, and loan guarantees.

Additionally, the collectibility of the loan portfolio is assessed in conformity with the provisions of SUGEF Directive 1-05, "Regulations for Borrower Classification", which was approved by CONASSIF on November 24, 2005, was published in Official Gazette No. 238 dated December 9, 2005, and is effective as of October 9, 2006. That assessment considers parameters including borrower payment history, creditworthiness, the quality of guarantees, delinquency, etc.

SUGEF may require an allowance to be established for an amount greater than the amount determined by the Bank.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Management considers the allowance to be sufficient to absorb any potential losses that may be incurred in the recovery of the portfolio.

As of June 30, 2016 and 2015, increases in the allowance for loan losses are included in the accounting records in accordance with article 10 of IRNBS.

(h) Allowance for impairment of derivative instruments other than hedges

The provisions of article 35 of SUGEF Directive 9-08 are to be applied in calculating the allowance for clearing price risk in respect of each customer or counterparty. For such purposes, the capital requirement adjusted for clearing price risk (as defined in article 28 of SUGEF Directive 3-06) must be multiplied by the respective allowance percentage corresponding to the borrower rating included in SUGEF Directive 1-05.

(i) Other receivables

The recoverability of these accounts is assessed by applying criteria similar to those established by SUGEF Directive 1-05 for the loan portfolio. Notwithstanding the results of the assessment, if an account is not recovered within 120 days from the due date, an allowance is established for an amount equivalent to 100% of the balance receivable. Accounts with no specified due date are considered payable immediately.

(j) Property and equipment

*i. Own assets*

Property and equipment is stated at cost, net of accumulated depreciation. Significant improvements are capitalized, while minor repairs and maintenance that do not extend the useful life or improve the asset are directly expensed when incurred.

Pursuant to requirements established by regulatory authorities, the Bank must have its real property appraised by an independent appraiser at least once every five years, in order to determine its net realizable value. If the realizable value is less than the carrying amount, the carrying amount must be adjusted to the appraisal value.

*ii. Leased assets*

Leases in terms of which the Bank assumes substantially all the risks and rewards of ownership are classified as finance leases.

(Continued)



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Property and equipment acquired under finance leases is measured at the lower of its fair value and the present value of minimum payments at the date of commencement of the lease, less accumulated depreciation and amortization and impairment losses.

*iii. Subsequent expenditure*

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately, including major inspection and renovation costs, is capitalized. Other subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditure is recognized in the income statement as an expense when incurred.

*iv. Depreciation and amortization*

Depreciation and amortization are charged to the income statement on a straight-line basis over the estimated useful lives of the assets, as follows:

<u>Type of asset</u>	<u>Estimated useful life</u>
Buildings	Based on appraisals
Vehicles	10 years
Furniture and equipment	10 years
Computer hardware	5 years
Laptops	3 years
Leasehold improvements	To be determined or established in the lease terms

(k) Intangible assets

*i. Other intangible assets*

Other intangible assets acquired by the Bank are stated at cost less accumulated amortization and impairment losses.

*ii. Subsequent expenditure*

Subsequent expenditure is capitalized only when it increases future economic benefits. All other expenditure is recognized in the income statement when incurred.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

*iii. Amortization*

Amortization is charged to profit or loss on a straight-line basis over the estimated useful lives of the assets. Computer software and software licenses have an estimated useful life of 3 years and 1 year, respectively.

(l) Lease operations

Lease receivables are presented net of unearned interest pending collection. Interest on finance leases is recognized as income over the term of the finance lease agreement using the effective interest method. The difference between lease payments receivable and the cost of the leased asset is recorded as unearned interest and amortized to income accounts over the term of the lease. As of June 30, 2016 and 2015, the Bank has no finance leases.

The Bank's operating leases are mainly for vehicles and equipment. As of June 30, 2016 and 2015, vehicle lease agreements have expired and are being settled through a purchase order.

(m) Foreclosed assets

Foreclosed assets are assets owned by the Bank for realization or sale, i.e. assets acquired in lieu of payment, assets awarded in judicial auctions, assets purchased to be leased under finance and operating leases, goods produced for sale, idle property and equipment, and other foreclosed assets.

Foreclosed assets are valued at the lower of cost and fair value. If fair value is less than the cost booked in the accounting records, an impairment allowance must be booked for the amount of the difference between both values. Cost is the historical acquisition or production value in local currency. These assets should not be revalued or depreciated for accounting purposes and they are to be booked in local currency. The cost booked in the accounting records for a foreclosed asset may only be increased by the amount of improvements or additions, up to the amount by which they increase the asset's realizable value. Other expenditures related to foreclosed assets are to be expensed in the period incurred.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The net realizable value of an asset should be used as its fair value. Net realizable value is determined by applying strictly conservative criteria and is calculated by subtracting expenses to be incurred on the sale of the asset from its estimated selling price. The estimated selling price of the asset is determined by an appraiser based on current market conditions. Future expectations for market improvements are not considered and it is assumed that the assets must be sold in the shortest period of time possible to enable the Bank to recover the money invested and use it for its business activities. For all foreclosed assets, reports should be prepared by the appraisers who made the appraisals and those reports are to be updated at least annually.

If an asset booked in this group is used by the Bank, it should be reclassified to the appropriate account in the corresponding group.

SUGEF Directive 34-02 requires that the allowance for impairment of foreclosed assets acquired or produced after May 2010 be established gradually by booking one-twenty-fourth of the value of such assets each month during two years until the allowance is equivalent to 100% of the assets' carrying amount.

For foreclosed assets prior to the aforementioned date, management of the Bank follows the policy of recognizing an allowance equivalent to 100% of the asset's realizable value for assets that are not sold or leased within two years from the date of acquisition or production.

(n) Investments in other companies

Investments in the share capital of entities over which the Bank exercises control or significant influence are accounted for using the equity method in the Bank's unconsolidated financial statements but are eliminated on consolidation. The following entities are wholly owned by the Bank and are measured using the equity method: BN Valores Puesto de Bolsa, S.A.; BN Vital Operadora de Planes de Pensiones Complementarias, S.A.; BN Sociedad Administradora de Fondos de Inversión, S.A.; and BN Corredora de Seguros, S.A. The Bank's 49% ownership interest in BICSA is also measured using the equity method. Under the equity method, investments are initially recognized at acquisition cost. Subsequently, the carrying amounts of the investments are increased or decreased in order to recognize the Bank's proportional share in the profits or losses of the issuer of the capital assets.

The operations of subsidiaries that affect the Bank's equity but have no effect on the results of its operations are also included in the Bank's accounting records.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of June 30, 2016 and 2015, the Bank has no total or partial interest or influence over the management of other companies other than its subsidiaries and associate, in accordance with article 73 of IRNBS and article 146 of the Internal Regulations of the Central Bank of Costa Rica.

(o) Impairment of non-financial assets

The carrying amount of an asset is reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in the income statement for assets carried at cost and treated as a revaluation decrease for assets carried at revalued amounts.

The recoverable amount of an asset is equivalent to the greater of its net selling price and its value in use. The net selling price is equivalent to the value obtained in an arm's length transaction. Value in use is the present value of future cash flows and disbursements expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be linked objectively to an event occurring after an impairment loss was recognized, the impairment loss is reversed through the statement of comprehensive income or the statement of changes in equity, as appropriate.

(p) Provisions

A provision is recognized in the balance sheet if, as a result of a past event, the Bank has a present legal or constructive obligation and it is probable that an outflow of economic benefits will be required to settle the obligation. The provision made approximates settlement value; however, final amounts may vary. The estimated value of provisions is adjusted at the balance sheet date, directly affecting the income statement.

The provision for legal risks is calculated using a mathematical-statistical model developed by the Bank's Corporate Risk Division based on data provided by the File Master system, which is used by the Bank's Legal Department to manage legal actions as of a given date. This system is comprised of modules that provide data to create statistical series and analyze the status of legal actions settled and in-process.

This system includes the legal proceedings initiated against the Bank in connection with the Employee Protection and Retirement Fund and the Trust 897 arbitration case.

(Continued)



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Administrative claims filed for phishing (a form of Internet fraud) are also included.

The data obtained from the modules is reviewed on a monthly basis by the Bank's Operational Risk Division in order to update the likelihood of favorable rulings and the percentages to be provisioned and to adjust the provision amount projected by the model and the amounts booked each month until the proposed limit has been reached.

(q) Severance benefits

Costa Rican legislation requires the payment of severance benefits to employees in the event of retirement, invalidity, death, or dismissal without just cause, equivalent to 20 days' salary for each year of continuous service, up to a maximum of 8 years. In the specific case of the Bank, that limit is 17 years for employees with more than 25 years of service. The Bank follows the policy of booking a provision to cover future disbursements related therewith for employees with more than 20 years of service, in compliance with article 34 of the Collective Bargaining Agreement. As of June 30, 2016 and 2015, severance is included in the provisions account (see note 16), which meets the legal provisioning requirements in effect as of those dates.

The Employee Association of Banco Nacional de Costa Rica (ASEBANACIO) was created in 2012. Accordingly, the Bank currently follows the practice of making monthly transfers of severance benefits to the Employee Association, equivalent to 5.33% of member employees' monthly salaries, for management and custody. Those funds are paid out to employees upon termination of employment. Severance payments are expensed when the funds are transferred.

In February 2000, the Employee Protection Law was enacted and published. Such law modifies the existing severance benefit system and establishes a compulsory supplemental pension system, thereby amending several provisions of the Labor Code.

Pursuant to the Employee Protection Law, all public and private employers must contribute 3% of monthly employee salaries during the entire term of employment. Contributions are collected through the Costa Rican Social Security Administration (CCSS) and are then transferred to pension fund operators selected by employees.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(r) Employee benefits

*Employee Protection and Retirement Fund*

The Employee Protection and Retirement Fund of Banco Nacional de Costa Rica (the Fund) was created by Law No. 16 (Law of Banco Nacional de Costa Rica) of November 5, 1936 and has been amended on a number of occasions. The most recent amendment was included in Law No. 7107 (Law to Modernize the Financial System of the Republic) of October 26, 1988. Pursuant to Law No. 16, the Fund was established as a special employee protection and retirement system for the Bank's employees. The Fund is comprised of the following:

- items established by the laws and regulations related to the Fund
- contributions made by the Bank equivalent to 10% of total wages
- contributions made by employees equivalent to 5% of total wages to strengthen the Fund
- income from investments made by the Fund and other potential income.

For members of the Fund who terminate their employment prior to being entitled to a pension, the member's accrued balance is paid in accordance with the conditions stipulated in the Fund's Regulations on Retirement.

The governing body is responsible for the Fund's internal management. The Fund's accounting records are kept by Bank employees selected based on their qualifications, in accordance with the provisions of the governing body and with the oversight of the Internal Audit Department. Those employees are independent from the Bank's general accounting department and the Fund's accounting records are kept separately. The Fund operates based on the principle of solidarity.

The Bank's contributions to the Fund are considered to be defined contribution plans. Consequently, the Bank has no additional obligations.

*Vacation, back-to-school bonus, and incentive plans*

The Bank and its subsidiaries book accruals for vacation, back-to-school bonus, and incentive plans. Incentives to employees are calculated using the Incentives and Performance Assessment System (SEDI).

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

SEDI is an economic incentive that is granted provided that the following two conditions are met:

- the Bank reports profits in its audited financial statements for the corresponding period; and
- the employee eligible for the SEDI incentive has worked for at least 6 months for the Bank during the period and has obtained the required minimum score in the assessed areas.

The incentive aims to promote effective achievement of institutional objectives and goals, which requires continuous efforts by the Bank to coordinate and consolidate its work force, increase its productivity, and ensure its compensation is market-competitive.

The method applied considers the above conditions and income after income tax and statutory allocations. The incentive to be granted to each employee is determined based on salaries earned during the year and the score obtained by the employee. Incentives are paid to employees in a lump sum. Expenses are taken against a provision account on a monthly basis and, in the following year that account is cleared upon payment of incentives to employees that met the aforementioned conditions.

(s) Accounts payable and other liabilities

Accounts payable and other liabilities are carried at cost.

(t) Deferred income

Deferred income corresponds to income received in advance by the Bank and its subsidiaries that should not be recognized in profit or loss since it has not yet been accrued. Deferred income is recognized and credited to the corresponding income account as it accrues.

(u) Legal reserve

Pursuant to article 12 of IRNBS, the Bank appropriates 50% of each year's earnings after income taxes and statutory allocations to a legal reserve. Such appropriation is performed pursuant to the Chart of Accounts for Financial Entities, Groups, and Conglomerates. Accordingly, in the first and second halves of each year, income and expenses are offset and the sum of the results of each half year is transferred to opening retained earnings.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Other statutory reserves

In order to comply with Panamanian regulations, the associate BICSA must create the following statutory reserves:

i. *Statutory reserve for foreclosed assets:*

The Superintendency of Banks of Panama established a term of five (5) years to dispose of real property acquired in lieu of payment, starting from the date of registration in the Public Registry. If after such period Panamanian banks have not sold such real property, an appraisal must be performed by an independent appraiser to determine if the value of that property has decreased; if so, the provisions of IFRSs must be applied.

Also, Panamanian banks must create a reserve under an equity account by appropriating funds first from retained earnings and second from income for the year. The following portions of the value of the foreclosed assets are to be transferred to those accounts:

First year:	10%
Second year:	20%
Third year:	35%
Fourth year:	15%
Fifth year:	10%

These reserves must be recognized until the acquired assets are effectively transferred; also, they are not considered to be statutory reserves for purposes of equity ratio calculation.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

*ii. Excess of statutory reserve for loans:*

General Decision No. SBP-GJD-003-2013 of the Board of Directors of the Superintendency of Banks of Panama dated July 9, 2013 establishes the accounting treatment for differences between the Prudential Standards issued by such Superintendency and IFRSs, as follows: 1) the accounting records are to be kept and the financial statements prepared in accordance with IFRSs, as required by Decision No. 006-2012 dated December 18, 2012; and 2) in the event that the amount calculated for a provision or reserve based on the Prudential Standards applicable to banks (which include specific accounting matters additional to those required by IFRSs) is higher than the amount determined in accordance with IFRSs, the excess of the provision or reserve calculated under the Prudential Standards is to be recognized under a statutory reserve in equity. This General Decision is effective for the accounting periods ending on or after December 31, 2014.

With prior approval of the Superintendency, the banks may reverse, partially or in full, the provision determined provided that a justification therefor is duly evidenced and presented to the aforementioned Superintendency.

*iii. Statutory dynamic provision:*

Agreement No. 004-2013 of the Superintendency of Banks of Panama indicates that specific provisions arise from objective and concrete evidence of impairment. Such provisions must be created in respect of individual credit facilities or groups thereof classified under the following risk ratings: special mention, substandard, doubtful, and loss.

Starting December 31, 2013, Panamanian banks must calculate and maintain at all times, as a minimum, the specific provisions determined using the methodology provided for in the aforementioned agreement, which considers the outstanding balance of each credit facility with the risk ratings mentioned above, the present value of each guarantee available (as established per guarantee type in the Decision), and a table with weighting factors applicable to the net balance exposed to losses.

In the event that the amount calculated for the specific provision in accordance with the aforementioned decision is higher than the amount determined in accordance with IFRSs, the excess is to be booked under a statutory reserve in equity that increases or decreases with appropriations to or from retained earnings. Statutory reserves are not considered to be capital funds for purposes of calculation of certain prudential indexes or ratios mentioned in the agreement.

(Continued)



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(v) Revaluation surplus

Revaluation surplus included in equity may be transferred directly to retained earnings when the surplus is realized. Total surplus is realized on the retirement, disposal, or use of the asset. The transfer of revaluation surplus to retained earnings is not made through the income statement. The Bank follows the policy of capitalizing revaluation surplus directly to share capital as authorized by SUGEF.

In prior periods, the Bank has capitalized surplus from revaluation of property and equipment, in compliance with SUGEF regulations.

(w) Income tax

Income tax is determined pursuant to the provisions of the Income Tax Law, which require that the Bank file its income tax returns for the 12 months ending December 31 of each year. Any resulting tax is recognized in profit or loss and credited to a liability account in the balance sheet.

*i. Current tax:*

Current tax is the expected tax payable on taxable income for the year, using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

The Bank applies the AD-HOC methodology to calculate the percentage of nondeductible expenses by applying a proportional factor of annual average obligations with the public applied to the investment portfolio. The proportional factor of obligations is calculated by deducting from total obligations with the public (group of accounts 210, 230 and 260), the amount allocated to cash and due from banks (group of accounts 110) and the loan portfolio (group of accounts 130), divided by total obligations with the public. All data correspond to annual averages based on month-end balances.

The resulting proportional factor is applied to total interest expense for the year, net of the revaluation effect.

For the subsidiaries BN Vital Operadora de Planes de Pensiones Complementarias, S.A.; BN Sociedad Administradora de Fondos de Inversión, S.A.; BN Valores Puesto de Bolsa, S.A., and BN Corredora de Seguros, S.A., income tax is calculated by applying the applicable tax rate to net income after deducting nontaxable income and adding nondeductible expenses.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

ii. *Deferred tax:*

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. In accordance with this method, temporary differences are identified as either taxable temporary differences (which result in future taxable amounts) or deductible temporary differences (which result in future deductible amounts). A deferred tax liability represents a taxable temporary difference and a deferred tax asset represents a deductible temporary difference.

A deferred tax asset is recognized only to the extent that there is a reasonable probability that it will be realized.

(x) Segment reporting

A business segment is a distinguishable component of the Bank that is engaged either in providing a specific product or service, or a group of related products or services within a particular economic environment, which is subject to risks and returns that are different from those of other business segments.

(y) Combination of financial statements of departments

The financial statements of the Commercial Banking, Mortgage Banking, and Rural Credit Banking departments were combined to determine the financial and economic position of the legal entity (the Bank), since those departments are dedicated to banking activities and are directly subordinate to the Bank's General Board of Directors, which is responsible for making decisions related to those departments.

All inter-department assets, liabilities, income, and expenses have been eliminated in the process of combining the financial statements.

Pursuant to the provisions of IRNBS, the accounting records of each of the Bank's departments are kept separately.

(z) Use of estimates

Management has made a number of estimates and assumptions relating to the reporting of assets, liabilities, profit or loss, and the disclosure of contingent liabilities in preparing these consolidated financial statements. Actual results may differ from those estimates. Material estimates that are particularly susceptible to significant changes are related to the calculation of the allowance for loan losses.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(aa) Recognition of income and expenses

*i. Interest income and interest expense*

Interest income and interest expense are recognized in the income statement as they accrue. Interest income and interest expense include amortization of any premium or discount during the term of the instrument until maturity.

The Bank follows the policy of suspending interest accruals on loans when principal or interest payments are more than 180 days past due. Interest income on those loans is recognized when collected.

DU are valued using the rates provided by SUGEVAL for such purposes. The effect of valuation of assets and liabilities denominated in DU is directly booked in the corresponding foreign exchange gain and foreign exchange loss accounts in the income statement.

*ii. Fee and commission income*

Fees and commissions on the loan portfolio are recognized directly in profit or loss provided they are related to costs incurred in loan portfolio activities, as stipulated in the current Chart of Accounts.

Fee and commission income arises on services provided by the Bank. Fee and commission income is recognized when the service is provided, i.e. on an accrual basis. When fees and commissions are deferred, they are recognized over the term of the service.

*iii. Income from foreign currency exchange and arbitrage*

Income from foreign currency exchange and arbitrage corresponds to foreign exchange gains arising from the purchase and sale of foreign currency. Cumulative foreign exchange gains arising from purchases and sales of foreign currency conducted during the month are recognized in the income statement on a monthly basis.

*iv. Operating lease expenses*

Payments for operating lease agreements are recognized in the income statement over the life of the lease.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(bb) Statutory allocations

Under article 12 of IRNBS, the net earnings of commercial State-owned banks are allocated as follows: 50% to a legal reserve; 10% to increase the capital of the National Institute for Cooperative Development (INFOCOOP); and the remainder to increase the Bank's capital, pursuant to article 20 of Law No. 6074.

In conformity with SUGEF's Chart of Accounts, statutory allocations on the year's net earnings payable to INFOCOOP, the National Emergency Commission (CNE), and the National Commission for Educational Loans (CONAPE) are presented as expenses in the income statement.

Pursuant to paragraph a) of article 20 of Law No. 6041 "Law to Create the National Commission for Educational Loans (CONAPE)", the Bank is required to make statutory allocations equivalent to 5% of earnings before taxes and statutory allocations to CONAPE.

In accordance with article 46 of the "National Emergency and Risk Prevention Act", all institutions of the central administration and decentralized public administration, as well as State-owned entities, must contribute three percent (3%) of their reported earnings before taxes and statutory allocations and of their accumulated budget surplus to CNE. Such funds are deposited in the National Emergency Fund to finance the National Risk Management System.

Article 78 of Law No. 7983 "Employee Protection Law" establishes a contribution of up to 15% of the earnings of State-owned public companies, with the purpose of strengthening the funding base for the Disability, Old Age, and Death Benefit System (RIVM) of CCSS and to provide universal CCSS coverage for impoverished non-salaried workers. Accordingly, through Executive Order No. 37127-MTSS, published in Official Gazette No. 103 dated May 29, 2012, this contribution is established gradually as follows:

- 5% starting 2013
- 7% starting 2015
- 15% starting 2017.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the Pension Fund Manager, article No. 49 of Law No. 7983 “Employee Protection Law” establishes that public capital pension operators must allocate 50% of their earnings to the affiliates of the Compulsory Retirement Savings Fund. Through articles No. 5 and No. 13 of the minutes of meetings No. 1128-2014 and No. 1129-2014, respectively, held on September 29, 2014, CONASSIF established the monthly recording of this allocation as earnings are generated during the period. The allocation amount must be adjusted at year-end based on the annual earnings reflected in the audited financial statements. The recognition of such allocation became effective as of January 1, 2015; therefore, financial statements for 2014 do not reflect this expense.

(cc) Development Financing Fund (FOFIDE)

In accordance with article 32 of the Development Banking System Act No. 8634, all State-owned banks, except Banco Hipotecario para la Vivienda (BANHVI), shall appropriate each year at least five percent (5%) of their net earnings after income taxes to create and strengthen their own development funds. The objective of that appropriation is to provide financing to individuals and legal entities that present viable and feasible projects in conformity with the provisions of the aforementioned law.

For purposes of establishing and strengthening development financing funds, all State-owned banks shall transfer to their respective funds the amount corresponding to prior year earnings in the second quarter of each year. At that time, the development financing programs that have been approved by the Governing Board will start operations.

(dd) Development Credit Fund (FCD)

The Development Credit Fund (FCD) is comprised of the funds prescribed in article 59 of IRNBS. The FCD will be managed by State-owned banks. Accordingly, in compliance with Law No. 9094 “Repeal of Transition Provision VII of Law No. 8634”, in agreement with article 35 of Law No. 8634 “Development Banking System Act”, in meeting No. 119 of January 16, 2013, through agreement No. AG-1015-119-2013, Banco de Costa Rica and Banco Nacional de Costa Rica are appointed as managers for five years from the date of signing of the respective management agreements. Each bank is awarded the management of fifty percent (50%) of such fund.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Accordingly, through Official Letter CR/SBD-014-2013, the Technical Secretariat of the Governing Board required all private banks to open checking accounts with both Banco Nacional de Costa Rica and Banco de Costa Rica (Managing Banks) in local and foreign currency and allocate fifty percent (50%) of those funds to each Managing Bank.

The powers granted by the Governing Board to the Managing Banks are as follows:

- a. Pursuant to article 6 of Law No. 8634, the Managing Banks may offer first-tier banking services to the beneficiaries of the Development Banking System.
- b. Pursuant to article 35 of Law No. 8634, the Managing Banks may offer second-tier banking services with FCD funds for financial entities other than private banks, provided that the purposes and obligations established in Law No. 8634 are met and such entities are duly authorized by the Governing Board.
- c. Pursuant to article 35 of Law No. 8634, the Managing Banks may channel FCD funds through placements to: associations, cooperatives, foundations, non-governmental organizations, producer organizations, or other formal entities, provided that they perform loan operations through development financing programs that meet the objectives established in Law No. 8634 and are duly authorized by the Governing Board.
- d. The term of the agreement is five years, renewable for equal and successive periods, unless a written order by the Governing Board provides otherwise and is notified at least three months in advance. If a lack of capacity and competence is proven by the Managing Banks, this agreement may be terminated under paragraph j), article 12 of Law No. 8634 and the executive regulations thereto.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(2) Collateralized or restricted assets

Collateralized or restricted assets are as follows:

Restricted asset	Cause of restriction		June 2016 Carrying amount	December 2015 Carrying amount	June 2015 Carrying amount
<i>Cash and due from banks:</i>					
Checking account - colones	Minimum legal deposit	¢	426,891,098,754	415,470,981,358	384,166,982,067
Checking account - euros	Minimum legal deposit		4,706,043,504	4,874,288,911	5,013,348,338
Checking account – U.S. dollars	Minimum legal deposit		223,538,052,670	189,644,176,846	185,939,347,340
Checking account - colones	Liquidation and compensation risk management fund		264,531,920	1,057,218,469	318,224,969
		¢	655,399,726,848	611,046,665,584	575,437,902,714
<i>Investments in financial instruments:</i>					
Investments in financial instruments	Guarantee for repurchase agreements (tri-party)	¢	36,607,574,747	39,664,189,932	60,148,498,591
Investments in financial instruments	Liquidity market operations		15,011,135,975	16,106,434,695	-
Securities issued by BCCR and the Government					
	Investments securing repurchase agreements		462,405,042	463,461,676	400,076,028
External debt bonds	Guarantee for margin calls - term operations Bank of America		-	-	3,703,634,699
	Guarantee for margin calls - term operations Citi				
External debt bonds	Swap		-	-	2,119,630,114
External debt bonds	Guarantee for margin calls - term operations JP Morgan Swap		-	-	2,118,181,218
Monetary stabilization bonds	Citibank guarantee		26,016,159,604	29,866,916,093	15,512,443,564
Central Bank bonds (global bonds)	Citibank guarantee		46,103,928,376	115,181,185,610	126,974,904,661
External debt bonds	Barclays guarantee		-	72,471,607,603	75,535,930,254
External debt bonds	Nomura Bank guarantee		57,071,903,223	66,482,575,651	69,719,648,042
External debt bonds	Credit Suisse guarantee		67,283,107,125	66,482,575,651	69,719,648,042
		¢	248,556,214,092	340,236,37,260	356,232,947,171
<i>Other assets:</i>					
Other assets (note 11)	Guarantee deposits	¢	597,755,368	509,289,396	443,585,163

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of June 30, 2016 and 2015, the applicable percentage for the minimum legal deposit is 15%.

The corresponding amount must be deposited in cash in BCCR pursuant to current banking legislation. The minimum legal deposit is calculated as a percentage of third-party deposits, which varies based on the term and form of deposit-taking used by the Bank.

As of June 30, 2016, the Brokerage Firm has restricted assets in the amount of ¢51,883,242,642 (December and June 2015: ¢56,827,843,096 and ¢60,466,723,560 respectively), corresponding to guarantees for tri-party repurchase agreements and contributions to the liquidation and compensation risk management fund.

(3) Balances and transactions with related parties

Balances and transactions with related parties are as follows:

	June 2016	December 2015	June 2015
<u>Assets:</u>			
Checking accounts in foreign financial entities (note 4)	¢ 7,090,843,678	10,601,795,993	-
Investments in financial instruments and accrued interest receivable	21,666,800,000	-	-
Checking accounts and demand deposits	-	-	4,891,170,161
Accounts receivable	91,692	-	-
Allowance for impairment of operations with related parties	(55,015,532)	-	(31,389,788)
Investments in other companies (note 9)	56,336,255,967	53,508,454,956	52,111,124,685
	¢ 85,038,975,805	64,110,250,949	56,970,905,058
<u>Liabilities:</u>			
Demand obligations with entities	26,460,549	25,933,333	71,237,043
	¢ 26,460,549	25,933,333	71,237,043
<u>Income:</u>			
Operating	-	313,720	-
Gain on investments in other foreign companies	1,577,560,791	4,410,917,651	2,714,905,912
Gain on investments in SUGEVAL-regulated entities	16,313,452	-	4,394,615
	¢ 1,593,874,243	4,411,231,371	2,719,300,527
<u>Expenses:</u>			
Operating	313,720	-	4,183,673
	313,720	-	4,183,673

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Compensation paid to key personnel is as follows:

	June 2016	December 2015	June 2015
Short-term benefits	¢ 820,755,827	1,821,731,849	685,729,936
Long-term benefits	106,698,258	236,825,140	89,144,892
Per diem for Board of Directors	59,967,809	149,609,686	38,678,568
	¢ 987,421,894	2,208,166,675	813,553,396

(4) Cash and due from banks

Cash and due from banks, for purposes of reconciliation with the consolidated statement of cash flows, is as follows:

	June 2016	December 2015	June 2015
Cash and due from banks	¢ 948,841,271,892	850,267,856,821	842,338,872,816
Investments with maturities of less than two months	244,717,238,780	150,736,855,333	129,931,780,932
	¢ 1,193,558,510,672	1,001,004,712,154	972,270,653,748

Cash and due from banks is as follows:

	June 2016	December 2015	June 2015
<i>Local currency:</i>			
Cash	¢ 35,456,235,805	39,941,795,481	35,593,331,308
Cash in transit	9,804,800,000	19,920,450,000	3,313,920,000
BCCR (1)	460,433,501,420	430,144,490,237	416,856,322,734
Checking accounts and demand deposits	8,528,417,554	20,334,002,101	5,115,570,883
Outstanding checks and other	7,755,198,065	3,973,366,581	9,095,449,673
Margin calls for tri-party repurchase agreements	-	678,054,981	74,307,792
<i>Foreign currency:</i>			
Cash	12,047,539,773	18,728,552,746	21,082,095,273
Cash in transit	1,358,146,831	1,348,014,034	1,029,690,588
BCCR (1)	265,568,471,925	210,196,259,805	190,590,658,110
Checking accounts and demand deposits	28,265,055	91,070,197	1,393,843
Foreign correspondent banks	126,942,500,432	82,042,623,264	144,289,801,319
Other demand deposits in foreign financial entities	87,521,435	58,446,548	59,289,551
Checking accounts and demand deposits in related parties (note 3)	7,090,843,678	10,601,795,993	4,891,170,161
Overnight deposits in foreign financial entities	10,364,025,345	10,581,024,444	7,010,325,349
Outstanding checks and other	3,111,261,225	1,248,706,648	3,091,629,055
Margin calls for tri-party repurchase agreements	-	6,112,231	-
Guarantee fund of National Stock Exchange	264,531,920	373,051,257	243,917,177
Accrued interest receivable	11,429	40,273	-
	¢ 948,841,271,892	850,267,856,821	842,338,872,816

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- (1) Checking accounts and demand deposits in BCCR include the balances of the minimum legal deposits required for each year (see note 2).

(5) Investments in financial instruments and derivative financial instruments

(a) Investments in financial instruments

Investments in financial instruments are as follows:

		June 2016	December 2015	June 2015
<i>Available for sale:</i>				
<u>Local issuers:</u>				
Government of Costa Rica	¢	460,431,181,080	496,645,983,004	458,684,112,169
BCCR		158,567,508,716	197,502,805,066	178,602,568,968
State-owned banks		130,437,263,575	180,186,806,909	181,772,758,483
Private banks		40,000,425,601	5,222,907,661	28,594,045,578
Private issuers		41,870,497,304	5,119,104,420	7,722,865,162
		<u>831,306,876,276</u>	<u>884,677,607,060</u>	<u>855,376,350,360</u>
<u>Foreign issuers:</u>				
Governments		28,613,631,907	34,585,082,997	41,849,823,740
Private issuers		86,229,476,387	71,604,777,235	74,274,036,119
Private banks		174,226,745,041	107,407,110,198	144,216,427,158
		<u>289,069,853,335</u>	<u>213,596,970,430</u>	<u>260,340,287,017</u>
		<u>1,120,376,729,611</u>	<u>1,098,274,577,490</u>	<u>1,115,716,637,377</u>
<i>Held to maturity:</i>				
Government of Costa Rica		27,069,336,275	27,030,439,007	27,231,250,107
		<u>27,069,336,275</u>	<u>27,030,439,007</u>	<u>27,231,250,107</u>
<i>Derivative financial instruments:</i>				
Interest rate futures - Hedges (note 5-b)		33,225,223,648	12,835,717,440	8,739,975,360
FX futures - Other than hedges (note 5-b)		-	267,314,375	500,075,989
		<u>33,225,223,648</u>	<u>13,103,031,815</u>	<u>9,240,051,349</u>
<i>Allowance for impairment:</i>				
Allowance for impairment of investments		(58,727,861)	(57,672,935)	(57,322,739)
Allowance for impairment of derivative instruments other than hedges		-	(76,967,726)	(2,397,967)
		<u>(58,727,861)</u>	<u>(134,640,661)</u>	<u>(59,720,706)</u>
Accrued interest receivable		9,736,775,101	10,340,806,695	11,511,211,266
	¢	<u>1,190,349,336,774</u>	<u>1,148,614,214,346</u>	<u>1,163,639,429,393</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Movement in the allowance for impairment of financial instruments, both investments and derivative instruments, is as follows:

	June 2016	December 2015	June 2015
Opening balance	¢ 134,640,661	60,499,558	60,499,558
Allowance expense (note 30)	20,527,703	128,016,660	39,039,133
Decrease in allowance charged to profit or loss (note 31)	(97,495,429)	(53,727,022)	(39,319,254)
Foreign exchange differences	1,054,926	(148,535)	(498,731)
Closing balance	¢ 58,727,861	134,640,661	59,720,706

As of June 30, 2016, the allowance for impairment of investments in non-derivative financial instruments amounts to ¢58,727,861 (December and June 2015: ¢57,672,935 and ¢57,322,739, respectively) and is booked for investments in Z Bonds related to the Mortgage Securitization Trust (impairment of 26% for both years).

As of June 30, 2016, an allowance for impairment of derivative instruments other than hedges was not established (December and June 2015: ¢76,967,726 and ¢2,397,967, respectively). Operations other than hedges are recognized for FX futures as required by SUGEF Directive 09-08.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Investments in financial instruments are detailed as follows:

	June 2016	December 2015	June 2015
<i>Available-for-sale:</i>			
Securities issued by BCCR	¢ 95,145,204,766	86,498,225,148	112,058,019,538
Securities issued by local non-financial public sector	375,970,550,904	340,732,188,259	288,542,398,891
Securities issued by local financial entities	167,163,966,490	180,134,579,260	191,124,004,549
Securities issued by foreign financial entities	2,658,258,606	3,224,157,216	2,209,949,256
Financial instruments issued by foreign financial entities	110,415,130,265	38,087,100,169	71,977,487,195
Other securities issued abroad	30,012,047,831	33,331,531,136	32,955,827,743
Financial instruments with foreign related parties	21,629,407,355	-	-
Liquidity market operations – own resources	63,400,000,000	70,610,640,000	55,223,230,000
Other available-for-sale financial instruments	5,394,949,302	5,419,785,042	5,392,773,034
Financial instruments restricted for margin calls on term operations (note 2)	-	-	7,941,446,031
Financial instruments for tri-party repurchase agreements (note 2)	36,607,574,747	39,664,189,932	60,148,498,591
Financial instruments restricted for credit operations (note 2)	196,475,098,328	284,002,284,957	287,742,926,521
Financial instruments restricted for liquidity market operations (note 2)	15,042,135,975	16,106,434,695	
Other financial instruments (note 2)	462,405,042	463,461,676	400,076,028
	<u>1,120,376,729,611</u>	<u>1,098,274,577,490</u>	<u>1,115,716,637,377</u>
<i>Held-to-maturity:</i>			
Securities issued by local non-financial public sector	27,069,336,275	27,030,439,007	27,231,250,107
	<u>27,069,336,275</u>	<u>27,030,439,007</u>	<u>27,231,250,107</u>
<i>Derivative financial instruments:</i>			
Interest rate futures - Hedges (note 5-b)	33,225,223,648	12,835,717,440	8,739,975,360
FX futures - Other than hedges (note 5-b)	-	267,314,375	500,075,989
	<u>33,225,223,648</u>	<u>13,103,031,815</u>	<u>9,240,051,349</u>
<i>Allowance for impairment</i>			
Allowance for impairment of investments	(58,727,861)	(57,672,935)	(57,322,739)
Allowance for impairment of derivative instruments other than hedges	-	(76,967,726)	(2,397,967)
	<u>(58,727,861)</u>	<u>(134,640,661)</u>	<u>(59,720,705)</u>
Accrued interest receivable	9,736,775,102	10,340,806,695	11,511,211,265
¢	<u>1,190,349,336,775</u>	<u>1,148,614,214,346</u>	<u>1,163,639,429,393</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Interest rates on investments in financial instruments are as follows:

Currency	June 2016	December 2015	June 2015
Colones	1.25% to 11.04%	1.25% to 11.04%	2.60% to 11.04%
U.S. dollars	0.52% to 7.63%	0.25% to 7.63%	0.05% to 7.63%
Euros	1.10% to 5.50%	0.18 % to 4.75%	0.18% to 4.75%
DU	0% to 0.74%	0.67% to 0.74%	0.67% to 0.74%

As of June 30, 2016, the valuation of available-for-sale investments and restricted financial instruments gives rise to an unrealized loss, net of deferred income tax, in the amount of ¢1,944,915,156 (December and June 2015: unrealized gain of ¢6,655,237,495 and ¢5,249,713,315, respectively). Accordingly, as of that date, the accumulated balance of the adjustments to equity arising from the valuation of those investments is an unrealized gain of ¢922,894,464 (December and June 2015: unrealized gain of ¢2,867,809,620 and ¢1,462,285,440, respectively).

(b) Derivative financial instruments

In Notice J.D. 5566/06/02 dated October 29, 2012, SUGEF authorized the Bank to trade derivative financial instruments.

As of June 30, 2016 and 2015, the Bank holds the following types of derivative financial instruments:

✓ Derivatives as risk hedging instruments:

Interest rate swaps:

In 2013, five interest rate hedges were formalized to hedge exposure to the LIBOR rate related to international debt issues made in October 2013 in U.S. dollars at a fixed rate. The purpose of these financial instruments is to compensate for the changes in fair value attributable to fluctuations in such benchmark rate.

As of June 30, 2016, total notional amounts of US\$1,250 million, equivalent to ¢677,087,500,000 (December and June 2015: ¢398,955,000,000 and ¢396,532,500,000, respectively) are booked under “Other debit memoranda accounts”.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

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Gains and losses on the valuation of derivative financial instruments are booked under asset and liability accounts, respectively.

As of June 30, 2016, the Bank booked an increase in the fair value of these hedges in the amount of US\$61,338,496 equivalent to ₡33,225,223,648 (see note 5-a).

		June 2016		Purpose
Issuing bank		Notional amount	Valuation	
CitiBank	US\$	100,000,000	US\$ 10,195,736	Swaps to hedge 10-year issues (Maturing in 2023)
JP Morgan		200,000,000	20,391,472	
Bank of America		200,000,000	20,391,472	
Subtotal		500,000,000	50,978,680	
CitiBank		100,000,000	1,333,589	Swaps to hedge 5-year issues (Maturing in 2018)
JP Morgan		150,000,000	2,000,387	
Subtotal		250,000,000	3,333,976	
CitiBank		250,000,000	3,512,920	Swaps to hedge 5-year issues (Maturing in 2021)
JP Morgan		250,000,000	3,512,920	
Subtotal		500,000,000	7,025,840	
Total	US\$	1,250,000,000	US\$ 61,338,496	
Amount in colones	₡	677,087,500,000	₡ 33,225,223,648	

As of December 31, 2015, the Bank booked an increase in the fair value of these hedges in the amount of US\$24,130,009 equivalent to ₡12,835,717,440.

		December 2015		Purpose
Issuing bank		Notional amount	Valuation	
Citibank	US\$	100,000,000	US\$ 4,725,793	Swaps to hedge 10-year issues
JP Morgan		200,000,000	9,451,587	
Bank of America		200,000,000	9,451,587	
Subtotal		500,000,000	23,628,967	
Citibank		100,000,000	200,417	Swaps to hedge 5-year issues
JP Morgan		150,000,000	300,625	
Subtotal		250,000,000	501,042	
Total	US\$	750,000,000	US\$ 24,130,009	
Amount in colones	₡	398,955,000,000	₡ 12,835,717,440	

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of June 30, 2015, the Bank booked an increase in the fair value of these hedges in the amount of US\$15,485,124 equivalent to ¢8,739,975,360 (see note 5-a).

		June 2015		Purpose
Issuing bank		Notional amount	Valuation	
Citibank	US\$	100,000,000	US\$ 3,097,024	Swaps to hedge 10-year issues (maturing in 2023)
JP Morgan		200,000,000	6,194,050	
Bank of America		200,000,000	6,194,050	
Subtotal		500,000,000	15,485,124	
Citibank		100,000,000	418,252	Swaps to hedge 5-year issues (maturing in 2018)
JP Morgan		150,000,000	627,378	
Subtotal		250,000,000	1,045,630	
Total	US\$	750,000,000	US\$ 16,530,754	
Amount in colones	¢	396,532,500,000	¢ 8,739,975,360	

For purposes of valuation the aforementioned interest rate swaps, the Bank elected to apply the “Fair Value Hedge Method”; while the “Dollar Offset Method” is used for testing hedge effectiveness. The latter method was established by SUGEF and prescribes that effectiveness is to be assessed retrospectively. A hedge is considered highly effective if the ratio of the changes in the derivative and primary instruments ranges between 80% and 125%.

The effectiveness of the valuation of derivative financial instruments is as follows:

	Effectiveness rate		
	June 2016	December 2015	June 2015
5-year issue (maturing in 2018)	91.60%	107.44%	90.55%
10-year issue (maturing in 2023)	92.67%	100.48%	94.75%
5-year issue (maturing in 2021)	93.10%	-	-

A valuation was performed as of June 30, 2016 and 2015 in order to calculate the change in the fair value of the primary and derivative instruments based on the following inputs:

- A 5- or 10-year LIBOR rate at the issue of the bond;
- Discount rates from Bloomberg;
- Zero rates corresponding to the swap curve as of June 30, 2016.
- Only a portion of the bond cash flows is hedged (corresponding to the 5- and 10-year LIBOR rate in effect at the issue of the bond) rather than the total interest rate;
- Accrued and earned interest were segregated from the instruments to obtain variations in clean prices;
- Forward rate to calculate variable interest.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

✓ Derivatives for trading purposes:

Currency forwards:

In 2015, currency forwards were formalized with several clients. Under these derivative financial instruments, the Bank acts as an authorized intermediary (counterparty). These instruments serve as a trading tool that is not used for currency speculation and whereby no risks are hedged.

These instruments correspond to products that the Bank may offer to its customers as a result of the Central Bank's authorization granted to the Bank to act as an intermediary in the Foreign Exchange Derivatives Market.

As of June 30, 2016, there is no total notional amount due to the maturity of FX forwards (December and June 2015: US\$21,900,000 and US\$11,470,000, equivalent to ¢6,064,303,700 and ¢8,859,648,000, respectively, booked under Other debit memoranda accounts (see note 20)).

Accordingly, as of June 30, 2016, the Bank does not book a valuation in the fair value of these forwards (December and June 2015: ¢267,314,375 and ¢500,075,989, respectively, booked in an asset account (see note 5-a)).

For long-term currency forwards, the Bank considers three risk factors in determining the value of a forward contract: the spot exchange rate and the interest rates in both local and foreign currency. The value of these financial instruments is determined using data related to the average exchange rate at MONEX and the market interest rates in colones and U.S. dollars applicable to different terms.

The effect on profit or loss of derivative financial instruments is as follows:

		June 2016	December 2015	June 2015
Gain on derivative financial instruments	¢	28,407,958,585	35,212,694,463	20,107,619,632
Loss on derivative financial instruments		(5,112,651,429)	(24,488,661,522)	(17,236,238,161)
Gain (loss), net	¢	<u>23,295,307,156</u>	<u>10,724,032,941</u>	<u>2,871,381,471</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(6) Loan portfolio

(a) Loan portfolio by sector

The loan portfolio by sector is as follows:

	June 2016	December 2015	June 2015
Trade	₡ 367,034,927,090	376,806,025,997	385,225,286,919
Services	828,731,637,864	796,162,829,760	691,995,342,626
Financial services	129,538,951,024	125,197,166,308	121,035,389,277
Mining	843,031,803	740,793,348	404,461,573
Manufacturing and quarrying	142,090,967,906	154,988,964,935	142,140,320,388
Construction	97,741,637,098	88,630,791,109	79,878,173,499
Agriculture and forestry	114,052,542,019	109,941,332,285	104,578,140,178
Livestock, hunting, and fishing	70,252,437,217	64,738,300,126	59,131,982,538
Electricity, water, sanitation, and other related sectors	416,125,269,889	347,407,634,466	291,448,811,082
Transportation and telecommunications	31,173,284,209	26,464,717,118	24,382,625,105
Housing	1,148,390,048,160	1,108,935,164,745	1,076,119,309,919
Personal or consumer loans	391,474,798,879	364,732,599,797	348,171,597,873
Tourism	139,302,905,074	136,755,821,966	119,279,436,595
Total direct loans	3,876,752,438,232	3,701,502,141,960	3,443,790,877,572
Accrued interest receivable	25,579,739,890	25,154,673,605	23,064,192,207
Allowance for loan losses	(73,694,845,648)	(62,968,882,979)	(62,671,403,553)
Total loan portfolio	₡ 3,828,637,332,474	3,663,687,932,586	3,404,183,666,226

Annual interest rates on loans receivable are as follows:

Currency	June 2016		December 2015		June 2015	
	Rates	Average	Rates	Average	Rates	Average
Colones	5.30% to 39.00%	14.32%	5.95% to 34.92%	14.32%	6.25% to 36.60%	15.54%
U.S. dollars	3.00% to 33.00%	8.71%	3.00% to 27.96%	8.38%	2.80% to 27.96%	8.05%
DU	3.85% to 11.00%	6.58%	3.85% to 11.00%	6.50%	3.85% to 10.00%	6.16%

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Sold and securitized portfolio

On August 22, 2006, the Bank sold the securitized portfolio related to the BNCR\$2006-1 Mortgage Securitization Trust, managed by Banco Improsa, S.A., for US\$11,477,863. The securitization structure was sold at par and gave rise to no gains or losses.

The Bank was the formal and final seller of the portfolio, which was duly assigned and transferred in the Property Registry. The Bank has no further obligations in respect of the borrower payment behavior for loans sold and all of the related risks, including default, prepayment, and foreclosure of property, were assumed by the investors who purchased the bonds issued.

As of June 30, 2016, the balance of the securitized portfolio is US\$6,473,049, which is equivalent to ¢3,506,256,376 (December and June 2015: US\$6,590,597 equivalent to ¢3,505,802,328 and US\$6,737,301 equivalent to ¢3,562,078,470, respectively).

Sale of portfolio

In 2016, the Bank did not perform portfolio sales. During 2015, the Bank partially assigned certain formalized loans to entities. The portfolio was sold at par; accordingly, no gains or losses were generated.

The Bank was the formal and final seller of the portfolio and will be unilaterally responsible for the management, follow-up, and control of the servicing of the loan.

The sales prices of the sold portfolio are as follows:

	<u>Purchaser</u>	<u>Sales Price</u>
Banco BICSA Panamá	US\$	33,500,000
Asociación Solidarista de Empleados del BNCR		19,500,000
Bancrédito (BCAC)		15,000,000
Banco Davivienda		27,000,000
Global Bank de Panamá		19,550,000
Total	US\$	<u>114,550,000</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(b) Loan portfolio by arrears

The loan portfolio by arrears is as follows:

	June 2016	December 2015	June 2015
Current	¢ 3,663,804,692,196	3,491,758,501,550	3,241,402,100,236
1 to 30 days	85,191,951,571	54,239,972,503	86,620,828,031
31 to 60 days	19,615,798,095	51,342,045,126	21,130,996,981
61 to 90 days	20,325,440,872	18,171,340,010	19,141,942,481
91 to 120 days	10,864,980,242	10,014,328,343	8,053,255,339
121 to 180 days	12,422,125,418	13,749,242,525	11,631,072,704
More than 180 days	64,527,449,838	62,226,711,903	55,810,681,800
Total direct loans	3,876,752,438,232	3,701,502,141,960	3,443,790,877,572
Accrued interest receivable	25,579,739,890	25,154,673,605	23,064,192,207
Allowance for loan losses	(73,694,845,648)	(62,968,882,979)	(62,671,403,553)
Total loan portfolio	¢ 3,828,637,332,474	3,663,687,932,586	3,404,183,666,226

(c) Loan portfolio by origin

The loan portfolio by origin is as follows:

	June 2016	December 2015	June 2015
Loans originated by the Bank	¢ 3,876,693,320,525	3,701,441,568,101	3,443,728,228,492
Loans purchased by the Bank	59,117,707	60,573,859	62,649,080
Total direct loans	3,876,752,438,232	3,701,502,141,960	3,443,790,877,572
Accrued interest receivable	25,579,739,890	25,154,673,605	23,064,192,207
Allowance for loan losses	(73,694,845,648)	(62,968,882,979)	(62,671,403,553)
Total loan portfolio	¢ 3,828,637,332,474	3,663,687,932,586	3,404,183,666,226

As of June 30, 2016 and 2015, loans purchased by the Bank were purchased from BICSA.

(Continued)



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(d) Past due loans

Past due loans, including loans in accrual status (for which interest is recognized on a cash basis), and unearned interest on those loans, are as follows:

	June 2016	December 2015	June 2015
Past due loans in accrual status: 21,718 (December and June 2015: 20,442 and 21,733 loans, respectively)	¢ 148,688,050,093	148,279,853,379	146,060,573,159
Loans in legal collection: 6,876 loans, 2.31% of portfolio (December and June 2015: 6,590 and 6,946 loans, 2.33% and 2.25% of portfolio, respectively)	¢ 89,533,708,417	86,287,327,716	77,602,215,337
Total unearned interest in 2016 and 2015	¢ 1,563,179,332	2,037,606,104	909,663,163

As of June 30, 2016, the Bank increased the “Interest income on non-accrual loans” account as a result of the recovery of loans receivable over 180 days past due by ¢1,563,179,332 (December and June 2015: increases of ¢2,037,606,104 and ¢909,663,163, respectively).

The Bank classifies loans as past due when no principal or interest payments have been made by one day after the due date.

(e) Accrued interest receivable on loan portfolio

Accrued interest receivable is as follows:

	June 2016	December 2015	June 2015
Current	¢ 14,246,659,599	14,386,339,789	13,151,438,629
Past due	2,380,469,103	2,457,638,279	2,482,420,357
In legal collection	8,952,611,188	8,310,695,537	7,430,333,221
	¢ 25,579,739,890	25,154,673,605	23,064,192,207

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(f) Allowance for loan losses

Movement in the allowance for loan losses is as follows:

	June 2016	December 2015	June 2015
Opening balance	¢ 62,968,882,979	49,838,574,099	49,838,574,099
Expense for the year (note 30)	17,260,301,448	30,936,117,232	22,502,422,020
Settlements	(6,953,750,923)	(17,763,386,035)	(9,508,297,267)
Decrease in allowance charged to profit or loss (note 31)	-	-	-
Foreign exchange differences	419,412,144	(42,422,317)	(161,295,299)
Closing balance	¢ 73,694,845,648	62,968,882,979	62,671,403,553

Management considers the allowance for loan losses to be sufficient based on its assessment of the recoverability of the portfolio and existing guarantees.

(7) Other receivables

Other receivables are as follows:

	June 2016	December 2015	June 2015
Fees and commissions	¢ 1,143,647,212	1,073,457,946	1,028,305,066
Stock exchange transactions	-	34,120	464,803
Accounts receivable for operations with related parties	91,691	-	-
Transactions with related parties (officers and employees)	89,123,312	180,506,172	77,595,032
Deferred tax (note 15-c)	938,690,955	832,024,366	1,096,136,612
Income tax	2,572,544,492	2,630,373,656	2,559,332,361
Other sundry accounts	3,646,410,122	3,567,482,304	3,519,715,133
Accrued interest receivable on other sundry accounts receivable	2,197,676	1,990,138	1,748,540
Allowance for impairment of other accounts receivable	(5,885,089,865)	(5,920,917,785)	(5,761,552,204)
	¢ 2,507,615,595	2,364,950,917	2,521,745,343

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Movement in the allowance for impairment of other accounts receivable is as follows:

	June 2016	December 2015	June 2015
Opening balance	¢ 5,862,408,795	5,361,359,410	5,361,359,410
Allowance expense (note 30)	676,672,856	1,332,435,790	804,130,743
Decrease in allowance charged to profit or loss (note 31)	(448,377,380)	(128,906,016)	(94,308,551)
Items settled against allowance	(208,127,542)	(642,663,621)	(307,344,897)
Foreign exchange differences	2,513,136	(1,307,778)	(2,284,501)
Closing balance	¢ 5,885,089,865	5,920,917,785	5,761,552,204

(8) Foreclosed assets

Foreclosed assets are presented net of the allowance for impairment and per legal requirements are as follows:

	June 2016	December 2015	June 2015
Assets acquired in lieu of payment	¢ 79,251,336,646	78,575,996,987	78,157,173,788
Idle property and equipment	832,653	1,770,509	1,756,777
Allowance for impairment	(63,263,247,969)	(61,161,022,915)	(60,126,748,454)
	¢ 15,988,921,330	17,416,744,581	18,032,182,111

Movement in the allowance for impairment of foreclosed assets is as follows:

	June 2016	December 2015	June 2015
Opening balance	¢ 61,161,022,915	57,188,491,454	57,188,491,454
Allowance expense (note 34)	3,978,932,471	4,847,672,218	2,938,257,000
Liquidation of foreclosed assets	-	(83,315,000)	-
Decrease in allowance charged to profit or loss	(1,876,707,417)	(791,825,757)	-
Closing balance	¢ 63,263,247,969	61,161,022,915	60,126,748,454

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(9) Investments in other companies

Investments in other companies are as follows:

	June 2016	December 2015	June 2015
Other financial and non-financial companies ¢	50,623,300	50,623,300	50,623,300
Banco Internacional de Costa Rica, S.A. and Subsidiary (BICSA) (note 3)	56,285,632,667	53,508,454,956	52,060,501,385
	¢ 56,336,255,967	53,559,078,256	52,111,124,685

As of June 30, 2016, the Bank holds 49% ownership interest in BICSA, which is represented by 6,506,563 ordinary shares of US\$10 par value each (December and June 2015: 6,506,563 and 6,506,563 ordinary shares of US\$10 par value each, respectively).

At a BICSA shareholders meeting held in April 2014, shareholders agreed to capitalize US\$7 million, which was booked in 2014 and included in BICSA's financial statements. As a result of the capitalization, total share capital amounted to US\$132.78 million, represented by 13,278,700 shares of US\$10 par value each.

The Bank's investments in other companies are as follows:

	June 2016	December 2015	June 2015	Concept
¢				Investment to operate as custodian of electronic securities
National Stock Exchange	15,000,000	15,000,000	15,000,000	Investment to operate as custodian of electronic securities
Central de Valores de la Bolsa Nacional de Valores, S.A.	15,000,000	15,000,000	15,000,000	Investment to operate as custodian of electronic securities
Interclear Central de Valores, S.A.	15,000,000	15,000,000	15,000,000	Investment in the Golfito Duty Free Shopping Center
Depósito Libre Comercial de Golfito (Golfito Duty Free Shopping Center) per article 24 of Law No. 7131	5,200,000	5,200,000	5,200,000	Investments in various cooperatives
Other entities	423,300	423,300	423,300	
¢	50,623,300	50,623,300	50,623,300	

(Continued)

BANCO NACIONAL DE COSTA RICA Y SUBSIDIARIAS

Notes to the Consolidated Financial Statements

(10) Property and equipment

Property and equipment is as follows:

		June 2016					
		Land	Buildings	Furniture and equipment	Computer hardware	Vehicles	Total
<i>Cost:</i>							
Opening balance	¢	46,614,089,726	119,784,198,972	59,048,581,832	57,942,113,324	451,048,332	283,840,032,186
Additions		-	440,414,390	2,198,004,483	2,529,010,352	-	5,167,429,225
Disposals		-	-	(1,804,862,711)	(2,772,853,421)	-	(4,577,716,132)
Sales		(21,907,146)	(146,371,472)	-	-	(13,644,336)	(181,922,954)
Adjustments		-	667,515,291	6,746,782	(32,799,565)	-	641,462,508
Reclassifications		-	-	(10,845,913)	10,926,433	(80,520)	-
Closing balance		46,592,182,580	120,745,757,181	59,437,624,473	57,676,397,123	437,323,476	284,889,284,833
<i>Accumulated depreciation:</i>							
Opening balance		-	29,704,829,213	31,171,302,930	44,614,967,063	321,446,224	105,812,545,430
Depreciation expense on historical cost		-	666,390,120	2,608,827,514	2,595,555,913	14,885,813	5,885,659,360
Depreciation expense on revaluation		-	680,117,860	-	-	-	680,117,860
Disposals		-	-	(1,125,492,723)	(2,713,789,546)	-	(3,839,282,269)
Sales		-	(58,411,230)	-	-	(13,644,336)	(72,055,566)
Adjustments		-	843,263,715	8,118,173	372,602	-	851,754,489
Reclassifications		-	-	(6,058,372)	6,138,892	(80,520)	-
Closing balance		-	31,836,189,678	32,656,697,522	44,503,244,924	322,607,181	109,318,739,305
Net closing balance	¢	46,592,182,580	88,909,567,503	26,780,926,951	13,173,152,199	114,716,295	175,570,545,528

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		December 2015					
		Land	Buildings	Furniture and equipment	Computer hardware	Vehicles	Total
<i>Cost:</i>							
Opening balance	¢	43,172,317,837	110,297,273,275	54,512,881,977	53,524,427,013	453,581,087	261,960,481,189
Additions		-	15,381,426,392	5,700,436,805	5,239,146,948	-	26,321,010,145
Revaluation of assets		3,518,297,616	(5,692,905,154)	-	-	-	(2,174,607,538)
Disposals		-	-	(1,168,746,773)	(755,807,411)	(2,593,675)	(1,927,147,859)
Adjustments		(76,525,727)	(201,595,542)	(53,540)	(38,292,660)	-	(316,467,469)
Reclassifications		-	-	4,063,362	(27,360,564)	60,920	(23,236,282)
Closing balance		46,614,089,726	119,784,198,971	59,048,581,831	57,942,113,326	451,048,332	283,840,032,186
<i>Accumulated depreciation:</i>							
Opening balance		-	26,840,836,640	27,066,836,852	40,296,173,459	290,977,528	94,494,824,479
Depreciation expense on historical cost		-	1,132,988,745	4,798,710,357	4,953,096,361	32,761,018	10,917,556,481
Depreciation expense on revaluation		-	1,506,603,638	-	-	-	1,506,603,638
Disposals		-	-	(784,998,545)	(693,841,758)	(2,322,599)	(1,481,162,902)
Adjustments		-	224,400,190	74,796,657	75,526,886	-	374,723,733
Reclassifications		-	-	15,957,607	(15,987,884)	30,277	-
Closing balance		-	29,704,829,213	31,171,302,928	44,614,967,064	321,446,224	105,812,545,429
Net closing balance	¢	46,614,089,726	90,079,369,758	27,877,278,903	13,327,146,262	129,602,108	178,027,486,757

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

June 2015						
	Land	Buildings	Furniture and equipment	Computer hardware	Vehicles	Total
<i>Cost:</i>						
Opening balance	¢ 43,172,317,837	110,297,273,275	54,512,881,977	53,524,427,013	453,581,087	261,960,481,189
Additions	-	9,018,391,378	2,800,709,989	1,615,363,337	-	13,434,464,704
Revaluation of assets	-	159,681,438	-	-	-	159,681,438
Disposals	-	-	(404,439,156)	(588,363,042)	(2,593,675)	(995,395,873)
Adjustments	3,187,248,621	4,824,203,527	(4,336,103)	(2,207,540)	-	8,004,908,505
Reclassifications	-	-	(14,563,703)	(8,672,579)	-	(23,236,282)
Closing balance	46,359,566,458	124,299,549,618	56,890,253,004	54,540,547,189	450,987,412	282,540,903,681
<i>Accumulated depreciation:</i>						
Opening balance	-	26,840,836,640	27,066,836,851	40,296,173,459	290,977,529	94,494,824,479
Depreciation expense on historical cost	-	502,584,036	2,307,004,046	2,414,176,065	17,649,612	5,241,413,759
Depreciation expense on revaluation	-	752,595,316	-	-	-	752,595,316
Disposals	-	-	(346,856,682)	(515,101,098)	(2,322,600)	(864,280,380)
Adjustments	-	2,492,429,152	7,022,780	4,230,502	-	2,503,682,434
Reclassifications	-	-	1,518,372	(1,518,372)	-	-
Closing balance	-	30,588,445,144	29,035,525,367	42,197,960,556	306,304,541	102,128,235,608
Net closing balance	¢ 46,359,566,458	93,711,104,474	27,854,727,637	12,342,586,633	144,682,871	180,412,668,073

(Continued)



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(11) Other assets

Other assets are as follows:

	June 2016	December 2015	June 2015
<i>Deferred charges:</i>			
Leasehold improvements	¢ 1,160,108,677	1,207,934,825	1,014,192,240
Cost of issue of financial instruments (3)	2,102,991,902	1,175,391,199	1,280,419,674
Cost of subordinated debt project	512,021,812	546,893,248	577,665,041
Deferred direct costs related to loans	5,865,372,256	6,080,470,185	12,809,824,791
Other deferred charges	3,327,700,280	3,649,191,521	4,310,991,360
Subtotal	12,968,194,927	12,659,880,978	19,993,093,106
<i>Intangible assets:</i>			
Software (2)	3,663,175,137	3,988,941,169	3,782,860,802
Other intangible assets (2)	6,519,802	2,273,092	1,770,844
Subtotal	3,669,694,939	3,991,214,261	3,784,631,646
<i>Other assets:</i>			
Prepaid interest and fees and commissions	245,737,896	217,253,376	251,297,941
Estimated tax	2,331,278,996	7,104,437,763	3,292,913,198
Prepaid insurance policy	164,761,972	255,446,560	219,233,459
Other prepaid expenses	153,329,697	384,854,631	374,678,696
Stationery, office supplies, and other materials	322,289,891	391,707,623	325,858,933
Leased assets	101,486,944	102,151,718	102,796,517
Library and artwork	341,297,151	341,297,151	340,968,129
Construction work-in-progress	4,218,381,733	2,823,622,889	8,229,229,734
Software under development	315,973,406	289,048,089	278,904,780
Rights in welfare and trade associations	600,000	600,000	600,000
Other sundry assets	2,625,350,000	2,580,658,839	2,078,281,199
Operations pending settlement	8,681,520,918	2,100,268,728	7,103,602,701
Other operations pending application	506,992,291	380,637,065	608,898,868
Guarantee deposits (1)	399,162,237	347,688,068	326,816,729
Legal and administrative deposits (1)	198,593,131	161,601,328	116,768,434
Subtotal	20,606,756,263	17,481,273,828	23,650,849,318
Total	¢ 37,244,646,129	34,132,369,067	47,428,574,070

(1) As of June 30, 2016, guarantee deposits amount to ¢597,755,368 (December and June 2015: ¢509,289,396 and ¢443,585,163, respectively) (see note 2).

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(2) Intangible assets, net are as follows:

June 2016			
	Software	Other intangible assets	Total
<i>Cost:</i>			
Opening balance	¢ 20,535,208,567	96,302,651	20,631,511,218
Additions	32,957,998	10,189,938	43,147,936
Disposals	(1,065,326,372)	-	(1,065,326,372)
Reclassifications	-	(5,943,228)	(5,943,228)
Adjustments	657,383,120	-	657,383,120
Closing balance	20,160,223,313	100,549,361	20,260,772,674
<i>Accumulated amortization:</i>			
Opening balance	16,546,267,398	94,029,559	16,640,296,957
Expense for the year	1,003,274,789	5,943,228	1,009,218,017
Disposals	(1,052,494,011)	(5,943,228)	(1,058,437,239)
Closing balance	16,497,048,176	94,029,559	16,591,077,735
Net closing balance	¢ 3,663,175,137	6,519,802	3,669,694,939

  

December 2015			
	Software	Other intangible assets	Total
<i>Cost:</i>			
Opening balance	¢ 19,066,822,045	96,516,837	19,163,338,882
Additions	1,664,403,003	8,776,518	1,673,179,521
Disposals	(169,055,790)	-	(169,055,790)
Reclassifications	(12,067,256)	(8,990,704)	(21,057,960)
Adjustments	(14,893,432)	-	(14,893,432)
Closing balance	20,535,208,570	96,302,651	20,631,511,221
<i>Accumulated amortization:</i>			
Opening balance	14,566,562,079	94,029,559	14,660,591,638
Expense for the year	2,141,179,018	8,990,704	2,150,169,722
Disposals	(99,492,813)	(8,990,704)	(108,483,517)
Reclassifications	(61,980,883)	-	(61,980,883)
Closing balance	16,546,267,401	94,029,559	16,640,296,960
Net closing balance	¢ 3,988,941,169	2,273,092	3,991,214,261

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		June 2015		
		Software	Other intangible assets	Total
<i>Cost:</i>				
Opening balance	¢	19,066,822,045	96,516,837	19,163,338,882
Additions		365,845,153	4,258,122	370,103,275
Disposals		(100,297,628)	-	(100,297,628)
Reclassifications		(12,067,256)	(4,974,556)	(17,041,812)
Closing balance		19,320,302,314	95,800,403	19,416,102,717
<i>Accumulated amortization:</i>				
Opening balance		14,566,562,079	94,029,559	14,660,591,638
Expense for the year		1,071,763,714	4,974,556	1,076,738,270
Disposals		(72,182,154)	-	(72,182,154)
Reclassifications		(28,702,125)	(4,974,556)	(33,676,681)
Closing balance		15,537,441,512	94,029,559	15,631,471,071
Net closing balance	¢	3,782,860,802	1,770,844	3,784,631,646

(3) Costs related to the issue of financial instruments are as follows:

		June 2016			
		5-year issue (maturing in 2018)	10-year issue (maturing in 2023)	5-year issue (maturing in 2021)	Total
Commission - structuring banks	¢	270,835,000	270,835,000	460,419,500	1,002,089,500
Commission - Moody's Investors Service		135,417,500	135,417,500	-	270,835,000
Commission - Société de la Bourse de Luxembourg, S.A.		6,619,749	6,619,749	-	13,239,498
RR Donelley		5,929,661	5,929,640	3,549,712	15,409,013
BNY Mellon		2,141,222	2,141,222	3,123,811	7,406,255
Moody's - issuer rating		17,929,277	17,929,277	135,417,500	171,276,054
Fitch Ratings		135,417,500	135,417,500	135,417,500	406,252,500
Milbank		79,712,157	79,712,157	106,720,154	266,144,468
Shearman & Sterling		79,815,616	79,815,616	118,730,868	278,362,100
External audit		102,917,300	102,917,300	125,667,440	331,502,040
Perkins Cole (process agent)		-	-	7,105,112	7,105,112
Printing of documents		-	-	8,566,424	8,566,424
Subtotal		836,734,982	836,734,961	1,104,718,021	2,778,187,964
Deferral		(427,776,523)	(186,389,210)	(61,030,329)	(675,196,062)
Total	¢	408,958,459	650,345,751	1,043,687,692	2,102,991,902

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	December 2015		
	5-year issue	10-year issue	Total
Commission - structuring banks	¢ 265,970,000	265,970,000	531,940,000
Commission - Moody's Investors Service	132,985,000	132,985,000	265,970,000
Commission - Société de la Bourse de Luxembourg, S.A.	6,500,839	6,500,839	13,001,678
RR Donelley	5,823,147	5,823,126	11,646,273
BNY Mellon	2,102,759	2,102,759	4,205,518
Moody's - issuer rating	17,607,214	17,607,214	35,214,428
Fitch Ratings	132,985,000	132,985,000	265,970,000
Milbank	78,280,290	78,280,290	156,560,580
Shearman & Sterling	78,381,891	78,381,891	156,763,782
External audit	101,068,600	101,068,600	202,137,200
Subtotal	821,704,740	821,704,719	1,643,409,459
Deferral	(331,073,839)	(136,944,421)	(468,018,260)
Total	¢ 490,630,901	684,760,298	1,175,391,199

  

	June 2015		
	5-year issue	10-year issue	Total
Commission - structuring banks	¢ 264,355,000	264,355,000	528,710,000
Commission - Moody's Investors Service	132,177,500	132,177,500	264,355,000
Commission - Société de la Bourse de Luxembourg, S.A.	6,461,365	6,461,365	12,922,730
RR Donelley	5,787,788	5,787,767	11,575,555
BNY Mellon	2,089,991	2,089,991	4,179,982
Moody's - issuer rating	17,500,301	17,500,301	35,000,602
Fitch Ratings	132,177,500	132,177,500	264,355,000
Milbank	77,804,964	77,804,964	155,609,928
Shearman & Sterling	77,905,947	77,905,947	155,811,894
External audit	100,454,900	100,454,900	200,909,800
Subtotal	816,715,256	816,715,235	1,633,430,491
Deferral	(249,957,328)	(103,053,489)	(353,010,817)
Total	¢ 566,757,928	713,661,746	1,280,419,674

Issue costs are amortized over the term of the financial instrument.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(12) Obligations with the public

(a) By cumulative amount

Obligations with the public by cumulative amount are as follows:

	June 2016	December 2015	June 2015
<i>Demand obligations:</i>			
Checking accounts	¢ 1,182,701,716,630	1,286,985,762,872	1,156,077,025,746
Certified checks	238,125,599	95,816,002	183,276,510
Savings deposits	1,202,495,716,359	1,149,490,351,138	1,035,368,097,118
Matured term deposits	18,481,303,723	21,175,066,864	18,957,763,075
Other demand deposits	833,521,216	6,039,745,640	24,815,769,140
Drafts and transfers	224,163,469	208,837,724	217,491,778
Cashier's checks	5,876,212,211	4,722,486,424	4,931,054,896
Advance collections from customers for credit cards	7,778,446,957	7,322,184,118	6,481,172,925
Obligations for trust funds	14,819,598	20,118,205	45,646,055
Subtotal	<u>2,418,644,025,762</u>	<u>2,476,060,368,987</u>	<u>2,247,077,297,243</u>
<i>Term obligations:</i>			
Deposits from the public	1,547,965,482,458	1,351,925,567,103	1,363,918,019,685
Other term deposits	83,890,629,431	83,752,218,012	84,022,162,650
Subtotal	<u>1,631,856,111,889</u>	<u>1,435,677,785,115</u>	<u>1,447,940,182,335</u>
<i>Other obligations with the public:</i>			
Obligations for tri-party repurchase agreements	34,558,903,263	36,683,915,704	46,757,673,973
Subtotal	<u>34,558,903,263</u>	<u>36,683,915,704</u>	<u>46,757,673,973</u>
Charges payable for obligations with the public	21,545,978,281	20,485,251,995	20,104,116,397
Total	<u>¢ 4,106,605,019,195</u>	<u>3,968,907,321,801</u>	<u>3,761,879,269,948</u>

As of June 30, 2016, deposits in checking accounts denominated in colones bear interest at a maximum rate of 0.90% per annum (December and June 2015: 1.50% per annum) on balances and at a minimum rate of 0.50% per annum (December and June 2015: 0.50% per annum) on balances greater than or equal to ¢10,000,001. Deposits in checking accounts denominated in U.S. dollars bear interest at a maximum rate of 0.10% per annum (December and June 2015: 0.05% per annum) on balances and at a minimum rate of 0.05% per annum (December and June 2015: 0.03% per annum) on balances greater than or equal to US\$20,001.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Term obligations correspond to term certificates of deposit in colones, U.S. dollars, and euros.

Term certificates bear annual interest at the following rates:

<u>Currency</u>	<u>June 2016</u>	<u>December 2015</u>	<u>June 2015</u>
Colones	1.15% to 7.40%	1.15% to 7.60%	2.15% to 7.95%
U.S. dollars	0.20% to 5.80%	0.10% to 5.00%	0.10% to 3.00%
Euros	0.01% to 0.05%	0.01% to 0.05%	0.01% to 0.05%

The Bank has term certificates of deposit that are restricted to secure certain loan operations.

As of June 30, 2016, those term certificates of deposit amount to ¢31,165,411,085 (December and June 2015: ¢30,173,842,271 and ¢27,967,877,766, respectively). As of that date, the Bank has no inactive deposits with State-owned entities or other banks.

(b) By number of customers

Obligations with the public by number of customers are as follows:

	<u>June 2016</u>	<u>December 2015</u>	<u>June 2015</u>
<i>Obligations with the public:</i>			
Demand	1,884,079	1,846,797	1,805,048
Term	66,235	65,282	66,334

(13) Obligations with BCCR

Obligations with BCCR are as follows:

	<u>June 2016</u>	<u>December 2015</u>	<u>June 2015</u>
Financing for loans using internal funds ¢	-	-	2,613,095
Financing for loans using external funds	125,644,412	125,644,412	168,926,210
Interest payable on obligations	-	-	233,113
¢	<u>125,644,412</u>	<u>125,644,412</u>	<u>171,772,418</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(14) Obligations with entities and subordinated obligations

(a) Obligations with entities

Obligations with entities are as follows:

	June 2016	December 2015	June 2015
<i>Demand:</i>			
Checking accounts with local financial entities	¢ 66,982,045,965	135,826,173,704	166,998,126,470
Savings deposits from local financial entities	44,729,567	40,013,665	62,949,217
FCD fund management	136,907,938,480	133,455,307,294	157,061,767,583
Outstanding checks	7,001,621,186	2,681,849,500	7,917,747,555
Checking accounts and obligations with related parties	26,460,549	25,933,333	71,237,043
Other demand obligations with financial entities	695,298,797	545,192,429	735,973,705
Subtotal	211,658,094,544	272,574,469,925	332,847,760,595
<i>Term:</i>			
Term deposits from local financial entities	7,795,931,339	46,549,514,521	80,804,685,262
Term deposits from foreign financial entities (3)	854,980,766,074	539,553,389,165	531,391,647,806
Funds from liquidity market	6,600,000,000	12,825,000,000	3,800,000,000
Loans from local financial entities	3,742,041,291	3,303,090,254	3,601,707,624
Loans from foreign financial entities (1)(2)	254,971,263,667	328,230,055,419	251,704,726,529
Subtotal	1,128,090,002,371	930,461,049,359	871,302,767,221
Charges payable for other demand and term obligations with financial entities - foreign currency	72,964,888	45,675,752	95,621,532
Charges payable for other demand and term obligations with financial entities - local currency	238,042,726	322,092,919	531,470,043
Charges payable for loans with foreign financial entities (1)	1,773,695,382	1,738,990,390	1,493,298,337
Charges payable for loans with local financial entities	10,601,262	11,536,232	13,598,908
Charges payable for term deposits from foreign financial entities (3)	7,894,652,171	4,931,527,108	4,901,582,306
Subtotal	9,989,956,429	7,049,822,401	7,035,571,126
Total	¢ 1,349,738,053,344	1,210,085,341,685	1,211,186,139,920

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(1) Loans from foreign financial entities are as follows:

Entity	Annual interest rates			Maturity			Balance		
	June 2016	December 2015	June 2015	June 2016	December 2015	June 2015	June 2016	December 2015	June 2015
CABEI	4.55% to 4.64%	1.09% to 6.90%	4.55% to 8.00%	2018 to 2021	2016 to 2021	2015 to 2021	¢ 13,496,860,628	15,589,747,903	18,369,934,078
BARCLAYS COMMERCE, N.A. MIAMI	-	2.03% to 3.15%	6.20% to 6.65%	-	2023 to 2029	2023 to 2029	-	66,839,055,216	66,421,320,877
DEUTSCHE BANK AG NEW YORK	2.03%	2.48%	-	2016	2016	-	11,018,597,968	10,712,628,929	-
CREDIT SUISSE BANK	2.48%	4.54% to 4.55%	-	2016	2016	-	6,044,178,042	8,788,913,600	-
JPMORGAN CHASE BANK NATIONAL	3.76%	3.75%	3.61%	2017	2017	2017	57,724,611,619	56,693,536,210	56,305,572,207
KFW-KREDITANSTALT FUER WIEDERAUF	3.32%	4.63% to 6.20%	-	2016	2016	-	8,152,286,161	8,005,846,918	-
WELLS FARGO BANK	3.32%	3.32% to 6.65%	-	2023	2023	2023	17,282,961,090	7,640,853,871	6,077,976,110
NOMURA	2.02% to 2.21%	-	-	2016 to 2023 to 2029	2016	-	20,651,416,012	28,229,138,633	-
CITIBANK	3.32%	2.32% to 3.15%	3.03%	2016	2016	2016 to 2017	68,049,475,033	-	-
							54,324,572,496	127,469,324,529	106,023,221,594
							¢ 256,744,959,049	329,969,045,809	253,198,024,866

(2) Guarantees backing the above loans are detailed in note 2.

As of June 30, 2016, loans due to foreign financial entities bear interest at rates ranging between 2.02% and 6.65% per annum (December and June 2015: between 1.09% and 6.90% per annum and between 3.03% and 8.00% per annum, respectively).

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- (3) On October 29, 2013, the Bank made two international issues with a face value of US\$1 billion, equivalent to ₡537,344,765,050 in June 2016 (December and June 2015: ₡527,692,459,100 and ₡524,488,250,650, respectively) and the following characteristics:
- a. 5-year issue:
    - ✓ Face value: US\$500 million
    - ✓ Traded amount: 99.331%
    - ✓ Term: 5 years
    - ✓ Interest rate: 4.875% per coupon payment
    - ✓ Maturity: November 1, 2018
  - b. 10-year issue:
    - ✓ Face value: US\$500 million
    - ✓ Traded amount: 99.072%
    - ✓ Term: 10 years
    - ✓ Interest rate: 6.250% per coupon payment
    - ✓ Maturity: November 1, 2023
- (4) On April 25, 2016, the Bank made one international issue with a total face value of US\$500 million, equivalent to ₡269,968,328,000, as follows:
- c. 5-year issue:
    - ✓ Face value: US\$500 million
    - ✓ Traded amount: 99.68%
    - ✓ Term: 5 years
    - ✓ Interest rate: 5.875% per coupon payment
    - ✓ Maturity: April 25, 2021

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The balances of those issues in the accounting records are as follows:

June 2016				
	5-year issue (maturing in 2018)	10-year issue (maturing in 2023)	5-year issue (maturing in 2021)	Total
Issue	¢ 272,566,609,985	312,044,147,683	269,968,328,000	854,579,085,668
Adjustment to fair value of hedged item measured at cost of international issues	(1,877,449,887)	(16,291,054,558)	3,875,638,829	(14,292,865,616)
Amortization of discount in traded amount of issues	910,000,725	523,873,979	27,271,318	1,461,146,022
Subtotal	271,599,160,823	296,276,967,104	273,871,238,147	841,747,366,074
Charges payable	2,200,534,375	2,821,197,920	2,872,919,876	7,894,652,171
Total	¢ 273,799,695,198	299,098,165,024	276,744,158,023	849,642,018,245

December 2015			
	5-year issue	10-year issue	Total
Issue	¢ 265,291,954,796	272,403,786,799	537,695,741,595
Adjustment to fair value of hedged item measured at cost of international issues	(1,308,900,128)	2,038,284,564	729,384,436
Amortization of discount in traded amount of issues	716,915,358	411,347,776	1,128,263,134
Subtotal	264,699,970,026	274,853,419,139	539,553,389,165
Charges payable	2,161,006,250	2,770,520,858	4,931,527,108
Total	¢ 266,860,976,276	277,623,939,997	544,484,916,273

June 2015			
	5-year issue	10-year issue	Total
Issue	¢ 262,586,465,050	261,901,785,600	524,488,250,650
Adjustment to fair value of hedged item measured at cost of international issues	(61,536,557)	6,114,122,864	6,052,586,307
Amortization of discount in traded amount of issues	541,263,680	309,547,169	850,810,849
Subtotal	263,066,192,173	268,325,455,633	531,391,647,806
Charges payable	2,147,884,375	2,753,697,931	4,901,582,306
Total	¢ 265,214,076,548	271,079,153,564	536,293,230,112

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

A valuation was performed as of June 30, 2016 and 2015 in order to calculate the change in the fair value of the primary instrument based on the following inputs:

- ✓ A 5- or 10-year LIBOR rate at the issue of the bond;
- ✓ Discount rates from Bloomberg;
- ✓ Zero rates corresponding to the swap curve as of June 30, 2016 and 2015;
- ✓ Only a portion of the bond cash flows is hedged (corresponding to the 5- and 10-year LIBOR rate in effect at the issue of the bond) rather than the total interest rate;
- ✓ Accrued and earned interest were segregated from the instruments to obtain variations in clean prices;
- ✓ Forward rate to calculate variable interest.

For the year ended June 30, 2016, the Bank booked an increase in the fair value of these issues in the amount of ¢4,633,349,358 under “Other interest income” (December and June 2015: ¢23,860,842,948 and ¢17,434,546,796, respectively) (see note 25). For the year ended June 30, 2016, the Bank booked a decrease in the fair value of these issues in the amount of ¢26,303,655,293 under “Other interest expense” (December and June 2015: ¢26,560,630,673 and ¢15,496,476,053, respectively). The balance of this account amounts to a total of ¢26,633,422,011 (December and June 2015: ¢27,087,497,352 and ¢15,634,910,112, respectively).

Maturities of loans due to entities

Loans due to entities mature as follows:

		June 2016		
		Local	Foreign	Total
Less than 1 year	¢	148,134,495	100,191,049,954	100,339,184,449
Between 1 and 2 years		628,140,625	61,521,508,793	62,149,649,418
Between 3 and 5 years		125,644,412	9,699,964,178	9,825,608,590
More than 5 years		2,976,367,433	85,332,436,124	88,308,803,557
	¢	<u>3,878,286,965</u>	<u>256,744,959,049</u>	<u>260,623,246,134</u>
		December 2015		
		Local	Foreign	Total
Less than 1 year	¢	-	183,472,534,284	183,472,534,284
Between 1 and 2 years		879,757,812	56,693,536,210	57,573,294,022
Between 3 and 5 years		125,644,412	4,794,632,376	4,920,276,788
More than 5 years		2,434,868,674	85,008,342,939	87,443,211,613
	¢	<u>3,440,270,898</u>	<u>329,969,045,809</u>	<u>333,409,316,707</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		June 2015		
		Local	Foreign	Total
Less than 1 year	¢	2,614,184	289,822,143	292,436,327
Between 1 and 2 years		43,513,822	106,818,413,353	106,861,927,175
Between 3 and 5 years		1,131,117,187	62,129,368,810	63,260,485,997
More than 5 years		2,609,833,757	83,960,420,560	86,570,254,317
	¢	<u>3,787,078,950</u>	<u>253,198,024,866</u>	<u>256,985,103,816</u>

As of June 30, 2016 and 2015, loans due to local entities correspond to obligations with Banco Crédito Agrícola de Cartago and BCCR.

(b) Subordinated obligations

The Bank's subordinated obligations are as follows:

Entity	Annual interest rate	Term	Maturity		June 2016	December 2015	June 2015
IDB	6-month LIBOR + 4.50% in the first 5 years and 6-month LIBOR + 5.00% thereafter	10 years	27/05/2024	US\$	100,000,000	100,000,000	100,000,000
	6-month LIBOR + 5.25% in the first 5 years and 6-month LIBOR + 5.75% thereafter	15 years	23/10/2029				
CABEI					30,000,000	30,000,000	30,000,000
Total				US\$	130,000,000	130,000,000	130,000,000
Total in colones				¢	70,417,100,000	69,152,200,000	68,732,300,000
Finance charges payable					1,213,355,582	1,195,185,713	1,129,208,667
				¢	<u>71,630,455,582</u>	<u>70,347,385,713</u>	<u>69,861,508,667</u>

For the year ended June 30, 2016, the Bank presents no instances of noncompliance with payments of principal or interest.

As of June 30, 2016, interest earned by subordinated liabilities amount to US\$2,240,027 equivalent to ¢1,213,355,582 (December and June 2015: US\$2,246,843 equivalent to ¢1,195,185,713 and US\$2,135,781 equivalent to ¢1,129,208,667, respectively).

In accordance with IRNBS No. 1644, the debt of State-owned commercial banks will be secured with guarantees issued by the Government and all its divisions and institutions. Government guarantees provided for in the aforementioned regulations do not apply to subordinated loans subscribed by State-owned commercial banks or rights and obligations derived therefrom. Subordinated financial instruments or loans (and the rights and obligations derived therefrom) may only be subscribed by multilateral development banks or bilateral development organizations.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Pursuant to SUGEF's prudential regulations on full unsubordinated debt prepayment by borrowers, if classified as Tier II capital, loans (including principal and interest) will be categorized as subordinated debt and ranked below other loans, such that borrowers will first fully repay any unsubordinated debt (existing on the effective date, or subsequently subscribed, assumed, or secured) in accordance with banking regulations.

(15) Income tax

Pursuant to the Costa Rican Income Tax Law, the Bank is required to file annual income tax returns for the year ending December 31 of each year.

a) Current tax

The income tax expense is as follows:

	June		Quarter from April 1 to June 30,	
	2016	2015	2016	2015
<i>Current tax:</i>				
Current tax expense	¢ 6,412,169,390	5,478,767,420	2,922,794,720	2,109,374,526
Decrease in income tax for the period	(1,334,895,134)	(1,248,768,679)	(1,334,895,134)	(1,248,768,679)
Decrease in income tax from prior periods	(16,380,331)	-	-	-
Total current tax expense, net	5,060,893,925	4,229,998,741	1,587,899,586	860,605,847
<i>Deferred tax:</i>				
Deferred tax expense	115,798,254	33,288,176	97,615,043	33,283,757
Income from deferred tax	(1,315,702,834)	(75,416,657)	(46,055,197)	(30,781,579)
Total income from deferred tax, net	(1,199,904,580)	(42,128,481)	51,559,846	2,502,178
Total income tax expense, net	¢ 3,860,989,345	4,187,870,260	1,639,459,432	863,108,025

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The difference between the income tax expense and the amount that would result from applying the corresponding tax rate to income before income tax (30%) is reconciled as follows:

	June 2016	June 2015
Profit before tax	¢ 47,003,490,344	29,816,425,865
<i>Plus (less) tax effect of</i>		
Nondeductible expenses	19,485,250,709	23,007,691,498
Deductible expenses	(2,733,842,562)	(2,047,235,432)
Nontaxable income	(46,856,660,455)	(36,701,279,877)
Taxable income	26,009,485	24,393,748
Taxable base	¢ 16,924,247,521	14,099,995,802
Tax rate	30%	30%
Subtotal income tax expense	¢ 5,077,274,256	4,229,998,741
Decrease in income tax from prior periods	(16,380,331)	-
Total current tax expense	5,060,893,925	4,229,998,741
Deferred tax expense	115,798,254	33,288,176
Deferred tax income	(1,315,702,834)	(75,416,657)
Total income tax expense, net	¢ 3,860,989,345	4,187,870,260

b) Decrease in prior period income tax

	June 2016	December 2015	June 2015
Decrease in Pension Fund Manager's prior period income tax	¢ 16,380,331	-	-
	¢ 16,380,331	-	-

c) Deferred tax

Deferred tax assets arise from temporary differences in the following financial statement items:

	June 2016	December 2015	June 2015
Unrealized losses	¢ 596,498,517	503,251,464	908,711,636
Tax base of furniture and equipment	-	1,127	-
Legal provisions	342,192,438	328,771,775	187,424,976
Subtotal	¢ 938,690,955	832,024,366	1,096,136,612

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of June 30, 2016, movement in temporary differences that give rise to deferred tax assets is as follows:

	December 31, 2015	Included in income statement	Included in equity	June 30, 2016
Unrealized losses	¢ 503,251,465	-	93,247,052	596,498,517
Allowance for doubtful accounts	17,552,696	(17,552,696)	-	-
Tax base for furniture and equipment	1,128	(1,128)	-	-
Legal provisions	328,771,775	13,420,663	-	342,192,438
	¢ <u>849,577,064</u>	<u>(4,133,161)</u>	<u>93,247,052</u>	<u>938,690,955</u>

As of December 31, 2015, movement in temporary differences that give rise to deferred tax assets is as follows:

	December 31, 2014	Included in the income statement	Included in equity	December 31, 2015
Unrealized losses	¢ 1,484,152,904	-	(980,901,440)	503,251,464
Legal provisions	183,716,442	145,056,460	-	328,772,902
	¢ <u>1,667,869,346</u>	<u>145,056,460</u>	<u>(980,901,440)</u>	<u>832,024,366</u>

As of June 30, 2015, movement in temporary differences that give rise to deferred tax assets is as follows:

	December 31, 2014	Included in the income statement	Included in equity	June 30, 2015
Unrealized losses	¢ 1,484,152,904	32,507,518	(607,948,786)	908,711,636
Legal provisions	183,716,442	3,708,534	-	187,424,976
	¢ <u>1,667,869,346</u>	<u>36,216,052</u>	<u>(607,948,786)</u>	<u>1,096,136,612</u>

Deferred tax liabilities arise from temporary differences in the following financial statement items:

	June 2016	December 2015	June 2015
Revaluation of assets	¢ 10,339,228,565	11,524,732,937	14,107,278,242
Unrealized gains	2,374,823,727	3,787,978,234	2,660,086,121
	¢ <u>12,714,052,292</u>	<u>15,312,711,171</u>	<u>16,767,364,363</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of June 30, 2016, movement in temporary differences that give rise to deferred tax liabilities is as follows:

	December 31, 2015	Included in the income statement	Included in equity	June 30, 2016
Revaluation of assets	¢ 11,524,732,938	-	(1,185,504,373)	10,339,228,565
Unrealized gains	3,787,978,234	(376,350,441)	(1,036,804,066)	2,374,823,727
	¢ <u>15,312,711,172</u>	<u>(376,350,441)</u>	<u>(2,222,308,439)</u>	<u>12,714,052,292</u>

As of December 31, 2015, movement in temporary differences that give rise to deferred tax liabilities is as follows:

	December 31, 2014	Included in the income statement	Included in equity	December 31, 2015
Revaluation of assets	¢ 13,283,636,328	-	(1,758,903,391)	11,524,732,937
Unrealized gains	883,882,942	4,789,080	2,899,306,212	3,787,978,234
	¢ <u>14,167,519,270</u>	<u>4,789,080</u>	<u>1,140,402,821</u>	<u>15,312,711,171</u>

As of June 30, 2015, movement in temporary differences that give rise to deferred tax liabilities is as follows:

	December 31, 2014	Included in the income statement	Included in equity	June 30, 2015
Revaluation of assets	¢ 13,283,636,328	-	823,641,914	14,107,278,242
Unrealized gains	883,882,942	1,579,740	1,774,623,439	2,660,086,121
	¢ <u>14,167,519,270</u>	<u>1,579,740</u>	<u>2,598,265,353</u>	<u>16,767,364,363</u>

A deferred tax liability represents a taxable temporary difference and a deferred tax asset represents a deductible temporary difference.

Tax returns filed by the Bank for the years ended December 31, 2011, 2012, 2013, 2014, 2015 and the tax return that will be filed for the year ended December 31, 2016 are open to review by Tax Authorities.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(16) Provisions

Provisions are as follows:

		June 2016	December 2015	June 2015
Severance benefits	¢	7,668,184,469	19,351,170,766	15,892,740,958
Litigation		5,082,001,324	4,759,970,548	2,806,575,864
Other		12,942,516,830	11,810,578,826	6,760,343,635
	¢	<u>25,692,702,623</u>	<u>35,921,720,140</u>	<u>25,459,660,457</u>

Movement in provisions is as follows:

		Severance benefits	Litigation	Other	Total
Balance at December 31, 2014	¢	28,436,142,592	2,680,918,923	8,385,833,140	39,502,894,655
Provisioned		3,288,085,241	635,816,210	6,025,438,396	9,949,339,847
Used		(12,458,403,601)	(354,043,568)	(5,188,728,039)	(18,001,175,208)
Decrease in provisions against profit		(3,373,083,274)	(156,115,701)	(2,462,199,862)	(5,991,398,837)
Balance at June 30, 2015		<u>15,892,740,958</u>	<u>2,806,575,864</u>	<u>6,760,343,635</u>	<u>25,459,660,457</u>
Balance at December 31, 2014	¢	28,436,142,592	2,680,918,923	8,385,833,140	39,502,894,655
Provisioned		8,479,879,789	2,775,512,681	14,115,568,588	25,370,961,058
Used		(13,998,174,006)	(540,345,355)	(6,429,604,978)	(20,968,124,339)
Decrease in provisions against profit		(3,566,677,609)	(156,115,701)	(4,261,217,924)	(7,984,011,234)
Balance at December 31, 2015	¢	<u>19,351,170,766</u>	<u>4,759,970,548</u>	<u>11,810,578,826</u>	<u>35,921,720,140</u>
Provisioned		1,491,470,152	885,635,174	8,255,657,624	10,632,762,950
Used		(12,906,585,192)	(120,900,694)	(6,476,477,457)	(19,503,963,343)
Decrease in provisions against profit		(267,871,257)	(442,703,704)	(647,242,163)	(1,357,817,124)
Balance at June 30, 2016	¢	<u>7,668,184,469</u>	<u>5,082,001,324</u>	<u>12,942,516,830</u>	<u>25,692,702,623</u>

The provision for litigation is as follows:

		June 2016	December 2015	June 2015
Ordinary suits	¢	4,660,696,896	3,922,523,187	2,100,348,713
Ordinary suits against subsidiaries		421,304,428	421,304,428	290,084,218
Phishing		-	416,142,933	416,142,933
	¢	<u>5,082,001,324</u>	<u>4,759,970,548</u>	<u>2,806,575,864</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of June 30, 2016 and 2015 and December 31, 2015, the Bank is a defendant in litigation and management considers that an outflow of economic benefits will be required to settle the corresponding obligations. The Bank has estimated future outflows and made the following provisions:

- Ordinary suits filed against the Bank have been estimated at ¢64,391,185,142 (December and June 2015: ¢62,174,427,307 and ¢66,830,138, respectively) and US\$325,556,118 (December and June 2015: US\$324,983,715 and US\$345,005,608, respectively). Management of the Bank has provisioned ¢5,082,001,324 (December and June 2015: ¢3,922,523,187 and ¢2,100,348,713, respectively) for ordinary and labor suits and judicial litigation.
- For criminal proceedings in which the Bank is the civil defendant, the total potential liability has been estimated at ¢1,000,000 (December and June 2015: ¢398,430,775 and ¢428,116,375, respectively). The amount provisioned by the Bank in connection therewith is included in the provision for ordinary suits.
- Labor suits, due to their nature, are difficult to estimate. However, they have been estimated at ¢1,345,284,761 (December and June 2015: ¢1,486,333,665 and ¢5,560,118,270, respectively). The amount provisioned by the Bank in connection therewith is included in the provision for ordinary suits.
- The accounting records of the Bank's subsidiaries include provisions for ordinary suits filed against the subsidiaries for a total of ¢421,304,428 (December and June 2015: ¢421,304,428 and ¢290,084,218, respectively).
  - The provision recognized by the Pension Fund Manager amounts to ¢288,110,324 (December and June 2015: ¢288,110,324 and ¢265,110,324, respectively).
  - The provision booked by the Investment Fund Manager amounts to ¢133,194,104 (December and June 2015: ¢133,194,104 and 24,973,894, respectively).
  - The Brokerage Firm and Insurance Brokerage Firm have not booked provisions for pending litigation in 2016 or 2015.
- As of June 30, 2016, the Bank faces 514 administrative actions related to Internet fraud (phishing). No provision is booked therefor (December and June 2015: 514 administrative actions for a total of ¢416,142,933, respectively, which amount was fully provisioned).

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Additionally, the Bank is a defendant in three litigation proceedings related to the payment of the SEDI. Those proceedings correspond to file No. 15-001477-0166-LA as notified by the Labor Court of the Second Judicial Circuit of San José, at 11:25 hours on November 18, 2015 received on December 7, 2015; file No. 15-000780-0166-LA as notified by the Labor Court of the Second Judicial Circuit of San José at 13:54 hours on March 29, 2016, received on April 15, 2016, and file No. 5-008666-1027-CA as notified by the Administrative Court, at 10:45 hours on November 20, 2015, received on December 15, 2015.

As of June 30, 2016, the Bank did not book a provision for litigation since the legal counsel has not determined a reliable estimate for the proceedings, which have a low probability of an unfavorable outcome.

(17) Other sundry accounts payable

Other sundry accounts payable are as follows:

	June 2016	December 2015	June 2015
Professional fees	¢ 6,752,142	1,604,376	3,928,250
Creditors - goods and services	3,075,251,110	3,111,297,196	2,729,046,355
Current tax	5,077,274,256	8,993,566,061	4,229,998,741
Employer contributions (1)	6,881,074,499	8,375,642,825	6,586,190,593
Court-ordered withholdings	3,203,114,540	3,105,351,390	3,125,437,396
Tax withholdings	2,050,639,951	2,721,503,637	2,119,420,514
Employee withholdings	563,537,462	570,210,272	580,319,467
Other third-party withholdings	212,303,128	16,570,398	227,606,900
Compensation	4,531,725,131	6,753,067,878	4,054,155,945
Dividends	-	-	1,151,259
Statutory allocations	9,587,717,221	12,097,287,024	5,791,405,738
Clearing house operations	8,411,564,879	513,780,850	-
Accrued vacation	7,663,130,284	6,575,901,665	7,339,161,328
Accrued statutory Christmas bonus	5,142,016,839	1,446,425,804	5,082,210,836
Contributions to superintendencies	-	7,323,169	6,237,895
Foreclosed assets	199,714,975	117,483,268	323,873,821
Various creditors - Local currency (2)	7,564,002,700	6,713,672,996	8,285,163,856
Various creditors - Foreign currency	4,180,373,778	3,690,218,750	7,361,351,939
Bonus payable on commissions - voluntary pension fund	-	-	7,407,506
	¢ <u>68,350,192,895</u>	<u>64,810,907,559</u>	<u>57,854,068,339</u>

- (1) The “Employer contributions” item mainly includes employer contributions due to CCSS, Banco Popular y de Desarrollo Comunal, National Learning Institute (INA), and Mixed Institute of Social Welfare (IMAS).

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- (2) As of June 30, 2016, the “Various creditors - Local currency” item includes ¢2,148 million (December and June 2015: ¢2,436 million and ¢2,230 million, respectively), for the operations of the Bank’s Electronic Means of Payment Division (Visa). The remaining amount corresponds to normal operations of other divisions.

(18) Other liabilities

Other liabilities are as follows:

	June 2016	December 2015	June 2015
<i>Deferred income:</i>			
Deferred interest income	¢ 17,882,105,382	14,699,323,266	11,572,758,626
Deferred fees and commissions for trust management	14,693,481	16,916,474	14,743,263
Other	76,545	1,718,317	76,424
Subtotal	17,896,875,408	14,717,958,057	11,587,578,313
Allowance for stand-by credit losses (1)	1,746,923,668	1,545,597,997	1,516,038,202
<i>Operations pending application:</i>			
Operations pending settlement	11,050,695,573	20,341,189,654	14,295,357,295
Other	19,983,688,923	5,806,697,159	14,301,295,006
Subtotal	31,034,384,496	26,147,886,813	28,596,652,301
Total	¢ 50,678,183,572	42,411,442,867	41,700,268,816

- (1) Movement in the allowance for stand-by credit losses is as follows:

	June 2016	December 2015	June 2015
Opening balance	¢ 1,545,597,997	1,319,693,076	1,319,693,076
Allowance expense charged to profit or loss (note 30)	175,330,017	228,413,037	206,902,017
Adjustment for foreign exchange differences	25,995,654	(2,508,116)	(10,556,891)
Closing balance	¢ 1,746,923,668	1,545,597,997	1,516,038,202

(19) Equity

(a) Share capital

The Bank’s share capital is as follows:

	June 2016	December 2015	June 2015
Capital under Law No. 1644	¢ 90,511,345,645	90,511,345,645	90,511,345,645
Bank capitalization bonds	27,618,957,837	27,618,957,837	27,618,957,837
	¢ 118,130,303,482	118,130,303,482	118,130,303,482

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

On December 23, 2008, the Executive Branch of the Costa Rican Government authorized a capital contribution funded under Law No. 8703 "Amendment to Law No. 8627 on the Ordinary and Extraordinary Budget of the Republic for Tax Year 2008." Such law grants funds to capitalize three State-owned banks, including the Bank, in order to stimulate productive sectors, particularly small and medium-sized enterprises. For such purposes, the Bank received four securities for a total of US\$50,000,000 (equivalent to ¢27,619,000,002) and denominated in DU maturing in 2013, 2017, 2018, and 2019 (No. 4183, No. 4184, No. 4185, and No. 4190 for DU10,541,265 each, at a reference exchange rate of ¢655.02 to DU1.00). As of June 30, 2016 and based on the exchange rate as of that date, the balance of those investments is ¢27,069,336,275 (December and June 2015: ¢27,030,439,007 and ¢27,231,250,107, respectively) (see note 5-a).

(b) Revaluation surplus

Revaluation surplus corresponds to the increase in fair value of property.

As of June 30, 2016, revaluation surplus amounts ¢60,806,752,437 (December and June 2015: ¢63,572,929,305 and ¢68,571,839,671, respectively).

(c) Adjustment for valuation of available-for-sale investments and restricted financial instruments

This item corresponds to variations in the fair value of available-for-sale investments and restricted financial instruments.

As of June 30, 2016, the adjustment for the valuation of available-for-sale investments and restricted financial instruments results in an unrealized gain of ¢922,894,464 (December and June 2015: unrealized gain of ¢2,867,809,620 and unrealized loss of ¢1,462,285,440, respectively).

(d) Adjustment for valuation of investments in other companies

This item corresponds to the valuation of the Bank's investments in other financial entities (companies or subsidiaries) over which the Bank exercises control or significant influence.

As of June 30, 2016, the adjustment for valuation of investments in foreign associates by the equity method amounts to ¢7,806,810,669 (December and June 2015: ¢7,084,626,651 and ¢6,916,288,371, respectively). These investments correspond to the Bank's 49% ownership interest in BICSA and Subsidiary.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(e) Equity reserves

Equity reserves are as follows:

	June 2016	December 2015	June 2015
Legal reserve	¢ 261,729,379,504	237,909,153,277	237,921,037,924
Statutory reserve for foreclosed assets	131,816,017	110,915,646	96,641,135
Excess of statutory reserve for loans	4,921,739,390	4,465,681,706	4,660,619,604
Statutory dynamic provision	7,528,638,120	5,307,802,621	5,133,099,091
	<u>¢ 274,311,573,031</u>	<u>247,784,553,250</u>	<u>247,811,397,754</u>

(f) Equity of the Development Financing Fund

As of June 30, 2016, the allocation of the Bank's earnings for the creation of the Development Financing Fund (FOFIDE) amounts to ¢21,749,819,320 (December and June 2015: ¢18,144,863,035 and ¢18,146,075,240, respectively).

(20) Commitments and contingencies

The Bank has off-consolidated balance sheet commitments and contingencies that arise in the normal course of business and involve elements of credit and liquidity risk, and the notional amounts of foreign exchange derivatives, as follows:

	June 2016	June 2015
Performance bonds	¢ 32,555,560,682	36,217,916,133
Bid bonds	1,957,515,261	2,042,252,917
Other guarantees	1,521,984,628	2,148,714,873
Letters of credit	20,766,018,249	10,443,746,252
Credits pending disbursement	289,589,532	326,913,200
Subtotal	<u>57,090,668,352</u>	<u>51,179,543,375</u>
Pre-approved lines of credit	238,956,815,982	196,826,885,455
Other contingencies not related to credits	636,737,855	532,022,775
Other contingencies - Pending litigation and lawsuits (note 43)	239,147,907,791	256,023,399,494
Subtotal	<u>478,741,461,628</u>	<u>453,382,307,724</u>
FX futures - Other than hedges (note 5-b)	-	6,064,303,700
Total	<u>¢ 535,832,129,980</u>	<u>510,626,154,799</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Letters of credit, guarantees, and sureties granted expose the Bank to credit loss in the event of noncompliance by the customer. The Bank's policies and procedures for approving credit commitments and financial guarantees are the same as those for granting loans booked. Guarantees and sureties granted have fixed maturity dates and, in most cases, no funds are disbursed on maturity. Therefore, they do not represent a significant exposure to liquidity risk. Most letters of credit are used and those used are generally available on demand, issued, and confirmed by correspondent banks, and payable immediately.

These commitments and contingent liabilities expose the Bank to credit risk since fees and commissions and losses are recognized in the consolidated balance sheet until the commitments are fulfilled or expire.

The Bank has off-consolidated balance sheet financial instruments (stand-by and without prior deposit) that arise in the normal course of business and involve elements of credit and liquidity risk. Those financial instruments include letters of credit, guarantees, and sureties without prior deposit.

Off-balance sheet financial instruments with risk (no prior deposit) and without risk (prior deposit) are as follows:

	June 2016	June 2015
<i>Contingencies without prior deposit:</i>		
Letters of credit	¢ 16,795,635,638	9,187,128,546
Guarantees and sureties granted	33,620,227,422	37,731,473,221
Subtotal	50,415,863,060	46,918,601,767
<i>Contingencies with prior deposit:</i>		
Letters of credit	3,970,382,611	1,256,617,706
Guarantees and sureties granted	2,414,833,149	2,677,410,702
Subtotal	6,385,215,760	3,934,028,408
Credits pending disbursement	289,589,532	326,913,200
Total	¢ 57,090,668,352	51,179,543,375

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(21) Trust assets

The Bank provides trust services whereby it manages assets at the direction of the customer.

The Bank receives a fee for providing those services. Those assets, liabilities, and equity are not recognized in the Bank's consolidated financial statements. The Bank is not exposed to any credit risk relating to such placements, as it does not guarantee these assets.

The types of trusts managed by the Bank are as follows:

- Management and investment trusts
- Management trusts with a testamentary clause
- Guaranty trusts
- Housing trusts
- Management and investment public trusts

(Continued)



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of June 30, 2016, trust capital is invested in the following assets:

Nature of trust	Cash or property management	Securitization	Portfolio management	Guaranty	Testamentary	Custody of stock with testamentary clause	Custody and management of stock	Cash guaranty and management	Pre-sales management	Guaranty and custody of stock	Securitization
<i>Trust assets</i>											
Cash and due from banks	¢ 99,125,789	627,672	300,000	839	4,333,360	-	8,573	-	-	-	104,396,233
Investment securities and term deposits	182,182,717,623	2,746,284,207	1,318,278,707	694,396,783,856	1,196,380,001	-	1,954,439	-	-	-	881,842,398,833
Loan portfolio	2,575,338,078	-	1,218,509,223	-	-	-	-	-	-	-	3,793,847,301
Accounts and accrued interest receivable	7,970,214,487	11,490,882,332	3,268,287,411	23,724,057	2,318	-	-	29,132,545	-	650,004	22,782,893,154
Foreclosed assets	23,333,003	-	666,979	-	-	-	-	-	-	-	23,999,982
Investments in other companies	867,866,262	-	-	-	2,320,000	2,096,000	-	-	-	866,672,000	1,738,954,262
Property and equipment	1,391,508,724	50,946,578,261	-	70,337,559,616	-	-	-	1,544,041,161	-	-	124,219,687,762
Other assets	1,840,591,191	386,964,836	7,602,128	1,668,250,798	1,442,945	-	-	-	5,591,595	-	3,910,443,493
Total	¢ 196,950,695,157	65,571,337,308	5,813,644,448	766,426,319,166	1,204,478,624	2,096,000	1,963,012	1,573,173,706	5,591,595	867,322,004	1,038,416,621,020

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of June 30, 2015, trust capital is invested in the following assets:

Nature of trust	Cash or property management	Securitization	Portfolio management	Guaranty	Testamentary	Custody of stock with testamentary clause	Custody and management of stock	Cash guaranty and management	Pre-sales management	Guaranty and custody of stock	Securitization
<i>Trust assets</i>											
Cash and due from banks	¢ 83,541,845	1,213,664	300,000	37,281,472	1,588,081	7,825	8,411	-	951,678	-	124,892,976
Investment securities and term deposits	173,492,736,764	12,354,948,594	2,419,854,399	496,280,539,908	1,350,947,086	-	1,834,296	-	439,816,893	-	686,340,677,940
Loan portfolio	2,292,865,228	-	2,729,495,440	-	-	-	-	-	-	-	5,022,360,668
Accounts and accrued interest receivable	7,760,303,579	11,685,898,261	2,119,864,297	22,841,373	-	-	-	24,852,179	-	-	21,613,759,689
Foreclosed assets	5,447,246	-	4,668,852	-	-	-	-	-	-	-	10,116,098
Investments in other companies	1,011,477,384	-	-	-	2,332,000	2,406,000	-	-	-	845,936,000	1,862,151,384
Property and equipment	991,117,928	66,776,016,659	-	67,936,385,506	-	-	-	1,544,041,161	-	-	137,247,561,254
Other assets	363,611,489	785,826,352	22,428,776	2,445,016,878	868,902	-	-	-	1,863,863	-	3,619,616,260
Total	¢ 186,001,101,463	91,603,903,530	7,296,611,764	566,722,065,137	1,355,736,069	2,413,825	1,842,707	1,568,893,340	442,632,434	845,936,000	855,841,136,269

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The types of trusts managed by the Bank are as follows:

a) Housing mortgage

These trusts are exclusively dedicated to managing housing loan portfolios.

b) Cash or property management

These trusts are dedicated to managing cash or property for any of several purposes, including investing the cash or property placed in the trust and making payments.

c) Securitization

These trusts are used to obtain funds from liquid assets by issuing asset-backed securities.

d) Portfolio management

These trusts are dedicated to managing portfolios of loans granted for housing, agriculture, or reforestation projects or for any other activity aimed at promoting the country's social and economic development.

e) Special accounts

These accounts are "special" funds (not trusts) managed by BN-Fiduciaria that are created for different purposes in order to help facilitate the control, management, location, and future settlement of certain accounting items used to settle trust contingencies, the maturity of mortgage investment certificates (CIH), the management of fixed assets, etc.

f) Guaranty

These trusts hold trust property that is to be transferred as a guaranty for loan operations at the direction of the trustor.

g) Testamentary

The purpose of these trusts is to meet the listed needs of individuals identified by the trustors upon their death. Testamentary trusts include life insurance policies, wills, and inheritances.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

h) Custody of stock with testamentary clause

These trusts hold in custody capital stock, plus an added value based on the testamentary trust agreement. The purpose of these trusts is to manage the assets represented by the aforementioned stock on behalf of third parties.

(22) Other debit memoranda accounts

Other debit memoranda accounts are as follows:

	June 2016	June 2015
Pension Fund Manager's own investments in custody – Face value of principal	¢ 6,039,300,000	6,560,956,500
Pension Fund Manager's own investments in custody – Coupons	1,443,155,850	2,392,285,149
Pension Fund Manager's own investments in custody – Number of shares	23	23
Guarantees received in the Bank's custody	5,503,144,761,531	6,326,632,284,705
Unused, authorized lines of credit	733,518,608,126	677,862,419,111
Write-offs	188,054,868,326	177,829,864,244
Interest income on non-accrual loans	10,314,784,570	7,623,662,297
Supporting documentation received in the Bank's custody	1,169	908
Nondeductible expenses	37,865,472,682	26,453,870,224
Nontaxable income	65,404,708,081	47,100,847,967
Other memoranda accounts	903,467,574,066	587,025,957,013
Subtotal	7,449,253,234,424	7,859,482,148,141
Third-party debit memoranda accounts (a)	2,213,710,526,552	1,958,341,459,582
Own debit memoranda accounts for custodial activities	395,533,692,432	432,955,526,068
Third-party debit memoranda accounts for custodial activities	9,014,696,378,848	8,814,448,045,200
Subtotal	11,623,940,597,832	11,205,745,030,850
Total	¢ 19,073,193,832,256	19,065,227,178,991

- a) According to SUGEVAL Decision SGV-R-1706 of June 6, 2007, the Bank is registered with the National Registry of Securities and Brokers as a class C custodian, in conformity with current regulations.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Other memoranda accounts by entity are as follows:

	June 2016	June 2015
Bank	¢ 16,754,729,933,994	16,050,973,268,600
Brokerage Firm (note 23)	861,196,907,934	1,675,013,642,052
Investment Fund Manager (note 24)	377,054,056,044	390,065,501,373
Pension Fund Manager (note 25)	1,080,212,934,284	949,174,766,966
	¢ 19,073,193,832,256	19,065,227,178,991

Banking mandates are as follows:

	June 2016	June 2015
Management of banking mandates	¢ 764,057,192,995	620,846,736,493
Assets in custody on behalf of third parties	392,901	392,901
“TUDES” securities received in custody from affiliates under article 75 of Law No. 7531	1,078,224,766	1,421,388,468
Pension funds (note 25)	1,071,599,470,832	938,737,072,011
Investment funds (note 24)	376,975,245,058	390,005,811,365
Portfolio management (note 23-a)	-	7,330,058,344
	¢ 2,213,710,526,552	1,958,341,459,582

(23) Current and term brokerage operations and security portfolio management

Memoranda accounts are summarized as follows:

	June 2016	June 2015
<i>Own</i>		
Trading securities in custody (note 23-a)	¢ 7,224,347,401	5,501,085,356
Trading securities pledged as guarantees	34,944,515,608	50,834,182,900
Confirmed cash agreements pending settlement	135	606,000,001
Repurchase agreements pending settlement (note 23-b)	34,759,324,069	47,113,166,080
Other own memoranda accounts	5,431,507,090	5,299,734,173
	82,359,694,303	109,354,168,510
<i>Third-party</i>		
Trading securities in custody (note 23-a)	521,197,495,382	1,392,033,687,579
Trading securities received as guarantees	67,535,966,923	29,315,809,350
Trading securities pledged as guarantees	71,456,104,872	59,899,579,671
Trading securities pending receipt	203,126,250	1,893,719,446
Trading securities pending settlement	393,367,983	1,982,692,390
Repurchase agreements pending settlement (note 23-b)	116,489,305,654	72,153,003,824
Cash and accounts receivable	1,561,846,567	1,050,922,938
Portfolio management	-	7,330,058,344
	778,837,213,631	1,565,659,473,542
	¢ 861,196,907,934	1,675,013,642,052

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

In accordance with the Regulations on Repurchase Agreements and the Regulations on Term Operations, all operations are backed by guarantees in order to cover any related contingencies.

Securities that back repurchase agreements are held in the custody of CEVAL or in foreign entities with which CEVAL has custody agreements.

a) Securities held in custody are as follows:

Location	Type of custody		June 2016	June 2015
<i>Own custodial activities</i>				
Local	At face value - available	¢	6,887,277,710	4,559,002,117
Local	At purchase value of shares - available		15,000,002	21,561,315
Local	At purchase value of investments - available		62,445,849	65,231,625
Local	At face value - pledged		257,000,000	165,290,800
Local	Amount of physical coupons - pledged		2,623,840	2,999,499
Local	At face value - pending delivery		-	687,000,000
			<u>7,224,347,401</u>	<u>5,501,085,356</u>
<i>Custodial activities on behalf of third parties</i>				
Local	At face value - available		489,084,049,646	1,021,722,836,603
Local	Amount of physical coupons - available		-	3,585,352
Local	At purchase value of shares - available		18,208,930,083	46,994,372,952
Local	At purchase value of investments - available		12,003,382,314	320,640,179,587
Local	At face value - pledged		1,643,739,527	2,442,424,469
Local	At purchase value of shares - pledged		59,432,323	63,884,629
Local	At purchase value of investments - pledged		15,960,209	16,119,945
Local	At face value - pending delivery		182,001,280	89,306,501
Local	At purchase value of shares - pending delivery		-	17,250,000
Local	At purchase value of shares - pending delivery		-	43,727,541
			<u>521,197,495,382</u>	<u>1,392,033,687,579</u>
		¢	<u>528,421,842,783</u>	<u>1,397,534,772,935</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- b) Term buyer and seller positions in tri-party repurchase agreements involving the Brokerage Firm are as follows:

June 2016								
	Term buyer				Term seller			
	Colones	U.S. dollars	U.S. dollars expressed in colones	Total	Colones	U.S. dollars	U.S. dollars expressed in colones	Total
Own	23,882,140,242	20,080,831	10,877,183,827	34,759,324,069	-	-	-	-
Third parties	30,062,637,173	52,045,170	28,191,307,439	58,253,944,612	31,612,273,078	49,150,014	26,623,087,964	58,235,361,042
Total	<u>53,944,777,415</u>	<u>72,126,001</u>	<u>39,068,491,266</u>	<u>93,013,268,681</u>	<u>31,612,273,078</u>	<u>49,150,014</u>	<u>26,623,087,964</u>	<u>58,235,361,042</u>

  

June 2015								
	Term buyer				Term seller			
	Colones	U.S. dollars	U.S. dollars expressed in colones	Total	Colones	U.S. dollars	U.S. dollars expressed in colones	Total
Own	42,743,300,333	8,265,147	4,369,865,747	47,113,166,080	-	-	-	-
Third parties	27,510,385,759	38,732,489	20,478,254,169	47,988,639,928	18,750,797,889	10,239,197	5,413,566,007	24,164,363,896
Total	<u>70,253,686,092</u>	<u>46,997,636</u>	<u>24,848,119,916</u>	<u>95,101,806,008</u>	<u>18,750,797,889</u>	<u>10,239,197</u>	<u>5,413,566,007</u>	<u>24,164,363,896</u>

As of June 30, 2016, term buyer and seller positions in tri-party repurchase agreements in U.S. dollars were valued at the exchange rate of ¢541.67 to US\$1.00 (2015: ¢528.71 to US\$1.00).

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- c) The maturity structure of term buyer and seller positions in tri-party repurchase agreements involving the Brokerage Firm is as follows:

June 2016				
	Term buyer		Term seller	
	Colones	U.S. dollars	Colones	U.S. dollars
<i>Own</i>				
1 to 30 days	¢ 483,847,144	6,435,965	-	-
31 to 60 days	17,192,007,718	11,449,136	-	-
61 to 90 days	5,812,529,232	1,399,605	-	-
More than 91 days	393,756,148	796,125	-	-
	<u>23,882,140,242</u>	<u>20,080,831</u>	<u>-</u>	<u>-</u>
<i>Third parties</i>				
1 to 30 days	2,386,419,694	2,211,764	1,588,884,587	980,983
31 to 60 days	20,972,115,201	23,596,521	23,791,301,098	20,071,152
61 to 90 days	6,704,102,278	16,491,373	6,232,087,393	18,266,461
More than 91 days	-	9,745,512	-	9,831,418
	<u>30,062,637,173</u>	<u>52,045,170</u>	<u>31,612,273,078</u>	<u>49,150,014</u>
¢	<u>53,944,777,415</u>	<u>72,126,001</u>	<u>31,612,273,078</u>	<u>49,150,014</u>
June 2015				
	Term buyer		Term seller	
	Colones	U.S. dollars	Colones	U.S. dollars
<i>Own</i>				
1 to 30 days	¢ 518,795,335	5,625,005	-	-
31 to 60 days	30,905,866,623	2,640,142	-	-
61 to 90 days	11,318,638,375	-	-	-
	<u>42,743,300,333</u>	<u>8,265,147</u>	<u>-</u>	<u>-</u>
<i>Third parties</i>				
1 to 30 days	2,190,096,349	2,537,942	2,471,106,353	90,074
31 to 60 days	17,234,788,834	9,685,196	11,821,826,275	3,104,851
61 to 90 days	7,258,441,716	26,509,351	4,457,865,261	7,044,272
More than 91 days	827,058,860	-	-	-
	<u>27,510,385,759</u>	<u>38,732,489</u>	<u>18,750,797,889</u>	<u>10,239,197</u>
¢	<u>70,253,686,092</u>	<u>46,997,636</u>	<u>18,750,797,889</u>	<u>10,239,197</u>

In tri-party repurchase agreements and term operations, the Brokerage Firm is contingently liable for the short balance that arises when a security is sold for an amount that is less than the amount payable to the respective term seller. In accordance with the Regulations on Repurchase Agreements and the Regulations on Term Operations, all operations are backed by guarantees in order to cover any related contingencies.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Securities that back tri-party repurchase agreements are held in the custody of CEVAL or in foreign entities with which CEVAL has custody agreements.

As of June 30, 2016 and 2015, the Brokerage Firm has no margin calls that require disclosure.

(24) Investment fund management agreements

The Investment Fund Manager's memoranda accounts are as follows:

Fund	June 2016		
	Net value	Shares	Value per share
<i>Funds in colones:</i>			
Super Fondo - colones	¢ 98,491,786,077	26,289,066,239	3.74
Fon Depósito - colones	65,222,084,787	47,037,921,749	1.38
Creci Fondo - colones	3,980,403,177	858,027,877	4.63
Redi Fondo - colones	19,084,005,751	5,780,745,851	3.30
Diner Fondo - colones	44,310,634,418	17,455,184,899	2.53
Subtotal - colones	¢ 231,088,914,210	97,420,946,615	
<i>Funds in U.S. dollars:</i>			
Super Fondo - U.S. dollars	US\$ 21,145,155	14,721,656	1.43
Creci Fondo - U.S. dollars	2,644,691	1,580,789	1.67
Redi Fondo - U.S. dollars	11,679,782	8,259,943	1.41
Diner Fondo - U.S. dollars	77,832,286	61,697,570	1.26
Fon Depósito - U.S. dollars	53,606,228	50,211,791	1.06
Super Fondo Plus - U.S. dollars	102,063,144	98,796,864	1.03
Fondo Hipotecario - U.S. dollars (mortgage fund)	355,668	353,040	400.97
Subtotal - U.S. dollars	US\$ 269,326,954	235,621,653	
Subtotal - U.S. dollars, expressed in colones	¢ 145,886,330,848	127,629,180,781	
Total assets of managed funds (note 22-a)	376,975,245,058	225,050,127,396	
<i>Guarantees:</i>			
Performance bonds	¢ 76,835,682		
Outstanding checks	1,975,304		
Total memoranda accounts (note 22-a)	¢ 377,054,056,044		

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Fund	June 2015		
	Net value	Shares	Value per share
<i>Funds in colones:</i>			
Super Fondo - colones	¢ 71,273,744,120	19,595,300,175	3.63
Fon Depósito - colones	85,564,735,639	63,180,104,310	1.35
Creci Fondo - colones	1,788,371,038	413,787,887	4.32
Redi Fondo - colones	5,956,235,815	1,927,717,959	3.08
Diner Fondo - colones	53,566,860,210	21,664,716,252	2.47
Subtotal - colones	¢ 218,149,946,822	106,781,626,583	
<i>Funds in U.S. dollars:</i>			
Super Fondo - U.S. dollars	US\$ 23,313,562	16,459,833	1.41
Creci Fondo - U.S. dollars	1,844,124	1,133,365	1.62
Redi Fondo - U.S. dollars	8,337,850	6,062,921	1.37
Diner Fondo - U.S. dollars	138,787,869	110,923,988	1.25
Fon Depósito - U.S. dollars	71,207,894	67,231,642	1.05
Super Fondo Plus - U.S. dollars	77,392,758	75,942,593	1.01
Fondo Hipotecario - U.S. dollars (mortgage fund)	509,091	505,805	573.94
Subtotal - U.S. dollars	US\$ 321,393,148	278,260,147	
Subtotal - U.S. dollars, expressed in colones	¢ 169,923,771,261	147,118,922,320	
<i>Funds in euros:</i>			
Diner Fondo - euros	€ 3,261,359	3,056,847	1.06
Subtotal - euros	€ 3,261,359	3,056,847	
Subtotal - euros, expressed in colones	¢ 1,932,093,282	1,810,937,300	
Total assets of managed funds (note 22-a)	¢ 390,005,811,365	255,711,486,203	
<i>Guarantees:</i>			
Performance bonds	¢ 57,714,704		
Outstanding checks	1,975,304		
Total memoranda accounts (note 22-a)	¢ 390,065,501,373		

The main activity of the Investment Fund Manager is managing funds and securities in investment funds.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

An investment fund is capital formed by contributions from individuals or legal entities for the purpose of investing such capital in securities or in other assets authorized by SUGEVAL, which is managed by a company dedicated to such activities on behalf of fund participants, who assume all related risks. Contributions are documented in share certificates. The objective of investment funds is to maximize goodwill on the invested amount by managing securities or other assets for which the respective return depends on changes in the fair value of the assets.

The Investment Fund Manager has registered the following funds with SUGEVAL:

- BN SuperFondo - Colones No Diversificado (non-diversified - colones): This is an open-end (floating number of outstanding shares) money market fund with a variable income portfolio. Returns on the investment portfolio are not distributed until the customer requests partial or full redemption of shares.
- BN CreciFondo - Colones No Diversificado (non-diversified - colones): This is an open-end (floating number of outstanding shares) growth fund with a variable income portfolio. Returns on the investment portfolio are not distributed until the customer requests partial or full redemption of shares.
- BN RediFondo Mensual - Colones No Diversificado (monthly, non-diversified - colones): This is an open-end (floating number of outstanding shares) income fund with a fixed income portfolio. Returns on the investment portfolio are not distributed until the customer requests partial or full redemption of shares.
- BN DinerFondo - Colones No Diversificado (non-diversified - colones): This is an open-end (floating number of outstanding shares) money market fund with a fixed income portfolio. Returns on the investment portfolio are not distributed until the customer requests partial or full redemption of shares.
- BN FonDepósito - Colones No Diversificado (non-diversified - colones): This is an open-end (floating number of outstanding shares) money market fund with a fixed income portfolio. Returns on the investment portfolio are not distributed until the customer requests partial or full redemption of shares.
- BN SuperFondo - Dólares Diversificado (diversified - U.S. dollars): This is an open-end (floating number of outstanding shares) money market fund with a variable income portfolio. Returns on the investment portfolio are not distributed until the customer requests partial or full redemption of shares.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- BN CreciFondo - Dólares No Diversificado (non-diversified - U.S. dollars): This is an open-end (floating number of outstanding shares) growth fund with a variable income portfolio. Returns on the investment portfolio are not distributed until the customer requests partial or full redemption of shares.
- BN RediFondo Trimestral - Dólares No Diversificado (quarterly, non-diversified - U.S. dollars): This is an open-end (floating number of outstanding shares) income fund with a fixed income portfolio. Returns on the investment portfolio are not distributed until the customer requests partial or full redemption of shares.
- BN DinerFondo - Dólares No Diversificado (non-diversified - U.S. dollars): This is an open-end (floating number of outstanding shares) money market fund with a fixed income portfolio. Returns on the investment portfolio are not distributed until the customer requests partial or full redemption of shares.
- BN FonDepósito - Dólares No Diversificado (non-diversified - U.S. dollars): This is an open-end (floating number of outstanding shares) money market fund with a fixed income portfolio. Returns on the investment portfolio are not distributed until the customer requests partial or full redemption of shares.
- BN Fondo de Inversión de Titularización Hipotecaria (FHIPO) - Dólares (mortgage securitization - U.S. dollars): This is mainly a closed-end mortgage investment fund, i.e. investor shares are listed and traded on a stock exchange.
- BN SuperFondo Dólares Plus No Diversificado - Dólares (non-diversified - U.S. dollars): This fund is aimed at conservative investors looking for short-term investments. It allows obtaining reimbursement of the shares one business day and up to a maximum of three business days from the date of receipt of the withdrawal request. Since it is a short-term fund, it allows the investor to manage resources to address its present or future liquidity needs. The goal of the fund is to offer an investment mechanism that seeks to obtain higher returns than other investment alternatives under similar liquidity, term, and risk parameters, taking advantage of the short-term part of the yield curve in the composition of its portfolio.
- BN Inmobiliario CR-2 - Dólares (real estate development – U.S. dollars): This is a long-term, closed-end fund, in U.S. dollars, which has the goal of investing in real estate for its exploitation through leasing and sale. It is aimed at investors interested in diversifying their investments portfolio by including real estate property located in national territory and mainly occupied by public institutions. As of June 30, 2016 and 2015, this fund does not have operations.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- Fondo de Inversión de Desarrollo Inmobiliario BN-1 - Dólares (real estate development - U.S. dollars): This fund invests in the construction of buildings to be occupied by entities of the Banco Nacional Conglomerate (BNCR Conglomerate). Once the works are completed, the buildings will be sold to an entity of the BNCR Conglomerate or a real estate fund managed by BN Fondos, and investors thus realize their potential gains. If the buildings are sold to a real estate fund, such fund will lease the buildings to an entity of the BNCR Conglomerate. As of June 30, 2016 and 2015, this fund does not have operations.
- Fondo de Inversión de Desarrollo Inmobiliario de Infraestructura Pública - 1 - Dólares (real estate development - U.S. dollars): This fund will invest in the construction of buildings to be occupied by the Maximum Deconcentration Organizations and other entities of BCCR. Once the works are completed, the buildings will be leased with a purchase option to BCCR or sold to BCCR or to a real estate fund managed by BN Fondos, and investors thus realize their potential gains. If the buildings are sold to a real estate fund, such fund will lease the buildings to BCCR. As of June 30, 2016 and 2015, this fund does not have operations.

As of December 31, 2014, the Investment Fund Manager registered with SUGEVAL the following funds, which closed operations during 2014:

- BN Diner Fondo - Euros No Diversificado (non-diversified - euros): This is an open-end (floating number of outstanding shares) money market fund with a fixed income portfolio. Returns on the investment portfolio are not distributed until the customer requests partial or full redemption of shares.
- BN Inmobiliario CR-1 - Dólares (real estate development - U.S. dollars): This is a long-term, closed-end fund, in U.S. dollars, which has the goal of investing in real estate for its exploitation through leasing and sale. It is aimed at investors interested in diversifying their investments portfolio by including real estate property located in national territory and mainly occupied by public institutions. This fund is aimed at investors who wish to participate in a real estate portfolio and are thus willing to assume the risks inherent to the real estate market in return for the generation of periodic returns and the possibility of materializing capital gains generated from the sale of the fund's real estate property. As of December 31, 2014, this fund did not have operations.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- Fondo de Inversión BN Industria y Servicios no Diversificado - Dólares (industry and services non-diversified - U.S. dollars): This is a long-term, closed-end fund, in U.S. dollars, which has the goal of investing in real estate for its exploitation through leasing and sale. It is aimed at investors interested in diversifying their investments portfolio by including real estate property located in national territory, destined for the industrial sector or services sector inside or outside a free zone regime. As of December 31, 2014, this fund did not have operations.
- Fondo de Inversión BN Vivienda -1- Dólares (housing- U.S. dollars): This fund has the goal of investing in housing units for lease to individuals or legal entities through a purchase option agreement. It is aimed at investors interested in diversifying their investments portfolio by including real estate property located in national territory. This fund is created as a mechanism to be able to offer lessors the “lease with a purchase option”. During the term of the “lease” and until the purchase option is exercised, the lessor must create periodic savings to accumulate a premium that it will later apply to the purchase of the property. As of December 31, 2014, this fund did not have operations.
- Fondo de Inversión de Titularización Hipotecaria (FHIPO) - Colones (mortgage securitization - colones): This fund is aimed at investors who wish to participate in a mortgage fund. The investment is made by purchasing shares in a closed-end fund, which grants ownership rights on the fund’s equity. In this fund, the investor does not obtain fixed returns, but participates in the profit or loss generated by such equity. On a monthly basis, all of the profit generated by the fund is distributed. As of December 31, 2014, this fund did not have operations.
- Fondo de Inversión de Titularización Hipotecaria (FHIPO) - Dólares - 2 (mortgage securitization - U.S. dollars): This fund is aimed at investors who wish to participate in a mortgage fund. The investment is made by purchasing shares in a closed-end fund, which grants ownership rights on the fund’s equity. In this fund, the investor does not obtain fixed returns, but participates in the profit or loss generated by such equity. On a monthly basis, all of the profit generated by the fund is distributed. As of December 31, 2014, this fund did not have operations.

Investment fund management is regulated by SUGEVAL and the Securities Market Regulatory Law.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(25) Pension fund management agreements

The Pension Fund Manager's memoranda accounts are as follows:

	June 2016	June 2015
Mandatory Pension Fund (ROP)	¢ 890,768,873,508	748,222,018,299
Mandatory Retirement Savings Account (FCL)	73,011,028,670	101,470,162,915
Pension Fund in Colones A (FPC A)	55,245,746,284	43,893,709,995
Pension Fund in Colones B (FPC B)	12,454,875,470	8,848,542,192
Notary Fund (NOT)	23,289,556,093	20,574,179,928
Pension Fund in U.S. dollars A (FPD A) (a)	10,476,704,737	9,314,987,264
Pension Fund in U.S. dollars B (FPD B) (b)	6,352,686,070	6,413,471,418
Total assets of managed funds (note 22-a)	1,071,599,470,832	938,737,072,011
Securities and assets in own custody	7,482,455,873	8,953,241,674
Bid and performance bonds – colones	13,128,636	13,333,664
Bid and performance bonds – U.S. dollars (c)	39,654,177	49,731,149
Securities in DU	1,078,224,766	1,421,388,468
Total memoranda accounts (note 22)	¢ 1,080,212,934,284	949,174,766,966

- (a) As of June 30, 2016, this fund amounts to US\$19,341,490 and was valued at the exchange rate of ¢541.67 to US\$1.00 (2015: US\$17,618,330 valued at the exchange rate of ¢528.71 to US\$1.00).
- (b) As of June 30, 2016, this fund amounts to US\$11,727,964 and was valued at the exchange rate of ¢541.67 to US\$1.00 (2015: US\$12,130,414 valued at the exchange rate of ¢528.71 to US\$1.00).
- (c) As of June 30, 2016, this fund amounts to US\$73,207 and was valued at the exchange rate of ¢541.67 to US\$1.00 (2015: US\$94,061 valued at the exchange rate of ¢528.71 to US\$1.00).

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(26) Interest income on cash and due from banks and investments in financial instruments

Interest income on cash and due from banks and investments in financial instruments is as follows:

	June		Quarter from April 1 to June 30	
	2016	2015	2016	2015
<i>Cash and due from banks:</i>				
Deposits in BCCR	¢ 2,531,535	20,584,241	1,247,268	10,747,603
Checking accounts and demand deposits in local entities	46,748,583	31,906,380	20,591,646	15,878,483
Checking accounts and demand deposits in foreign entities	362,685,183	148,532,806	266,644,902	85,743,229
	<u>411,965,301</u>	<u>201,023,427</u>	<u>288,483,816</u>	<u>112,369,315</u>
<i>Financial instruments:</i>				
Investments in available-for-sale securities	18,071,305,452	20,157,541,582	9,089,194,630	10,539,869,577
Investments in committed securities and deposits	4,860,517,550	4,185,914,196	2,241,265,755	2,096,613,755
Subtotal	<u>22,931,823,002</u>	<u>24,343,455,778</u>	<u>11,330,460,385</u>	<u>12,636,483,332</u>
Total	<u>¢ 23,343,788,303</u>	<u>24,544,479,205</u>	<u>11,618,944,201</u>	<u>12,748,852,647</u>

(Continued)



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(27) Interest income on loan portfolio

Interest income on the loan portfolio is as follows:

	June		Quarter from April 1 to June 30	
	2016	2015	2016	2015
<i>Current loans:</i>				
Checking account overdrafts	¢ 36,083,183	49,146,337	10,576,563	24,772,371
Factoring	626,964	-	626,964	-
Loans granted with funds from BCCR	596,432,852	735,154,459	296,257,836	355,915,762
Loans granted with other funds	138,398,399,704	128,225,304,614	69,772,989,707	65,173,694,807
Credit cards	10,051,081,138	9,803,553,431	5,139,101,121	4,865,645,887
Issued letters of credit	30,516	653,445	29,973	225,156
Other loans	2,243,755	2,243,519	1,127,925	1,087,663
Subtotal	149,084,898,112	138,816,055,805	75,220,710,089	70,421,341,646
<i>Past due loans and loans in legal collections:</i>				
Checking account overdrafts	8,853,468	645,569	8,426,175	277,038
Loans granted with funds from BCCR	93,269,625	182,228,734	42,567,089	107,281,530
Loans granted with other funds	20,806,250,122	21,691,959,916	10,449,097,214	10,423,274,941
Credit cards	1,126,821,446	1,338,235,628	550,412,005	652,399,897
Other	-	546,725	-	90,848
Subtotal	22,035,194,661	23,213,616,572	11,050,502,483	11,183,324,254
Total	¢ 171,120,092,773	162,029,672,377	86,271,212,572	81,604,665,900

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(28) Other interest income

Other interest income is as follows:

		June		Quarter from April 1 to June 30	
		2016	2015	2016	2015
Fees and commissions on letters of credit	¢	38,507,758	21,251,747	22,429,272	13,156,997
Fees and commissions on guarantees granted		231,268,962	371,392,688	157,818,065	219,356,425
Fees and commissions on lines of credit		57,708,312	85,029,758	26,658,370	34,792,254
Gain on fair value hedge item measured at cost (note 14-a)		4,633,349,357	17,434,546,796	3,168,159,550	8,790,175,722
Other sundry finance income		2,331,916,070	1,530,020,631	909,135,133	713,982,317
	¢	<u>7,292,750,459</u>	<u>19,442,241,620</u>	<u>4,284,200,390</u>	<u>9,771,463,715</u>

(29) Expenses for obligations with the public

Expenses for obligations with the public are as follows:

		June		Quarter from April 1 to June 30	
		2016	2015	2016	2015
Demand deposits	¢	14,258,342,425	17,235,299,515	6,584,173,730	8,313,129,132
Term deposits		38,151,794,680	37,502,892,816	19,323,942,251	18,612,755,719
Tri-party repurchase agreements and securities lending		780,388,668	1,170,669,105	407,716,526	659,209,671
Other term obligations with the public		-	680,913	-	-
	¢	<u>53,190,525,773</u>	<u>55,909,542,349</u>	<u>26,315,832,507</u>	<u>27,585,094,522</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(30) Expenses for allowances for impairment of assets

Expenses for allowances for impairment of assets are as follows:

	June		Quarter from April 1 to June 30	
	2016	2015	2016	2015
Allowance for loan impairment (note 6)	¢ 14,831,698,158	21,741,496,993	8,303,582,281	13,714,379,354
General and counter-cyclical allowance for loan impairment (note 6)	2,428,603,290	760,925,027	1,356,100,023	751,864,026
Allowance for impairment of other accounts receivable (note 7)	676,672,856	804,130,743	306,952,468	294,245,367
Allowance for stand-by credit losses (note 18)	130,000,001	149,000,005	25,000,000	33,000,000
General and counter-cyclical allowance for stand-by credit (note 18)	45,330,016	57,902,012	10,010,010	32,090,005
Allowance for impairment of derivative instruments (note 5-a)	20,527,701	39,039,133	-	5,473,588
	<u>¢ 18,132,832,022</u>	<u>23,552,493,913</u>	<u>10,001,644,782</u>	<u>14,831,052,340</u>

(31) Income from recovery of assets and decreases in allowances and provisions

Income from recovery of assets and decreases in allowances and provisions is as follows:

	June		Quarter from April 1 to June 30	
	2016	2015	2016	2015
Recovery of loan write-offs	¢ 4,273,739,187	6,454,875,306	2,465,591,298	2,932,037,272
Recovery of receivable write-offs	234,418	625,420	136,998	201,441
Decrease in allowance for impairment of other accounts receivable (note 7)	448,377,380	94,308,551	289,453,272	58,147,871
Decrease in allowance for impairment of investments in financial instruments (note 5-a)	97,495,429	39,319,254	4,242,805	39,319,254
	<u>¢ 4,819,846,414</u>	<u>6,589,128,531</u>	<u>2,759,424,373</u>	<u>3,029,705,838</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(32) Operating income from service fees and commissions

Operating income from service fees and commissions is as follows:

		June		Quarter from	
				April 1 to June 30	
		2016	2015	2016	2015
Drafts and transfers	¢	3,798,268,724	3,536,447,770	1,910,980,762	1,739,081,950
Certified checks		2,268,155	2,472,161	1,093,165	1,280,089
Trusts		369,354,003	413,651,031	186,256,063	207,308,846
Custodial services		731,046,916	611,973,388	368,877,049	281,057,851
Banking mandates		77,757	74,589	37,536	37,168
Collections		17,958,399	19,631,661	8,961,541	8,565,727
Credit cards		22,191,565,574	20,636,460,990	10,929,628,211	9,837,465,469
Management services		1,980,003,441	1,710,609,317	1,054,336,030	829,034,603
Management of investment funds		2,756,661,779	2,113,743,999	1,360,152,738	1,108,118,806
Management of pension funds		4,272,796,285	3,893,830,921	2,036,359,691	2,021,331,151
Insurance underwriting		1,957,741,255	1,673,998,732	1,114,564,628	792,060,602
Brokerage operations (third parties in local market)		1,498,160,730	1,328,624,304	742,101,759	755,390,875
Brokerage operations (third parties in other markets)		89,032,447	44,709,032	31,406,946	13,060,343
Individual portfolio management		593,077	635,487	307,883	317,591
Other		19,573,094,025	18,117,094,686	9,634,559,844	8,746,030,131
	¢	<u>59,238,622,567</u>	<u>54,103,958,068</u>	<u>29,379,623,846</u>	<u>26,340,141,202</u>

(33) Other operating income

Other operating income is as follows:

		June		Quarter from April 1 to June 30	
		2016	2015	2016	2015
Leasing of assets	¢	20,980,097	23,566,863	12,430,097	8,550,000
Recovery of expenses		1,390,837,603	2,809,847,051	1,134,038,087	2,750,849,266
Net valuation of other assets (note 42-c)		118,464,635	235,860,246	64,800,627	98,574,516
Other income from accounts receivable		667,479	1,451,388	330,155	390,717
Sundry operating income		13,908,796,691	2,163,677,779	13,057,568,688	1,208,697,548
Decrease in provisions		1,357,817,123	5,991,398,838	1,150,079,558	2,559,696,364
	¢	<u>16,797,563,628</u>	<u>11,225,802,165</u>	<u>15,419,247,212</u>	<u>6,626,758,411</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(34) Expenses for foreclosed assets

Expenses for foreclosed assets are as follows:

	June		Quarter from April 1 to June 30	
	2016	2015	2016	2015
Loss on sale of property and other assets acquired in lieu of payment	168,973,753	192,045,000	103,959,370	103,419,925
Loss on sale of assets awarded in judicial auctions	2,624,620,279	3,471,720,630	2,202,155,182	860,127,558
Management of assets awarded in judicial auctions	4,254,084,450	4,278,660,695	1,954,428,008	2,335,751,908
Loss on impairment of foreclosed assets (note 8)	37,148,730	428,450,464	19,392,552	47,919,125
Loss on allowance for impairment and judicial auctions of foreclosed assets (note 8)	3,941,783,741	2,509,806,536	1,512,278,314	(3,037,672,149)
Other expenses for foreclosed assets	13,581,967	54,714,460	7,706,007	33,400,951
	<u>11,040,192,920</u>	<u>10,935,397,785</u>	<u>5,799,919,433</u>	<u>342,947,318</u>

(35) Expenses for provisions

Expenses for provisions are as follows:

	June		Quarter from April 1 to June 30	
	2016	2015	2016	2015
Severance benefits	1,491,470,152	3,288,085,241	828,052,100	1,846,923,650
Pending litigation	885,635,174	635,816,210	751,502,483	568,415,932
Other provisions	8,255,657,624	6,025,438,396	4,742,073,812	2,340,978,044
	<u>10,632,762,950</u>	<u>9,949,339,847</u>	<u>6,321,628,395</u>	<u>4,756,317,626</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(36) Other operating expenses

Other operating expenses are as follows:

	June		Quarter from April 1 to June 30	
	2016	2015	2016	2015
Penalties for noncompliance with regulatory provisions ¢	19,561,755	101,406,589	19,481,612	57,065,175
Net valuation of other liabilities (note 42-c)	321,195,340	156,761,915	312,854,315	119,438,621
Income tax on foreign remittances	1,115,317,794	3,763,688	996,963,130	3,763,688
Income tax (8%) on interest on investments in financial instruments	1,460,826,976	1,694,489,600	703,178,933	892,665,701
Property tax	121,584,442	102,540,990	40,992,010	63,211,371
Licenses	250,722,388	415,585,816	85,713,144	238,295,905
Other local taxes	1,098,845	170,342,958	(9,538,249)	94,340,581
Transfers to FINADE	1,560,118,323	1,635,781,832	827,372,953	862,026,397
Sundry operating expenses	23,561,601,121	22,797,424,870	11,860,592,433	11,022,529,951
¢	<u>28,412,026,984</u>	<u>27,078,098,258</u>	<u>14,837,610,281</u>	<u>13,353,337,390</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(37) Personnel expenses

Personnel expenses are as follows:

	June		Quarter from April 1 to June 30	
	2016	2015	2016	2015
Salaries and bonuses, permanent staff	¢ 33,261,484,410	28,402,129,639	16,765,768,009	15,603,088,549
Salaries and bonuses, contractors	859,430,555	1,027,182,090	428,335,281	525,606,096
Compensation for directors and statutory examiners	78,234,209	92,460,819	36,588,678	45,594,081
Overtime	497,137,445	496,331,448	265,866,994	242,312,835
Travel expenses	328,487,702	359,560,669	183,198,201	194,559,283
Statutory Christmas bonus	3,723,240,810	3,677,247,422	1,877,738,198	1,809,012,367
Vacation	4,442,234,654	4,484,490,871	2,198,303,106	2,643,012,169
Other compensation	1,909,696,684	2,398,417,273	971,504,094	750,660,878
Severance benefits	2,218,040,967	2,160,773,053	1,117,273,098	1,057,674,687
Employer social security taxes	13,963,530,456	14,016,334,011	6,924,712,459	6,884,257,081
Refreshments	194,831,632	220,035,193	85,904,935	120,202,065
Uniforms	9,465,610	220,709,750	8,808,004	206,748,091
Training	224,052,675	439,251,266	155,626,532	261,587,078
Employee insurance	136,805,886	129,246,921	69,710,046	66,037,576
Back-to-school bonus	3,169,560,395	3,354,400,629	1,594,632,250	1,722,243,086
Mandatory retirement savings account	1,340,409,037	1,359,292,733	659,798,217	665,776,506
Other personnel expenses	301,920,239	249,919,411	160,700,129	125,091,809
	¢ <u>66,658,563,366</u>	<u>63,087,783,198</u>	<u>33,504,468,231</u>	<u>32,923,464,237</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(38) Other administrative expenses

Other administrative expenses are as follows:

		June		Quarter from April 1 to June 30	
		2016	2015	2016	2015
Outsourcing	¢	6,126,109,879	5,808,700,986	2,841,992,612	3,014,743,682
Transportation and communications		2,044,885,228	2,085,037,225	1,008,325,927	1,084,320,020
Infrastructure		17,794,650,277	16,368,280,403	9,135,810,559	9,061,517,568
Overhead		5,783,730,299	4,983,480,879	3,374,923,124	2,719,148,325
	¢	<u>31,749,375,683</u>	<u>29,245,499,493</u>	<u>16,361,052,222</u>	<u>15,879,729,595</u>

(39) Statutory allocations

Statutory allocations are as follows:

		June		Quarter from April 1 to June 30	
		2016	2015	2016	2015
CONAPE 5%	¢	2,087,329,231	1,410,360,775	1,176,248,052	549,516,612
CNE (3%)		1,308,644,946	900,189,474	733,971,060	369,494,124
INFOCOOP (10%)		3,576,589,269	2,122,094,326	2,180,779,948	842,929,445
RIVM (5%)		598,641,974	460,460,338	305,603,648	279,495,073
CNE (3%)		2,016,511,789	1,211,070,427	1,169,769,316	464,626,737
	¢	<u>9,587,717,209</u>	<u>6,104,175,340</u>	<u>5,566,372,024</u>	<u>2,506,061,991</u>

	h	June		Quarter from April 1 to June 30	
		2016	2015	2016	2015
CONAPE 5%	¢	-	100,043,827	-	100,043,827
CNE (3%)		-	77,752,300	-	77,752,300
INFOCOOP (10%)		-	57,431,174	-	57,431,174
RIVM (5%)		-	77,542,314	-	77,542,314
	¢	<u>-</u>	<u>312,769,615</u>	<u>-</u>	<u>312,769,615</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(40) Fair value of financial instruments

Carrying amounts and fair values of all financial assets and liabilities that are not carried at fair value are compared in the following table:

		June 2016	
		Carrying amount	Fair value
<i>Financial assets:</i>			
Cash and due from banks	¢	948,841,271,892	948,841,271,892
Investments in financial instruments		1,190,349,336,774	1,190,349,336,774
Loan portfolio		3,902,332,178,122	3,670,453,427,579
	¢	<u>6,041,522,786,788</u>	<u>5,809,644,036,245</u>
<i>Financial liabilities:</i>			
Demand deposits from the public and financial entities	¢	2,637,954,456,353	2,637,954,456,353
Other demand obligations with the public		13,893,642,234	13,893,642,234
Term deposits from the public and financial entities		2,831,702,214,254	2,818,395,643,542
Obligations for tri-party repurchase agreements		34,558,903,263	34,558,903,263
	¢	<u>5,518,109,216,104</u>	<u>5,504,802,645,392</u>
		June 2015	
		Carrying amount	Fair value
<i>Financial assets:</i>			
Cash and due from banks	¢	842,338,872,816	842,338,872,816
Investments in financial instruments		1,163,639,429,393	1,163,639,429,393
Loan portfolio		3,466,855,069,779	3,209,285,076,395
	¢	<u>5,472,833,371,988</u>	<u>5,215,263,378,604</u>
<i>Financial liabilities:</i>			
Demand deposits from the public and financial entities	¢	2,588,353,849,558	2,588,353,849,558
Other demand obligations with the public		11,675,365,655	11,675,365,655
Term deposits from the public and financial entities		2,389,275,997,528	2,396,135,662,846
Obligations for tri-party repurchase agreements		46,757,673,973	46,757,673,973
	¢	<u>5,036,062,886,714</u>	<u>5,042,922,552,032</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

*Fair value estimates*

The following assumptions were used by management to estimate the fair value of each class of financial instruments, both on and off the balance sheet:

- (a) Cash and due from banks, accrued interest receivable, other receivables, demand deposits from the public, accrued interest payable, and other liabilities

The carrying amounts approximate fair value because of the short-term nature of these instruments.

- (b) Investments in financial instruments

The fair values of available-for-sale investments in financial instruments are based on quoted market prices, except for Auction Rate Securities (ARS), for which the fair values are determined using the valuation method developed by the Bank.

- (c) Loan portfolio

The fair value of loans is calculated by discounting future cash flows expected for principal and interest. Loan payments are assumed to be made on the contractually agreed payment dates. Future expected cash flows for loans are discounted at the interest rates offered for similar loans to new borrowers as of June 30, 2016 and 2015.

- (d) Term deposits

The fair value of term deposits is calculated by discounting cash flows at the interest rates offered for term deposits with similar maturities as of June 30, 2016 and 2015.

- (e) Obligations with entities

The fair value of obligations with entities is calculated by discounting cash flows at the interest rates in effect as of June 30, 2016 and 2015.

Fair value estimates are made at a specific date, based on relevant market information and information concerning the financial instruments. These estimates do not reflect any premium or discount that could result from offering for sale a particular financial instrument at a given point in time. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Estimates could vary significantly if changes are made to those assumptions.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The following table analyzes financial instruments measured at fair value by the level in the fair value hierarchy:

		June 2016			
		Level 1	Level 2	Level 3	Total
Available-for- sale	¢	820,539,132,746	222,352,772,732	5,573,994,756	1,048,465,900,234
Held-to-maturity	¢	-	27,069,336,275	-	27,069,336,275

  

		June 2015			
		Level 1	Level 2	Level 3	Total
Available-for- sale	¢	894,425,519,510	225,965,401,680	5,641,682,132	1,126,032,603,322
Held-to-maturity	¢	-	27,231,250,107	-	27,231,250,107

The table above sets out information about financial instruments measured at fair value using a valuation method. The fair value hierarchy is as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial instruments categorized as Level 3 in the fair value hierarchy are measured as follows:

		June 30	
		2016	2015
Opening balance	¢	5,594,435,115	5,606,070,339
Valuation		(105,005,519)	123,464
Exchange rate differences		84,565,160	(39,977,074)
Closing balance	¢	5,573,994,756	5,566,216,729

(41) Segments

The Bank has defined its business segments based on the administrative and reporting structure, and on the structure of banking, stock brokerage, investment and pension fund management, and insurance brokerage services it provides. Undefined segments correspond mainly to the Bank and to leasing activities.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Profit or loss, assets, and liabilities of each segment are as follows:

		June 30, 2016							
		Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations	Consolidated
<b>ASSETS</b>									
Cash and due from banks	¢	945,170,654,072	2,750,932,899	116,099,171	1,090,126,074	1,680,824,187	950,808,636,403	1,967,364,511	948,841,271,892
Investments in financial instruments		1,117,245,385,196	60,195,223,591	6,363,868,886	6,575,859,101	-	1,190,380,336,774	31,000,000	1,190,349,336,774
Loan portfolio, net		3,828,637,332,474	-	-	-	-	3,828,637,332,474	-	3,828,637,332,474
Accounts and fees and commissions receivable, net		1,051,646,403	127,875,820	112,360,855	821,264,099	439,414,512	2,552,561,689	44,946,094	2,507,615,595
Fees and commissions		84,462,617	27,397,906	14,305,978	676,880,450	352,640,738	1,155,687,689	12,040,477	1,143,647,212
Transactions with related parties		105,333,928	8,462,515	3,771,824	4,539,671	12,682	122,120,620	32,905,617	89,215,003
Deferred tax and income tax		3,108,916,878	87,311,995	94,186,539	134,058,943	86,761,092	3,511,235,447	-	3,511,235,447
Other accounts receivable		3,577,225,081	4,703,404	96,514	64,385,123	-	3,646,410,122	-	3,646,410,122
Accrued interest receivable		2,197,676	-	-	-	-	2,197,676	-	2,197,676
Allowance for impairment of accounts and fees and commissions		(5,826,489,777)	-	-	(58,600,088)	-	(5,885,089,865)	-	(5,885,089,865)
Foreclosed assets, net		15,988,921,330	-	-	-	-	15,988,921,330	-	15,988,921,330
Investments in other companies		90,966,715,040	30,000,000	-	-	-	90,996,715,040	34,660,459,073	56,336,255,967
Property and equipment, net		174,421,762,517	393,805,063	221,892,379	489,729,732	43,355,837	175,570,545,528	-	175,570,545,528
Other assets		35,890,385,372	194,796,943	589,334,071	316,887,228	253,242,515	37,244,646,129	-	37,244,646,129
<b>TOTAL ASSETS</b>	¢	<b>6,209,372,802,404</b>	<b>63,692,634,316</b>	<b>7,403,555,362</b>	<b>9,293,866,234</b>	<b>2,416,837,051</b>	<b>6,292,179,695,367</b>	<b>36,703,769,678</b>	<b>6,255,475,925,689</b>
<b>LIABILITIES AND EQUITY</b>									
<b>LIABILITIES</b>									
Obligations with the public	¢	125,644,412	-	-	-	-	125,644,412	-	125,644,412
Obligations with BCCR		1,345,101,686,466	6,603,731,389	-	-	-	1,351,705,417,855	1,967,364,511	1,349,738,053,344
Obligations with entities		213,625,459,055	-	-	-	-	213,625,459,055	1,967,364,511	211,658,094,544
Demand		1,121,490,002,371	6,600,000,000	-	-	-	1,128,090,002,371	-	1,128,090,002,371
Finance charges payable		9,986,225,040	3,731,389	-	-	-	9,989,956,429	-	9,989,956,429
Accounts payable and provisions		101,491,802,639	3,132,579,292	1,118,704,625	1,994,877,136	625,466,184	108,363,429,876	44,946,094	108,318,483,782
Other liabilities		50,678,183,572	-	-	-	-	50,678,183,572	-	50,678,183,572
Subordinated obligations		71,630,455,582	-	-	-	-	71,630,455,582	-	71,630,455,582
<b>TOTAL LIABILITIES</b>	¢	<b>5,640,992,716,602</b>	<b>44,407,385,944</b>	<b>1,118,704,625</b>	<b>1,994,877,136</b>	<b>625,466,184</b>	<b>5,689,139,150,491</b>	<b>2,043,310,604</b>	<b>5,687,095,839,887</b>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

June 30, 2016								
	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations	Consolidated
EQUITY								
Share capital	¢ 118,130,303,482	6,600,000,000	3,000,000,000	4,120,774,787	369,700,000	132,220,778,269	14,090,474,787	118,130,303,482
Non-capitalized capital contributions	-	-	-	874,150,222	-	874,150,222	874,150,222	-
Equity adjustments	69,606,136,357	592,547,467	84,200,655	123,751,276	-	70,406,635,755	800,499,398	69,606,136,357
Capital reserves	274,311,573,031	1,140,842,882	371,903,664	300,000,000	73,940,000	276,198,259,577	1,886,686,546	274,311,573,031
Prior period retained earnings	54,409,461,980	9,601,612,699	1,917,344,763	1,281,670,839	826,027,663	68,036,117,944	13,626,655,964	54,409,461,980
Income for the year	30,172,791,632	1,350,245,324	911,401,655	598,641,974	521,703,204	33,554,783,789	3,381,992,157	30,172,791,632
FOFIDE	21,749,819,320	-	-	-	-	21,749,819,320	-	21,749,819,320
TOTAL EQUITY	¢ 568,380,085,802	19,285,248,372	6,284,850,737	7,298,989,098	1,791,370,867	603,040,544,876	34,660,459,074	568,380,085,802
TOTAL LIABILITIES AND EQUITY	¢ 6,209,372,802,404	63,692,634,316	7,403,555,362	9,293,866,234	2,416,837,051	6,292,179,695,367	36,703,769,678	6,255,475,925,689
Debit memoranda accounts	¢ 535,698,935,876	133,194,104	-	-	-	535,832,129,980	-	535,832,129,980
Trust assets	¢ 1,037,505,996,886	910,624,134	-	-	-	1,038,416,621,020	-	1,038,416,621,020
Trust liabilities	¢ 43,828,407,843	437,941	-	-	-	43,828,845,784	-	43,828,845,784
Trust equity	¢ 993,677,589,043	910,186,193	-	-	-	994,587,775,236	-	994,587,775,236
Other debit memoranda accounts	¢ 16,754,729,933,994	861,196,907,934	377,054,056,045	1,080,212,934,283	-	19,073,193,832,256	-	19,073,193,832,256

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the year ended June 30, 2016								
	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations	Consolidated
Interest income	222,753,248,195	2,435,995,658	239,677,194	377,481,583	15,268,996	225,821,671,626	34,238,553	225,787,433,073
Interest expense	107,431,683,155	909,815,173	51,298,160	6,168,269	471,013	108,399,435,770	34,238,553	108,365,197,217
Allowance expense	4,819,846,414	-	-	-	-	4,819,846,414	-	4,819,846,414
Income from recovery of assets	18,132,832,022	-	-	-	-	18,132,832,022	-	18,132,832,022
INTEREST INCOME	102,008,579,432	1,526,180,485	188,379,034	371,313,314	14,797,983	104,109,250,248	-	104,109,250,248
Other operating income	85,476,656,060	2,080,716,646	2,766,186,060	4,470,095,368	1,773,529,500	96,567,183,634	3,924,563,807	92,642,619,827
Other operating expenses	53,880,134,269	305,830,766	351,480,626	604,893,905	70,213,096	55,212,552,662	490,119,822	54,722,432,840
GROSS OPERATING INCOME	133,605,101,223	3,301,066,365	2,603,084,468	4,236,514,777	1,718,114,387	145,463,881,220	3,434,443,985	142,029,437,235
Personnel expenses	61,533,952,534	1,429,711,724	986,612,832	1,859,511,818	848,774,458	66,658,563,366	-	66,658,563,366
Other administrative expenses	30,324,564,067	438,687,762	311,212,141	630,934,630	96,428,911	31,801,827,511	52,451,828	31,749,375,683
Total administrative expenses	91,858,516,601	1,868,399,486	1,297,824,973	2,490,446,448	945,203,369	98,460,390,877	52,451,828	98,407,939,049
NET OPERATING INCOME BEFORE STATUTORY ALLOCATIONS AND TAXES	41,746,584,622	1,432,666,879	1,305,259,495	1,746,068,329	772,911,018	47,003,490,343	3,381,992,157	43,621,498,186
Income tax	5,274,699,718	75,607,514	383,744,027	544,240,837	249,675,548	6,527,967,644	-	6,527,967,644
Decrease in income tax	2,532,274,791	36,165,966	29,043,971	47,838,506	21,655,065	2,666,978,299	-	2,666,978,299
Statutory allocations	8,831,368,063	42,980,007	39,157,784	651,024,024	23,187,331	9,587,717,209	-	9,587,717,209
Decrease in statutory allocations	-	-	-	-	-	-	-	-
INCOME FOR THE YEAR	30,172,791,632	1,350,245,324	911,401,655	598,641,974	521,703,204	33,554,783,789	3,381,992,157	30,172,791,632

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

June 30, 2015								
	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations	Consolidated
<b>ASSETS</b>								
Cash and due from banks	¢ 839,406,264,116	2,857,582,280	169,905,693	141,798,341	1,543,502,234	844,119,052,664	1,780,179,848	842,338,872,816
Investments in financial instruments	1,086,299,832,826	66,105,402,714	4,264,334,521	7,013,159,332	-	1,163,682,729,393	43,300,000	1,163,639,429,393
Loan portfolio, net	3,404,183,666,226	-	-	-	-	3,404,183,666,226	-	3,404,183,666,226
Accounts and fees and commissions receivable, net	1,301,144,768	49,671,021	71,080,537	879,865,636	267,627,259	2,569,389,221	47,643,876	2,521,745,345
Fees and commissions	127,998,677	26,759,884	13,957,810	670,084,945	203,167,225	1,041,968,541	13,663,475	1,028,305,066
Brokerage services	-	464,805	-	-	-	464,805	-	464,805
Transactions with related parties	100,100,654	762,578	6,548,908	4,128,293	35,000	111,575,433	33,980,401	77,595,032
Deferred tax and income tax	3,388,811,442	7,626,726	50,456,650	144,149,121	64,425,034	3,655,468,973	-	3,655,468,973
Other	3,444,037,659	14,057,028	117,169	61,503,277	-	3,519,715,133	-	3,519,715,133
Accrued interest	1,748,540	-	-	-	-	1,748,540	-	1,748,540
Allowance for impairment of accounts and fees and commissions	(5,761,552,204)	-	-	-	-	(5,761,552,204)	-	(5,761,552,204)
Foreclosed assets, net	18,032,182,111	-	-	-	-	18,032,182,111	-	18,032,182,111
Investments in other companies	81,487,529,397	30,000,000	-	-	-	81,517,529,397	29,406,404,714	52,111,124,683
Property and equipment, net	179,373,159,901	489,252,362	202,082,930	326,369,675	21,803,205	180,412,668,073	-	180,412,668,073
Other assets	46,272,990,193	298,266,528	426,536,807	190,148,580	240,631,962	47,428,574,070	-	47,428,574,070
<b>TOTAL ASSETS</b>	¢ 5,656,356,769,538	69,830,174,905	5,133,940,488	8,551,341,564	2,073,564,660	5,741,945,791,155	31,277,528,438	5,710,668,262,717
<b>LIABILITIES AND EQUITY</b>								
<b>LIABILITIES</b>								
Obligations with the public	¢ 3,714,976,493,274	46,946,076,674	-	-	-	3,761,922,569,948	43,299,999	3,761,879,269,949
Obligations with BCCR	171,772,418	-	-	-	-	171,772,418	-	171,772,418
Obligations with entities	1,209,159,405,873	3,806,913,890	-	-	-	1,212,966,319,763	1,780,179,843	1,211,186,139,920
Demand	334,627,981,414	-	-	-	-	334,627,981,414	1,780,179,843	332,847,801,571
Term	867,502,767,221	3,800,000,000	-	-	-	871,302,767,221	-	871,302,767,221
Finance charges payable	7,028,657,238	6,913,890	-	-	-	7,035,571,128	-	7,035,571,128
Accounts payable and provisions	95,749,541,462	2,462,672,686	682,032,818	1,758,521,993	526,398,838	101,179,167,797	47,643,878	101,131,523,919
Other liabilities	41,700,268,816	-	-	-	-	41,700,268,816	-	41,700,268,816
Subordinated obligations	69,861,508,667	-	-	-	-	69,861,508,667	-	69,861,508,667
<b>TOTAL LIABILITIES</b>	¢ 5,131,618,990,510	53,215,663,250	682,032,818	1,758,521,993	526,398,838	5,187,801,607,409	1,871,123,720	5,185,930,483,689

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

June 30, 2015								
	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations	Consolidated
<b>EQUITY</b>								
Share capital	¢ 118,130,303,482	6,600,000,000	1,500,000,000	3,795,407,230	369,700,000	130,395,410,712	12,265,107,230	118,130,303,482
Non-capitalized capital contributions	-	-	-	1,199,517,779	-	1,199,517,779	1,199,517,779	-
Equity adjustments	77,020,092,269	759,466,847	24,511,234	77,557,767	-	77,881,628,117	861,535,848	77,020,092,269
Capital reserves	247,811,397,754	1,010,943,805	300,000,000	300,000,000	73,940,000	249,496,281,559	1,684,883,805	247,811,397,754
Prior period retained earnings	46,181,470,030	7,133,530,238	2,051,175,154	959,876,457	862,068,579	57,188,120,458	11,006,650,428	46,181,470,030
Income for the year	17,448,440,253	1,110,570,765	576,221,282	460,460,338	241,457,243	19,837,149,881	2,388,709,628	17,448,440,253
FOFIDE	18,146,075,240	-	-	-	-	18,146,075,240	-	18,146,075,240
<b>TOTAL EQUITY</b>	¢ 524,737,779,028	16,614,511,655	4,451,907,670	6,792,819,571	1,547,165,822	554,144,183,746	29,406,404,718	524,737,779,028
<b>TOTAL LIABILITIES AND EQUITY</b>	¢ 5,656,356,769,538	69,830,174,905	5,133,940,488	8,551,341,564	2,073,564,660	5,741,945,791,155	31,277,528,438	5,710,668,262,717
<b>Debit memoranda accounts</b>	¢ 510,361,044,475	-	-	265,110,324	-	510,626,154,799	-	510,626,154,799
Trust assets	¢ 853,802,269,335	2,038,866,934	-	-	-	855,841,136,269	-	855,841,136,269
Trust liabilities	¢ 81,051,567,291	427,463	-	-	-	81,051,994,754	-	81,051,994,754
Trust equity	¢ 772,750,702,044	2,038,439,471	-	-	-	774,789,141,515	-	774,789,141,515
Other debit memoranda accounts	¢ 16,050,973,268,600	1,675,013,642,052	390,065,501,373	949,174,766,966	-	19,065,227,178,991	-	19,065,227,178,991

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the year ended June 30, 2015

	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations	Consolidated
Interest income	206,693,026,917	2,733,857,122	183,831,038	297,516,683	25,608,589	209,933,840,349	56,587,958	209,877,252,391
Interest expense	95,345,507,838	1,316,739,484	17,861,324	-	-	96,680,108,646	56,587,958	96,623,520,688
Allowance expense	6,589,128,531	-	-	-	-	6,589,128,531	-	6,589,128,531
Income from recovery of assets	23,552,493,913	-	-	-	-	23,552,493,913	-	23,552,493,913
INTEREST INCOME	94,384,153,697	1,417,117,638	165,969,714	297,516,683	25,608,589	96,290,366,321	-	96,290,366,321
Other operating income	74,229,207,973	1,929,468,186	2,222,470,669	3,967,078,428	1,175,322,271	83,523,547,527	2,932,093,360	80,591,454,167
Other operating expenses	56,230,062,861	326,920,265	328,423,833	649,526,890	59,235,492	57,594,169,341	473,347,782	57,120,821,559
GROSS OPERATING INCOME	112,383,298,809	3,019,665,559	2,060,016,550	3,615,068,221	1,141,695,368	122,219,744,507	2,458,745,578	119,760,998,929
Personnel expenses	58,303,509,298	1,432,396,436	985,554,225	1,680,643,844	685,679,395	63,087,783,198	-	63,087,783,198
Other administrative expenses	27,873,450,558	411,612,939	314,595,192	605,436,501	110,440,254	29,315,535,444	70,035,951	29,245,499,493
Total administrative expenses	86,176,959,856	1,844,009,375	1,300,149,417	2,286,080,345	796,119,649	92,403,318,642	70,035,951	92,333,282,691
NET OPERATING INCOME BEFORE STATUTORY ALLOCATIONS AND TAXES	26,206,338,953	1,175,656,184	759,867,133	1,328,987,876	345,575,719	29,816,425,865	2,388,709,627	27,427,716,238
Income tax	4,783,630,287	37,307,903	193,357,357	390,418,409	107,341,640	5,512,055,596	-	5,512,055,596
Decrease in income tax	1,248,768,679	7,492,168	32,507,519	22,220,846	13,196,124	1,324,185,336	-	1,324,185,336
Statutory allocations	5,535,806,707	35,269,685	22,796,013	500,329,975	9,972,960	6,104,175,340	-	6,104,175,340
Decrease in statutory allocations	312,769,615	-	-	-	-	312,769,615	-	312,769,615
INCOME FOR THE YEAR	17,448,440,253	1,110,570,764	576,221,282	460,460,338	241,457,243	19,837,149,880	2,388,709,627	17,448,440,253

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(42) Risk management

The Bank has exposure to the following risks from financial instruments:

- credit risk
- liquidity risk
- market risks
  - interest rate risk
  - currency risk and
- operational risk.

The Corporate Risk Division is responsible for identifying and measuring credit, market, liquidity, and operational risks. For such purposes, all types of risks to which the Bank is exposed are monitored by that Division on an ongoing basis using a mapping procedure to classify risks based on their severity or impact and their frequency or probability of occurrence.

Policies and procedures for managing market and liquidity risks are also being formalized in specific manuals for each type of risk that describe the methodologies used to manage those risks. This activity has been extended to the Bank's subsidiaries, i.e. Brokerage Firm, Investment Fund Manager, Pension Fund Manager, and Insurance Brokerage Firm.

The Bank manages the above risks as follows:

a) Credit risk

i. Banco Nacional de Costa Rica

This is the risk that the borrower or issuer of a financial asset will fail to discharge an obligation, fully and on time, in accordance with the terms and conditions agreed upon at the time the financial asset was acquired. Credit risk is mainly related to the loan portfolio and investments in financial instruments. Exposure to credit risk on those assets is represented by the carrying amount of the assets in the consolidated balance sheet. The Bank also has exposure to credit risk for off-balance sheet credits, such as commitments, letters of credit, sureties, and guarantees.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The Bank monitors credit risk on an ongoing basis through reports on portfolio status and classification. Credit analyses include periodic assessments of the financial position of customers, an analysis of the country's economic, political, and financial environment, and the potential impact on each sector. For such purposes, a thorough understanding is obtained of customers on an individual basis and their capacity to generate cash flows that enable them to honor their debt commitments.

The Bank has established the following credit risk management procedures:

1. The Bank has defined procedures for loan follow-up and processing as well as for the application of loan controls. The functions, tasks, and procedures performed by the Credit Risk Division have been documented with the support of the Quality Management Division. As a result, the Bank has been able to unify, standardize, and improve the process.
2. The Bank has performed and reviewed the administrative loan follow-up procedures for branches and regional offices.
3. The Bank is comprehensively evaluating the Loan Process and, based on that evaluation, the procedures performed through offices, business development centers (BDCs), shared service centers, trade zones, and corporate centers in accordance with the organizational structure project named "Transformation."
4. The work plan for loan follow-up includes an evaluation of main borrowers (higher balances in the loan portfolio), which involves continuous monitoring and visits to regional offices.

At the date of the consolidated balance sheet, there are no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The Bank's financial instruments with credit risk exposure are as follows:

	Note	Direct		Note	Stand-by	
		June 2016	June 2015		June 2016	June 2015
Loan portfolio						
Principal	6-a	¢ 3,876,752,438,232	3,443,790,877,572	20	296,047,484,334	248,006,428,830
Accounts and accrued interest receivable		25,579,739,890	23,064,192,207		-	-
Carrying amount, gross		3,902,332,178,122	3,466,855,069,779		296,047,484,334	248,006,428,830
Allowance for loan losses (accounting records)		(73,694,845,648)	(62,671,403,553)		(1,746,923,668)	(1,516,038,202)
Carrying amount, net	¢	<u>3,828,637,332,474</u>	<u>3,404,183,666,226</u>		<u>294,300,560,666</u>	<u>246,490,390,628</u>
Loan portfolio						
Total balances:						
A1	¢	3,185,663,599,838	2,842,396,557,104		288,268,103,784	241,852,733,660
A2		38,120,080,090	38,415,927,473		544,403,790	371,764,200
B1		289,810,582,652	271,495,782,105		2,641,746,581	2,225,615,851
B2		7,652,760,036	8,053,341,182		38,232,549	90,785,334
C1		102,318,853,614	62,181,255,841		2,373,864,061	1,817,707,069
C2		5,677,364,490	6,559,121,599		9,369,221	23,186,322
D		95,876,666,619	78,294,847,606		460,668,833	355,238,726
E		177,212,270,783	159,458,236,869		1,711,095,515	1,269,397,668
		3,902,332,178,122	3,466,855,069,779		296,047,484,334	248,006,428,830
Structural allowance (subledger – database)		(67,630,577,088)	(55,526,117,011)		(1,011,933,777)	(752,599,805)
Carrying amount, net	¢	<u>3,834,701,601,034</u>	<u>3,411,328,952,768</u>		<u>295,035,550,557</u>	<u>247,253,829,025</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	Direct		Stand-by	
	June 2016	June 2015	June 2016	June 2015
Individually assessed loans with allowance:				
A1	¢ 3,185,663,599,838	2,842,396,557,104	282,744,741,773	237,972,133,300
A2	38,120,080,090	38,415,927,473	543,903,790	368,422,550
B1	289,810,582,652	271,495,782,105	2,614,081,184	2,181,131,856
B2	7,652,760,036	8,053,341,182	38,107,549	90,535,334
C1	102,318,853,614	62,181,255,841	1,557,323,825	1,817,707,069
C2	5,677,364,490	6,559,121,599	9,369,221	23,186,322
D	95,876,666,619	78,294,847,606	460,338,833	355,138,117
E	177,212,270,783	159,458,236,869	1,694,402,381	1,264,145,789
	<u>3,902,332,178,122</u>	<u>3,466,855,069,779</u>	<u>289,662,268,556</u>	<u>244,072,400,337</u>
Structural allowance (subledger – database)	<u>(67,630,577,088)</u>	<u>(55,526,117,011)</u>	<u>(1,011,933,777)</u>	<u>(752,599,805)</u>
Carrying amount, net	<u>¢ 3,834,701,601,034</u>	<u>3,411,328,952,768</u>	<u>288,650,334,779</u>	<u>243,319,800,532</u>
	Direct		Stand-by	
	June 2016	June 2015	June 2016	June 2015
Current loans without allowance:				
A1	¢ -	-	5,523,362,009	3,880,600,360
A2	-	-	500,000	3,341,650
B1	-	-	27,665,397	44,483,995
B2	-	-	125,000	250,000
C1	-	-	816,540,237	-
C2	-	-	330,000	100,609
D	-	-	16,693,135	5,251,879
E	-	-	6,385,215,778	3,934,028,493
Carrying amount	<u>¢ 3,902,332,178,122</u>	<u>3,466,855,069,779</u>	<u>296,047,484,334</u>	<u>248,006,428,830</u>
Carrying amount, gross				
Allowance for loan losses (database)	(67,630,577,088)	(55,526,117,011)	(1,011,933,777)	(752,599,805)
(Excess) insufficiency of allowance over structural allowance	<u>(6,064,268,560)</u>	<u>(7,145,286,542)</u>	<u>(734,989,891)</u>	<u>(763,438,397)</u>
Carrying amount, net	<u>6-a ¢ 3,828,637,332,474</u>	<u>3,404,183,666,226</u>	<u>294,300,560,666</u>	<u>246,490,390,628</u>
Restructured loans	<u>¢ 28,984,270,524</u>	<u>26,324,043,983</u>	<u>4,020,204</u>	<u>11,172,071</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of June 30, 2016, no information is available for past due and current loans without allowance because an allowance has been established for the whole loan portfolio pursuant to CONASSIF Directive No. 1058/07 dated August 21, 2013, which became effective on January 1, 2014.

Set out below is an analysis of the gross and net (of allowance for loan losses) amounts of loans by risk rating according to SUGEF Directive 1-05:

		June 2016	
		Loans to customers	
		Gross	Net
A1	¢	3,185,663,599,838	3,171,316,429,725
A2		38,120,080,090	38,020,962,651
B1		289,810,582,652	288,359,548,919
B2		7,652,760,036	7,590,399,485
C1		102,318,853,614	99,801,366,270
C2		5,677,364,490	5,440,561,153
D		95,876,666,619	90,710,682,603
E		177,212,270,783	127,397,381,668
	¢	<u>3,902,332,178,122</u>	<u>3,828,637,332,474</u>

  

		June 2015	
		Loans to customers	
		Gross	Net
A1	¢	2,842,396,557,105	2,831,271,715,838
A2		38,415,927,473	38,362,128,690
B1		271,495,782,105	270,086,703,169
B2		8,053,341,182	8,000,300,218
C1		62,181,255,841	61,198,435,135
C2		6,559,121,599	6,294,247,895
D		78,294,847,606	72,676,295,984
E		159,458,236,868	116,293,839,297
	¢	<u>3,466,855,069,779</u>	<u>3,404,183,666,226</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As shown above, as of June 30, 2016, the gross portfolio amounts to ¢3,902 billion. Of that amount, 90.23% is classified in risk ratings “A + B” and 9.77% % in risk ratings “C+ D+ E” (2015: ¢3,160 billion, of which 91.16% is classified in risk ratings “A + B” and 8.84% in risk ratings “C+ D+ E”).

Individually assessed loans with allowance:

Pursuant to SUGEF Directive 1-05, a risk rating is assigned to all borrowers. Applicable allowance percentages are determined based on that risk rating. Individually assessed loans with allowance are loan operations that after considering the guarantee for the loan, there is still a balance to which the applicable allowance percentage will be applied.

Past due loans without allowance:

Past due loans without allowance correspond to loan operations with a guarantee for at least the outstanding balance due to the Bank. Accordingly, no allowance is established.

Restructured loans:

Restructured loans are those for which the Bank has changed the original contractual terms due to deterioration in the borrower’s financial position and where the Bank has made concessions that it would not otherwise consider. Once the loan is restructured, it remains in this category regardless of improvement in the borrower’s position after restructuring. Following are the various types of restructured loans.

- a. Extended loan: Loan operation in which at least one full or partial payment of principal or interest due under the current contractual terms has been postponed.
- b. Modified loan: Loan operation in which at least one of the current contractual repayment terms has been modified, excluding extensions, additional payments not included in the loan repayment schedule, additional payments to reduce the amount of installments, and a change in the currency used while respecting the original loan maturity date.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- c. Refinanced loan: Loan operation in which at least one payment of principal or interest is made fully or partially with another loan operation extended to the borrower or to an individual from its economic interest group by the same financial intermediary or any other company of the same financial group or conglomerate. In the event of full settlement of the loan, the new loan operation is considered to be refinanced. In the event of partial settlement, both the new and existing loan operations are considered to be refinanced.

Restructured loans are as follows:

	Direct		Stand-by	
	June 2016	June 2015	June 2016	June 2015
Restructured loans	¢ 28,984,270,524	26,324,043,983	4,020,204	11,172,071

Loan write-off policy:

The Bank writes off a loan (and any allowance for loan losses) when it determines the loan to be uncollectible based on an analysis of significant changes in the financial conditions of the borrower preventing compliance with the payment obligation, or when it determines that the guarantee is insufficient to cover the entire amount of the loan facility. For standard loans with smaller balances, charge-offs are generally based on the level of arrears of the loan granted.

Risk ratings

The loan portfolio by borrower classification is as follows:

Borrower classification	Direct		Stand-by	
	June 2016	June 2015	June 2016	June 2015
Group 1	¢ 2,352,035,397,845	1,981,995,710,486	62,923,634,858	56,088,049,289
Group 2	1,550,296,780,278	1,484,859,359,293	233,123,849,476	191,918,379,541
	¢ 3,902,332,178,123	3,466,855,069,779	296,047,484,334	248,006,428,830

The Bank individually classifies its borrowers in one of eight risk ratings, identified as A1, A2, B1, B2, C1, C2, D, and E, with rating A1 as the lowest credit risk and rating E as the highest credit risk.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Borrower classification

*Analysis of creditworthiness*

The Bank must define effective mechanisms to determine the creditworthiness of borrowers in Group 1. Based on whether the borrowers are individuals or legal entities, those mechanisms should permit an assessment of the following aspects:

- a. *Financial position and expected cash flows:* Analysis of the stability and continuity of main sources of income. The effectiveness of the analysis depends on the quality and timeliness of information.
- b. *Experience in the line of business and quality of management:* Analysis of the capacity of management to lead the business with appropriate controls and adequate support from the owners.
- c. *Business environment:* Analysis of the main sector variables that affect the borrower's creditworthiness.
- d. *Vulnerability to changes in interest rates and foreign exchange rates:* Analysis of the borrower's ability to confront unexpected adverse changes in interest rates and foreign exchange rates.
- e. *Other factors:* Analysis of other factors that affect the borrower's creditworthiness. In the case of legal entities, considerations include, but are not limited to, environmental issues, technological aspects, operating licenses and permits, representation of products or foreign offices, relationship with significant customers and suppliers, sales agreements, legal risks, and country risk (the latter for foreign-domiciled borrowers). In the case of individuals, the following borrower characteristics may be taken into consideration: marital status, age, level of education, profession, gender, etc.

When a borrower has been assigned a risk rating by a rating agency, that rating should be an additional consideration when assessing the borrower's creditworthiness.

The Bank must classify the borrower's creditworthiness into one of four levels: level 1 - has the ability to pay; level 2 - has minor weaknesses in the ability to pay; level 3 - has serious weaknesses in the ability to pay; and level 4 - has no ability to pay. For purposes of this classification, the borrower and co-borrower(s) must be assessed jointly. Joint classification of creditworthiness may only be used to determine the allowance percentage for operations in which the parties are borrower and co-borrower.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

*Analysis of historical payment behavior*

The Bank must determine a borrower's historical payment behavior based on the level assigned to the borrower by SUGEF's Credit Information Center (CIC).

The Bank must classify historical payment behavior into one of three levels: level 1 - good historical payment behavior; level 2 - acceptable historical payment behavior; and level 3 - poor historical payment behavior.

Risk rating	Arrears	Direct		Stand-by	
		June 2016	June 2015	June 2016	June 2015
A1	30 days or less	¢ 3,185,663,599,838	2,842,396,557,104	288,268,103,784	241,852,733,660
A2	60 days or less	38,120,080,090	38,415,927,473	544,403,790	371,764,200
B1	60 days or less	289,810,582,652	271,495,782,105	2,641,746,581	2,225,615,851
B2	60 days or less	7,652,760,036	8,053,341,182	38,232,549	90,785,334
C1	90 days or less	102,318,853,614	62,181,255,841	2,373,864,061	1,817,707,069
C2	90 days or less	5,677,364,490	6,559,121,599	9,369,221	23,186,322
D	120 days or less	95,876,666,619	78,294,847,606	460,668,833	355,238,726
E	More than 120 days or other factors	177,212,270,783	159,458,236,869	1,711,095,515	1,269,397,668
		¢ 3,902,332,178,122	3,466,855,069,779	296,047,484,334	248,006,428,830

Pursuant to SUGEF Directive 1-05, borrowers are classified in two groups: Group 1, borrowers whose total outstanding balance exceeds ¢65,000,000; and Group 2, borrowers whose total outstanding balance is less than ¢65,000,000.

Borrower classification

Starting January 1, 2014, for purposes of borrower classification, pursuant to SUGEF Directive 1-05, borrowers in Group 1 and Group 2 are classified based on arrears, historical payment behavior and creditworthiness.

In all cases, borrowers without valid authorization for a credit check through SUGEF's CIC cannot be classified in risk categories A1 to B2.

Likewise, borrowers with at least one loan operation purchased from a financial intermediary domiciled in Costa Rica and regulated by SUGEF must be classified for at least one month in the rating of higher risk between the rating assigned by the selling bank and the rating assigned by the buying bank at the time of the purchase.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Structural allowance for loan losses

From January 2014, the allowances for loan losses are as follows:

- ✓ General allowance for total outstanding balances, not considering the corresponding guarantees
- ✓ Specific allowance for covered portion (with guarantees)
- ✓ Specific allowance for uncovered portion (with no guarantees)

The general allowance only applies to loan operations corresponding to borrowers rated A1 and A2. The specific allowances for covered and uncovered portions are applicable to all borrowers, except for those rated A1 and A2. Until December 2013, allowances were established solely for the uncovered portion of loan operations.

If the result of this calculation is negative or zero, the allowance is zero. If the total outstanding balance includes a stand-by principal balance, the credit equivalent indicated below should be used.

The adjusted value of the corresponding guarantee must be weighted with 100% when the borrower or co-borrower with the lowest risk rating is rated C2 or in another lower-risk rating, with 80% when rated D, and with 60% when rated E.

Risk ratings are as follows:

<u>Risk rating</u>	<u>Arrears</u>	<u>Historical payment behavior</u>	<u>Creditworthiness</u>
A1	30 days or less	Level 1	Level 1
A2	30 days or less	Level 2	Level 1
B1	60 days or less	Level 1	Level 1 or Level 2
B2	60 days or less	Level 2	Level 1 or Level 2
C1	90 days or less	Level 1	Level 1, Level 2, or Level 3
C2	90 days or less	Level 1 or Level 2	Level 1, Level 2, or Level 3
D	120 days or less	Level 1 or Level 2	Level 1, Level 2, Level 3, or Level 4

Pursuant to articles 11 bis and 12 of SUGEF Directive 1-05, the calculations of the general allowance and the specific allowance for covered portion for loan operations must consider the provisions of Transition Provision XII of such Directive. Accordingly, as of June 30, 2016, the Bank applied an allowance percentage of 0.02%, which will gradually increase on a quarterly basis to 0.5%, pursuant to the aforementioned Transition Provision.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Allowance percentages based on borrower risk rating are as follows:

<u>Risk rating</u>	<u>General allowance</u>	<u>Specific allowance percentage - Uncovered portion</u>	<u>Specific allowance percentage - Covered portion</u>
A1	0.5%	0%	0%
A2	0.5%	0%	0%
B1	N/A	5%	0.50%
B2	N/A	10%	0.50%
C1	N/A	25%	0.50%
C2	N/A	50%	0.50%
D	N/A	75%	0.50%
E	N/A	100%	0.50%

In accordance with article 11 bis, *General allowance*, of CONASSIF Directive 1058/07 dated August 21, 2013, at each month-end, entities must book the general allowance for a minimum of 0.5% of the total outstanding balance for loan portfolios rated A1 and A2, without considering the effect of guarantees. The provisions of article 13 of the aforementioned Directive are to be applied to stand-by credits.

Starting January 2014 and as an exception in the case of risk rating E, the minimum specific allowance for borrowers whose historical payment behavior is classified as level 3 should be calculated as follows:

<u>Arrears</u>	<u>Specific allowance percentage - Uncovered portion</u>	<u>Specific allowance percentage - Covered portion</u>	<u>Creditworthiness (Group 1 borrowers)</u>	<u>Creditworthiness (Group 2 borrowers)</u>
30 days or less	20%	0.50%	Level 1	Level 1
30 days or less	50%	0.50%	Level 2	Level 1
More than 60 days	100%	0.50%	Level 1, Level 2, Level 3, or Level 4	Level 1 or Level 2

If a borrower was rated E before subscribing a special loan operation, the borrower should remain in such rating during at least 180 days. During such period, the allowance percentage will be 100%, and the aforementioned exception should not be applied.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

In accordance with articles 11 bis and 12 of SUGEF Directive 1-05, at each month-end, the Bank must book, as a minimum, the general allowance and the sum of the specific allowances for each loan operation subscribed.

Pursuant to the provisions of SUGEF Directive 1-05, as of December 31, the Bank must maintain a structural allowance, as follows:

		June 2016		
		Allowance booked	Structural allowance	Excess (insufficiency) of allowance
Direct	¢	73,694,845,648	(67,630,577,088)	6,064,268,560
Stand-by		1,746,923,668	(1,011,933,777)	734,989,891
	¢	<u>75,441,769,316</u>	<u>(68,642,510,865)</u>	<u>6,799,258,451</u>
		June 2015		
		Allowance booked	Structural allowance	Excess (insufficiency) of allowance
Direct	¢	62,671,403,553	(55,526,117,011)	7,145,286,542
Stand-by		1,516,038,202	(752,599,805)	763,438,397
	¢	<u>64,187,441,755</u>	<u>(56,278,716,816)</u>	<u>7,908,724,939</u>

As of June 30, 2016, the excess above the minimum allowance required by the current regulations in the amount of ¢6,799,258,451 (2015: ¢7,908,724,939) corresponds to an excess of ¢388,692,843 (2015: ¢515,930,309) in accordance with CONASSIF Directive 1058/07 (gradual general allowance) and an excess of ¢6,410,565,608 (2015: ¢2,537,808,215) in the specific allowance, which represents 9.34% of the minimum allowance required (2015: 4.67%).

As of June 30, 2016, the balance of the Bank's allowance for loan losses (direct and stand-by), accrued interest receivable, and other receivables amounts to ¢81,268,259,093 (2015: ¢69,948,993,959).

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Credit equivalent

The following stand-by credit operations must be converted to credit equivalents based on the credit risk they represent. The credit equivalent is obtained by multiplying the balance of the stand-by principal by the corresponding credit equivalent conversion factor, as follows:

- a. bid bonds and export letters of credit without prior deposit: 0.05
- b. other sureties and guarantees without prior deposit: 0.25
- c. pre-approved lines of credit: 0.50.

Allowance for other assets

Allowances should be established for the following assets:

- a. Accounts and accrued interest receivable unrelated to loan operations, based on arrears calculated from the first day overdue or the date booked in the accounting records, as follows:

<u>Arrears</u>	<u>Allowance percentage</u>
30 days or less	2%
60 days or less	10%
90 days or less	50%
120 days or less	75%
More than 120 days	100%

- b. Foreclosed assets acquired prior to May 2010 that have not been sold or leased within two years from the date of their acquisition, an allowance equivalent to 100% of their value. The booking of the allowance shall begin at month-end of the month in which the assets were i) acquired, ii) produced for sale or lease, or iii) retired from use. After May 2010, an allowance must be established gradually by booking one-twenty-fourth of the value of the assets each month until the allowance is equivalent to 100% of the assets' carrying amount. The booking of the allowance shall begin at month-end of the month in which the assets were acquired.

As of June 30, 2016, the carrying amount of the allowance for impairment of foreclosed assets and per legal requirements amounts to ¢63,263,247,969 (2015: ¢60,126,748,454).

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The concentration of the loan portfolio by sector is as follows:

Sector	Direct		Stand-by	
	June 2016	June 2015	June 2016	June 2015
Trade	¢ 369,005,775,951	387,151,212,318	43,464,413	83,787,136
Services	831,660,210,864	694,487,916,696	56,825,914,019	50,891,148,358
Financial services	130,110,929,883	121,479,904,270	-	-
Mining	845,475,353	406,642,025	-	-
Manufacturing and quarrying	142,676,466,208	142,833,904,751	1,684,610	1,357,459
Construction	97,976,174,075	80,211,398,032	-	-
Agriculture and forestry	115,252,932,274	105,684,600,963	14,543,547	13,883,971
Livestock, hunting, and fishing	71,114,337,897	59,907,902,245	-	7,151,867
Electricity, water, sanitation, and other related sectors	417,857,823,262	292,803,839,742	-	-
Transportation and telecommunications	31,255,449,571	24,417,518,562	-	-
Housing	1,158,047,114,451	1,085,170,952,171	13,971,395	12,264,471
Personal or consumer	396,258,461,777	352,220,751,364	238,956,815,977	196,826,885,454
Tourism	140,271,026,556	120,078,526,640	191,090,373	169,950,114
	¢ <u>3,902,332,178,122</u>	<u>3,466,855,069,779</u>	<u>296,047,484,334</u>	<u>248,006,428,830</u>

The concentration of the loan portfolio by geographic area is as follows:

	Direct		Stand-by	
	June 2016	June 2015	June 2016	June 2015
Central America	¢ <u>3,902,332,178,122</u>	<u>3,466,855,069,779</u>	<u>296,047,484,334</u>	<u>248,006,428,830</u>

The loan portfolio by type of guarantee is as follows:

Guarantee	Direct		Stand-by	
	June 2016	June 2015	June 2016	June 2015
Investments	¢ 11,392,809,963	9,902,782,251	5,096,373	1,422,780
Mortgage bond	545,348,284	10,613,039,120	-	-
Assignment of loans	448,741,538,940	346,516,600,574	93,398,750	-
Mortgage	1,663,370,911,659	1,581,159,567,215	317,499,168	369,032,501
Surety	728,502,985,620	638,867,125,542	27,707,021	95,117,312
Trust	330,927,381,914	302,267,882,346	82,247,438	85,791,588
Securities	1,029,653,905	1,127,479,021	-	-
Chattel mortgage	177,023,071,983	134,398,577,361	-	-
Other	540,798,475,854	442,002,016,349	295,521,535,584	247,455,064,649
	¢ <u>3,902,332,178,122</u>	<u>3,466,855,069,779</u>	<u>296,047,484,334</u>	<u>248,006,428,830</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Guarantees:

Collateral: The Bank accepts collateral guarantees –usually mortgages, chattel mortgages, or securities– to secure its loans. The value of those guarantees is determined based on their fair value in the case of securities or, for mortgages and chattel mortgages, based on an appraisal made by an independent appraiser who determines the estimated fair value of land and buildings using comparable market offerings and prior appraisals.

Personal: The Bank also accepts sureties from individuals or legal entities. The Bank evaluates the guarantor's ability to honor the debt obligations on the borrower's behalf, as well as the integrity of the guarantor's credit history.

The Bank conducts strict credit analyses before granting loans and requires guarantees from its borrowers before disbursing loans. As of June 30, 2016, 67.47 % of the loan portfolio is secured by collateral guarantees (2015: 45.61 %).

The concentration of the loan portfolio by individual borrower or economic interest group is as follows:

Loan portfolio concentration		Direct		Stand-by	
		June 2016	June 2015	June 2016	June 2015
¢1 to ¢3,000,000	¢	141,077,003,631	142,781,683,866	95,756,452,723	89,354,588,304
¢3,000,001 to ¢15,000,000		531,937,943,652	508,605,555,280	141,372,144,125	105,052,924,964
¢15,000,001 to ¢30,000,000		434,973,881,879	407,940,888,395	5,927,535,111	5,715,093,364
¢30,000,001 to ¢50,000,000		426,430,646,367	395,289,756,237	2,021,412,641	1,629,621,752
¢50,000,001 to ¢75,000,000		312,537,185,673	267,094,498,996	2,653,349,659	1,546,541,506
¢75,000,001 to ¢100,000,000		135,885,097,267	120,261,778,298	881,678,698	1,301,032,578
¢100,000,001 to ¢200,000,000		212,335,682,515	200,062,909,542	3,926,066,447	3,097,850,277
More than ¢200,000,000		1,707,154,737,138	1,424,817,999,165	43,508,844,930	40,308,776,085
	¢	<u>3,902,332,178,122</u>	<u>3,466,855,069,779</u>	<u>296,047,484,334</u>	<u>248,006,428,830</u>

As of June 30, 2016 and 2015, the portion of the loan portfolio (direct and stand-by loans) corresponding to economic interest groups amounts to ¢491,610,660,876 and ¢242,591,222,598, respectively.

For credit risk management purposes, the Bank applies an internal model to estimate the loan portfolio's Expected Losses (EL) and Value at Risk (VaR) over a one-year holding period using the "Monte Carlo simulations" approach. Loan portfolio risks are assessed, controlled, and monitored on a monthly basis based on one-year projections (maximum loss with a confidence level of 99% over one year).

(Continued)



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

This approach is applied using a computational system developed in “Matlab” software. Also, the credit risk model takes into consideration the impact of changes in macroeconomic variables (endogenous and exogenous) on the loan portfolio when determining systemic factors. Results are compared with prior-month estimates and historical trends (for comparison purposes, loan portfolio information is available for 2003 and thereafter).

The Bank’s loan portfolio is comprised of operations in various currencies, i.e. the Costa Rican colon, the U.S. dollar, and DU. Consequently, the VaR analysis is performed separately for each currency. The data is then consolidated to determine a maximum loss for the entire portfolio, expressed in colones. VaR is also calculated for each of the Bank’s 13 economic activities, its credit card accounts, and the BN-Desarrollo portfolio.

Various technical tools are used to provide other angles for the analysis. Other types of estimates are made in addition to those obtained using the VaR methodology, such as the performance of the portfolio in legal collection, concentration of the portfolio by economic activity, vintage analysis, stress testing, transition matrixes, and sensitivity analyses for new loans, and/or follow-up. Accordingly, the Bank has developed specialized internal methodologies to model credit risk that quantify risk indicators and potential impacts on institutional development.

The use of the above analyses has led to sound credit risk management practices that, along with tight control over loan collection, have helped to substantially improve the level of arrears in the loan portfolio.

With that purpose and to continually improve the calculation models, a recent adjustment in the parameters used for quantification of credit risk was performed to obtain more accurate credit risk estimates. Consequently, subsequent to the aforementioned adjustment, results obtained exceed prior results (specifically between March and June 2014). The Corporate Risk Committee and the Board of Directors approved the methodology.

At the June 2016 close, the increase in arrears more than 90 days in connection with operations in colones and U.S. dollars affected the behavior of the consolidated VaR, which grew by 0.05 pp in respect of the prior month allowance.

However, by currency, the VaR in U.S. dollars is not affected by the aforementioned situation due to the decrease in VaR as a result of a decrease in arrears.

Livestock, Industry, Trade, and Transportation show a monthly decrease in the VaR due to the recovery of arrears indicators (in legal collection, more than 90 days past due, or both). The decrease in Consumer is related to the reduction of the balance between 46 and 150 days past due.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Mining, Energy, and Financial Services are influenced by the concentration of such portfolios, which causes monthly and year-on-year increases and decreases. The only monthly growth of VaR corresponds to Industry and Trade resulting from the decrease in arrears more than 90 days and the decrease in legal collection, respectively.

ii. BN Sociedad Administradora de Fondos de Inversión, S.A.

For the Investment Fund Manager, credit risk is the risk that the borrower or issuer of a financial asset will fail to discharge an obligation, fully and on time, in accordance with the terms and conditions agreed upon at the time the financial asset was acquired.

Credit risk is considered to be minimal since the Investment Fund Manager's portfolio is comprised of securities issued by BCCR and the Ministry of Finance. Such risk is measured and monitored using the Return on Risk-Adjusted Capital (RORAC) methodology.

To mitigate credit risk, the Investment Fund Manager monitors the issuers' risk, obtains ratings assigned to issuers by risk rating agencies, and maintains access to information necessary for following-up on significant events for each issuer that could adversely affect its rating or outlook.

The Investment Fund Manager has established the following procedures to manage credit risk:

- formulation of credit policies;
- definition of concentration and exposure limits, which are included in the risk management and investment policy; and
- policy compliance reviews through analyses of the composition of the investment portfolio.

The Investment Fund Manager enters into repurchase agreements, which can lead to credit risk exposure if the counterparty to the transaction is unable to fulfill its contractual obligations. Repurchase agreements are secured by securities pledged by the counterparty, but are not directly secured by the Costa Rican National Stock Exchange. In the event of default, the Investment Fund Manager has recourse to the guarantee fund and to traditional recovery mechanisms such as termination of the agreement and foreclosure.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

iii. BN Valores Puesto de Bolsa, S.A.

For the Brokerage Firm, credit risk is the risk of potential losses resulting from an issuer's failure to pay or from deterioration in the credit rating of the security or issuer.

To manage credit risk, the Brokerage Firm has identified risk factors, i.e. variables for which changes could affect the equity of the Brokerage Firm.

To mitigate credit risk, the Brokerage Firm's liquidity policy sets the following limits:

Pursuant to the requirements set out in the investment policy, the Brokerage Firm takes into consideration the ratings granted by rating agencies to local or international issues, in compliance with the provisions of current regulations.

The Brokerage Firm assesses the marketability of the instruments based on internally calculated indicators. In the case of investments in the local market, the Brokerage Firm considers those registered with the National Registry of Securities and Brokers, while for investments in international markets, the Brokerage Firm considers instruments that may be sold at any point in time.

Consequently, in order for the Brokerage Firm to acquire securities issued abroad, those securities must have been assigned a risk rating by a risk rating agency authorized by SUGEVAL or by a renowned international risk rating agency such as Standard & Poor's, Moody's, or Fitch. This requirement does not apply to securities issued abroad by the Government of Costa Rica, BCCR, and other Costa Rican public institutions.

The Brokerage Firm may acquire the following instruments:

- Fixed income external debt securities issued by the Government of Costa Rica, BCCR, and other Costa Rican public institutions.
- Fixed income securities issued by the government or the central bank of countries that have been assigned an investment grade rating.
- Investment grade corporate bonds and fixed income securities issued by supranational entities.
- Structured notes issued by investment grade banks, provided that the underlying instrument is not related to commodities, stock indexes, or shares; has a risk rating that is not below the risk rating assigned to Costa Rica; and is available for public offering on a national or international stock exchange, subject to prior approval of General Management.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Local currency:

In local currency, the Brokerage Firm may invest in instruments issued by the Government of Costa Rica, BCCR, commercial State-owned banks, and local and foreign public or private entities authorized by SUGEVAL, which issue securities that meet the set criteria and investment limits and that may be freely transferred in the Costa Rican securities market.

The weighted average duration of the total portfolio based on Macaulay's duration and by weighing the carrying amount of each investment shall not exceed 2.75 years.

The Brokerage Firm's financial instruments are concentrated as follows:

As of June 2016, the accounting records showed investments in colones, investments in instruments issued by local issuers in U.S. dollars (\$CR), and investments in instruments issued by foreign issuers in U.S. dollars (\$USA). The Brokerage Firm holds no investments in DU. By currency, the majority (82.70%) of the Brokerage Firm's financial instruments is concentrated in the portfolio denominated in colones.

The consolidated portfolio is comprised of investments in instruments issued by the Government of Costa Rica (56.53%), BCCR (20.01%), Banco Popular y de Desarrollo Comunal (3.33%), BCR (1.35%), MUCAP (1.42%), and BNCR (0.06%). These issuers represent 82.70% of the consolidated portfolio. The portfolio in U.S. dollars represents 17.30%, comprised of investments in instruments issued by the Government of Costa Rica (16.28%), Banco de San Jose (0.92%) and other issuers (0.10%).

iv. BN Vital Operadora de Planes de Pensiones Complementarias, S.A.

For the Pension Fund Manager, since April 2008, the Bank's Credit Risk Division has applied a method based on the Merton model to quantify the VaR levels of the investment portfolio. Such method assumes a normal loss distribution and those exposures are perfectly correlated, which causes VaR to be overestimated.

The Merton model utilizes the following three basic inputs: the fair values of securities, the probability of default for each issuer, and the percentage of expected losses for each issuer. Fair values are obtained from the Oracle Financial Services Application (OFSA) and the remaining two inputs are obtained using estimates from international rating agencies, primarily Moody's.

Additionally, based on whether the issuer is a private or public issuer, a correlation table is calculated based on quarterly changes in equity prices or the government's creditworthiness.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Once the above information has been obtained, the Merton model uses the “Monte Carlo simulation” approach to generate loss scenarios (maximum loss with a confidence level of 99%).

The above method is used to generate monthly analyses of changes in the balances in the Pension Fund Manager’s investment portfolio in each currency, by type of fund, and to quantify the corresponding VaR.

A yearly analysis of maximum and minimum VaR for the Pension Fund Manager by currency is also generated as required by SUPEN’s Regulations on Investments. Those values are calculated for both the portfolio in colones and the portfolio in U.S. dollars, using the Merton model based on the limits set by SUPEN for investments per issuer.

As of June 30, 2016, the net assets managed by the Pension Fund Manager amount to ¢1,071,599 million, growing year-on-year by ¢132,862 (June 2015: ¢938,737 million). These data do not include the Pension Fund Manager’s own assets.

The pension fund with the highest relative share is ROP, which represents 81.91% and shows a year-on-year growth of ¢129,550 million and a growth rate of 17.31% with respect to June 2015 (¢748,222).

For the Pension Fund Manager’s own funds, the portfolio has available-for-sale investments with a market value of ¢6,462 million as of June 30, 2016, reflecting a decrease in value of ¢442.50 million with regard to the previous year, when it reached ¢6,905.45 million.

In June 2016, the VaR of Credit in absolute terms was located at ¢27.99 million, 0.43% of the portfolio in relative terms (June 2015: ¢27.88 million, 0.40% in relative terms). This indicator decreased due to government securities denominated in U.S. dollars that matured and were not renewed in that currency.

v. BN Corredora de Seguros, S.A.

For the Insurance Brokerage Firm, credit risk is the risk that the borrower or issuer of a financial asset will fail to discharge an obligation, fully and on time, in accordance with the terms and conditions agreed upon at the time the financial asset was acquired. Credit risk arises mainly on cash and due from banks and investments in financial instruments and is represented by the carrying amount of the assets in the balance sheet.

At the consolidated balance sheet date, there are no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset and is based on parameters established by current regulations.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of June 30, 2016 and 2015, exposure to credit risk is represented by the carrying amounts of cash and due from banks and available-for-sale investments. Cash and due from banks correspond to checking account deposits with a State-owned bank. As of June 30, 2016, investments in financial instruments correspond to the non-diversified investment fund in colones “Fondo de Inversión BN FonDepósito Colones, No Diversificado”, which is secured by term certificates of deposit from BNCR.

b) Liquidity risk

Liquidity risk arises when the financial entity is unable to honor its commitments or obligations with third parties due to insufficient cash flows, among other factors. It also represents the risk of potential losses due to forced sales of assets or forced acceptances of liabilities under unfavorable conditions.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of June 30, 2016, the terms of the Bank's assets and liabilities denominated in local currency are matched as follows:

		Days								Total
		Past due	Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	More than 365	
Cash and due from banks	¢	-	61,544,651,416	-	-	-	-	-	-	61,544,651,416
Minimum legal deposit in BCCR		-	285,855,859,939	21,036,524,048	26,250,537,052	20,047,195,458	60,847,038,744	38,378,629,976	8,017,716,203	460,433,501,420
Investments		-	-	136,052,133,414	10,199,685,665	16,742,989,443	106,508,394,397	156,199,803,620	187,720,983,501	613,423,990,040
Loan portfolio		101,254,401,661	-	35,237,168,417	48,463,808,702	24,349,395,501	73,697,860,220	95,627,923,410	2,007,163,093,486	2,385,793,651,397
Total recovery of assets	¢	101,254,401,661	347,400,511,355	192,325,825,879	84,914,031,419	61,139,580,402	241,053,293,361	290,206,357,006	2,202,901,793,190	3,521,195,794,273
Obligations with the public	¢	-	1,620,867,163,276	207,737,048,768	146,063,358,668	142,669,909,319	410,112,160,492	249,886,372,784	63,609,288,420	2,840,945,301,727
Obligations with BCCR		-	-	-	-	-	-	-	125,644,412	125,644,412
Obligations with financial entities		-	96,396,411,793	6,726,380,460	180,085,852	316,255,000	8,924,739,994	549,798,719	2,832,429,124	115,926,100,942
Charges payable		-	6,923,070,451	4,525,198,749	2,698,494,903	1,178,038,063	2,447,492,672	531,882,235	110,541,772	18,414,718,845
Total maturity of liabilities	¢	-	1,724,186,645,520	218,988,627,977	148,941,939,423	144,164,202,382	421,484,393,158	250,968,053,738	66,677,903,728	2,975,411,765,926
Difference	¢	101,254,401,661	(1,376,786,134,165)	(26,662,802,098)	(64,027,908,004)	(83,024,621,980)	(180,431,099,797)	39,238,303,268	2,136,223,889,462	545,784,028,347

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of June 30, 2015, the terms of the Bank's assets and liabilities denominated in local currency are matched as follows:

		Days							Total
		Past due	Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	
Cash and due from banks	¢	-	53,192,579,661	-	-	-	-	-	53,192,579,661
Minimum legal deposit in BCCR		-	416,856,322,734	-	-	-	-	-	416,856,322,734
Investments		-	-	60,741,975,651	4,695,842,475	17,940,294,767	31,872,903,701	107,593,782,727	524,052,849,870
Loan portfolio		90,984,971,038	5,057,364,743	38,370,492,461	30,635,693,752	22,804,515,425	75,330,719,565	83,092,217,901	2,155,372,939,681
Total recovery of assets	¢	90,984,971,038	475,106,267,138	99,112,468,112	35,331,536,227	40,744,810,192	107,203,623,266	190,686,000,628	3,149,474,691,946
Obligations with the public	¢	-	1,492,078,864,079	228,582,964,079	105,375,555,460	90,851,651,656	336,184,397,289	186,590,903,809	2,523,633,165,819
Obligations with BCCR		-	-	2,613,095	-	-	-	-	171,539,305
Obligations with financial entities		-	95,995,007,943	36,511,380,460	1,817,254,391	5,875,650,978	9,227,110,264	343,001,557	152,900,965,097
Charges payable		-	6,492,638,082	5,049,761,813	2,232,119,434	1,135,238,445	2,548,364,283	532,294,196	18,114,210,092
Total maturity of liabilities	¢	-	1,594,566,510,104	270,146,719,447	109,424,929,285	97,862,541,079	347,959,871,836	187,466,199,562	2,694,819,880,313
Difference	¢	90,984,971,038	(1,119,460,242,966)	(171,034,251,335)	(74,093,393,058)	(57,117,730,887)	(240,756,248,570)	3,219,801,066	454,654,811,633

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of June 30, 2016, the terms of the Bank's assets and liabilities denominated in foreign currency, expressed in local currency, are matched as follows:

		Days							Total
		Past due	Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	
Cash and due from banks	¢	-	161,030,115,275	-	-	-	-	-	161,294,647,127
Minimum legal deposit in BCCR		-	163,624,247,874	11,918,719,608	10,148,182,527	7,148,897,945	22,357,406,412	9,079,502,893	265,568,471,925
Investments		-	-	46,863,328,780	51,602,090,926	11,173,365,352	140,117,194,746	84,400,641,385	576,984,074,596
Loan portfolio		57,223,355,284	-	24,705,758,919	26,718,481,389	31,311,619,228	74,400,659,303	62,429,785,813	1,516,538,526,727
Total recovery of assets	¢	57,223,355,284	324,654,363,149	83,487,807,307	88,468,754,842	49,633,882,525	236,875,260,461	155,909,930,091	2,520,385,720,375
Obligations with the public	¢	-	797,776,862,487	86,407,588,073	68,016,029,176	55,063,499,148	145,955,747,850	67,013,366,422	1,244,113,739,187
Obligations with financial entities		-	117,229,047,262	16,250,912,505	15,174,343,380	32,511,033,400	46,763,454,440	37,916,900	1,223,821,995,972
Charges payable		-	1,071,814,250	744,360,290	1,593,520,996	418,351,848	8,881,739,697	331,371,539	13,121,215,865
Total maturity of liabilities	¢	-	916,077,723,999	103,402,860,868	84,783,893,552	87,992,884,396	201,600,941,987	67,382,654,861	2,481,056,951,024
Difference	¢	57,223,355,284	(591,423,360,850)	(19,915,053,561)	3,684,861,290	(38,359,001,871)	35,274,318,474	88,527,275,230	39,328,769,351

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of June 30, 2015, the terms of the Bank's assets and liabilities denominated in foreign currency, expressed in local currency, are matched as follows:

		Days							Total
		Past due	Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	
Cash and due from banks	¢	-	181,455,395,141	-	-	-	-	-	181,699,312,317
Minimum cash reserve in BCCR		-	190,590,658,110	-	-	-	-	-	190,590,658,110
Investments		-	-	49,133,564,897	15,360,397,910	17,174,222,477	105,800,926,985	169,101,010,106	639,646,300,229
Loan portfolio		33,376,788,736	17,754,605,030	30,222,230,785	22,850,122,872	32,019,730,786	70,391,788,934	70,430,396,952	1,311,482,130,097
Total recovery of assets	¢	33,376,788,736	389,800,658,281	79,355,795,682	38,210,520,782	49,193,953,263	176,192,715,919	239,531,407,058	2,323,418,400,753
Obligations with the public	¢	-	754,998,433,165	97,709,183,067	68,185,273,255	43,964,603,169	188,337,083,909	58,841,384,506	1,218,141,987,732
Obligations with financial entities		-	238,632,973,471	15,841,794,611	5,287,100,000	111,029,100	7,703,184,154	2,939,627,600	1,051,249,603,697
Charges payable		-	731,079,656	788,556,817	1,535,848,000	230,628,668	5,546,045,046	174,193,206	9,025,710,544
Total maturity of liabilities	¢	-	994,362,486,292	114,339,534,495	75,008,221,255	44,306,260,937	201,586,313,109	61,955,205,312	2,278,417,301,973
Difference	¢	33,376,788,736	(604,561,828,011)	(34,983,738,813)	(36,797,700,473)	4,887,692,326	(25,393,597,190)	177,576,201,746	45,001,098,780

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

i. Banco Nacional de Costa Rica

To support liquidity risk management, the Market Risk Division monitors indicators such as liability structure, daily changes and trends in demand and term account balances, volatility of deposit-taking from the public (duration by liability and currency), VaR of liquidity, levels of concentration of the Bank's funding sources, liquidity coverage ratio, systemic liquidity indicators, and variables with the greatest impact on SUGEF's term matching indicators. All of this information is communicated to management in a monthly report that is reviewed by the Corporate Risk Committee and, subsequently, the Board of Directors.

ii. BN Sociedad Administradora de Fondos de Inversión, S.A.

For the Investment Fund Manager, liquidity risk is the risk that it will be unable to liquidate its investments on a timely basis and for an amount that approximates fair value in order to meet its liquidity needs.

Liquidity risk management is closely related to credit risk management since they both involve facilitating the trading of securities in the financial market.

iii. BN Valores Puesto de Bolsa, S.A.

For the Brokerage Firm, liquidity risk is the risk of potential losses due to premature or forced sales of assets at unusual discounts in order to fulfill commitments, or the risk that a position cannot be liquidated, acquired, or hedged in a timely manner by offsetting it with an equivalent position.

To manage liquidity risk, the Brokerage Firm has established its liquidity levels based on its cash needs, diversified its funding sources, and formulated policies to monitor risk exposures.

Liquidity risk is also the risk that the Brokerage Firm will be unable to meet all of its obligations due to an unexpected withdrawal of funds from creditors or customers, a decrease in the value of investments, the excessive concentration of liabilities in a single creditor, a mismatch of assets and liabilities, the lack of liquid assets, or the financing of long-term assets with short-term liabilities, etc. The Brokerage Firm's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due under normal conditions.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Risk management has become essential for most entities that operate in financial markets since successful investment portfolio management is directly linked to good risk management practices. These entities have increasingly become aware of the importance of having an adequate system in place to measure and monitor positions assumed in order to manage risk exposures.

The Brokerage Firm has been compelled to increasingly diversify its investments in response to the development of the securities market, which has given rise to the need for a mechanism for making timely decisions to take advantage of investment opportunities in domestic and international markets.

In light of that situation, the Brokerage Firm must have sufficient tools for measuring and monitoring the risks on its investments in order to maximize returns while minimizing risk. For such purposes, the Brokerage Firm has documented liquidity risk policies aimed at limiting liquidity risk exposures.

The Brokerage Firm's liquidity policies establish that the trader of the Brokerage Firm's own portfolio is responsible for executing investments and making any investment decisions related to that portfolio, in accordance with the provisions set forth in the guidelines for management of the Brokerage Firm's own portfolio and in compliance with current legal regulations and with the Brokerage Firm's internal and corporate rules, regulations, and procedures.

Marketability of local market investments is determined based on indicators calculated by the Brokerage Firm for such purposes and on whether they are registered in the National Registry of Securities and Brokers. The Brokerage Firm must comply with maximum and minimum maturity concentrations, which require that a minimum of 20% of the total portfolio correspond to investments with maturities of 12 months or less. The investment portfolio should not include investments in equity instruments or investments in publicly-offered real estate funds.

iv. BN Vital Operadora de Planes de Pensiones Complementarias, S.A.

The liquidity level of the Pension Fund Manager corresponds to the nature of its operations. The entity holds a portfolio of short-term assets as well as liquid investments to ensure it has sufficient liquidity. As part of liquidity controls, cash flows are monitored on a daily basis, taking into consideration checking account balances and projected cash needs for up to three days after the calculation. Accordingly, the entity could sell financial assets or invest surpluses that will not be used in the short term, if necessary.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

When analyzing liquidity, the net maximum amount expected to be withdrawn from each pension fund is determined based on historical information assuming normal conditions. This liquidity analysis uses historical data for the period running from inception of each fund until the present. The analysis calculates the percentile (95% and 99% in this case) of the empirical distribution of net withdrawals for each of the funds analyzed to determine the VaR of liquidity.

Set out below are the main results of the VaR of liquidity assessment. Such analysis is based on three scenarios: Scenario one includes all movements and scenario two includes data for which withdrawals are greater than contributions. For these two scenarios, observations with one or two deviations over the average were eliminated with the purpose of performing a comparative analysis. Scenario three includes extreme values; for example, the annual transfer of the FCL to ROP.

Fund	All movements		Withdrawals> Contributions		Extreme values		Cash/Equity	
	2016	2015	2016	2015	2016	2015	2016	2015
ROP	0.54%	0.60%	0.29%	0.31%	0.74%	0.79%	1.32%	2.40%
FCL	0.87%	0.96%	1.58%	2.19%	16.42%	18.64%	6.04%	1.40%
NOT	0.11%	0.09%	0.17%	0.21%	0.31%	0.32%	1.67%	0.70%
FPC A	0.74%	-	1.19%	-	2.85%	-	2.31%	-
FPC B	0.49%	0.78%	1.30%	1.20%	2.04%	2.99%	3.34%	1.50%
FPD A	1.30%	0.50%	2.96%	1.32%	7.22%	2.30%	5.87%	2.70%
FPD B	0.83%	1.37%	1.84%	3.00%	3.36%	7.54%	11.97%	3.70%
FCL erroneous funds	-	-	-	-	-	-	3.89%	-
ROP erroneous funds	-	-	-	-	-	-	6.59%	-

According to the results, for the scenario that considers all movements, the VaR of funds at a 99% confidence level with two standard deviations would not exceed 1%, except for FPD A which VaR at 99%, eliminating two standard deviations, would reach 1.30%. FPD A and FCL show the highest credit risk exposure while the VaR of NOT is quite low (0.11%), which is in line with prior liquidity reports and the closed nature of this fund.

The second scenario shows higher VaR levels for all funds since it only considers the variables where withdrawals are higher than contributions. FPD A and FCL are the funds with higher risk levels. In spite of presenting higher risk exposure, for all cases, risk levels are equivalent to or below 3%.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The third scenario shows higher liquidity needs to address extreme situations. However, as indicated above, the most extreme scenario is the transfer of the FCL to the ROP, which represents a VaR of 16.42% as of June 2016. The FPD A is in second place with a VaR of 7.22%.

Liquidity levels at month-end are shown for each fund as a proportion of the net asset. Liquidity levels can be observed in agreement with the VaR calculated for each fund, without compromising its returns. The FPD B fund stands out, with a level of 11.97%.

v. BN Corredora de Seguros, S.A.

For the Insurance Brokerage Firm, liquidity risk is the risk that the entity will be unable to honor its commitments or obligations with third parties due to insufficient cash flows, resulting from a mismatch of the terms of assets and liabilities.

c) Market risks

i. Banco Nacional de Costa Rica.

To assess market risk, the Bank analyzes the probability that the value of its own investments will decrease as a result of changes in interest rates, foreign exchange rates, prices of instruments, and other economic and financial variables as well as the economic impact of those changes, which could expose the Bank to market risk. The objective of market risk management is to follow-up on and control market risk exposures within acceptable parameters (risk limits approved by the Board of Directors), while optimizing the return.

The main indicator used is the VaR of the Bank's investments, which is determined for each currency in which the Bank holds positions. That indicator is complemented with the Risk-Adjusted Return on Capital (RAROC), which summarizes the Bank's risk-return profile derived from holding an investment portfolio.

ii. BN Sociedad Administradora de Fondos de Inversión, S.A.

For the Investment Fund Manager, market risk is the risk of potential losses in the fair value of its financial instrument portfolio or its trading positions before they are derecognized. The loss is equivalent to the difference between the fair value when the instrument was acquired and the fair value at the date the instrument was derecognized. The degree of risk depends on the settlement period and the volatility and liquidity of markets.

As a systemic risk, market risk depends on a series of factors that are strongly linked to macroeconomic performance and is inherent to the market environment, thereby affecting all participants in a given market.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Market risk management

Market risks have been calculated since late 2003 and a database of those calculations is available for consultation when setting the corresponding risk limits.

Potential losses arising on changes in risk factors, such as changes in interest rates, which affect the valuation of positions are calculated daily.

For such purposes, the RiMeR methodology is used, which was internally developed by the Mathematical Modeling and Market Risk Divisions of the Bank. This methodology permits calculating the VaR of portfolios comprised of fixed income instruments. The model considers yield curves, rate model parameter estimation, scenario simulations, and calculation of VaR. This methodology uses a two-factor rate model (G2++ model), which involves decomposing the short rate into two processes and a deterministic function to be selected.

VaR of price risk and fair value is calculated on a daily basis, and all results are reported to the Investment Fund Manager's Financial Resources Investment Committee each month.

The Investment Fund Manager uses the above methods and calculations to analyze a portion of risk on its portfolios and the correlation between risk and return over a given period of time. The Sharpe ratio measures the risk-adjusted return based on the relationship between return and a risk-free assets and the volatility of returns.

Market risk exposure – trading portfolio:

The Investment Fund Manager sets VaR limits for all identified market risks. The structure of those limits is subject to review and approval by the Investment Committee and Board of Directors, respectively, and is based on the local VaR limits of the trading portfolio. VaR is calculated at each month-end, with reports on the usage of VaR limits submitted to the Investment Committee.

The VaR of the Investment Fund Manager's portfolio is as follows:

	June 2016	June 2015
VaR (99% confidence level)	0.28%	1.64%

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Fair values

Fair value estimates are made at a specific date, based on relevant market information and information concerning the financial instruments. These estimates do not reflect any premium or discount that could result from offering for sale a particular financial instrument at a given point in time.

These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision.

As of June 30, 2016 and 2015, the carrying amount of the following financial instruments approximates fair value: cash, investments in financial instruments, interest receivable, obligations under repurchase agreements, interest payable, fees and commissions, and other accounts payable. Investments are carried at the fair value determined using the method described above.

iii. BN Valores Puesto de Bolsa, S.A.

For the Brokerage Firm, market risk is the potential losses due to changes in risk factors that affect the valuation of positions, such as interest rates, foreign exchange rates, and price indices, which can result in either loss or gain for the Brokerage Firm. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

All derivatives, trading investments, and available-for-sale investments are recognized at fair value, and therefore, any changes in market conditions directly affect the Brokerage Firm's net income. Market risk is the risk that the fair value of those instruments will fluctuate as a result of changes in interest rates, foreign exchange rates, or equity prices.

Management of the Brokerage Firm controls market risk exposures on a daily basis by applying VaR analyses and other methods supported by the investment parameters under which the Brokerage Firm operates.

Additionally, the Brokerage Firm's approach to market risk management is to identify risk factors, monitor any such factors identified using market analyses, and assess positions that are subject to price risk using models that measure potential losses on those positions as a result of changes in equity prices, interest rates, or foreign exchange rates.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Price risk exposure:

The Brokerage Firm mainly measures and controls price risk exposure using VaR, which estimates possible losses in a portfolio over a predetermined time period (“holding period”). Because the portfolio may be affected by adverse changes in the market, a specific probability is quantified and used as the confidence level applied in the VaR calculation. Price risk exposure is low and has been controlled through investments.

The Brokerage Firm uses the historical method to calculate VaR, as established in the risk regulations issued by SUGEVAL, based on a confidence level of 95% and a 22-day holding period. As a complement to determine price risk exposure, the Brokerage Firm uses the consolidated VaR model, provided by the Bank’s Risk Division, which assumes a 99% confidence level and a 30-day holding period, based on the Monte Carlo approach.

iv. BN Vital Operadora de Planes de Pensiones Complementarias, S.A.

The Pension Fund Manager manages market risk for each of its funds by applying a VaR model pursuant to Section 41 of IFRS 7. That model is based on the Monte Carlo approach whereby the Pension Fund Manager runs random interest rate simulations in a specialized system and quantifies stochastic fair values that are compared with prices on the day the simulation is run. The difference in those values is the VaR, which is the potential loss in the fair value of a portfolio over a 10-day holding period with a confidence level of 99%.

As of June 30, 2016, the assets managed by the Pension Fund Manager amount to a total of ¢1,071,599.47 million (June 30, 2015: ¢938,737.07 million). That amount is distributed in the following funds: ROP, FCL, FPC A, FPC B, FPD A, FPD B, NOT, and OPC. ROP represents 81.91% (2015: 79.71%) of the balance managed.

Currently, the Pension Fund Manager’s funds are comprised of funds in various currencies, i.e. the Costa Rican colon, the U.S. dollar (local issuers and international portfolio), and DU, for which the Corporate Risk Division performs separate VaR analyses in respect of each currency. Subsequently, those analyses are consolidated using a model that includes interest rate and currency risks. Also, a VaR of investment funds is included to calculate the possible loss of the total investment portfolio over a holding period with a specific confidence level.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

v. BN Corredora de Seguros, S.A.

For the Brokerage Firm, market risk is the risk of changes in market prices, such as foreign exchange rates and interest rates. The objective of market risk management is to manage and control market risk exposures within acceptable parameters.

Interest rate risk

Interest rate risk is the risk of losses in the value of a financial asset or liability arising from fluctuations in interest rates, when changes in interest rates for the asset and liability portfolios are mismatched and when the Bank does not have the necessary flexibility to make a timely adjustment.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of June 30, 2016, the interest rate terms for the Bank's assets and liabilities are matched as follows (differences between the recovery of assets and the maturity of liabilities):

		1 to 30 days	31 to 90 days	91 to 180 days	181 to 360 days	361 to 720 days	More than 720 days	Total
<i>Local currency (LC)</i>								
Investments	¢	135,993,532,651	26,940,420,352	106,505,215,304	149,500,349,172	138,885,067,045	27,594,114,770	585,418,699,294
Loan portfolio		133,554,948,030	62,313,625,366	67,123,542,214	95,941,218,842	159,398,840,035	1,780,369,878,647	2,298,702,053,134
Total recovery of rate-sensitive assets LC (A)	¢	269,548,480,681	89,254,045,718	173,628,757,518	245,441,568,014	298,283,907,080	1,807,963,993,417	2,884,120,752,428
Obligations with the public	¢	212,463,040,372	292,667,220,494	421,105,481,541	250,972,085,051	54,118,919,831	11,101,872,081	1,242,428,619,370
Obligations with BCCR		-	-	-	-	-	125,644,412	125,644,412
Obligations with financial entities LC		6,932,174,614	151,548,468	273,575,761	364,355,824	230,877,714	2,646,529,519	10,599,061,900
Total maturity of rate-sensitive liabilities LC (B)	¢	219,395,214,986	292,818,768,962	421,379,057,302	251,336,440,875	54,349,797,545	13,874,046,012	1,253,153,325,682
LC difference, recovery of assets less maturity of liabilities (A - B)	¢	50,153,265,695	(203,564,723,244)	(247,750,299,784)	(5,894,872,861)	243,934,109,535	1,794,089,947,405	1,630,967,426,746
<i>Foreign currency (FC)</i>								
Investments	¢	46,863,331,390	62,775,457,018	138,324,337,816	76,335,502,371	144,417,693,311	74,929,266,051	543,645,587,957
Loan portfolio	¢	41,853,241,506	51,195,164,801	66,274,546,112	60,550,269,067	116,657,996,833	1,136,261,846,558	1,472,793,064,877
Loan portfolio	¢	88,716,572,896	113,970,621,819	204,598,883,928	136,885,771,438	261,075,690,144	1,211,191,112,609	2,016,438,652,834
Total recovery of rate-sensitive assets FC (C)								
	¢	87,243,074,242	129,311,743,332	159,916,512,197	67,375,784,662	15,643,994,617	850,561,869,955	1,310,052,979,005
Obligations with the public		18,492,740,513	70,383,672,640	16,297,229,596	3,337,790,360	63,034,946,592	85,271,544,236	256,817,923,937
Obligations with entities	¢	105,735,814,755	199,695,415,972	176,213,741,793	70,713,575,022	78,678,941,209	935,833,414,191	1,566,870,902,942
Total maturity of rate-sensitive liabilities FC (D)	¢	(17,019,241,859)	(85,724,794,153)	28,385,142,135	66,172,196,416	182,396,748,935	275,357,698,418	449,567,749,892
FC difference, recovery of assets less maturity of liabilities (C - D)	¢	358,265,053,577	203,224,667,537	378,227,641,446	382,327,339,452	559,359,597,224	3,019,155,106,026	4,900,559,405,262
Total recovery of rate-sensitive assets 1/ (A + C)	¢	325,131,029,741	492,514,184,934	597,592,799,095	322,050,015,897	133,028,738,754	949,707,460,203	2,820,024,228,624
Total recovery of rate-sensitive liabilities 2/ (B + D)	¢	33,134,023,836	(289,289,517,397)	(219,365,157,649)	60,277,323,555	426,330,858,470	2,069,447,645,823	2,080,535,176,638

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of June 30, 2015, the interest rate terms for the Bank's assets and liabilities are matched as follows (differences between the recovery of assets and the maturity of liabilities):

		1 to 30 days	31 to 90 days	91 to 180 days	181 to 360 days	361 to 720 days	More than 720 days	Total
<i>Local currency (LC)</i>								
Investments	¢	60,723,789,107	22,149,460,751	31,860,393,778	107,570,583,172	162,848,913,414	110,099,198,632	495,252,338,854
Loan portfolio		134,524,348,479	43,465,872,001	70,737,150,102	83,957,747,845	144,073,680,646	1,592,724,790,634	2,069,483,589,707
Total recovery of rate-sensitive assets LC (A)	¢	195,248,137,586	65,615,332,752	102,597,543,880	191,528,331,017	306,922,594,060	1,702,823,989,266	2,564,735,928,561
Obligations with the public	¢	266,349,013,286	206,822,820,296	347,411,239,842	187,308,104,054	47,586,961,209	38,713,572,254	1,094,191,710,941
Obligations with BCCR		2,846,208	10,820,671	-	10,937,756	21,523,369	125,644,412	171,772,416
Obligations with financial entities LC		587,977,947	100,538,205	196,340,349	316,317,947	667,147,459	2,271,540,781	4,139,862,688
Total maturity of rate-sensitive liabilities LC (B)	¢	266,939,837,441	206,934,179,172	347,607,580,191	187,635,359,757	48,275,632,037	41,110,757,447	1,098,503,346,045
LC difference, recovery of assets less maturity of liabilities (A - B)	¢	(71,691,699,855)	(141,318,846,420)	(245,010,036,311)	3,892,971,260	258,646,962,023	1,661,713,231,819	1,466,232,582,516
<i>Foreign currency (FC)</i>								
Investments	¢	49,133,563,834	32,534,621,027	105,411,446,472	168,529,352,230	136,290,951,382	138,988,039,790	630,887,974,735
Loan portfolio		41,263,822,961	42,831,601,918	59,099,468,340	54,197,545,413	89,641,281,417	991,000,128,449	1,278,033,848,498
Total recovery of rate-sensitive assets FC (C)	¢	90,397,386,795	75,366,222,945	164,510,914,812	222,726,897,643	225,932,232,799	1,129,988,168,239	1,908,921,823,233
Obligations with the public	¢	114,457,756,398	118,193,476,525	201,149,603,275	60,129,073,239	6,491,449,614	532,436,955,520	1,032,858,314,571
Obligations with entities		1,731,559,748	1,288,618,179	1,460,974,504	2,388,408,211	110,144,335,770	136,279,682,800	253,293,579,212
Total maturity of rate-sensitive liabilities FC (D)	¢	116,189,316,146	119,482,094,704	202,610,577,779	62,517,481,450	116,635,785,384	668,716,638,320	1,286,151,893,783
FC difference, recovery of assets less maturity of liabilities (C - D)	¢	(25,791,929,351)	(44,115,871,759)	(38,099,662,967)	160,209,416,193	109,296,447,415	461,271,529,919	622,769,929,450
Total recovery of rate-sensitive assets 1/ (A + C)	¢	285,645,524,381	140,981,555,697	267,108,458,692	414,255,228,660	532,854,826,859	2,832,812,157,505	4,473,657,751,794
Total recovery of rate-sensitive liabilities 2/ (B + D)	¢	383,129,153,587	326,416,273,876	550,218,157,970	250,152,841,207	164,911,417,421	709,827,395,767	2,384,655,239,828
LC + FC difference, recovery of assets less maturity of liabilities (item 1 - item 2)	¢	(97,483,629,206)	(185,434,718,179)	(283,109,699,278)	164,102,387,453	367,943,409,438	2,122,984,761,738	2,089,002,511,966

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

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i. Banco Nacional de Costa Rica.

The Bank is sensitive to this type of risk due to the mix of rates and terms for both assets and liabilities. Therefore, the Market Risk Division monitors this risk regularly and reports monthly on its performance to the Bank's Corporate Risk Committee.

As of the June 2016 close, the interest rate risk indicator in local and foreign currency closed considerably below SUGEF's regulatory maximum limit of 5%, at 1.77% and 0.50% (2015: 1.53% and 0.08%), respectively.

*Fair value hedges*

Fair value hedges are recognized as follows:

Gains or losses arising from valuation of the hedging instrument at fair value are recognized immediately in profit or loss for the period.

Gains or losses arising from valuation of the primary instrument that are attributable to the hedged risk are booked as an adjustment to the carrying amount of the instrument and recognized immediately in profit or loss for the period.

In 2013, five derivative instruments were formalized to hedge exposure to the LIBOR rate related to the issue of debt in U.S. dollars at a fixed rate, with the purpose of compensating for changes in fair value attributable to changes in such benchmark rate. Three of those instruments were formalized with the correspondent banks Bank of America, Citibank, and JP Morgan Chase, fully covering the 10-year issue for a total of US\$500,000,000 and maturing on November 1, 2023. The remaining two derivatives were formalized with Citibank and JP Morgan Chase, partially covering the 5-year issue for a total of US\$250,000,000 and maturing on November 1, 2018 (see note 5-b).

ii. BN Sociedad Administradora de Fondos de Inversión, S.A.

For the Investment Fund Manager, interest rate risk in respect of cash flows and fair value are the risks that the future cash flows and the fair value of a financial instrument will fluctuate as a result of changes in market interest rates.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

iii. BN Vital Operadora de Planes de Pensiones Complementarias, S.A.

In general, the Pension Fund Manager sought to maintain the average term to maturity for investments in colones in order to receive the highest real returns with the lowest associated risk.

The consolidated VaR of the Pension Fund Manager's own funds decreased from 4.22% to 0.36% between June 30, 2015 and June 30, 2016. This is due to the strategy implemented by management (decreasing positions over the long-term), taking advantage of the rates and the economic conditions of the period under analysis, as well as a change in the methodology applied by the Bank's Corporate Risk Division, related to the optimization of parameters and valuation of instruments with variable interest rates.

iv. BN Corredora de Seguros, S.A.

For the Insurance Brokerage Firm, interest rate risk is the risk of losses in the value of a financial asset or liability arising from fluctuations in interest rates, when interest rates for financial assets and liabilities are mismatched, and when the Insurance Brokerage Firm does not have the necessary flexibility to make a timely adjustment.

Currency risk

Pursuant to SUGEF Directive 24-00, an entity faces currency risk when the value of its assets and liabilities in foreign currency is affected by exchange rate variations and the amounts of the corresponding assets and liabilities are mismatched.

Starting May 2009, the Bank's Asset and Liability Committee decided to take a neutral foreign currency position with the purpose of protecting the Bank from any changes in the exchange rate, which has been ratified annually by the Bank's Corporate Risk Committee. The Bank's foreign currency position is monitored daily by the Market Risk Division. In addition, the currency risk indicator is calculated on a monthly basis, according to SUGEF regulations. In June 2016, this indicator was equivalent to 0.02% (June 2015: 0.01%), considerably below SUGEF's regulatory maximum limit of 5%.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Assets and liabilities denominated in foreign currency are as follows:

		U.S. dollars	
		June 2016	June 2015
Assets:			
Cash and due from banks	US\$	765,749,868	685,570,977
Investments in financial instruments		1,025,852,813	1,163,832,544
Loan portfolio		2,756,977,043	2,450,019,691
Accounts and accrued interest receivable		496,404	421,477
Investments in other companies		103,911,298	98,467,026
Other assets		6,133,308	6,163,966
Total assets	US\$	4,659,120,734	4,404,475,681
Liabilities:			
Obligations with the public	US\$	2,245,714,591	2,247,354,809
Obligations with entities		2,276,100,358	1,998,041,078
Accounts payable and provisions		15,119,994	16,877,562
Other liabilities		28,710,346	30,034,639
Subordinated obligations		132,240,027	132,135,781
Total liabilities	US\$	4,697,885,316	4,424,443,869
Excess (deficit) of assets over liabilities in U.S. dollars	US\$	(38,764,582)	(19,968,188)
		Euros	
		June 2016	June 2015
Assets:			
Cash and due from banks	€	20,092,130	16,579,013
Investments in financial instruments		35,348,725	40,949,117
Total assets	€	55,440,855	57,528,130
Liabilities:			
Obligations with the public	€	51,659,048	54,822,988
Obligations with entities		1,111,157	2,288,592
Accounts payable and provisions		168,618	88,394
Other liabilities		437,378	-
Total liabilities	€	53,376,201	57,199,974
Excess (deficit) of assets over liabilities in euros	€	2,064,654	328,156

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		DU	
		June 2016	June 2015
Assets:			
Investments in financial instruments	DU	34,770,504	39,227,427
Loan portfolio		27,315,572	36,795,152
Total assets	DU	62,086,076	76,022,579
Liabilities:			
Accounts payable and provisions	DU	870,369	1,035,429
Other liabilities		5,128	7,768
Total liabilities	DU	875,497	1,043,197
Excess of assets over liabilities in DU	DU	61,210,579	74,979,382

The Bank's net position is not hedged. However, the Bank considers its position to be acceptable and in compliance with the internal policy limits established by the Asset and Liability Committee.

The valuation in colones of monetary assets and liabilities in foreign currency gave rise to foreign exchange gains or losses, as follows:

		June 2016	June 2015
Foreign exchange gain	¢	70,893,088,373	61,957,518,410
Foreign exchange loss		71,858,627,174	61,798,429,270
Net (loss) gain	¢	(965,538,801)	159,089,140

Additionally, the valuation of other assets and other liabilities for the year ended June 30 gave rise to gains and losses, respectively, which are booked in "Other operating income" and "Other operating expenses", respectively, as follows:

		June 2016	June 2015
Gain on net valuation of other assets	¢	118,464,635	235,860,246
Loss on net valuation of other liabilities (note 36)		321,195,340	156,761,915
Net gain (loss)	¢	(202,730,705)	79,098,331

(Continued)



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The value of financial assets and liabilities includes future interest to be earned in the corresponding period of time.

i. Banco Nacional de Costa Rica

The Bank is exposed to currency risk when the value of its assets and liabilities in foreign currency is affected by variations in the exchange rate, which is recognized in the income statement.

Investments in Europe

- The Bank's Market Risk Division analyzes and follows-up on the investment portfolio on an ongoing basis through the Comprehensive Risk Assessment Report, which is submitted to the Corporate Risk Committee and the Board of Directors.
- For the portfolios denominated in international dollars and euros, the Bank periodically analyzes the portfolio's balance performance by currency, composition by issuer, term and yield, VaR, stress scenarios related to shifts in yield curves (sovereign yield curve in the euro area, sovereign yield curve in the U.S., and yield curve for the 6-month LIBOR rate), and accrued market valuation.

*Investments in euros - Europe*

- The investment portfolio denominated in euros amounts to €35.3 million as of the June 2016 close and represents 2% of the Bank's total investment portfolio, which is in line with the strategy for investment diversification and portfolio currency matching. This portfolio has remained relatively stable during the past year, ranging between €35 million and €38 million. The main issuers are England (30%), Holland (15%), Belgium (12%), and France (10%).
- Most issuers comprising this portfolio are sovereign issuers with very high credit ratings.
- VaR of fair value was 0.02% and duration locates at 0.71 years.
- Of the portfolio, 96% bears interest at a fixed rate, and 75% has a maturity of less than one year.
- As a result of the ongoing monitoring performed by the Market Risk Division regarding the situation in Europe, the strategy used to manage the portfolio is based on increased liquidity and reduced exposure of the most volatile instruments.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

*Investments in dollars - Europe*

- The portfolio in international dollars includes a component of European instruments amounting to \$94.7 million, equivalent to 10% of the face value of such portfolio. The total balance of the portfolio in international dollars is \$945.2 million. However, if the note issued by Barclays with underlying bonds issued by the Government of Costa Rica is excluded, the share in the portfolio would be 5%.
- In this case, the portfolio concentrates in instruments issued by sovereign issuers that are considered to have very high credit ratings, including Germany, France, Sweden, England, etc.

ii. BN Corredora de Seguros, S.A.

The Insurance Brokerage Firm is exposed to currency risk when the value of its assets and liabilities in U.S. dollars is affected by exchange rate variations. The effect of this risk is recognized in the income statement.

For the Insurance Brokerage Firm, currency risk is the risk that the fair value or the future cash flows of a financial instrument may fluctuate as a result of variations in foreign exchange rates. The effect of this risk is recognized in the consolidated income statement.

iii. BN Sociedad Administradora de Fondos de Inversión, S.A.

For the Investment Fund Manager, currency risk is the risk of a decrease in an investor's purchasing power due to unexpected variations in foreign exchanges rates for the currencies in which the investor holds positions.

The investment funds managed by this subsidiary are currency specific, i.e. the assets and liabilities of the investment portfolios are denominated in the same currency. Additionally, the investment funds are managed as memoranda accounts rather than as liabilities.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The risk of capital requirement due to currency risk corresponds to the amount resulting from multiplying the absolute value of the net position in foreign currency by 10%.

iv. BN Valores Puesto de Bolsa, S.A.

For the Brokerage Firm, a significant change in the devaluation rate, depending on the magnitude of such change, could adversely impact the local market and, to a certain degree, counterparty risk in the stock market. Business units, together with the risk management department, monitor market changes on a daily basis and measure the impact of positions acquired on the Brokerage Firm's liquidity and equity based on simulations of extreme conditions.

The Brokerage Firm incurs currency risk mainly on cash and investments in U.S. dollars.

In respect of its assets and liabilities denominated in U.S. dollars, the Brokerage Firm aims to ensure that its net exposure is maintained at an acceptable level by holding sufficient assets in U.S. dollars to be able to settle its liabilities in that currency.

v. BN Vital Operadora de Planes de Pensiones Complementarias, S.A.

As of June 30, 2016, 0.68% of the Pension Fund Manager's assets of own funds is represented by debt bonds. Of the funds managed, the highest exposure is that of ROPC, which holds investments equivalent to 15.82% of the portfolio in U.S. dollars, followed by FCL (3.65%), FPC A (0.54%), and FPC B (7.46%) in U.S. dollars.

For each of the funds managed, the Comprehensive Risk Management Unit (UAIR) performs simulations of exchange rate variations and their effect on changes in the value of the assets managed, the share value, and accordingly, the portfolio yield.

d) Operational risk

i. Banco Nacional de Costa Rica

Operational risk is the risk of losses resulting from inadequate or failed internal processes, personnel, information systems, and controls or from external events. This definition includes legal risk but excludes strategic, business, or reputational risks. In addition, the existing methodologies incorporate the criteria and best practices regarding the taxonomy and classification of operational risks established as recommendations and best practices by the Basel Committee.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The policy adopted by the Bank stipulates that all of the Bank's employees are inherently responsible for managing operational risk. The Bank's employees are also required at all times to comply with the policies, regulations, procedures, and controls applicable to their positions and to ensure that the Bank's institutional values, code of conduct, and ethics are adopted across all levels of the organization.

That policy is implemented through a comprehensive model with three lines of defense:

- Business areas with the primary functions of execution and supervision.
- Support areas that have functions including surveillance, internal guideline generation, monitoring and control of key indicators, and regulatory compliance.
- Independent audits, both internal and external, that perform control testing and validation in conformity with that set forth by upper management and the applicable regulations.

Furthermore, the Bank has defined operating policies related to the implementation of new products, services, and operations and to fraud management.

One of the Bank's fundamental operational risk management principles is transparency, defined as the identification, documentation, and reporting of risk events in order to allow the Bank to adequately measure risk events and carry out any necessary corrective, preventive, and mitigation measures in a timely manner, including insurance where this is effective.

Also, the main activity in operational risk management is the assessment of risk in institutional processes by applying a specific methodology that controls the frequency, impact, and quality of identified risk events. The diagram below shows how such methodology is applied to institutional processes:



(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Once the risks of the processes, areas, and operations are assessed, control activities are established in order to implement operating and prudential mitigation mechanisms, so that preventive controls are included in the day-to-day tasks and functions performed.

Upper management has defined operational risk limits that specifically measure the performance of risk management and total operating losses. These measurements are performed and reported to the upper levels on a monthly basis. Risk management also entails a qualitative assessment through the calculation of indicators and specific risk models, which reflect behaviors and trends on a periodic basis that are used as inputs for decision-making.

For legal risk, the Bank applies a model to estimate the EL and VaR of legal actions, considering the subject matter of the cases when calculating the likelihood of loss and a continuous model for the duration of the legal actions. Such model provides a direct estimate of the duration of each legal action in the corresponding court and the possible outcomes. The results thereof are used to address possible losses from unfavorable rulings.

For IT risk, the critical systems supporting the business are identified. System availability is measured on a monthly basis, while risk maps are updated annually based on a methodology established for such purposes. Events affecting normal operations are identified, classified, and reported to the Bank's upper management through a periodic information system that determines risk exposure.

Finally, operational risk management includes Business Continuity and Information Security management, as part of international best practices and regulations being implemented in the country.

ii. BN Sociedad Administradora de Fondos de Inversiones, S.A.

For the Investment Fund Manager, operational risk is the risk of possible direct or indirect loss arising from Investment Fund Manager's processes, personnel, technology, and infrastructure, in addition to external factors other than credit, market, and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Also, the Institutional Risk Assessment System (SEVRI) measures operational risk activities, which are weighted with other risk categories to determine a global rating for institutional risk.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The Investment Fund Manager aims to manage operational risk so to avoid financial losses and damage to its reputation.

The Investment Fund Manager has worked in the following six areas related to operational risk:

- Identification: Tools have been developed to accurately identify the different risks associated with each of the Investment Fund Manager's fundamental processes. Each process was analyzed together with any related processes to formulate a risk portfolio for the entire company. As a first step, the risks included in that portfolio were grouped by type and by class.
- Analysis: Using tools defined by international methods, the Investment Fund Manager analyzed the risks identified for each business unit and determined the degree of impact, the probability of occurrence, and the origin of each risk. In addition to this analysis, the Investment Fund Manager assesses aspects of the business that can affect risk such as its image, operations, income, human resources, etc.
- Measurement: Similar to the analysis mentioned above, each risk identified was assessed from two perspectives (its probability of occurrence and its potential impact) in order to determine which risks require the most attention and the formulation of action plans to be carried out in the event that the risk materializes. Such information is included in the Business Continuity Plan (BCP).
- Follow-up: Periodic assessments are made of the institutional risk map to identify changes that could increase or decrease the probability that risk events will occur in order to adapt the Investment Fund Manager's strategies to address areas in which risk exposures are considered unacceptable.
- Control: The Investment Fund Manager's strategies to control and mitigate the potential impact of different operational risks include contingent computer hardware, a redundant power infrastructure, personnel turnover, documentation of the activities performed by each position, specialized training, varied and continually open channels of communication, development of a general culture focused on operational controls, etc.
- Communication: Upper management informs employees of risk management trends and strategies as well the results of assessments through meetings with employees or announcements.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

iii. BN Valores Puesto de Bolsa, S.A.

For the Brokerage Firm, operational risk is the risk of losses resulting from inadequate or failed internal processes, personnel, information systems, and internal controls or from external events.

Management of this risk is the responsibility of all business units within the Brokerage Firm and considers the following:

- identification of risk factors;
- mapping of the Brokerage Firm's operational risks;
- operational risk database of information on risk events, including type, description, and number of events, business unit in which the event originated, date, and monetary loss incurred;
- compliance with corporate governance practices and established conduct guidelines;
- compliance with regulatory and other legal or contractual requirements applicable to the Brokerage Firm; and
- integrity, security, and availability of the Brokerage Firm's information technology (IT).

Fair value of financial instruments

Fair value estimates are made at a specific date, based on relevant market information and information concerning the financial instruments. These estimates do not reflect any premium or discount that could result from offering for sale a particular financial instrument at a given point in time.

Estimates could vary significantly if changes are made to those assumptions. The following methods and assumptions were used by the Brokerage Firm to estimate the fair value of financial instruments:

- (a) The carrying amounts of cash and cash equivalents, accounts receivable, and accounts payable approximate fair value because of the short-term nature of these instruments.
- (b) Available-for-sale investments are booked at fair value. The fair values are based on quoted market prices or prices quoted by brokers. The fair values of held-to-maturity investments are estimated using discounted cash flow techniques.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

iv. BN Corredora de Seguros, S.A.

For the Insurance Brokerage Firm, operational risk is related to the quality of the information in the systems, since an error in entering the information may lead to failed processing or non-renewal of individual insurance policies.

The Insurance Brokerage Firm is in the process of purchasing information systems, which implies a risk since the current information system process is not appropriate.

v. BN Vital Operadora de Planes de Pensiones Complementarias, S.A.

For the Pension Fund Manager, operational risk is the risk of possible direct or indirect loss arising from the Pension Fund Manager's processes, personnel, technology, and infrastructure, in addition to external factors other than credit, market, and liquidity risks. Operational risk is an inherent risk for the sector in which the Pension Fund Manager operates and for all of its main activities. It manifests as failures, errors, business interruptions, or inappropriate employee behavior, and may cause financial loss, penalties from regulatory authorities, or damage to the reputation of the Pension Fund Manager.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to management in each business area. This responsibility is supported by the development of standards for the management of operational risk in the following areas:

- appropriate segregation of duties, including the independent authorization of transactions;
- requirements for effective reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- communication and application of conduct guidelines or ethical standards;
- monitoring of risks using measurement tools;
- reporting of operational losses and proposed remedial actions;
- comprehensive planning for resuming activities, including plans to restore key operations and internal and external support to ensure services are not interrupted; and
- personnel training.

(Continued)



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

At the financial conglomerate level, UAIR furnishes necessary operational risk results.

Compliance with the standards established by the Bank at the financial conglomerate level is supported by a program of periodic reviews undertaken by General and Internal Audit. The results of such reviews are discussed with the personnel of the Pension Fund Manager.

Legal risk: This risk focuses on the legal contingencies that result from the nature and operation of the industry when applying and interpreting pension legislation and regulations. The Pension Fund Manager is provided with legal advice and agreements authorized by SUPEN.

Risk management is comprised of three types of risk, namely:

Contract risk: This risk is assumed when the Pension Fund Manager makes investments with its own funds or the funds it manages. Accordingly, the contracts must comply with the regulations in effect and the performance bond signed by the parties. To ensure that these actions are executed from a legal standpoint, measures are coordinated and backed by the Bank.

Regulatory compliance risk: This risk refers to the scope and adoption of regulations in effect of the Pension Fund Manager. For such purposes, a Compliance Officer is in charge of reviewing in a systematic and comprehensive manner any departure from regulations. UAIR analyzes and verifies the limits established by SUPEN in the Investment Regulations of the regulated entities.

Litigation risk: UAIR follows up monthly on the legal actions filed against the Pension Fund Manager. The legal actions must be timely communicated and fed by management into the database of the Bank's Legal Department. Mathematical models are then applied to estimate the amounts of EL and VaR.

As of June 30, 2016, the Bank's General Risk Division presented the results of the calculation of the VaR of legal actions for the Pension Fund Manager, which indicate that the amount of expected losses to be provisioned is ¢288.11 million (see note 43, Contingencies). There are seven lawsuits pending against the Pension Fund Manager, most of which are in first instance.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Capital management

Costa Rican banking legislation requires the financial conglomerate to maintain a capital surplus at all times (i.e. a ratio of one or higher obtained by dividing the sum of total transferable surpluses of each company in the conglomerate and the individual surplus of the controlling company by the absolute value of the sum of individual deficits).

The capital surplus or capital deficit of the financial group or conglomerate is calculated as the individual surplus or deficit of the controlling company plus the transferable surpluses and minus the individual deficits of each company in the financial group or conglomerate.

The individual surplus of each company in the financial conglomerate is calculated as the excess of the capital base over the respective minimum capital requirement for each type of company stipulated in the CONASSIF prudential standard.

Regulatory capital is analyzed with consideration for the following three areas:

Tier I capital: ordinary and preferred paid-in capital plus reserves.

Tier II capital: calculated as the sum of equity adjustments for revaluation of property up to a maximum of 75% of the balance of the corresponding equity account, unrealized gains on investments in available-for-sale financial instruments, non-capitalized contributions, prior period retained earnings, and profit or loss for the period, less statutory deductions.

Deductions: Investments in other companies and loans granted to the controlling entity of the same financial group or conglomerate are to be deducted from the sum of Tier I and Tier II capital.

Risk-weighted assets: Assets and contingent liabilities are weighted according to the risk level established by regulations plus a price risk adjustment per capital requirements.

The Bank's policy is to maintain a strong capital base so as to maintain a balance between share capital and return on investment. Throughout the year, the Bank has complied with capital requirements and no significant changes were made to its capital management.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of June 30, 2016 and 2015, the Bank's risk rating is at a normal level, since its capital adequacy ratio is above the required 10% ratio.

(43) Contingencies

As of June 30, 2016 and 2015, the Bank and Pension Fund Manager are defendants in ordinary, labor, and criminal lawsuits. The legal actions filed are as follows:

	Number of cases		Stage of the proceedings	Total estimated amount	
	2016	2015		2016	2015
The Bank	221	245	First instance	¢ 216,081,353,895	238,538,146,074
	23	13	Second instance	17,844,312,577	10,468,993,096
	3	5	Appeal	5,089,047,215	6,751,150,000
	247	263	Subtotal	239,014,713,687	255,758,289,170
Pension Fund Manager	-	3	Second instance	-	265,110,324
Brokerage Firm	1	-	First instance	133,194,104	-
	1	3	Subtotal	133,194,104	265,110,324
	248	266	Total (note 20)	¢ 239,147,907,791	256,023,399,494

As of June 30, 2016 and 2015, the legal actions filed against the Bank and its subsidiaries are booked in memoranda accounts under "Other contingencies - pending litigation and lawsuits".

As of June 30, 2016 and 2015, the Bank is a claimant in ordinary, labor, and criminal lawsuits, which outcome is uncertain and are not booked in the accounting records, as follows:

Number of cases		Phase	Total estimated amount	
2016	2015		2016	2015
89	43	First instance	¢ 13,059,170,195	3,760,106,857
1	1	Second instance	375,839,600	150,000,000
90	44	Total	¢ 13,435,009,795	3,910,106,857

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(44) Significant events

a) Audit by Tax Authorities - 2010, 2011, 2012, and 2013 periods

On May 21, 2014, the Bank was informed that the Tax Authorities were to perform an audit in respect of the 2010, 2011, 2012, and 2013 periods. Through Notice No. 1-10-015-14-077-011-03 and Notice No. 1-10-015-14-078-111-03 issued by the Large Taxpayer Administration, the Bank received the “Notification of the Start of the Tax Audit and Initial Information Requirements” for the 2012 and 2013 periods, which involves confirming the veracity of the tax returns filed. Additionally, on June 27, 2014, the periods to be audited were extended to include 2010 and 2011 through the “Notification of the Extension to the Tax Audit and Initial Information Requirements” (Notice No. 1-10-015-14-025-012-03 and Notice No. 1-10-015-14-016-121-03).

On November 27, 2014, the Bank’s management issued Document No. SGRF-397-2014 presenting management’s technical and legal criteria that support its disagreement with the adjustments determined by the Large Taxpayer Administration, as a response to the “Provisional Regularization Proposal and Proposed Sanctioning Ruling Based on Article 81 of the Tax Code of Standards and Procedures (CNPT)”.

On January 9, 2015, the National Large Taxpayer Audit Subdirection issued Document No. 1-10-015-14-091-341-03, “Regularization Proposal”, detailing the required tax adjustments or corrections to the tax base included in the tax returns filed by the Bank for the 2010, 2011, 2012, and 2013 tax periods. The total tax liability, interest thereon, and the corresponding penalties amount to ¢29,089,100,723, ¢9,036,647,719, and ¢11,286,519,808, respectively.

On January 16, 2015, the Bank presented Official Letter SGR-012-2015 stating its disagreement with the “Regularization Proposal”. Also, the Tax Authorities issued Notice No. 2-10-015-14-044-03 “Postponement of the Sanctioning Ruling”, whereby the pronouncement of the sanctioning ruling is suspended until the Tax Authorities present the supporting jeopardy assessment of taxes. Additionally, Notice No. 1-10-015-14-038-03 “Postponement of the Jeopardy Assessment of Taxes” suspends the assessment process until the Constitutional Chamber issues a decision on the appeal claiming violation of constitutional rights against article 144 of CNPT (File No. 14-011798-0007-CO).

The National Large Taxpayer Audit Subdirection issued Document No. SFGCN-020-15 dated January 19, 2015 (notified to the Bank on January 21, 2015), whereby it maintains its decision and confirms the actions taken.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Notification No. D.J. 176-2015 ref. 365 of the Legal Department, dated February 3, 2015, reads as follows:

*“Therefore, as a result of the consultations, no legally-binding tax liability has been established for the Bank. For such purposes, an administrative act must be issued in respect of the jeopardy assessment of taxes, which is subject to the decision of the Constitutional Chamber of the Supreme Court of Justice in respect of the appeal against article 144. If the appeal is dismissed by the Constitutional Chamber, the debt will become immediately applicable, final, and a present obligation, due to the issue of the jeopardy assessment of taxes”.*

b) Dividends paid to the Bank

- *BN Corredora de Seguros, S.A.*

Under article No. 2 of meeting No. 12,007 held on July 13, 2015, the Board of Directors agreed to authorize the distribution of dividends from retained earnings in the amount of ¢800 million.

Under article No. 2 of meeting No. 11,888 held on February 11, 2014, the Board of Directors agreed to authorize the distribution of dividends from retained earnings in accordance with Official letter SGRF-047-2014 dated February 6, 2014 in the amount of ¢250 million.

- *BN Sociedad Administradora de Fondo de Inversión, S.A. – BN SAFI, S.A.*

Under article No. 3 of meeting No. 11,989 held on May 25, 2015, the Board of Directors agreed to authorize the distribution of dividends from retained earnings in the amount of ¢600 million.

Under article No. 2 of meeting No. 11,887 held on February 11, 2014, the Board of Directors agreed to authorize the distribution of dividends from retained earnings in accordance with Official letter SGRF-047-2014 dated February 6, 2014 in the amount of ¢1 billion.

- *Puesto de Bolsa Sociedad Anónima - BN Valores, S.A.*

Under article No. 2 of meeting No. 11,885 held on February 11, 2014, the Board of Directors agreed to authorize the distribution of dividends from retained earnings in accordance with Official letter SGRF-047-2014 dated February 6, 2014 in the amount of ¢4 billion.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- *Operadora de Planes de Pensiones Complementarias Sociedad Anónima – BN Vital, S.A.*

Under article No. 3 of meeting No. 11,996 held on June 15, 2015, the Board of Directors agreed to authorize the distribution of dividends from retained earnings in accordance with Official letter SGRF-212-2015 in the amount of ¢21 million.

Under article No. 2 of meeting No. 11,886 held on February 11, 2014, the Board of Directors agreed to authorize the distribution of dividends from retained earnings in accordance with Official letter SGRF-047-2014 dated February 6, 2014 in the amount of ¢333 million.

c) Amendments to accounting regulations

Through Articles 8 and 5 of the minutes of meetings No. 1034-2013 and No. 1035-2013 held on April 2, 2013, CONASSIF upheld the amendments to SUGEF Directive 31-04 in respect of the financial statements and explanatory notes, SUGEF Directive 33-07 in respect of new accounts to be included in the financial reports, and SUGEF Directive 34-02 in respect of accounting regulations applicable to regulated entities. These amendments are effective starting January 1, 2014.

(45) Transition to International Financial Reporting Standards (IFRSs)

Through various resolutions, CONASSIF (the Board) agreed to partial adoption starting January 1, 2004 of IFRSs promulgated by the International Accounting Standards Board (IASB).

In order to regulate application of those Standards, the Board issued the *Terms of the Accounting Regulations Applicable to Entities Regulated by SUGEF, SUGEVAL, SUPEN, and SUGESE and to Non-financial Issuers* (the Regulations) and approved a comprehensive revision of those Regulations on December 17, 2007.

On May 11, 2010, the Board issued private letter ruling C.N.S. 413-10 to revise the Regulations, whereby regulated entities adopted IFRSs and the corresponding Interpretations issued by the IASB in effect as of January 1, 2008, except for the special treatment indicated in Chapter II of the Regulations.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Subsequently, through Circular Letter C.N.S. 1034-08 dated April 4, 2013, the Board published a number of amendments to SUGEF Directive 31-04 “*Regulations on the Financial Reporting of Financial Entities, Groups, and Conglomerates*” in respect of presentation of annual financial statements, unaudited interim consolidated and unconsolidated financial statements prepared by the entity, and audited consolidated and unconsolidated financial statements. Also, the Board amended SUGEF Directive 34-02 “*Accounting Regulations Applicable to Entities Regulated by SUGEF, SUGEVAL, SUPEN, and SUGESE*” to adopt IFRSs in effect as of January 1, 2011, except for the special treatments indicated in Chapter II of the Regulations. These amendments are effective for annual reporting periods beginning on or after January 1, 2014.

When the regulations issued by the Board differ from IFRSs, noncompliance with such IFRSs and the nature of the specific departure applicable to the entity must be disclosed for each reporting period.

Pursuant to the Regulations, adoption of new IFRSs or Interpretations issued by the IASB, as well as any other revisions of IFRSs adopted will require the prior authorization of the Board.

Following is a summary of some of the main differences between the accounting standards issued by the Board and IFRSs, as well as the IFRSs or Interpretations of the International Financial Reporting Interpretations Committee (IFRICs) yet to be adopted:

a) IAS 1: Presentation of Financial Statements

The presentation of financial statements required by the Board differs in some respects from presentation under this Standard. Following are some of the most significant differences:

SUGEF standards do not allow certain transactions, such as clearing house balances, gains or losses on the sale of financial instruments, foreign exchange differences, income taxes, etc. to be presented on a net basis. Given their nature, IFRSs require those balances to be presented net to prevent assets and liabilities or profit or loss from being overstated.

Also, interest receivable and payable is presented in the main asset or liability account rather than as other assets or other liabilities.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

b) IAS 7: Statement of Cash Flows

The Board has only authorized preparation of the cash flow statement using the indirect method. The direct method is also acceptable under this Standard.

c) IAS 12: Income Taxes

SUGEF's Chart of Accounts presents deferred income tax assets, liabilities, income, and expenses separately. IAS 12 permits presenting assets and liabilities on a net basis if the taxes are levied on the same taxable entity. In accordance with IAS 12, income or expenses must be presented on a net basis as part of total income tax.

d) IAS 16: Property, Plant and Equipment

The Standard issued by the Board requires the revaluation of property through appraisals made by independent appraisers at least once every five years, eliminating the option to carry these assets at cost or to revalue other types of assets.

Additionally, SUGEF has allowed certain regulated entities to convert (capitalize) revaluation surplus into share capital. This Standard only permits realization of revaluation surplus through the sale or depreciation of the asset. As a result of this treatment, regulated entities must recognize the effect of any impaired fixed assets in profit or loss, since the effect cannot be credited to equity. Under this Standard, impairment is charged to revaluation surplus and any difference is recognized in profit or loss. The amendments to SUGEF Directive 31-04 and SUGEF Directive 34-02 eliminate the option of capitalizing the surplus derived from revaluation of assets for financial statements as of March 31, 2014.

Moreover, under IAS 16, depreciation continues on property, plant and equipment, even if the asset is idle. The Standard issued by the Board allows entities to suspend the depreciation of idle assets and reclassify them as foreclosed assets.

e) IAS 18: Revenue

The Board has allowed regulated financial entities to recognize loan fees and commissions collected prior to January 1, 2003 as revenue. Additionally, the Board has permitted the deferral of 25%, 50%, and 100% of loan fees and commissions for transactions completed in 2003, 2004, and 2005, respectively. This Standard prescribes deferral of 100% of those fees and commissions over the loan term.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The Board has also allowed deferral of the net excess of loan fee and commission income minus expenses incurred for activities such as assessment of the borrower's financial position, evaluation and recognition of guarantees, sureties, or other collateral instruments, negotiation of the terms of the instrument, preparation and processing of documents, and settlement of the operation. This Standard does not allow deferral on a net basis of such income. Instead, it prescribes deferral of 100% of loan fee and commission income and permits the deferral of only certain incremental transaction costs, rather than all direct costs. Accordingly, when costs exceed income, loan fee and commission income may not be deferred in full, since the Board only allows the net excess of income over expenses to be deferred. This treatment does not conform to IAS 18 and IAS 39, which prescribe separate treatment for income and expenses (see comments on IAS 39). With the amendments to SUGEF Directive 31-04 and SUGEF Directive 34-02, the Board adopted the accounting treatment prescribed by IAS 18 and IAS 39 for fees and commissions and transaction costs. However, the following differences remain between the accounting standards issued by the Board and IAS 18 and IAS 39:

- The Board requires that fee and commission income be recognized as a liability and booked under "Deferred income" (liability) and incremental direct costs be amortized in "Deferred charges" (asset). Under IAS 39, fees and commissions and incremental costs are part of the amortized cost of financial instruments, rather than separate assets and liabilities.
- The Board requires that fee and commission income be deferred in "Other income" and costs be amortized in "Other expenses". Under IAS 18 and IAS 39, income and costs must be booked as part of "Interest income on financial instruments".
- The Board requires that the effective interest rate be calculated over the financial instrument's contractual life. Under IAS 39, the effective interest rate for financial instruments is calculated over their expected life (or over a shorter period, if appropriate).
- Under SUGEF regulations, in the event of issuance of a credit-related guarantee, deferred income and incremental costs pending deferral or amortization as of the issue date are not included in the instrument's amortized cost or the calculation of the foreclosed asset's carrying amount. As a result, upon issuance, fees and commissions pending deferral and costs pending amortization are booked in profit or loss for the period.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

f) IAS 21: The Effects of Changes in Foreign Exchange Rates

The Board requires that the financial statements of regulated entities be presented in colones as the functional currency.

g) IAS 27: Consolidated and Separate Financial Statements

The Board requires that the financial statements of a parent be presented separately, measuring its investments by the equity method. Under this Standard, a parent is required to present consolidated financial statements. A parent need not present consolidated financial statements when the ultimate or any intermediate parent of the parent produces consolidated financial statements available for public use, provided certain other requirements are also met. However, in this case, this Standard requires that investments be accounted for at cost. With the amendments to IFRS effective as of 2014, in the preparation of separate financial statements investments in subsidiaries and associates can be measured at cost according to IFRS 9, or using the equity method described in IAS 28. However, the Board has not adopted the amendments to IAS 27.

In the case of financial groups, the holding company must consolidate the financial statements of all of the companies of the group in which it holds an ownership interest of twenty-five percent (25%) or more, irrespective of control. For such purposes, proportionate consolidation should not be used, except in the consolidation of investments in joint arrangements.

Amended IAS 27 (2008) requires accounting for changes in ownership interests in a subsidiary, while maintaining control, to be recognized as an equity transaction. When an entity loses control of a subsidiary, any ownership interest retained in the former subsidiary is to be measured at fair value with the gain or loss recognized in profit or loss. This Standard became mandatory for 2010 financial statements. These amendments have not been adopted by the Board.

With the modifications to SUGEF Directive 31-04 and SUGEF Directive 34-02, savings and credit cooperatives and the Education Savings and Loan Association, as parents, are not required to consolidate the interim and annual audited financial statements of their investees, such as funeral homes and other entities not related to the financial and stock market sector; except for entities that own or manage the cooperatives' personal and real property, which must be consolidated.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

h) IAS 28: Investments in Associates

The Board requires consolidation of investments in companies in which an entity holds twenty-five percent (25%) or more ownership interest, irrespective of any considerations of control. Such treatment does not conform to IAS 27 and IAS 28.

i) Revised IAS 32: Financial Instruments - Presentation

The revised Standard provides new guidelines clarifying the classification of financial instruments as liabilities or equity (e.g. preferred shares). SUGEVAL determines whether issues fulfill the requirements of share capital.

j) Amendments to IAS 32: Financial Instruments - Presentation and IAS 1: Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation

The amendments to the Standards require puttable instruments and instruments that impose on the entity an obligation to deliver to another party a *pro rata* share of the net assets of the entity only on liquidation to be classified as equity if certain conditions are met. These changes have not been adopted by the Board.

k) IAS 37: Provisions, Contingent Liabilities and Contingent Assets

SUGEFE prescribes recognition of a provision for possible losses on contingent assets. This type of provision is prohibited under this Standard.

l) IAS 38: Intangible Assets

The commercial banks listed in article 1 of IRNBS (Law No. 1644) may present organization and installation expenses as an asset in the balance sheet. However, those expenses must be fully amortized on the straight-line method over a maximum of five years. Also, under SUGEFE regulations, intangible assets must be amortized over five years. This is not in accordance with IAS 38.

m) IAS 39: Financial Instruments: Recognition and Measurement

The Board requires that the loan portfolio be classified pursuant to SUGEFE Directive 1-05 and that the allowance for loan losses be determined based on that classification. It also allows excess allowances to be booked. This Standard requires that the allowance for loan losses be determined based on a financial analysis of actual losses. This Standard also prohibits the booking of provisions for contingent accounts. Any excess allowance must be reversed in the income statement.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The revised Standard introduced changes with respect to classification of financial instruments, which have not been adopted by the Board. Those changes include the following:

- The option of classifying loans and receivables as available for sale was established.
- Securities quoted in an active market may be classified as available for sale, held for trading, or held to maturity.
- The “fair value option” was established to designate any financial instrument to be measured at fair value through profit or loss, provided a series of requirements are met (e.g. the instrument has been measured at fair value since the original acquisition date).
- The category of loans and receivables was expanded to include purchased loans and receivables that are not quoted in an active market.

Regular purchases and sales of securities are to be recognized using settlement date accounting only.

Depending on the type of entity, financial assets are to be classified as follows:

*a) Pooled portfolios*

Investments in pooled investment funds, pension and mandatory retirement saving funds, similar trusts, and Demand Cash Management Accounts (OPABs) are to be classified as available for sale.

*b) Own investments of regulated entities*

Investments in financial instruments of regulated entities are to be classified as available for sale.

Own investments in open investment funds are to be classified as trading financial assets. Own investments in closed investment funds are to be classified as available for sale.

Entities regulated by SUGEVAL and SUGEF may classify other investments in financial instruments as trading financial assets, provided there is an express statement of intent to trade them within 90 days from the acquisition date.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Banks regulated by SUGEF may not classify investments in financial instruments as held to maturity. The above classifications do not necessarily adhere to IAS 39.

The amendment to this Standard clarifies the existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. The amended Standard became mandatory for 2010 financial statements with retrospective application required. These amendments have not been adopted by the Board.

n) IAS 40: Investment Property

This Standard allows entities to choose between the fair value model and the cost model to measure their investment property. The Standard issued by the Board only allows entities to use the fair value model to measure this type of assets except in the cases for which no clear evidence is provided to determine their fair value.

o) Revised IFRS 3: Business Combinations

This Standard establishes that the combination of entities or business under common control can be performed at cost or at fair value. The Board only permits booking of these transactions measuring the assets and liabilities at fair value.

p) IFRS 5: Non-current Assets Held for Sale and Discontinued Operations

The Board requires booking an allowance of one-twenty-fourth of the value of non-current assets classified as available for sale each month, so that if they are not sold within two years from acquisition, an allowance is recognized equivalent to 100% of the assets' carrying amount. This Standard requires that these assets be recorded at the lower of the carrying amount or fair value less costs to sell, discounted to the present value of the assets that will be sold in periods greater than one year. Accordingly, assets could be understated, with excess allowances.

q) IFRS 9: Financial Instruments

IFRS 9 replaces IAS 39, "*Financial Instruments: Recognition and Measurement*". IFRS 9 amends the classification and measurement requirements for financial instruments, including a new financial instrument impairment model based on the premise of providing for expected credit losses and the new guidelines on hedge accounting. IFRS 9 does not change the principles for financial instrument recognition and derecognition provided for under IAS 39.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The Standard is effective for annual periods beginning on or after January 1, 2018. Early application is permitted. This Standard has not been adopted by the Board.

r) IFRS 10: Consolidated Financial Statements

This Standard provides a revised control definition and application guidance therefor. This Standard supersedes IAS 27 (2008) and SIC 12, “*Consolidation - Special Purpose Entities*”, and is applicable to all investees.

Early application is permitted. Entities that apply this Standard early must disclose that fact and simultaneously apply IFRS 11, IFRS 12, IAS 27 (as amended in 2011), and IAS 28 (as amended in 2011).

An entity is not required to make adjustments to the accounting for its involvement with an investee when entities that were previously consolidated or unconsolidated in accordance with IAS 27 (2008), SIC 12, and this Standard continue to be consolidated or continue not to be consolidated.

The Standard is effective for annual periods beginning on or after January 1, 2013. Early application is permitted. This Standard has not been adopted by the Board.

s) IFRS 11: Joint Arrangements

This Standard was issued in May 2011 with an effective date of January 1, 2013. The Standard addresses the inconsistencies in the accounting for joint arrangements and requires a single accounting treatment for interests in jointly controlled entities. This Standard has not been adopted by the Board.

t) IFRS 12: Disclosure of Interests in Other Entities

This Standard was issued in May 2011 with an effective date of January 1, 2013. This Standard requires an entity to disclose information that enables users of financial statements to evaluate the nature and financial effects of its ownership interests in other entities, including joint arrangements, associates, structured entities, and “off-balance-sheet” activities. This Standard has not been adopted by the Board.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

u) IFRS 13: Fair Value Measurement

This Standard establishes a single procedure for measuring fair value, and defines the measurements and applications required or permitted in IFRSs. This Standard is effective for annual periods beginning on or after January 1, 2013. Early application is permitted. This Standard has not been adopted by the Board.

v) IFRS 14: Regulatory Deferral Accounts

This Standard was approved by Board in January 2014. It specifies the accounting policies for regulatory deferral account balances arising from a rate regulation. It is effective for annual periods beginning on or after January 1, 2016. Early application is permitted. This Standard has not been adopted by the Board.

w) IFRS 15: Revenue from Contracts with Customers

This Standard was approved by IASB in May 2014. It provides a global framework for the recognition of revenue from contracts with customers and establishes the principles to report useful information to users of financial statement about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. This Standard replaces IAS 11, IAS 18, IFRS 13, IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31. It is effective for annual periods beginning on or after January 1, 2017. Early application is permitted. This Standard has not been adopted by the Board.

x) IFRIC 10: Interim Financial Reporting and Impairment

This Interpretation prohibits the reversal of an impairment loss recognized in a previous interim period in respect of goodwill. The Board permits the reversal of allowances.

y) IFRIC 21: Levies

This Interpretation addresses the accounting of liabilities related to the payment of levies imposed by governments. It is effective for annual periods beginning on or after January 1, 2014. Early application is permitted. This Interpretation has not been adopted by the Board.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(46) Disclosure of economic impact of departure from IFRSs

Since the basis of accounting used by the Bank's management described in note 1-b differs from IFRSs discrepancies may arise related to the balances of certain accounts.

The Bank's management has chosen not to determine the economic impact of those differences since they consider such determination impractical.

(47) 2016 figures

Certain 2015 figures have been reclassified for purposes of comparison with the 2016 figures, as explained below:

- Pursuant to article 8 of the minutes of meeting No. 1171-2015 held on June 1, 2015, CONASSIF informed through Notice C.N.S. 1171-08 dated June 2, 2015 of the agreement reached to amend the example statement of comprehensive income included in SUGEF Directive 31-04 "Regulations on the Financial Reporting of Financial Entities, Groups, and Conglomerates," requiring the following amendments:

As of June 30, 2016, foreign exchange gains and losses are presented on a net basis in the finance income section under "Gain on foreign exchange differences, net".