

**BANCO NACIONAL DE COSTA RICA
AND SUBSIDIARIES**

Financial Information Required by the
Superintendency General of Financial Entities

Consolidated Financial Statements

June 30, 2017
(With corresponding figures for 2016)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
AS OF JUNE 30, 2017 AND 2016 AND DECEMBER 31, 2016
(In colones)

	Note	June 2017	December 2016	June 2016
ASSETS				
Cash and due from banks	4	1,323,297,583,513	937,810,182,994	948,841,271,892
Cash		70,290,516,168	56,192,345,858	58,666,722,409
BCCR		815,849,684,980	689,309,617,609	726,001,973,345
Local financial entities		9,125,157,746	7,462,507,464	8,556,682,609
Foreign financial entities		414,565,668,789	178,157,371,306	144,484,890,890
Other cash and due from banks		13,466,424,872	6,688,245,083	11,130,991,210
Accrued interest receivable		130,958	95,674	11,429
Investments in financial instruments	5	1,121,121,365,067	956,600,207,359	1,190,349,336,774
Available-for-sale		1,069,085,990,296	912,646,019,784	1,120,376,729,610
Held-to-maturity		27,519,342,882	27,181,284,510	27,069,336,275
Derivative financial instruments	6	11,288,077,551	5,893,164,907	33,225,223,648
Accrued interest receivable		13,301,246,009	10,939,171,834	9,736,775,102
(Allowance for impairment of investments in financial instruments)		(73,291,671)	(59,433,676)	(58,727,861)
Loan portfolio	7	4,332,787,034,568	4,057,363,892,824	3,828,637,332,474
Current		4,181,853,700,690	3,922,221,361,522	3,663,192,659,818
Past due		124,367,761,453	105,532,644,255	124,026,070,003
In legal collection		91,249,324,539	87,853,245,295	89,533,708,411
Accrued interest receivable		27,763,070,665	27,221,501,072	25,579,739,890
(Allowance for loan impairment)		(92,446,822,779)	(85,464,859,320)	(73,694,845,648)
Accounts and fees and commissions receivable	8	3,604,824,272	3,095,011,680	2,507,615,595
Fees and commissions receivable		1,137,357,998	1,292,023,911	1,143,647,212
Accounts receivable for brokerage operations		166,214,442	3,828,079	-
Accounts receivable for transactions with related parties		39,704,743	20,707,083	89,215,003
Deferred tax and income tax receivable		1,291,076,312	1,234,343,863	3,511,235,447
Other receivables		4,719,234,226	3,993,335,555	3,646,410,122
Accrued interest receivable		1,572,449	1,800,923	2,197,676
(Allowance for impairment of accounts and fees and commissions receivable)		(3,750,335,898)	(3,451,027,734)	(5,885,089,865)
Foreclosed assets	9	20,978,310,832	17,751,098,959	15,988,921,330
Assets and securities acquired in lieu of payment		83,446,253,926	77,394,578,153	79,251,336,646
Other foreclosed assets		1,471,878	1,471,878	832,653
(Allowance for impairment of foreclosed assets and per legal requirements)		(62,469,414,972)	(59,644,951,072)	(63,263,247,969)
Investments in other companies	10	60,565,312,602	57,191,201,983	56,336,255,967
Property, furniture and equipment, net	11	175,106,071,787	177,105,051,446	175,570,545,528
Other assets	12	42,291,790,193	45,275,551,284	37,244,646,129
Deferred charges		10,335,759,622	11,899,941,334	12,968,194,927
Intangible assets		7,421,224,798	5,225,669,321	3,669,694,939
Other assets		24,534,805,773	28,149,940,629	20,606,756,263
TOTAL ASSETS		7,079,752,292,834	6,252,192,198,529	6,255,475,925,689

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BANCO NACIONAL DE COSTA RICA Y SUBSIDIARIAS
CONSOLIDATED BALANCE SHEET
AS OF JUNE 30, 2017 AND 2016 AND DECEMBER 31, 2016
(In colones)

LIABILITIES AND EQUITY	Note	June 2017	December 2016	June 2016
LIABILITIES				
Obligations with the public	13	4,708,502,625,089	4,190,136,402,593	4,106,605,019,195
Demand obligations		2,535,942,036,949	2,606,807,068,581	2,418,644,025,762
Term obligations		2,120,205,491,564	1,534,747,038,588	1,631,856,111,889
Other obligations		22,260,485,678	26,448,255,041	34,558,903,263
Finance charges payable		30,094,610,898	22,134,040,383	21,545,978,281
Obligations with BCCR	14	133,821,995,280	125,644,412	125,644,412
Term obligations		133,800,644,412	125,644,412	125,644,412
Obligations with entities	15	1,374,996,774,941	1,224,853,283,638	1,349,738,053,344
Demand obligations		206,144,916,524	215,439,288,466	211,658,094,544
Term obligations		1,158,096,742,268	999,839,001,470	1,128,090,002,371
Finance charges payable		10,755,116,149	9,574,993,702	9,989,956,429
Accounts payable and provisions		106,506,563,186	128,526,344,473	108,318,483,782
Accounts payable for brokerage services		823,220,971	1,434,466,447	1,561,535,972
Deferred tax	16-b	11,187,194,600	11,611,227,013	12,714,052,292
Provisions	17	23,734,223,891	26,294,108,721	25,692,702,623
Other sundry accounts payable	18	70,761,923,724	89,186,542,292	68,350,192,895
Other liabilities	19	68,227,648,646	46,777,896,327	50,678,183,572
Deferred income		28,527,077,495	24,745,614,291	17,896,875,408
Allowance for stand-by credit losses		345,121,855	540,840,567	1,746,923,668
Other liabilities		39,355,449,296	21,491,441,469	31,034,384,496
Subordinated obligations	20	75,188,914,366	72,675,778,397	71,630,455,582
Subordinated obligations		73,721,700,000	71,263,400,000	70,417,100,000
Charges payable		1,467,214,366	1,412,378,397	1,213,355,582
TOTAL LIABILITIES		6,467,244,521,508	5,663,095,349,840	5,687,095,839,887
EQUITY				
Share capital		172,237,030,102	118,130,303,482	118,130,303,482
Paid-in capital	21-a	172,237,030,102	118,130,303,482	118,130,303,482
Equity adjustments		68,878,047,691	67,476,783,612	69,606,136,357
Surplus from revaluation of property	21-b	60,806,752,437	60,806,752,437	60,806,752,437
Adjustment for valuation of available-for-sale investments	21-c	(1,034,067,681)	159,197,995	2,882,373,899
Adjustment for valuation of restricted financial instruments	21-c	(846,831,115)	(1,617,218,764)	(1,959,479,435)
Surplus from revaluation of other assets		43,748,630	43,748,630	69,678,787
Adjustment for valuation of investments in other companies	1-e (iv) and 21-d	9,908,445,420	8,084,303,314	7,806,810,669
Equity reserves	21-e	310,251,790,907	274,614,308,392	274,311,573,031
Prior period retained earnings		12,019,286,055	54,106,726,619	54,409,461,980
Income for the year		22,009,658,558	53,018,907,264	30,172,791,632
Equity of the Development Financing Fund	21-f	27,111,958,013	21,749,819,320	21,749,819,320
TOTAL EQUITY		612,507,771,326	589,096,848,689	568,380,085,802
TOTAL LIABILITIES AND EQUITY		7,079,752,292,834	6,252,192,198,529	6,255,475,925,689
DEBIT MEMORANDA ACCOUNTS	22	675,912,491,868	607,278,057,097	535,832,129,980
TRUST ASSETS	23	1,507,304,204,479	1,395,438,209,356	1,038,416,621,020
TRUST LIABILITIES		43,723,788,450	51,558,918,092	43,828,845,784
TRUST EQUITY		1,463,580,416,028	1,343,879,291,264	994,587,775,236
TRUST MEMORANDA ACCOUNTS		35,112,122,740	27,200,220,639	24,884,892,186
OTHER DEBIT MEMORANDA ACCOUNTS	24	20,568,396,820,705	19,573,797,402,675	19,073,193,832,256
Own debit memoranda accounts		7,220,760,895,524	7,280,944,022,035	7,449,253,234,424
Third-party debit memoranda accounts		2,404,216,129,576	2,268,532,958,984	2,213,710,526,552
Own debit memoranda accounts for custodial activities		265,176,333,936	231,082,070,315	395,533,692,432
Third-party debit memoranda accounts for custodial activities		10,678,243,461,669	9,793,238,351,341	9,014,696,378,848

Juan Carlos Corrales Salas
General Manager

Gerardo Gómez Solís
General Accountant

Ricardo Traya Jiménez
General Auditor

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 2017 AND 2016
(In colones)

	Note	For the six months ended June 30,		For the three months ended June	
		2017	2016	2017	2016
Finance income					
Cash and due from banks	28	1,049,275,453	411,965,301	749,390,742	288,483,816
Investments in financial instruments	28	24,866,565,826	22,931,823,002	13,056,888,813	11,330,460,385
Loan portfolio	29	190,305,202,929	171,120,092,773	96,433,000,883	86,271,212,572
Gain on foreign exchange differences and DU, net	46-c	-	-	-	(696,501,833)
Gain on available-for-sale financial instruments		1,164,657,348	735,494,382	337,661,660	245,410,743
Gain on derivative financial instruments, net	6	11,035,630,881	23,295,307,156	6,481,424,323	9,656,485,448
Other finance income	30	6,554,001,132	7,292,750,459	1,952,965,494	4,284,200,390
Total finance income		234,975,333,569	225,787,433,073	119,011,331,915	111,379,751,521
Finance costs					
Obligations with the public	31	66,308,042,327	53,190,525,773	35,370,250,435	26,315,832,507
Obligations with financial entities	32	33,162,089,076	25,671,818,138	17,590,270,239	14,077,944,138
Subordinated, convertible, and preferred obligations		2,216,413,970	1,872,509,352	1,143,146,206	936,825,898
Loss on foreign exchange differences and development units, net	46-c	1,545,867,086	965,538,801	1,501,484,349	965,538,801
Loss on available-for-sale financial instruments		75,424,378	31,383,142	36,750,369	17,298,686
Other finance costs	33	10,244,333,551	26,633,422,011	5,201,973,653	12,101,227,723
Total finance costs		113,552,170,388	108,365,197,217	60,843,875,251	54,414,667,753
Allowance for impairment of assets	34	17,051,857,134	18,132,832,022	12,331,053,227	10,001,644,782
Recovery of assets and decrease in allowances	35	9,195,247,443	4,819,846,414	5,685,715,974	2,759,424,373
FINANCE INCOME		113,566,553,490	104,109,250,248	51,522,119,411	49,722,863,359
Other operating income					
Service fees and commissions	36	63,374,038,110	59,238,622,567	31,890,533,558	29,379,623,846
Foreclosed assets		1,224,709,889	2,628,021,602	638,001,703	2,249,930,535
Gain on investments in other foreign companies	1-a and 3	1,285,918,211	1,577,560,791	773,629,313	700,232,163
Gain on investments in other local companies		7,563,715	16,313,452	-	16,313,452
Foreign currency exchange and arbitrage		12,329,174,583	12,384,537,787	5,915,192,650	6,411,071,347
Other operating income	37	4,434,757,938	16,797,563,628	2,560,866,402	15,419,247,212
Total other operating income		82,656,162,446	92,642,619,827	41,778,223,626	54,176,418,555

BANCO NACIONAL DE COSTA RICA Y SUBSIDIARIAS
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 2017 AND 2016
(In colones)

		For the six months ended June 30,		For the three months ended June	
		2017	2016	2017	2016
Other operating expenses					
Service fees and commissions		2,515,349,369	3,646,234,170	1,209,950,060	1,785,775,496
Foreclosed assets	38	10,845,837,054	11,040,192,920	5,822,866,225	5,799,919,433
Sundry assets		32,937,257	724,208,783	(4,789,541)	689,443,330
Provisions	39	7,624,130,246	10,632,762,950	3,219,683,332	6,321,628,395
Bonuses on fees and commissions of voluntary pension funds		41,910,659	40,238,861	20,151,551	19,196,786
Foreign currency exchange and arbitrage		1,064,719	985,748	842,464	556,768
Other operating expenses	40	36,500,521,541	28,412,026,984	19,874,165,872	14,837,610,281
Amortization of deferred direct costs related to credits		458,215,651	225,782,424	170,221,272	113,928,955
Total other operating expenses		58,019,966,496	54,722,432,840	30,313,091,235	29,568,059,444
GROSS OPERATING INCOME		138,202,749,440	142,029,437,235	62,987,251,802	74,331,222,470
Administrative expenses					
Personnel expenses	41	66,114,804,780	66,658,563,366	33,133,883,312	33,504,468,231
Other administrative expenses	42	33,482,045,367	31,749,375,683	17,027,732,217	16,361,052,222
Total administrative expenses		99,596,850,147	98,407,939,049	50,161,615,529	49,865,520,453
NET OPERATING INCOME BEFORE TAXES AND STATUTORY ALLOCATIONS		38,605,899,293	43,621,498,186	12,825,636,273	24,465,702,017
Current tax expense	16-a	7,783,042,436	6,412,169,390	1,812,197,365	2,922,794,720
Deferred tax expense	16-a	194,732,907	115,798,254	193,955,907	97,615,043
Decrease in current tax for the period	16-a	858,011,818	1,334,895,134	858,011,818	1,334,895,134
Decrease in prior period income tax	16-a	19,910,540	16,380,331	12,253,356	-
Increase in deferred income tax	16-a	99,597,921	1,315,702,834	37,734,979	46,055,197
Statutory allocations	43	9,697,098,732	9,587,717,209	3,311,110,861	5,566,372,024
Decrease in statutory allocations	43	101,113,061	-	6,857,889	-
INCOME FOR THE YEAR		22,009,658,558	30,172,791,632	8,423,230,182	17,259,870,561
OTHER COMPREHENSIVE INCOME, NET OF TAX					
Surplus from revaluation of property		-	537,766,102	-	15,581,000
Adjustment for valuation of available-for-sale investments, net of income tax		(1,193,265,676)	(420,850,970)	(1,159,608,822)	(187,936,004)
Adjustment for valuation of restricted financial instruments, net of income tax		770,387,649	(1,524,064,186)	752,594,034	(1,045,182,627)
Adjustment for valuation of investments in other companies		1,824,142,106	722,184,018	1,243,936,269	1,139,224,444
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX		1,401,264,079	(684,965,036)	836,921,481	(78,313,187)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		23,410,922,637	29,487,826,596	9,260,151,663	17,181,557,374

Juan Carlos Cortales Salas
General Manager

Gerardo Gómez Solís
General Accountant

Ricardo Araya Jiménez
General Auditor

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

Note	Equity adjustments					Total equity adjustments	Equity reserves	Retained earnings	Equity of the Development Financing Fund	Total
	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					
Balance at January 1, 2016	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
Transactions with owners booked directly in equity:										
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	-
Comprehensive income for the year:										
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	-	(420,850,970)	-	-	(420,850,970)	-	-	-	(420,850,970)
Adjustment for valuation of restricted financial instruments, net of income tax	5	-	(1,524,064,186)	-	-	(1,524,064,186)	-	-	-	(1,524,064,186)
Adjustment for revaluation of investments in other companies	1-e (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
Total comprehensive income for the period	-	(2,766,176,868)	(1,944,915,156)	-	722,184,018	(3,988,908,006)	-	33,476,734,602	-	29,487,826,596
Balance at June 30, 2016	21	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	84,582,253,612	568,380,085,802

Juan Carlos Corrales Salas
General Manager

Gerardo Gómez Solís
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Ricardo Andrea Jiménez
General Auditor

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2017
(In colones)

Note	Equity adjustments					Total equity adjustments	Equity reserves	Retained earnings	Equity of the Development Financing Fund	Total
	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					
Balance at January 1, 2017	118,130,303,482	60,806,752,437	(1,458,020,769)	43,748,630	8,084,303,314	67,476,783,612	274,614,308,392	107,125,633,883	21,749,819,320	589,096,848,689
Transactions with owners booked directly in equity:										
Legal reserves	-	-	-	-	-	-	33,747,837,739	(33,747,837,739)	-	-
Other statutory reserves	-	-	-	-	-	-	1,889,644,776	(1,889,644,776)	-	-
Capitalization of retained earnings for capital increases	54,106,726,620	-	-	-	-	-	-	(54,106,726,620)	-	-
Equity of the Development Financing Fund	-	-	-	-	-	-	-	(5,362,138,693)	5,362,138,693	-
Total transactions with owners booked directly in equity	54,106,726,620	-	-	-	-	-	35,637,482,515	(95,106,347,828)	5,362,138,693	-
Comprehensive income for the period:										
Income for the period	-	-	-	-	-	-	-	22,009,658,558	-	22,009,658,558
Adjustment for valuation of available-for-sale investments, net of income tax	5	-	(1,193,265,676)	-	-	(1,193,265,676)	-	-	-	(1,193,265,676)
Adjustment for valuation of restricted financial instruments, net of income tax	5	-	770,387,649	-	-	770,387,649	-	-	-	770,387,649
Adjustment for revaluation of investments in other companies	1-e (iv)	-	-	-	1,824,142,106	1,824,142,106	-	-	-	1,824,142,106
Total comprehensive income for the period	-	-	(422,878,027)	-	1,824,142,106	1,401,264,079	-	22,009,658,558	-	23,410,922,637
Balance at June 30, 2017	21	172,237,030,102	60,806,752,437	(1,880,898,796)	43,748,630	9,908,445,420	68,878,047,691	310,251,790,907	34,028,944,613	612,507,771,326

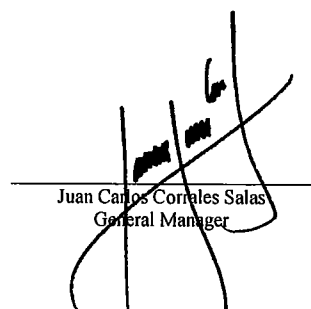
Juan Carlos Corrales Salas
General Manager

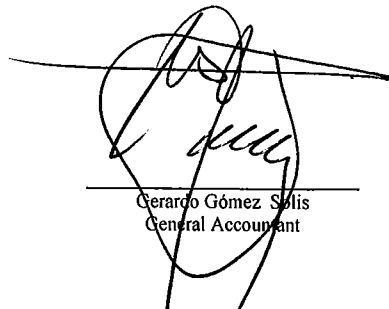
Gerardo Gómez Solís
General Accountant

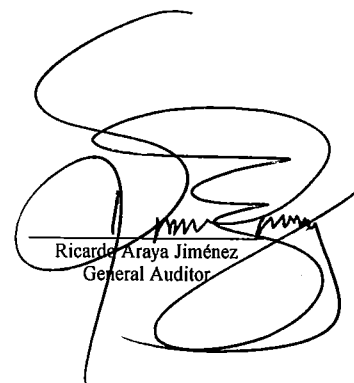
Ricardo Araya Jiménez
General Audit

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2017 AND 2016
(In colones)

	Note	2017	2016
Net cash flows from operating activities			
Income for the period		22,009,658,558	30,172,791,632
Items not requiring cash			
Gain on sale of idle property, furniture and equipment		-	(92,802)
Gain on foreign exchange differences and DU, net		26,760,441,561	10,803,506,559
Loss on allowance for loan impairment, net		6,880,610,982	13,161,657,860
Expense for allowance on impairment of investments, net		11,807,773	(76,967,726)
Loss on allowance for other receivables, net		964,190,935	228,295,474
Loss on allowance for foreclosed assets, net		2,824,463,900	2,102,225,054
Loss on sale of foreclosed assets		4,434,499,687	2,793,594,032
Expense for severance accrual, net of payments		2,163,007,402	9,447,591,277
Depreciation and amortization		9,697,504,331	7,798,308,815
Share in net profit of foreign associate		(1,285,918,211)	(1,577,560,791)
Statutory allocations, net		9,595,985,671	9,587,717,209
Deferred tax income, net	16-a	95,134,986	(1,199,904,580)
Current tax expense, net	16-a	6,905,120,078	5,060,893,925
Interest income on loan portfolio and investments		(215,171,768,755)	(194,051,915,775)
Interest expense on term obligations with the public and financial entities		81,364,037,634	62,930,018,281
		<u>(42,751,223,468)</u>	<u>(42,819,841,556)</u>
(Increase) decrease in assets			
Credits and cash advances		(247,487,274,176)	(160,945,305,853)
Foreclosed assets		6,493,403,175	6,584,817,218
Accrued interest receivable on other receivables		228,474	(207,538)
Other assets		<u>(573,799,625)</u>	<u>(4,627,861,827)</u>
		<u>(284,318,665,620)</u>	<u>(201,808,399,556)</u>
Net increase (decrease) in liabilities			
Demand and term obligations		566,322,932,259	298,631,297,656
Other accounts payable and provisions		(30,587,484,677)	(22,008,527,422)
Other liabilities		<u>20,992,391,229</u>	<u>8,025,568,270</u>
		<u>272,409,173,191</u>	<u>82,839,938,948</u>
Interest received on loan portfolio and investments		212,268,124,987	194,230,881,083
Income tax paid		(7,998,174,686)	(6,535,505,269)
Interest paid on term obligations with the public and financial entities		<u>(72,201,993,804)</u>	<u>(58,929,157,967)</u>
Net cash from operating activities		<u>404,477,129,688</u>	<u>211,606,156,795</u>
Cash flows from investing activities			
Increase in financial instruments		(10,514,623,965,493)	(8,317,996,081,083)
Decrease in financial instruments		10,473,112,543,114	8,376,958,967,730
Acquisition of property and equipment		(5,613,363,072)	(5,604,847,346)
Sale of property and equipment		66,011,796	848,394,175
Net cash (used in) from investing activities		<u>(47,058,773,655)</u>	<u>54,206,433,476</u>
Cash flows from financing activities			
Other new financial obligations		2,070,638,786,209	97,343,842,690
Settlement of obligations		<u>(1,937,963,598,986)</u>	<u>(170,602,634,443)</u>
Net cash from (used in) financing activities		<u>132,675,187,223</u>	<u>(73,258,791,753)</u>
Net increase in cash and cash equivalents		490,093,543,256	192,553,798,518
Cash and cash equivalents at beginning of period		1,019,158,980,617	1,001,004,712,154
Cash and cash equivalents at end of period	4	<u>1,509,252,523,873</u>	<u>1,193,558,510,672</u>


Juan Carlos Corrales Salas
General Manager


Gerardo Gómez Salis
General Accountant


Ricardo Araya Jiménez
General Auditor

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

June 30, 2017

(With corresponding figures for 2016)

(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 General Superintendency 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.

In agreement with 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 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 market, 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 premium financial services that promote the sustainable creation of wealth.

As of June 30, 2017, the Bank has 176 offices, 477 automated teller machines, and a total of 5,862 employees (2016: 176 offices, 471 automated teller machines, and 5,915 employees). Employees are distributed as follows: Banco Nacional de Costa Rica - 5,456 employees (2016: 5,498); BN Valores Puesto de Bolsa, S.A. - 70 employees (2016: 69); BN Vital Operadora de Planes de Pensiones Complementarias, S.A. - 167 employees (2016: 180); BN Sociedad Administradora de Fondos de Inversión, S.A. - 80 employees (2016: 85); and BN Corredora de Seguros, S.A. - 89 employees (2016: 83). The Bank's website is 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. Its main activity is executing securities transactions in 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 the Superintendency General of Securities (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 the management, on behalf of third parties, of 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 under the laws of the Republic of Costa Rica. 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).

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

Banco Internacional de Costa Rica, S.A. and Subsidiary (BICSA), which was organized under the laws of the Republic of Panama in 1976. BICSA 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. Banco de Costa Rica holds the remaining 51% ownership interest.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

June 2017					
	Brokerage Firm	Pension Fund Manager	Investment Fund Manager	Insurance Brokerage Firm	BICSA
Assets	¢ 57,670,127,975	8,420,739,685	6,679,286,432	2,340,337,320	473,340,054,612
Liabilities	42,139,476,409	1,462,590,372	969,552,864	970,845,651	412,825,365,310
Equity	15,530,651,566	6,958,149,313	5,709,733,568	1,369,491,669	60,514,689,302
Income for the year	1,150,908,947	297,435,085	797,572,160	925,851,669	1,285,918,211
Memoranda accounts	933,152,157,968	1,221,129,938,257	386,864,104,283	-	-

December 2016					
	Brokerage Firm	Pension Fund Manager	Investment Fund Manager	Insurance Brokerage Firm	BICSA
Assets	¢ 55,432,733,834	9,691,092,683	6,622,494,603	2,479,076,938	463,178,771,141
Liabilities	37,872,113,554	2,396,687,260	676,663,523	659,305,471	406,038,192,458
Equity	17,560,620,280	7,294,405,423	5,945,831,080	1,819,771,467	57,140,578,683
Income for the year	2,423,490,098	1,172,980,254	1,614,887,969	1,376,131,467	1,690,868,660
Memoranda accounts	939,715,141,870	1,156,846,965,515	358,238,446,450	-	-

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	-	-

(b) Basis of preparation of the consolidated financial statements

- 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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- Basis of measurement applied to assets and liabilities

The consolidated financial statements have been prepared on a historical cost basis except for the following items:

- available-for-sale assets and derivative instruments are measured at fair value
- property is measured at revalued cost.

The accounting policies have been consistently applied.

(c) Functional and presentation currency

These consolidated financial statements and notes thereto are expressed in colones (¢), monetary unit of the Republic of Costa Rica, in accordance with the provisions issued by CONASSIF, SUGEF, SUGEVAL, SUPEN, and SUGESE.

(d) 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, 2017 and 2016, the consolidated financial statements include the financial figures of the following subsidiaries:

Subsidiary	Ownership interest
BN Valores Puesto de Bolsa, S.A.	100%
BN Vital Operadora de Planes de Pensiones Complementarias, S.A.	100%
BN Sociedad Administradora de Fondos de Inversión, S.A.	100%
BN Corredora de Seguros, S.A.	100%

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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 resources or for cases in which the Bank controls the subsidiary temporarily, the subsidiary is not consolidated.
- On consolidation:
 - The effect of the equity method shown in the parent company'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 consolidated statement of comprehensive income.
 - 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 company's unconsolidated financial statements since the subsidiaries were measured by the equity method when preparing the parent company'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, 2017 and 2016, the Bank holds 49% ownership interest in BICSA.

(e) 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 consolidated 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 reflected in profit or loss for the year.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

ii. Monetary unit and foreign exchange regulations

The parity of the colon with the dollar of the United States of America is determined in a free exchange market, under the supervision of the Central Bank of Costa Rica (BCCR) through 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, 2017, the exchange rate was established at ₡567.09 and ₡579.87 (2016: ₡541.67 and ₡554.20) to US\$1.00 for the purchase and sale of U.S. dollars, respectively.

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

As of June 30, 2017, assets and liabilities denominated in U.S. dollars were valued at the exchange rate of ₡567.09 to US\$1.00 (2016: ₡541.67 to US\$1.00), which is the reference buy rate published by BCCR for that date.

As of June 30, 2017, assets and liabilities denominated in euros were valued at the exchange rate of ₡647.84 to €1.00 (2016: ₡601.20 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, 2017, assets and liabilities denominated in DU were valued at the exchange rate of ₡870.21 to DU1.00 (2016: ₡855.98 to DU1.00). This exchange rate is based on the DU value tables published by SUGEVAL.

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, 2017 and 2016, the Bank holds 49% ownership interest in BICSA. Accordingly, the Bank should value its investment in that entity by the equity method rather than on a consolidated basis.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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, 2017, a foreign exchange gain in the amount of ¢1,824,142,106 (December and June 2016: foreign exchange gain of ¢999,676,663 and foreign exchange gain of ¢722,184,018, respectively) is presented in equity for the translation of the consolidated financial statements of foreign operations. As of June 30, 2017, the adjustment for valuation of investments in other companies amounts to ¢9,908,445,420 (December and June 2016: ¢8,084,303,314 and ¢7,806,810,669, respectively).

(f) Financial assets and financial liabilities

i. Recognition

The Bank initially recognizes loans and advances, deposits, and debt securities issued on the date on which they are originated. Regular-way purchases and sales of financial assets are recognized on the trade date, which is the date on which the Bank commits to purchase or sell the asset. All assets and liabilities are recognized initially on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument.

ii. Classification

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 maturities of two months or less.

Cash and cash equivalents are recognized in the consolidated balance sheet at amortized cost.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Investments in financial instruments

Investments in financial instruments are initially measured at fair value plus incremental direct transaction costs and subsequently accounted for depending on their classification as trading, available for sale, or held to maturity.

Under current regulations, trading instruments are investments in open investment funds that the Bank holds for the purpose of short-term profit taking.

Available-for-sale assets are financial assets that are not held for trading purposes, originated by the Bank, or held to maturity.

Held-to-maturity assets are financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity. According to regulations, the Bank is barred from holding investments in financial instruments classified as held to maturity, except for the securities denominated in DU.

As of June 30, 2017, 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 the Amendment to Law No. 8627 on the Ordinary and Extraordinary Budget of the Republic for Tax Year 2008 (Law No. 8703).

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 consolidated balance sheet and presented at the value of the original agreement. The underlying securities are booked in asset accounts. Interest is presented as finance costs in the consolidated statement of comprehensive income and accrued interest payable is recognized in the consolidated balance sheet.

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 consolidated balance sheet and stated at the value of the original agreement. The underlying securities are booked in asset accounts. Interest earned is presented as finance income in the consolidated statement of comprehensive income and accrued interest receivable is recognized in the consolidated balance sheet.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Derivative financial instruments

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

Valuation gains or losses are recorded in the consolidated statement of comprehensive income. The Bank will exercise the option when the interest rate reaches the agreed limit.

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.

Deposits and debt securities issued

Deposits and debt securities issued are the Bank's sources of debt funding.

Deposits and debt securities issued are initially measured at fair value plus directly attributable transaction costs, and subsequently measured at their amortized cost using the effective interest method.

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

iv. Offsetting

Financial assets and financial 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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

v. *Amortized cost measurement*

The amortized cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

All non-trading financial assets and liabilities and originated loans and other receivables are measured at amortized cost, less impairment losses. Any premium or discount is included in the carrying amount of the underlying instrument and amortized to finance income or finance costs.

vi. *Fair value measurement*

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

The determination of fair value for financial assets and liabilities for which there is no market price requires the use of valuation techniques. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions, and other variables affecting the specific instrument.

Valuation techniques include present value and discounted cash flow models, comparison with similar instruments for which observable market prices exist and other valuation models. The Bank selects the valuation model that most adequately reflects the fair value of each class of financial instrument based on its complexity. Unlike market prices, fair values cannot be implicitly determined using professional judgment. Models used are revised periodically to update market factors and allow the Bank determine the fair value of its financial instruments.

Management of the Bank considers such valuations necessary and appropriate to ensure that its instruments are accurately presented in the consolidated financial statements.

Investments in financial instruments

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Subsequent to initial recognition, all trading and available-for-sale investments are measured at fair value, except for any investment or instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured, which is stated at cost, including transaction costs, less impairment losses. As of June 30, 2017 and 2016, 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.

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 for the year.

Derivative financial instruments

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 of the zero coupon rates.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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.

vii. 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 consolidated statement of comprehensive income. When the financial assets are sold, collected, or otherwise disposed of, the accumulated gain or loss recognized in equity is transferred to the consolidated statement of comprehensive income.

viii. Impairment of financial assets

The carrying amount of an asset is reviewed at each consolidated 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 consolidated statement of comprehensive income 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 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 related objectively to an event occurring after the impairment loss was recognized, then the impairment loss write-down is reversed through the consolidated statement of comprehensive income or the consolidated statement of changes in equity, as appropriate.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(g) 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.

(h) 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.

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

As of June 30, 2017 and 2016, increases in the allowance for loan losses are included in the accounting records in accordance with article 10 of IRNBS.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(i) 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.

(j) 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.

(k) 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, assets 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.

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 in 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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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 realizable value for assets that are not sold or leased, within two years from the date of acquisition or production.

(l) 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. The Bank's investments in other companies are as follows:

Entity	Ownership interest
BN Valores Puesto de Bolsa, S.A.	100%
BN Vital Operadora de Planes de Pensiones Complementarias, S.A.	100%
BN Sociedad Administradora de Fondos de Inversión, S.A.	100%
BN Corredora de Seguros, S.A.	100%
Banco Internacional de Costa Rica, S.A. (Panama)	49%

Investments in other companies are recorded using the equity method, which initially recognizes investments 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 (see note 1a).

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.

As of June 30, 2017 and 2016, the Bank has no full or partial share or influence over the management of other companies, in accordance with article 73 of IRNBS and article 146 of the Internal Regulations of the Central Bank of Costa Rica.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(m) Property, furniture 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. As of the date of this report no appraisals were performed by independent appraisers on the Bank's buildings and land. Based on the valuation techniques used, those items are classified as Level 3 of the fair value hierarchy.

ii. Leased assets

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

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 inception 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 is capitalized and accounted for separately. Subsequent expenditure is capitalized only when it increases the future economic benefits. All other expenditure is recognized in the consolidated statement of comprehensive income when incurred.

iv. Depreciation and amortization

Depreciation and amortization are charged to the consolidated statement of comprehensive income 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
Portable computers	3 years
Leasehold improvements	To be determined or established in the lease terms

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(n) 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 consolidated statement of comprehensive income when incurred.

iii. Amortization

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

(o) Impairment of non-financial assets

The carrying amount of an asset is reviewed at each consolidated 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 consolidated statement of comprehensive income for assets carried at cost and treated as a revaluation decrease for assets carried at revalued amounts.

The recoverable amount of an asset is 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 the write-down, the write-down is reversed through the consolidated statement of comprehensive income or consolidated statement of changes in equity, as appropriate.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(p) Accounts payable and other liabilities

Accounts payable and other liabilities are carried at cost.

(q) Provisions

A provision is recognized in the consolidated 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 consolidated balance sheet date, directly affecting the consolidated statement of comprehensive income.

(r) Employee benefits

i. Severance benefits

Costa Rican legislation requires the payment of severance benefits to employees in the event of retirement, death, or dismissal without just cause, equivalent to seven days' salary for employees with between three and six months of service, 14 days' salary for employees with between six months and one year of service, and an amount prescribed by the Employee Protection Law for employees with more than 1 year of service, up to a maximum of eight 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, 2017 and 2016, severance is included in the provisions account (see note 17), which meets the legal provisioning requirements in effect as of those dates.

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

The Bank follows the practice of making monthly transfers to the Employee Association equivalent to 5.33% of member employees' monthly salaries for management and custody, which are expensed in the period incurred. The aforementioned contributions are considered advance severance payments.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

ii. *Short-term employee benefits*

Statutory Christmas bonus

Costa Rican legislation requires the payment of one-twelfth of an employee's monthly salary for each month of service. That payment is made to the employee in December, even in the event of dismissal. The Bank books a monthly accrual to cover future disbursements related therewith.

Vacation

Costa Rican legislation entitles employees to a certain number of vacation days for every year of service. The Bank follows the policy of provisioning the payment of vacation days on an accrual basis. The Bank establishes a provision for payment of vacation benefits to its employees.

Back-to-school bonus

The Back-to-school bonus is a percentage of the employee's salary earned during the year and is paid in the second week of January of the following year. The Bank establishes a fixed percentage of 8% for every year. The Bank books a monthly accrual to cover future disbursements related therewith.

Incentives and Performance Assessment System (SEDI)

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.
- The employee eligible for the SEDI incentive has worked for at least six 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.

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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 booked 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.

iii. 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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(s) 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.

(t) 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.

Other statutory reserves

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

Statutory reserve	Agreement of the Superintendency of Banks of Panama
Statutory reserve for foreclosed assets	Agreement No. 003-2009
Excess of statutory reserve for loans	Resolution No. SBP-GJD-003-2013
Statutory dynamic provision	Agreement No. 004-2014

(u) Revaluation surplus

Revaluation surplus included in the consolidated statement of changes in equity may be transferred directly to prior period 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 prior period retained earnings is not made through the consolidated statement of comprehensive income. The Bank follows the policy of capitalizing revaluation surplus to prior period retained earnings, to be subsequently transferred to share capital, in accordance with article No. 8 of IRNBS (Law No. 1644) and SUGEF Directive 33-07. The most recent capitalization was performed with data on prior period retained earnings from 2008 in the amount of ¢50,745 million and was authorized by CONASSIF through letter C.N.S 992/09/08 from September 18, 2012.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(v) 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 for the year 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 consolidated balance sheet date, and any adjustment to tax payable in respect of previous years.

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.

(w) 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.

(x) 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 subordinated to the Bank's General Board of Directors, which is responsible for making decisions related to those departments.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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.

(y) Use of estimates

The preparation of the financial statements requires management to make judgments, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income, and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

Material estimates that are particularly susceptible to significant changes are related to determination of the allowances for loan losses, determination of the fair value of financial instruments, determination of the useful lives of property, furniture and equipment, and determination of provisions for credit card points and miles.

(z) Recognition of income and costs

i. Finance income and finance costs

Finance income and finance costs are recognized in the consolidated statement of comprehensive income as they accrue. Finance income and finance costs 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. Finance 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 consolidated statement of comprehensive income.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

ii. Fee and commission income

Fee and commission income arises on services provided by the Bank and is recognized when the corresponding service is provided. When fees and commissions are an integral part of the return on the underlying operation, they are deferred over the term of the operation and amortized using the effective interest method.

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 consolidated statement of comprehensive income on a monthly basis.

iv. Operating lease expenses

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

(aa) Statutory allocations

In accordance with SUGEF's Chart of Accounts, statutory allocations on the year's net earnings payable to the National Institute for Cooperative Development (INFOCOOP), the National Emergency Commission (CNE), the National Commission for Educational Loans (CONAPE), and the Disability, Old Age, and Death Benefit System (RIVM) are recognized as expenses in the consolidated statement of comprehensive income.

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 INFOCOOP; and the remainder to increase the Bank's capital, pursuant to article 20 of Law No. 6074.

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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 the Employee Protection Law (Law No. 7983) 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 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.

For the Pension Fund Manager, article No. 49 of Law No. 7983 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.

(bb) 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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(cc) Development Credit Fund (FCD)

The Development Credit Fund (FCD) is comprised of the funds prescribed in article 59 of IRNBS (Law No. 1644). 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", and article 35 of the "Development Banking System Act" (Law No. 8634), 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.

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.

(dd) Trust operations

Assets managed by the Bank as trustee are not considered part of the Bank's equity and, therefore, are not included in the consolidated financial statements. Fee and commission income derived from trust management is recognized on an accrual basis.

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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 2017 Carrying amount	December 2016 Carrying amount	June 2016 Carrying amount
<i>Cash and due from banks:</i>				
Checking account – colones (note 4)	Minimum legal deposit	¢ 475,769,800,837	435,159,276,456	426,891,098,754
Checking account – U.S. dollars (note 4)	Minimum legal deposit	277,948,198,718	221,712,351,226	223,538,052,670
Checking account – euros (note 4)	Minimum legal deposit	4,265,615,605	4,350,556,378	4,706,043,504
Checking account - colones	Liquidation and compensation risk management fund	-	-	264,531,920
Other cash and due from banks (see note 4)	Contribution to FOGABONA	208,544,339	248,795,209	-
		¢ 758,192,159,499	661,470,979,269	655,399,726,848
<i>Investments in financial instruments:</i>				
Investments in financial instruments	Guarantee for tri-party repurchase agreements	25,327,301,881	26,849,711,867	36,607,574,747
Investments in financial instruments	Liquidity market operations	23,096,371,470	14,875,504,659	15,011,135,975
Securities issued by BCCR and the Government	Investments securing repurchase agreements	588,217,977	1,054,894,475	462,405,042
External debt bonds	Nomura Bank guarantee	77,079,559,099	71,767,100,042	57,071,903,223
External debt bonds	JP Morgan guarantee (SWAPS)	1,693,561,118	-	-
Monetary stabilization bonds	Citibank guarantee	-	-	26,016,159,604
Central Bank bonds (global bonds)	Citibank guarantee	-	-	46,103,928,376
External debt bonds	Merrill Lynch guarantee (SWAPS)	3,387,631,735	-	-
External debt bonds	Credit Suisse guarantee	75,090,695,241	57,001,678,155	67,283,107,125
Central Bank bonds (global bonds)	SINPE guarantee	140,614,620,828	-	-
		¢ 346,877,959,349	171,548,889,198	248,556,214,092
<i>Other assets:</i>				
Other assets (note 12)	Guarantee deposits	¢ 435,378,608	529,333,103	597,755,368

As of June 30, 2017, the Brokerage Firm has restricted assets in the amount of ¢48,632,217,690 (December and June 2016: ¢41,974,011,735 and ¢51,883,242,642, respectively), corresponding to guarantees for tri-party repurchase agreements, operations in the liquidity market, and contributions to the liquidation and compensation risk management fund.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(3) Balances and transactions with related parties

Balances and transactions with related parties are as follows:

	June 2017	December 2016	June 2016
<u>Assets:</u>			
Checking accounts in foreign financial entities (1) (note 4)	¢ 8,397,007,818	9,738,754,875	7,090,843,678
Investments in financial instruments and accrued interest receivable (2)	-	5,481,827,848	21,666,800,000
Accounts receivable (3)	-	20,707,083	91,692
Allowance for impairment for transactions with related parties (3)	(37,274,872)	(12,179,982)	(55,015,532)
Investments in other companies (4) (note 10)	60,565,312,602	57,191,201,983	56,336,255,967
	¢ 68,925,045,548	72,420,311,807	85,038,975,805
<u>Liabilities:</u>			
Demand obligations with entities (5)	15,143,772	36,789,117	26,460,549
	¢ 15,143,772	36,789,117	26,460,549
<u>Income:</u>			
Finance income	4,111,350	-	-
Gain on investments in foreign companies	1,285,918,211	1,690,868,660	1,577,560,791
Gain on investments in entities supervised by SUGEVAL	7,563,715	-	16,313,452
	¢ 1,297,593,276	1,690,868,660	1,593,874,243
<u>Expenses:</u>			
Operating	-	-	313,720
	¢ -	-	313,720

The aforementioned balances are related to:

- 1) Foreign checking accounts with BICSA.
- 2) Term certificate of deposit issued by BICSA, maturing on January 6, 2017.
- 3) Accounts receivable associated with transactions with employees and related allowance for impairment in accordance with SUGEF Directive 1-05.
- 4) Investments in the share capital of entities over which the Bank exercises control or significant influence (see note 1.1).
- 5) Subsidiaries' checking accounts with the Bank.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended June 30, compensation to key personnel is as follows:

	June 2017	December 2016	June 2016
Short-term benefits	¢ 980,311,265	1,790,244,979	820,755,827
Long-term benefits	127,440,466	232,731,848	106,698,258
Per diem – Board of Directors	71,736,828	137,406,012	59,967,809
	¢ <u>1,179,488,559</u>	<u>2,160,382,839</u>	<u>987,421,894</u>

(4) Cash and cash equivalents

For purposes of the reconciliation of the consolidated statement of cash flows, cash and cash equivalents are as follows:

	June 2017	December 2016	June 2016
Cash and due from banks	¢ 1,323,297,583,513	937,810,182,994	948,841,271,892
Investments with maturities of two months or less	185,954,940,360	81,348,797,623	244,717,238,780
	¢ <u>1,509,252,523,873</u>	<u>1,019,158,980,617</u>	<u>1,193,558,510,672</u>

Cash and due from banks is as follows:

	June 2017	December 2016	June 2016
Cash on hand and in vaults	¢ 53,190,841,141	45,605,575,176	47,503,775,579
Cash in transit	17,099,675,027	10,586,770,682	11,162,946,830
Checking account in BCCR (1)	66,145,625,540	32,873,027,519	47,823,808,376
Minimum legal deposits in BCCR (1)	749,704,059,440	656,436,590,090	678,178,164,969
Checking accounts and demand deposits in State-owned commercial banks and banks created under special laws	1,619,845,941	4,706,195,026	258,947,784
Checking accounts and other demand accounts in private financial entities	6,730,311,805	2,756,312,438	7,752,734,825
Overnight deposits in local financial entities	775,000,000	-	545,000,000
Checking accounts in foreign financial entities	395,433,099,310	162,549,650,880	126,942,500,431
Deposits and other demand accounts in foreign financial entities	19,280,026	20,654,470	87,521,435
Checking accounts and demand deposits in related entities (note 3)	8,397,007,818	9,738,754,875	7,090,843,678
Overnight deposits in foreign financial entities	10,716,281,635	5,848,311,081	10,364,025,346
Transfers through the Interbank Electronic Payment System (SINPE)	10,478,096,448	3,477,754,224	6,031,777,213
Local notes receivable	2,168,540,291	2,154,613,317	3,720,108,047
Foreign notes receivable	611,243,794	807,082,333	1,114,574,030
Margin calls on tri-party repurchase agreements	5,523,196	-	-
Fondo de Garantía de la Bolsa Nacional de Valores (FOGABONA)	203,021,143	248,795,209	264,531,920
Accrued interest receivable	130,958	95,674	11,429
	¢ <u>1,323,297,583,513</u>	<u>937,810,182,994</u>	<u>948,841,271,892</u>

(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).

As of June 30, 2017 and 2016, the percentage for the minimum legal deposit is 15%. The corresponding amount must be deposited in cash in BCCR pursuant to current banking legislation. Such 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.

(5) Investments in financial instruments

Investments in financial instruments are as follows:

	June 2017	December 2016	June 2016
<i>Available-for-sale:</i>			
<u>Local issuers:</u>			
Government of Costa Rica	¢ 607,208,530,825	421,249,348,757	460,431,181,080
BCCR	116,869,069,313	160,717,002,649	158,567,508,716
State-owned banks	83,436,657,604	85,495,879,525	130,437,263,575
Private banks	7,042,227,817	7,932,586,072	40,000,425,601
Private issuers	25,589,000,565	9,550,559,893	41,870,497,304
	<u>840,145,486,124</u>	<u>684,945,376,896</u>	<u>831,306,876,276</u>
<u>Foreign issuers:</u>			
Governments	39,362,024,907	37,716,583,192	28,613,631,906
Private issuers	66,828,793,418	124,832,201,140	86,229,476,387
Private banks	122,749,685,847	65,151,858,556	174,226,745,041
	<u>228,940,504,172</u>	<u>227,700,642,888</u>	<u>289,069,853,334</u>
	<u>1,069,085,990,296</u>	<u>912,646,019,784</u>	<u>1,120,376,729,610</u>
<i>Held-to-maturity:</i>			
Local issuers	27,519,342,882	27,181,284,510	27,069,336,275
	<u>27,519,342,882</u>	<u>27,181,284,510</u>	<u>27,069,336,275</u>
<i>Derivative financial instruments:</i>			
Interest rate futures - Hedges (note 6)	11,114,258,024	5,893,164,907	33,225,223,648
Purchase of FX futures – Other than hedges (note 6)	108,654,255	-	-
Sale of FX futures – Other than hedges (note 6)	65,165,272	-	-
	<u>11,288,077,551</u>	<u>5,893,164,907</u>	<u>33,225,223,648</u>
<i>Allowance for impairment:</i>			
Allowance for impairment of investments	(61,483,898)	(59,433,676)	(58,727,861)
Allowance for impairment of derivative instruments other than hedges	(11,807,773)	-	-
	<u>(73,291,671)</u>	<u>(59,433,676)</u>	<u>(58,727,861)</u>
Accrued interest receivable on investments	13,301,246,009	10,939,171,834	9,736,775,102
	<u>¢ 1,121,121,365,067</u>	<u>956,600,207,359</u>	<u>1,190,349,336,774</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 is as follows:

	June 2017	December 2016	June 2016
Opening balance	₡ 59,433,676	134,640,661	134,640,661
Allowance expense (note 31)	12,107,367	20,527,703	20,527,703
Decrease in allowance (note 32)	(299,593)	(97,495,429)	(97,495,429)
Foreign exchange differences	2,050,221	1,760,741	1,054,926
Closing balance	₡ 73,291,671	59,433,676	58,727,861

As of June 30, 2017, the allowance for impairment of investments in non-derivative financial instruments amounts to ₡61,483,898 (December and June 2016: ₡59,433,676 and ₡58,727,861, 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, 2017, the Bank recognized an allowance for impairment of derivative instruments other than hedges in the amount of ₡11,807,773, for FX futures sales other than hedges in accordance with SUGEF Directive 09-08 (2016: nil).

Annual returns on investments in financial instruments are as follows:

Currency	June 2017	December 2016	June 2016
Colones	4.05% to 11.13%	0.75% to 11.13%	1.25% to 11.04%
U.S. dollars	0.63% to 6.85%	0.63% to 6.55%	0.52% to 7.63%
Euros	1.10% to 5.13%	1.10% to 5.50%	1.10% to 5.50%
DU	0.00% to 0.74%	0.00% to 0.74%	0.00% to 0.74%

As of June 30, 2017, the valuation of available-for-sale investments and restricted financial instruments gave rise to an unrealized loss, net of deferred tax, in the amount of ₡422,878,027 (December and June 2016: unrealized loss of ₡4,325,830,389 and unrealized loss of ₡1,944,915,156, respectively). Accordingly, as of June 30, 2017, the cumulative balance of equity adjustments arising from valuation of these investments is an unrealized loss of ₡1,880,898,796 (December and June 2016: unrealized gain of ₡1,458,020,769 and unrealized gain of ₡922,894,464, respectively).

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(6) Derivative financial instruments

The Bank holds the following types of derivative financial instruments:

✓ Derivatives as risk hedging instruments:

Interest rate futures - hedges:

The Bank obtained interest rate hedges to hedge exposure to the LIBOR rate on international debt issues made in October 2013 and April 2016 in U.S. dollars at a fixed rate. The purpose of these financial instruments is to offset the changes in fair value attributable to fluctuations in such reference rate.

Derivative financial instruments are as follows:

Issuing bank	June 2017		Purpose
	Notional amount	Valuation	
Citibank	US\$ 100,000,000	US\$ 3,915,210	Swaps to hedge 10-year issues (maturing in 2023)
JP Morgan	200,000,000	7,830,420	
Bank of America	200,000,000	7,830,420	
Amount in colones	US\$ 500,000,000	US\$ 19,576,050	
	¢ 283,545,000,000	¢ 11,101,383,102	
Citibank	100,000,000	-	Swaps to hedge 5-year issues (maturing in 2018)
JP Morgan	150,000,000	-	
Amount in colones	US\$ 250,000,000	US\$ -	
	¢ 141,772,500,000	¢ -	
Bank of America	250,000,000	(4,401,422)	Swaps to hedge 5-year issues (maturing in 2021)
JP Morgan	250,000,000	(4,401,482)	
Amount in colones	US\$ 500,000,000	US\$ (8,802,904)	
	¢ 283,545,000,000	¢ (4,992,038,807)	
Chicago Board of Trade	US\$ 8,400,000	US\$ 13,740	Standardized futures contracts (maturing in 2017)
Amount in colones	¢ 4,763,556,000	¢ 7,791,703	

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 2016				Purpose
Issuing bank		Notional amount	Valuation	
Citibank	US\$	100,000,000	US\$ 2,150,085	Swaps to hedge 10-year issues (maturing in 2023)
JP Morgan		200,000,000	4,300,167	
Bank of America		200,000,000	4,300,167	
	US\$	500,000,000	US\$ 10,750,419	
Amount in colones	¢	274,090,000,000	¢ 5,893,164,907	
Citibank		100,000,000	(325,520)	Swaps to hedge 5-year issues (maturing in 2018)
JP Morgan		150,000,000	(488,281)	
	US\$	250,000,000	US\$ (813,801)	
Amount in colones	¢	137,045,000,000	¢ (446,109,432)	
Bank of America		250,000,000	(7,963,964)	
JP Morgan		250,000,000	(7,963,964)	Swaps to hedge 5-year issues (maturing in 2021)
	US\$	500,000,000	US\$ (15,927,928)	
Amount in colones	¢	274,090,000,000	¢ (8,731,371,571)	
				Standardized futures contracts (maturing in 2017)
Citibank	US\$	5,964,211	US\$ (36,656)	
Amount in colones	¢	3,269,461,186	¢ (20,094,448)	
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	
	US\$	500,000,000	US\$ 50,978,680	
Amount in colones	¢	270,835,000,000	¢ 27,613,621,596	
Citibank		100,000,000	1,333,589	Swaps to hedge 5-year issues (maturing in 2018)
JP Morgan		150,000,000	2,000,387	
	US\$	250,000,000	US\$ 3,333,976	
Amount in colones	¢	135,417,500,000	1,805,914,780	
Citibank		250,000,000	3,512,920	
JP Morgan		250,000,000	3,512,920	Swaps to hedge 5-year issues (maturing in 2021)
	US\$	500,000,000	US\$ 7,025,840	
Amount in colones	¢	270,835,000,000	¢ 3,805,687,272	

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of June 30, 2017, total notional amounts of US\$1,258,400,000, equivalent to ₡713,626,056,000 (December and June 2016: US\$1,255,964,211, equivalent to ₡688,494,461,186, and US\$1,250,000,000, equivalent to ₡677,087,500,000, respectively) are booked under “Other debit memoranda accounts” (see note 24).

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

As of June 30, 2017, the Bank books an increase in the fair value of these hedges in the amount of US\$19,576,050, equivalent to ₡11,101,383,102 (see note 5) and a decrease in the fair value of these hedges in the amount of US\$8,802,904, equivalent to ₡4,992,038,807 (see note 5).

As of December 31, 2016, the Bank books an increase in the fair value of these hedges in the amount of US\$10,750,419, equivalent to ₡5,893,164,907 (see note 5) and a decrease in the fair value of these hedges in the amount of US\$16,778,385, equivalent to ₡9,197,575,451 (see note 18).

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).

For purposes of the valuation the aforementioned interest rate swaps, the Bank elected to apply the “Fair Value Hedge Method”; while the “Dollar Offset Method” is used to test 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%.

As of June 30, the effectiveness of the valuation of derivative financial instruments is as follows:

	Effective rate		
	June 2017	December 2016	June 2016
5-year issue (maturing in 2018)	51.00%	83.62%	91.60%
10-year issue (maturing in 2023)	101.10%	98.00%	92.67%
5-year issue (maturing 2021)	81.00%	93.97%	93.10%

A valuation was performed as of June 30, 2017 and 2016 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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- zero rates corresponding to the swap curve as of June 30, 2017 and 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 amount
- accrued and earned interest were segregated from the instruments to obtain variations in clean prices
- forward rate to calculate variable interest.

As of June 30, standardized futures contracts were negotiated as part of the financial derivatives portfolio. The Bank booked a notional amount for the sale and purchase of these futures contracts in the amount of US\$8,400,000,000, equivalent to ₡4,763,556,000.

As of June 30, 2017, the Bank booked an increase in fair value due to the negotiation of these futures contracts in the amount of US\$22,703, equivalent to ₡12,874,922, and a decrease in the fair value of these hedges in the amount of US\$8,964, equivalent to ₡5,083,219, which is booked in "Other sundry accounts payable" (see note 18), establishing the net position of these instruments at US\$13,740, equivalent to ₡7,791,703.

✓ Derivatives for trading purposes:

Currency forwards:

The Bank entered into currency forwards 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 types of instruments are products which the Bank can offer to its clients pursuant to the authorization provided by BCCR to operate exchange rate derivatives.

As of June 30, 2017, the total notional amount is US\$23,460,753, equivalent to ₡13,304,358,385. As of December and June 2016, the Bank had no currency forwards (see note 22).

As of June 30, 2017, the Bank booked an increase in the fair value of these forwards in the amount of ₡173,819,527 under an asset account (December and June 2016: nil; see note 5).

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For 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 2017	December 2016	June 2016
Gain on derivative financial instruments	¢ 15,366,679,707	32,487,947,468	28,407,958,585
Loss on derivative financial instruments	(4,331,048,826)	(41,961,019,227)	(5,112,651,429)
Gain (loss), net	¢ 11,035,630,881	(9,473,071,759)	23,295,307,156

(7) Loan portfolio

(a) Loan portfolio by sector

The loan portfolio by sector is as follows:

	June 2017	December 2016	June 2016
Trade	¢ 430,655,248,421	383,913,120,090	367,034,927,090
Services	911,702,922,306	886,844,738,498	828,731,637,864
Financial services	138,647,058,673	143,227,870,068	129,538,951,024
Mining	993,400,983	1,078,059,706	843,031,803
Manufacturing and quarrying	173,295,744,701	164,439,989,019	142,090,967,906
Construction	110,501,086,315	102,337,598,821	97,741,637,098
Agriculture and forestry	121,996,894,500	119,200,690,631	114,052,542,019
Livestock, hunting, and fishing	83,276,565,684	75,554,660,408	70,252,437,217
Electricity, water, sanitation, and other related sectors	420,114,554,178	397,442,725,153	416,125,269,889
Transportation and telecommunications	46,601,822,561	41,876,391,133	31,173,284,209
Housing	1,276,075,365,270	1,192,797,400,089	1,148,390,048,160
Personal or consumer loans	513,993,587,102	445,416,562,419	391,474,798,879
Tourism	169,616,535,988	161,477,445,037	139,302,905,074
	4,397,470,786,682	4,115,607,251,072	3,876,752,438,232
Accrued interest receivable	27,763,070,665	27,221,501,072	25,579,739,890
Allowance for loan losses	(92,446,822,779)	(85,464,859,320)	(73,694,845,648)
¢	4,332,787,034,568	4,057,363,892,824	3,828,637,332,474

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Annual interest rates on loans receivable are as follows:

Currency	June 2017		December 2016		June 2016	
	Rates	Average	Rates	Average	Rates	Average
Colones	4.35% to 39.00%	13.56%	4.45% to 39.00%	13.23%	5.30% to 39.00%	14.32%
U.S. dollars	3.00% to 34.92%	9.16%	3.00% to 34.92%	8.93%	3.00% to 33.00%	8.71%
DU	3.85% to 11.00%	6.57%	3.85% to 11.00%	6.58%	3.85% to 11.00%	6.58%

(b) Loan portfolio by arrears

The loan portfolio by arrears is as follows:

	June 2017	December 2016	June 2016
Current	¢ 4,182,129,735,192	3,922,996,772,133	3,663,804,692,196
1 to 30 days	85,302,578,206	46,067,740,682	85,191,951,571
31 to 60 days	21,195,149,226	38,346,524,164	19,615,798,095
61 to 90 days	17,323,148,681	19,993,513,410	20,325,440,872
91 to 120 days	9,406,434,159	10,101,589,852	10,864,980,242
121 to 180 days	11,918,507,172	12,237,325,773	12,422,125,418
More than 180 days	70,195,234,046	65,863,785,058	64,527,449,838
Total direct loans	4,397,470,786,682	4,115,607,251,072	3,876,752,438,232
Accrued interest receivable	27,763,070,665	27,221,501,072	25,579,739,890
Allowance for loan losses	(92,446,822,779)	(85,464,859,320)	(73,694,845,648)
	¢ 4,332,787,034,568	4,057,363,892,824	3,828,637,332,474

(c) Allowance for loan losses

Movement in the allowance for loan losses is as follows:

	June 2017	December 2016	June 2016
Opening balance	¢ 85,464,859,320	62,968,882,979	62,968,882,979
Expense for the year (note 34)	15,701,678,367	37,490,816,079	17,260,301,448
Settlements	(9,048,034,504)	(15,733,523,078)	(6,953,750,923)
Decrease in allowance charged to profit or loss	(720,000,000)	-	-
Foreign exchange differences	1,048,319,596	738,683,340	419,412,144
Closing balance	¢ 92,446,822,779	85,464,859,320	73,694,845,648

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(8) Accounts and fees and commissions receivable

Accounts and fees and commissions receivable are as follows:

	June 2017	December 2016	June 2016
Fees and commissions	¢ 1,137,357,998	1,292,023,911	1,143,647,212
Accounts receivable for brokerage operations	166,214,442	3,828,079	-
Accounts receivable for transactions with related parties	-	-	91,691
Accounts receivable from related parties (officers, employees)	39,704,743	20,707,083	89,123,312
Deferred tax (note 16-b)	1,181,017,714	1,016,478,067	938,690,955
Income tax receivable (1)	110,058,598	217,865,795	2,572,544,492
Other sundry accounts receivable	4,719,234,226	3,993,335,555	3,646,410,122
Accrued interest receivable on other sundry accounts receivable	1,572,449	1,800,923	2,197,676
Allowance for impairment of other accounts receivable	(3,750,335,898)	(3,451,027,734)	(5,885,089,865)
	¢ <u>3,604,824,272</u>	<u>3,095,011,679</u>	<u>2,507,615,595</u>

(1) Income tax receivable, by entity, is as follows:

	June 2017	December 2016	June 2016
Banco Nacional de Costa Rica	¢ 63,437,973	140,319,872	2,540,939,018
BN Vital Operadora de Planes de Pensiones Complementarias, S.A.	-	225,091	-
BN Corredora de Seguros, S.A.	46,620,625	77,320,832	31,605,474
	¢ <u>110,058,598</u>	<u>217,865,795</u>	<u>2,572,544,492</u>

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

	June 2017	December 2016	June 2016
Opening balance	¢ 3,451,027,735	5,920,917,785	5,862,408,795
Allowance expense (note 34)	1,262,170,418	1,601,391,297	676,672,856
Decrease in allowance (note 35)	(297,733,465)	(3,229,204,400)	(448,377,380)
Items settled against allowance	(667,498,175)	(845,837,775)	(208,127,542)
Foreign exchange differences	2,369,385	3,760,827	2,513,136
Closing balance	¢ <u>3,750,335,898</u>	<u>3,451,027,734</u>	<u>5,885,089,865</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(9) Foreclosed assets

Foreclosed assets are presented net of the allowance for impairment, as follows:

	June 2017	December 2016	June 2016
Assets acquired in lieu of payment	¢ 83,446,253,926	77,394,578,153	79,251,336,646
Idle property and equipment	1,471,878	1,471,878	832,653
Allowance for impairment	(62,469,414,972)	(59,644,951,072)	(63,263,247,969)
	¢ <u>20,978,310,832</u>	<u>17,751,098,959</u>	<u>15,988,921,330</u>

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

	June 2017	December 2016	June 2016
Opening balance	¢ 59,644,951,072	61,161,022,915	61,161,022,915
Allowance expense (note 38)	3,614,610,475	4,906,253,492	3,978,932,471
Decrease in allowance	(790,146,575)	(6,422,325,335)	(1,876,707,417)
Closing balance	¢ <u>62,469,414,972</u>	<u>59,644,951,072</u>	<u>63,263,247,969</u>

(10) Investments in other companies

Investments in other companies are as follows:

	June 2017	December 2016	June 2016
Other financial and non-financial entities	¢ 50,623,300	50,623,300	50,623,300
Banco Internacional de Costa Rica, S.A. and Subsidiary (BICSA) (note 3)	60,514,689,302	57,140,578,683	56,285,632,667
	¢ <u>60,565,312,602</u>	<u>57,191,201,983</u>	<u>56,336,255,967</u>

The Bank holds 49% ownership interest in BICSA, represented in June 2017 and December and June 2016 by 6,506,563, with a nominal value of US\$10 each.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

	<u>June 2017</u>	<u>December 2016</u>	<u>June 2016</u>	<u>Concept</u>
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 to operate as custodian of electronic securities
Depósito Libre Comercial Golfito (Golfito Duty Free Shopping Center) per article 24 of Law No. 7131	5,200,000	5,200,000	5,200,000	Investment in the Golfito Duty Free Shopping Center
Other financial entities	423,300	423,300	423,300	Investments in various cooperatives
	<u>¢ 50,623,300</u>	<u>50,623,300</u>	<u>50,623,300</u>	

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(11) Property and equipment

Property and equipment is as follows:

		June 2017					
		Land	Buildings	Furniture and equipment	Computer hardware	Vehicles	Total
<u>Cost:</u>							
Balance at beginning of year	¢	46,478,629,745	121,009,095,827	61,083,203,506	59,600,997,629	437,323,476	288,609,250,183
Additions		-	1,713,797,141	2,114,329,505	1,737,538,922	-	5,565,665,568
Disposals		-	-	(1,560,383,962)	(9,872,855,842)	-	(11,433,239,804)
Adjustments		-	-	24,039,215	9,080,762	-	33,119,977
Balance at end of year		46,478,629,745	122,722,892,968	61,661,188,264	51,474,761,471	437,323,476	282,774,795,924
<u>Accumulated depreciation:</u>							
Balance at beginning of year		-	33,183,853,177	33,869,123,760	44,114,779,021	336,442,779	111,504,198,737
Depreciation expense on historical cost		-	696,460,823	2,783,392,919	3,344,542,678	13,148,815	6,837,545,235
Depreciation expense on revaluation		-	708,730,130	-	-	-	708,730,130
Disposals		-	-	(1,525,893,138)	(9,841,334,877)	-	(11,367,228,015)
Adjustments		-	(1,410)	2,973,313	(17,493,853)	-	(14,521,950)
Balance at end of year		-	34,589,042,720	35,129,596,854	37,600,492,969	349,591,594	107,668,724,137
Net balance at end of year	¢	46,478,629,745	88,133,850,248	26,531,591,410	13,874,268,502	87,731,882	175,106,071,787

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		December 2016					
		Land	Buildings	Furniture and equipment	Computer hardware	Vehicles	Total
<u>Cost:</u>							
Historical cost at beginning of year	¢	4,218,965,394	62,430,854,914	59,048,581,832	57,942,113,324	451,048,332	184,091,563,796
Revalued cost at beginning of year		42,395,124,332	57,353,344,058	-	-	-	99,748,468,390
Additions		-	783,223,809	5,759,938,623	7,614,884,356	-	14,158,046,788
Disposals		-	-	(3,837,327,753)	(5,916,904,016)	-	(9,754,231,769)
Sales		(135,459,981)	(168,500,338)	(273,875)	-	(13,644,336)	(317,878,530)
Adjustments		-	611,075,765	122,389,129	(50,183,386)	-	683,281,508
Reclassifications		-	(902,381)	(10,104,450)	11,087,351	(80,520)	-
Balance at end of year		46,478,629,745	121,009,095,827	61,083,203,506	59,600,997,629	437,323,476	288,609,250,183
<u>Accumulated depreciation:</u>							
Balance at beginning of year		-	29,704,829,213	31,171,302,930	44,614,967,063	321,446,224	105,812,545,430
Depreciation expense on historical cost		-	1,355,676,895	5,298,486,956	5,382,224,643	28,721,410	12,065,109,904
Depreciation expense on revaluation		-	1,364,745,840	-	-	-	1,364,745,840
Disposals		-	-	(2,634,688,039)	(5,841,055,189)	-	(8,475,743,228)
Sales		-	(70,932,726)	(273,875)	-	(13,644,336)	(84,850,937)
Adjustments		-	830,436,336	39,607,166	(47,651,774)	-	822,391,728
Reclassifications		-	(902,381)	(5,311,378)	6,294,278	(80,519)	-
Balance at end of year		-	33,183,853,177	33,869,123,760	44,114,779,021	336,442,779	111,504,198,737
Net balance at end of year	¢	46,478,629,745	87,825,242,650	27,214,079,746	15,486,218,608	100,880,697	177,105,051,446

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		June 2016					
		Land	Buildings	Furniture and equipment	Computer hardware	Vehicles	Total
<u>Cost:</u>							
Balance at beginning of year	¢	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)	-
Balance at end of year		46,592,182,580	120,745,757,181	59,437,624,473	57,676,397,123	437,323,476	284,889,284,833
<u>Accumulated depreciation:</u>							
Balance at beginning of year		-	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	-	851,754,490
Reclassifications		-	-	(6,058,372)	6,138,892	(80,520)	-
Balance at end of year		-	31,836,189,678	32,656,697,522	44,503,244,924	322,607,181	109,318,739,305
Net balance at end of year	¢	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

(12) Other assets

Other assets are as follows:

	June 2017	December 2016	June 2016
<u>Deferred charges:</u>			
Leasehold improvements	¢ 1,048,254,950	1,230,240,341	1,160,108,677
Cost of issue of financial instruments, net (3)	1,667,697,922	1,888,423,058	2,102,991,902
Cost of subordinated debt project	436,127,725	474,798,764	512,021,812
Deferred direct costs related to loans	5,236,743,481	5,673,603,092	5,865,372,256
Other deferred charges	1,946,935,544	2,632,876,079	3,327,700,280
	<u>10,335,759,622</u>	<u>11,899,941,334</u>	<u>12,968,194,927</u>
<u>Intangible assets:</u>			
Software (2)	5,897,966,895	5,221,524,241	3,663,175,137
Other intangible assets (2)	1,523,257,903	4,145,080	6,519,802
	<u>7,421,224,798</u>	<u>5,225,669,321</u>	<u>3,669,694,939</u>
<u>Other assets:</u>			
Prepaid interest and fees and commissions	231,089,544	274,408,717	245,737,896
Prepaid taxes	2,944,676,751	6,468,712,634	2,331,278,996
Prepaid insurance policy	151,577,759	253,224,405	164,761,972
Other prepaid expenses	634,170,348	119,811,455	153,329,697
Stationery, office supplies, and other materials	980,236,639	624,937,164	322,289,891
Leased assets	100,139,771	100,810,170	101,486,944
Library and artwork	429,918,818	349,918,818	341,297,151
Construction work-in-progress	5,267,692,167	5,741,165,428	4,218,381,733
Software under development	392,881,006	343,328,418	315,973,406
Rights in welfare and trade associations	600,000	600,000	600,000
Other sundry assets	4,505,198,705	3,986,095,929	2,625,350,000
Cash shortage	-	3,000	-
Operations pending settlement	8,250,209,091	5,676,583,225	8,681,520,918
Other operations pending application	211,036,566	3,681,008,163	506,992,291
Guarantee deposits (1)	282,538,534	341,347,456	399,162,237
Legal and administrative deposits (1)	152,840,074	187,985,647	198,593,131
	<u>24,534,805,773</u>	<u>28,149,940,629</u>	<u>20,606,756,263</u>
	<u>¢ 42,291,790,193</u>	<u>45,275,551,284</u>	<u>37,244,646,129</u>

(1) As of June 30, 2017, guarantee deposits amount to ¢435,378,608 (December and June 2016: ¢529,333,103 and ¢597,755,368, respectively) (see note 2).

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(2) Net intangible assets are as follows:

	June 2017		
	Software	Other intangible assets	Total
<u>Cost:</u>			
Opening balance	¢ 22,163,996,115	98,174,640	22,262,170,755
Additions	2,293,120,547	1,995,740,958	4,288,861,506
Disposals	(32,188,654)	-	(32,188,654)
Reclassifications	-	(8,290,160)	(8,290,160)
Adjustments	(124,250,736)	-	(124,250,735)
Closing balance	24,300,677,272	2,085,625,438	26,386,302,710
<u>Accumulated amortization:</u>			
Opening balance	16,942,471,872	94,029,559	17,036,501,431
Expense for the year	1,480,963,989	476,628,136	1,957,592,125
Disposals	(20,725,484)	(8,290,160)	(29,015,644)
Closing balance	18,402,710,377	562,367,535	18,965,077,912
Net closing balance	¢ 5,897,966,895	1,523,257,903	7,421,224,798
	December 2016		
	Software	Other intangible assets	Total
<u>Cost:</u>			
Opening balance	¢ 20,535,208,567	96,302,651	20,631,511,218
Additions	3,257,298,745	18,480,098	3,275,778,843
Disposals	(1,699,395,942)	-	(1,699,395,942)
Reclassifications	-	(16,608,110)	(16,608,110)
Adjustments	70,884,743	-	70,884,743
Closing balance	22,163,996,113	98,174,639	22,262,170,752
<u>Accumulated amortization:</u>			
Opening balance	16,546,267,398	94,029,559	16,640,296,957
Expense for the year	2,109,325,149	16,608,110	2,125,933,259
Disposals	(1,679,487,450)	(16,608,110)	(1,696,095,560)
Adjustments	(33,633,225)	-	(33,633,225)
Closing balance	16,942,471,872	94,029,559	17,036,501,431
Net closing balance	¢ 5,221,524,241	4,145,080	5,225,669,321

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	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

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

	June 2017			
	5-year issue (maturing in 2018)	10-year issue (maturing in 2023)	5-year issue (maturing in 2021)	Total
Commission - structuring banks	¢ 283,545,000	283,545,000	482,026,500	1,049,116,500
Commission - Moody's Investors Service	141,772,500	141,772,500	-	283,545,000
Commission - Société de la Bourse de Luxembourg, S.A.	6,930,407	6,930,407	-	13,860,814
RR Donelley	6,207,934	6,207,912	3,716,297	16,132,143
BNY Mellon	2,241,707	2,241,707	3,270,408	7,753,822
Moody's - issuer rating	18,770,679	18,770,679	141,772,500	179,313,858
Fitch Ratings	141,772,500	141,772,500	141,772,500	425,317,500
Milbank	83,452,964	83,452,964	111,728,418	278,634,346
Shearman & Sterling	83,561,279	83,561,279	124,302,782	291,425,340
External audit	107,747,100	107,747,100	131,564,880	347,059,080
Perkins Cole (Broker)	-	-	7,438,548	7,438,548
Printing of documents	-	-	8,968,439	8,968,439
	876,002,070	876,002,048	1,156,561,272	2,908,565,390
Amortization	(636,554,257)	(297,645,730)	(306,667,481)	(1,240,867,467)
	¢ 239,447,813	578,356,318	849,893,791	1,667,697,922

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	December 2016			
	5-year issue (maturing in 2018)	10-year issue (maturing in 2023)	5-year issue (maturing in 2021)	Total
Commission - structuring banks	¢ 274,090,000	274,090,000	465,953,000	1,014,133,000
Commission - Moody's Investors Service	137,045,000	137,045,000	-	274,090,000
Commission - Société de la Bourse de Luxembourg, S.A.	6,699,308	6,699,308	-	13,398,616
RR Donelley	6,000,926	6,000,905	3,592,374	15,594,205
BNY Mellon	2,166,956	2,166,956	3,161,354	7,495,266
Moody's - issuer rating	18,144,758	18,144,758	137,045,000	173,334,516
Fitch Ratings	137,045,000	137,045,000	137,045,000	411,135,000
Milbank	80,670,169	80,670,169	108,002,758	269,343,096
Shearman & Sterling	80,774,871	80,774,871	120,157,822	281,707,564
External audit	104,154,200	104,154,200	127,177,760	335,486,160
Perkins Cole (Broker)	-	-	7,190,504	7,190,504
Printing of documents	-	-	8,669,379	8,669,379
	846,791,188	846,791,167	1,117,994,951	2,811,577,306
Amortization	(521,521,223)	(231,871,584)	(169,761,441)	(923,154,248)
	¢ 325,269,965	614,919,583	948,233,510	1,888,423,058

	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 (Broker)	-	-	7,105,112	7,105,112
Printing of documents	-	-	8,566,424	8,566,424
	836,734,982	836,734,961	1,104,718,021	2,778,187,964
Amortization	(427,776,523)	(186,389,210)	(61,030,329)	(675,196,062)
	¢ 408,958,459	650,345,751	1,043,687,692	2,102,991,902

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(13) Obligations with the public

Obligations with the public by cumulative amount are as follows:

	June 2017	December 2016	June 2016
<i>Demand obligations:</i>			
Checking accounts	¢ 1,193,648,695	1,278,957,425	1,182,701,717
Certified checks	120,292,195	122,039,022	238,125,599
Savings deposits	1,303,686,655	1,296,486,040	1,202,495,716
Matured term deposits	21,185,280,671	17,819,303,823	18,481,303,723
Other demand deposits	520,057,078	611,720,829	833,521,216
Drafts and transfers	90,759,383	163,530,110	224,163,469
Cashier's checks	7,190,113,766	4,084,392,512	5,876,212,211
Advance collections from customers for credit cards	9,497,529,248	8,526,828,123	7,778,446,957
Trust fund obligations	2,653,646	35,790,055	14,819,598
	<u>2,535,942,036,949</u>	<u>2,606,807,068,581</u>	<u>2,418,644,025,762</u>
<i>Term obligations:</i>			
Deposits from the public	1,981,751,611,452	1,453,379,510,857	1,547,965,482,458
Other term deposits	138,453,880,112	81,367,527,731	83,890,629,431
	<u>2,120,205,491,564</u>	<u>1,534,747,038,588</u>	<u>1,631,856,111,889</u>
<i>Other obligations with the public:</i>			
Obligations for tri-party repurchase agreements	22,260,485,678	26,448,255,041	34,558,903,263
	<u>22,260,485,678</u>	<u>26,448,255,041</u>	<u>34,558,903,263</u>
Charges payable for obligations with the public	30,094,610,898	22,134,040,383	21,545,978,281
¢	<u>4,708,502,625,089</u>	<u>4,190,136,402,593</u>	<u>4,106,605,019,195</u>

As of June 30, 2017, deposits in checking accounts denominated in colones bear interest at a maximum rate of 2.55% per annum (December and June 2016: 1.50% and 0.90% per annum, respectively) on balances and at a minimum rate of 1.65% per annum (December and June 2016: 0.00% and 0.50% per annum, respectively) on balances greater than or equal to ¢500,001. Deposits in checking accounts denominated in U.S. dollars bear interest at a maximum rate of 0.45% per annum (December and June 2016: 0.40% and 0.10% per annum, respectively) on balances and at a minimum rate of 0.30% per annum (December and June 2016: 0.00% and 0.05% per annum, respectively) on balances greater than or equal to US\$1,000.

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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:

Currency	June 2017	December 2016	June 2016
Colones	4.00% to 8.20%	1.15% to 7.40%	1.15% to 7.40%
U.S. dollars	0.50% to 5.10%	0.45% to 5.85%	0.20% to 5.80%
Euros	0.00% to 0.00%	0.00% to 0.00%	0.01% to 0.05%

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

As of June 30, 2017, the balance of those term certificates of deposit amounts to ¢35,678,326,394 (December and June 2016: ¢32,221,517,946 and ¢31,165,411,085, respectively). As of that date, the Bank has no inactive deposits with State-owned entities or other banks.

(14) Obligations with BCCR

Obligations with BCCR are as follows:

	June 2017	December 2016	June 2016
Financing for loans using internal funds	¢ 133,675,000,000	-	-
Financing for loans using external funds	125,644,412	125,644,412	125,644,412
Interest payable on obligations	21,350,868	-	-
	<u>¢ 133,821,995,280</u>	<u>125,644,412</u>	<u>125,644,412</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(15) Obligations with entities

Obligations with entities are as follows:

	June 2017	December 2016	June 2016
<i><u>Demand:</u></i>			
Checking accounts with local financial entities	¢ 40,773,199,106	67,079,202,786	66,982,045,965
Savings deposits with local financial entities	129,690,466	34,068,844	44,729,567
Development Credit Fund (FCD) management	157,822,087,646	145,344,840,301	136,907,938,480
Outstanding checks	7,403,710,565	1,947,218,401	7,001,621,186
Checking accounts and obligations with related parties	15,143,768	36,789,113	26,460,549
Other demand obligations with financial entities	1,084,973	997,169,021	695,298,797
	<u>206,144,916,524</u>	<u>215,439,288,466</u>	<u>211,658,094,544</u>
<i><u>Term:</u></i>			
Term deposits from local financial entities	99,462,881,093	2,702,114,143	7,795,931,339
Term deposits from foreign financial entities	5,670,900,000	5,481,800,000	10,833,400,000
Term obligations with foreign financial entities (2)	850,753,704,986	815,040,918,559	854,980,766,074
Liquidity market obligations	17,927,990,002	7,700,000,000	6,600,000,000
Loans from local financial entities	17,280,707,935	8,138,797,739	3,742,041,291
Loans from foreign financial entities (1)	159,775,558,252	160,775,371,029	254,971,263,667
Deferred liquidity operations	7,225,000,000	-	-
	<u>1,158,096,742,268</u>	<u>999,839,001,470</u>	<u>1,128,090,002,371</u>
Charges payable for other demand and term obligations with financial entities – foreign currency	176,015,804	38,405,886	72,964,888
Charges payable for other demand and term obligations with financial entities – local currency	812,957,772	123,680,533	238,042,726
Charges payable for loans with foreign financial entities (1)	1,466,736,015	1,413,597,675	1,773,695,382
Charges payable for loans with local financial entities	34,266,668	9,776,425	10,601,262
Charges payable for term deposits from foreign financial entities (2)	8,265,139,890	7,989,533,183	7,894,652,171
	<u>10,755,116,149</u>	<u>9,574,993,702</u>	<u>9,989,956,429</u>
	<u>¢ 1,374,996,774,941</u>	<u>1,224,853,283,638</u>	<u>1,349,738,053,344</u>

- (1) Loans due to foreign financial entities bear interest at rates ranging between 3.32% and 6.65% per annum (December and June 2016: between 2.54% and 6.65% per annum and between 2.02% and 6.65% per annum, respectively).

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

Date of issue	Face value	Characteristics
01/11/2013	US\$500 million	<ul style="list-style-type: none"> • Traded amount: 99.331% • Term: 5 years • Interest rate: 4.875% per coupon payment
01/11/2013	US\$500 million	<ul style="list-style-type: none"> • Traded amount: 99.072% • Term: 10 years • Interest rate: 6.250% per coupon payment
25/04/2016	US\$500 million	<ul style="list-style-type: none"> • Traded amount: 99.68% • Term: 5 years • Interest rate: 5.875% per coupon payment

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

	June 2017			
	5-year issue (maturing in 2018)	10-year issue (maturing in 2023)	5-year issue (maturing in 2021)	Total
Issue	¢ 281,042,145,818	286,765,874,998	273,489,359,939	841,297,380,755
Adjustment to fair value of hedged item measured at cost of international issues	183,325,862	3,980,407,959	2,981,136,011	7,144,869,832
Amortization of discount in traded amount of issues	1,342,850,570	778,107,790	190,496,039	2,311,454,399
Subtotal	282,568,322,250	291,524,390,747	276,660,991,989	850,753,704,986
Charges payable	2,303,803,114	2,953,593,754	3,007,743,022	8,265,139,890
	¢ 284,872,125,364	294,477,984,501	279,668,735,011	859,018,844,876

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 2016				
	5-year issue (maturing in 2018)	10-year issue (maturing in 2023)	5-year issue (maturing in 2021)	Total
Issue	¢ 273,840,105,083	308,765,469,368	275,425,692,866	858,031,267,317
Adjustment to fair value of hedged item measured at cost of international issues	(2,224,689,858)	(31,561,996,331)	(11,056,020,380)	(44,842,706,569)
Amortization of discount in traded amount of issues	1,107,715,702	639,844,894	104,797,215	1,852,357,811
Subtotal	272,723,130,927	277,843,317,931	264,474,469,701	815,040,918,559
Charges payable	2,226,981,250	2,855,104,181	2,907,447,752	7,989,533,183
Issue	¢ 274,950,112,177	280,698,422,112	267,381,917,453	823,030,451,742
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
Issue	¢ 273,799,695,198	299,098,165,024	276,744,158,023	849,642,018,245

A valuation was performed as of June 30, 2017 and 2016 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, 2017 and 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 amount
- accrued and earned interest were segregated from the instruments to obtain variations in clean prices
- forward rate to calculate variable interest.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Maturities of loans due to entities

Loans due to entities mature as follows:

		June 2017		
		Local	Foreign	Total
Less than 1 year	¢	141,049,934,937	62,327,430,530	203,377,365,467
Between 3 and 5 years		125,644,412	8,026,679,007	8,152,323,419
More than 5 years		17,186,390,534	90,888,184,729	108,074,575,263
	¢	<u>158,361,969,883</u>	<u>161,242,294,266</u>	<u>319,604,264,149</u>
		December 2016		
		Local	Foreign	Total
Less than 1 year	¢	397,938,239	61,328,159,986	61,726,098,225
Between 1 and 2 years		-	2,745,006,304	2,745,006,304
Between 3 and 5 years		125,644,412	8,783,221,884	8,908,866,296
More than 5 years		7,750,635,925	89,332,580,530	97,083,216,455
	¢	<u>8,274,218,576</u>	<u>162,188,968,704</u>	<u>170,463,187,280</u>
		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>260,623,246,014</u>

As of June 30, 2017 and 2016, loans due to local entities correspond to obligations with Banco Crédito Agrícola de Cartago.

(16) 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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

a) Current tax

The income tax expense is as follows:

	June		Quarter from April 1 to June 30	
	2017	2016	2017	2016
<u>Current tax:</u>				
Income tax expense for the period	¢ 6,948,668,139	6,412,169,390	1,812,197,365	2,922,794,720
Decrease in income tax for the period	(858,011,818)	(1,334,895,134)	(858,011,818)	(1,334,895,134)
Subtotal income tax expense for the period	6,090,656,321	5,077,274,256	954,185,547	1,587,899,586
Prior-period income tax expense	834,374,297	-	-	-
Decrease in prior-period income tax	(19,910,540)	(16,380,331)	(12,253,356)	-
Total current tax expense, net	6,905,120,078	5,060,893,925	941,932,191	1,587,899,586
<u>Deferred tax:</u>				
Deferred tax expense	194,732,907	115,798,254	193,955,907	97,615,043
Increase in deferred tax	(99,597,921)	(1,315,702,834)	(37,734,979)	(46,055,197)
Total deferred tax expense, net	95,134,986	(1,199,904,580)	156,220,928	51,559,846
Total income tax expense, net	¢ 7,000,255,064	3,860,989,345	1,098,153,119	1,639,459,432

For the years ended June 30, the difference between income tax expense and the amount that would result from applying the corresponding tax rate to pre-tax income (30%) is reconciled as follows:

	June 2017	June 2016
Profit before tax	¢ 38,605,899,293	43,621,498,186
<i>Plus (less) tax effect of:</i>		
Non-deductible expenses	20,801,531,619	19,485,250,710
Deductible expenses	(2,905,207,892)	(2,733,842,562)
Non-taxable income	(36,200,035,288)	(43,474,668,29)
Taxable income	-	26,009,485
Tax base	20,302,187,732	16,924,247,521
Tax rate	30%	30%
Total income tax expense, net	¢ 6,090,656,321	5,077,274,256

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

b) Deferred tax

Deferred tax assets and liabilities are as follows:

		June 2017		
		Assets	Liabilities	Net
Unrealized losses	¢	921,926,237	-	921,926,237
Provisions		258,731,816	-	258,731,816
Tax base of furniture and equipment		359,661	-	359,661
Unrealized gains		-	(10,339,228,565)	(10,339,228,565)
Revaluation of assets		-	(847,966,035)	(847,966,035)
	¢	<u>1,181,017,714</u>	<u>(11,187,194,600)</u>	<u>(10,006,176,886)</u>
		December 2016		
		Assets	Liabilities	Net
Unrealized losses	¢	669,043,212	-	669,043,212
Provisions		347,434,855	-	347,434,855
Difference in useful lives		-	(518,000)	(518,000)
Unrealized gains		-	(1,271,480,448)	(1,271,480,448)
Revaluation of assets		-	(10,339,228,565)	(10,339,228,565)
	¢	<u>1,016,478,067</u>	<u>(11,611,227,013)</u>	<u>(10,594,748,946)</u>
		June 2016		
		Assets	Liabilities	Net
Unrealized losses	¢	596,498,517	-	596,498,517
Provisions		342,192,438	-	342,192,438
Unrealized gains		-	(2,374,823,727)	(2,374,823,727)
Revaluation of assets		-	(10,339,228,565)	(10,339,228,565)
	¢	<u>938.690.955</u>	<u>(12.714.052.292)</u>	<u>(11.775.361.337)</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Movement in temporary differences that give rise to deferred tax assets is as follows:

	December 31, 2016	Included in the income statement	Included in equity	June 30, 2017
Unrealized losses	¢ 670,233,485	-	251,692,754	921,926,238
Provisions	346,244,582	(87,512,767)	-	258,731,816
Tax base of furniture and equipment	-	359,660	-	359,660
Unrealized gains	(1,271,998,447)	155,216,945	268,815,468	(847,966,035)
Revaluation of assets	(10,339,228,566)	-	-	(10,339,228,565)
	¢ (10,594,748,946)	68,063,838	520,508,222	(10,006,176,886)
	December 31, 2015	Included in the income statement	Included in equity	December 31, 2016
Unrealized losses	¢ 503,251,465	-	166,982,020	670,233,485
Provisions	328,772,903	17,471,679	-	346,244,582
Allowance for doubtful accounts	17,552,696	(17,552,696)	-	-
Unrealized gains	(3,787,978,234)	737,948,880	1,778,030,907	(1,271,998,447)
Revaluation of assets	(11,524,732,938)	-	1,185,504,372	(10,339,228,566)
	¢ (14,463,134,108)	737,867,863	3,130,517,299	(10,594,748,946)
	December 31, 2015	Included in the income statement	Included in equity	December 31, 2016
Unrealized losses	¢ 503,251,465	-	93,247,052	596,498,517
Provisions	328,772,903	13,419,535	-	342,192,438
Allowance for doubtful accounts	17,552,696	(17,552,696)	-	-
Unrealized gains	¢ (3,787,978,234)	376,350,441	1,036,804,066	(2,374,823,727)
Revaluation of assets	(11,524,732,938)	-	1,185,504,373	(10,339,228,565)
	¢ (14,463,134,108)	372,217,280	2,315,555,491	(11,775,361,337)

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, 2013, 2014, 2015, 2016 and the tax return that will be filed for the year ended December 31, 2017 are open to review by the Tax Authorities.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(17) Provisions

Provisions are as follows:

	June 2017	December 2016	June 2016
Severance benefits	¢ 2,764,830,112	2,848,046,997	7,668,184,469
Litigation	5,141,696,423	5,114,477,995	5,082,001,324
Other	15,827,697,356	18,331,583,729	12,942,516,830
	¢ <u>23,734,223,891</u>	<u>26,294,108,721</u>	<u>25,692,702,623</u>

Movement in provisions is as follows:

	Severance benefits	Litigation	Other	Total
Balance at December 31, 2015	¢ 19,351,170,766	4,759,970,548	11,810,578,826	35,921,720,140
Increase in provision	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 provision	(267,871,257)	(442,703,704)	(647,242,163)	(1,357,817,124)
Balance at June 30, 2016	7,668,184,469	5,082,001,324	12,942,516,830	25,692,702,623
Balance at December 31, 2015	¢ 19,351,170,766	4,759,970,548	11,810,578,826	35,921,720,140
Increase in provision	7,122,139,578	1,944,689,188	15,799,859,759	24,866,688,525
Used	(23,271,121,855)	(801,840,797)	(8,256,828,606)	(32,329,791,258)
Decrease in provision	(354,141,492)	(788,340,944)	(1,022,026,250)	(2,164,508,686)
Balance at December 31, 2016	2,848,046,997	5,114,477,995	18,331,583,729	26,294,108,721
Increase in provision	615,900,046	376,126,468	6,632,103,733	7,624,130,247
Used	(699,116,931)	(332,295,285)	(8,656,016,605)	(9,687,428,821)
Decrease in provision	-	(16,612,755)	(479,973,501)	(496,586,256)
Balance at June 30, 2017	¢ <u>2,764,830,112</u>	<u>5,141,696,423</u>	<u>15,827,697,356</u>	<u>23,734,223,891</u>

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:

Suit	Claimed amount			Provision		
	June 2017	December 2016	June 2016	June 2017	December 2016	June 2016
Ordinary - in colones	65,827,451,644	66,170,702,983	64,679,295,466	3,915,942,959	3,914,211,465	4,943,530,858
Ordinary - in U.S. dollars	210,258,517,053	190,575,986,833	173,277,243,784	456,035,770	423,919,453	-
Criminal - in colones	1,009,129,410	1,009,129,410	1,000,000	512,620,604	496,046,408	-
Labor	714,230,103	1,616,275,443	1,478,478,865	257,097,090	280,300,669	138,470,466
Phishing	-	-	1,332,742,302	-	-	-
	<u>277,809,328,210</u>	<u>259,372,094,669</u>	<u>240,768,760,417</u>	<u>5,141,696,423</u>	<u>5,114,477,995</u>	<u>5,082,001,324</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(18) Other sundry accounts payable

Other sundry accounts payable are as follows:

	June 2017	December 2016	June 2016
Professional fees	¢ 28,310,753	2,558,750	6,752,142
Creditors - goods and services	4,326,818,502	3,384,330,555	3,075,251,110
Current tax	6,090,656,321	10,524,614,198	5,077,274,256
Employer contributions	5,965,513,863	8,457,415,872	6,881,074,499
Court-ordered withholdings	3,419,934,573	3,161,186,737	3,203,114,540
Tax withholdings	3,166,264,952	3,851,464,157	2,050,639,951
Employee withholdings	712,654,962	681,405,584	563,537,462
Other third-party withholdings	296,247,398	9,455,319	212,303,128
Compensation	3,218,777,183	6,702,950,151	4,531,725,131
Statutory allocations	9,678,596,662	17,153,405,402	9,587,717,221
Obligations payable on loans with related parties	-	83,835	-
Clearing house operations	3,259,505,568	4,617,080,542	8,411,564,879
Accrued vacation	7,402,206,870	6,944,862,199	7,663,130,284
Accrued statutory Christmas bonus	5,275,525,814	1,651,621,193	5,142,016,839
Contributions to superintendencies	-	9,839,843	-
Foreclosed assets	479,913,837	354,942,685	199,714,975
Various creditors - Local currency	7,025,947,929	6,327,166,650	7,564,002,700
Various creditors - Foreign currency	5,380,363,439	6,154,583,169	4,180,373,778
Interest rate futures - Hedges (note 6)	5,034,685,098	9,197,575,451	-
	¢ <u>70,761,923,724</u>	<u>89,186,542,292</u>	<u>68,350,192,895</u>

- (1) As of June 30, 2017, the “Various creditors” account includes ¢2,612 million (December and June 2016: ¢2,746 and ¢2,148 million, respectively), for the operations of the Bank’s Electronic Processing of Payments Office (VISA). The remaining amount corresponds to normal operations of other divisions.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(19) Other liabilities

Other liabilities are as follows:

	June 2017	December 2016	June 2016
<i>Deferred income:</i>			
Deferred fees and commissions for loan portfolio	¢ 28,507,160,245	24,722,362,957	17,882,105,382
Deferred fees and commissions for trust management	19,917,250	23,251,334	14,693,481
Other	-	-	76,545
Subtotal	28,527,077,495	24,745,614,291	17,896,875,408
Allowance for stand-by credit losses (1)	345,121,855	540,840,567	1,746,923,668
<i>Operations pending application:</i>			
Operations pending settlement	18,100,938,554	19,153,979,611	11,050,695,573
Other	21,254,510,742	2,337,461,858	19,983,688,923
	39,355,449,296	21,491,441,469	31,034,384,496
¢	68,227,648,646	46,777,896,327	50,678,183,572

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

	June 2017	December 2016	June 2016
Opening balance	¢ 540,840,567	1,545,597,997	1,545,597,997
Allowance expense (note 34)	76,147,000	185,335,020	175,330,017
Decrease in allowance (note 35)	(280,000,000)	(1,229,913,214)	-
Adjustment for foreign exchange differences	8,134,288	39,820,764	25,995,654
Closing balance	¢ 345,121,855	540,840,567	1,746,923,668

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(20) Subordinated obligations

The Bank's subordinated obligations are as follows:

Annual interest rate	Term	Maturity		June 2017	December 2016	June 2016
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		30,000,000	30,000,000	30,000,000
			US\$	130,000,000	130,000,000	130,000,000
	Total in colones		¢	73,721,700,000	71,263,400,000	70,417,100,000
	Finance charges payable			1,467,214,366	1,412,378,397	1,213,355,582
			¢	75,188,914,366	72,675,778,397	71,630,455,582

In accordance with IRNBS (Law 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 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.

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.

(21) Equity

(a) Share capital

The Bank's share capital is as follows:

		June 2017	December 2016	June 2016
Capital under Law No. 1644	¢	144,618,072,265	90,511,345,645	90,511,345,645
Bank capitalization bonds		27,618,957,837	27,618,957,837	27,618,957,837
	¢	172,237,030,102	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 the Amendment to Law No. 8627 on the Ordinary and Extraordinary Budget of the Republic for Tax Year 2008 (Law No. 8703). 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), denominated in DU, and maturing in 2013, 2017, 2018, and 2019 (No. 4183, No. 4184, No. 4185, and No. 4190 for DU10,541,265.09 each, at a reference exchange rate of ₡655.02 to DU1.00). As of June 30, 2017, based on the exchange rate as of that date, the balance of those investments is ₡27,519,342,882 (December and June 2016: ₡27,181,284,510 and ₡27,069,336,275, respectively) (see note 5).

(b) Revaluation surplus

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

As of June 30, 2017 and December and June 2016, the revaluation surplus amounts to ₡60,806,752,437.

(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, 2017, the adjustment for the valuation of available-for-sale investments and restricted financial instruments results in an unrealized loss of ₡1,880,898,796 (December and June 2016: unrealized loss of ₡1,458,020,769 and unrealized gain of ₡922,894,464, respectively).

(d) Adjustment for valuation of investments in other companies

As of June 30, 2017, the adjustment for valuation of investments in foreign associates by the equity method amounts to ₡9,908,445,420 (December and June 2016: ₡8,084,303,314 and ₡7,806,810,669, 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 2017	December 2016	June 2016
Legal reserve	¢ 295,477,695,728	261,729,857,989	261,729,379,504
Statutory reserve for foreclosed assets	154,726,412	142,801,520	131,816,017
Excess of statutory reserve for loans	6,342,603,877	4,770,983,124	4,921,739,390
Statutory dynamic provision	8,276,764,890	7,970,665,759	7,528,638,120
	<u>¢ 310,251,790,907</u>	<u>274,614,308,392</u>	<u>274,311,573,031</u>

(f) Equity of the Development Financing Fund

As of June 30, 2017, the allocation of the Bank's earnings for the creation of the Development Financing Fund (FOFIDE) amounts to ¢27,111,958,013 (December and June 2016: ¢21,749,819,320).

(22) Commitments and contingencies

The Bank has off-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 2017	June 2016
Performance bonds	¢ 28,161,645,783	32,555,560,682
Bid bonds	2,898,865,110	1,957,515,261
Other guarantees	4,300,905,811	1,521,984,628
Letters of credit	22,650,779,535	20,766,018,249
Credits pending disbursement	251,205,483	289,589,532
	<u>58,263,401,722</u>	<u>57,090,668,352</u>
Pre-approved lines of credit	287,260,454,778	238,956,815,982
Other contingencies not related to credits	816,524,507	636,737,855
Other contingencies - Pending litigation and lawsuits (note 47)	316,267,752,476	239,147,907,791
	<u>604,344,731,761</u>	<u>478,741,461,628</u>
FX futures - Other than hedges (note 6)	13,304,358,385	-
	<u>¢ 675,912,491,868</u>	<u>535,832,129,980</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-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.

(23) Trust assets

The Bank provides trust services whereby it manages assets per the instructions 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, 2017, 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 clauses	Custody of stock and management of funds	Cash guaranty and management	Guaranty and custody of stock	Total
<i>Trust assets</i>										
Cash and due from banks	¢ 244,248,224	3,486,287	1,646,942	-	-	-	8,573	-	-	249,390,026
Investment securities and term deposits	202,990,421,334	2,000,518,528	2,155,786,102	1,126,621,084,115	1,172,142,545	-	2,015,995	-	-	1,334,941,968,619
Loan portfolio	2,670,433,836	-	1,396,274,233	-	-	-	-	-	-	4,066,708,069
Accounts and accrued interest receivable	14,061,124,742	16,168,610,707	1,717,508,931	25,443,005	-	-	-	41,152,571	1,134,180	32,014,974,136
Foreclosed assets	2,542,804	-	-	-	-	-	-	-	-	2,542,804
Investments in other companies	20,244,579	-	-	-	2,320,000	2,108,000	-	-	907,344,000	932,016,579
Property and equipment	4,536,893,893	47,214,492,611	-	73,266,149,716	-	-	-	1,544,041,161	1,454,901,292	128,016,478,673
Other assets	3,462,939,448	418,946,398	-	1,522,527,465	1,172,011	-	-	-	1,674,540,251	7,080,125,573
¢	227,988,848,860	65,806,054,531	5,271,216,208	1,201,435,204,301	1,175,634,556	2,108,000	2,024,568	1,585,193,732	4,037,919,723	1,507,304,204,479

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 clauses	Custody of stock and management of funds	Cash guaranty and management	Pre-sales management	Guaranty and custody of stock	Total
<i>Trust assets</i>											
Cash and due from banks	¢ 99,125,789	627,672	300,000	839	4,333,360	-	8,573	-	-	-	104,396,23
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	-	-	-	881,842,398,83
Loan portfolio	2,575,338,078	-	1,218,509,223	-	-	-	-	-	-	-	3,793,847,30
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	22,782,893,15
Foreclosed assets	23,333,003	-	666,979	-	-	-	-	-	-	-	23,999,98
Investments in other companies	867,866,262	-	-	-	2,320,000	2,096,000	-	-	-	866,672,000	1,738,954,26
Property and equipment	1,391,508,724	50,946,578,261	-	70,337,559,616	-	-	-	1,544,041,161	-	-	124,219,687,76
Other assets	1,840,591,191	386,964,836	7,602,128	1,668,250,798	1,442,945	-	-	-	5,591,595	-	3,910,443,49
¢	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	1,038,416,621,02

(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 socioeconomic 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 per the instructions 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.

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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(24) Other debit memoranda accounts

Other debit memoranda accounts are as follows:

	June 2017	June 2016
Pension Fund Manager's own investments in custody –		
Face value of principal	¢ 6,194,727,000	6,039,300,000
Pension Fund Manager's own investments in custody –		
Coupons	908,270,413	1,443,155,850
Pension Fund Manager's own investments in custody –		
Number of shares	23	23
Guarantees received in the Bank's custody	1,403,040,275	1,735,924,650
Chattel mortgages	5,230,434,025,521	5,501,408,836,882
Other guarantees received in the Bank's custody	433,347,227,129	490,138,098,293
Loans settled	263,444,803,356	243,237,499,174
Loans pending settlement	497,447,038	143,010,659
Investments settled	170,464,505,255	161,272,706,471
Loans settled	9,663,445,689	11,158,333,241
Other accounts receivable settled	16,483,043,894	15,623,828,614
Accrued interest receivable settled	13,499,688,560	10,314,784,570
Interest income on non-accrual loans of loan portfolio	1,255	1,169
Supporting documentation received in the Bank's custody	9,418,654,280	9,167,199,640
Securities issued pending placement	5,670,900,002	5,416,700,001
Notified letters of credit	15,926,750,596	14,724,062,301
Notional value subject to interest rate futures (note 6)	713,626,056,000	677,087,500,000
Reversals made to income accounts for the period	8,397,886,706	-
Reversals made to expense accounts for the period	10,593,182,525	-
Nondeductible expenses	36,186,987,331	37,865,472,682
Nontaxable income	78,826,408,960	65,404,708,081
Other memoranda accounts	195,773,843,716	197,072,112,123
	<u>7,220,760,895,524</u>	<u>7,449,253,234,424</u>
Third-party debit memoranda accounts	2,404,216,129,576	2,213,710,526,552
Own debit memoranda accounts for custodial activities	265,176,333,936	395,533,692,432
Third-party debit memoranda accounts for custodial activities	10,678,243,461,669	9,014,696,378,848
	<u>13,347,635,925,181</u>	<u>11,623,940,597,832</u>
	<u>¢ 20,568,396,820,705</u>	<u>19,073,193,832,256</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Other memoranda accounts by entity are as follows:

	June 2017	June 2016
Banco Nacional de Costa Rica	¢ 18,027,250,620,198	16,754,729,933,994
BN Valores Puesto de Bolsa, S.A. (note 25)	933,152,157,967	861,196,907,934
BN Sociedad Administradora de Fondos de Inversión, S.A. (note 26)	386,864,104,283	377,054,056,044
BN Vital Operadora de Planes de Pensiones Complementarias (note 27)	1,221,129,938,257	1,080,212,934,284
	¢ 20,568,396,820,705	19,073,193,832,256

Third-party debit memoranda accounts are as follows:

	June 2017	June 2016
Management of banking mandates	¢ 803,456,004,280	764,057,192,995
Assets in custody on behalf of third parties	-	392,901
"TUDES" securities received in custody from affiliates under article 75 of Law No. 7531	697,912,421	1,078,224,766
Pension funds (note 27)	1,213,251,737,816	1,071,599,470,832
Investment funds (note 26)	386,810,475,059	376,975,245,058
	¢ 2,404,216,129,576	2,213,710,526,552

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

Memoranda accounts for brokerage operations are summarized as follows:

	June 2017	June 2016
<i>Own</i>		
Trading securities in custody (note 25-a)	¢ 4,458,558,112	7,224,347,401
Trading securities pledged as guarantees	24,565,961,861	34,944,515,608
Trading securities pending delivery	998,078,403	-
Confirmed cash agreements pending settlement	1,026,693,680	135
Futures contracts pending settlement (note 25-b)	22,382,980,853	34,759,324,069
Other own memoranda accounts	5,684,556,091	5,431,507,090
	59,116,829,000	82,359,694,303
<i>Third-party</i>		
Trading securities in custody (note 25-a)	626,204,091,440	521,197,495,382
Trading securities received as guarantees	56,028,517,290	67,535,966,923
Trading securities pledged as guarantees	82,302,837,520	71,456,104,872
Trading securities pending receipt	281,253,452	203,126,250
Signed agreements pending settlement	1,174,436,935	393,367,983
Repurchase agreements pending settlement (note 25-b)	107,054,757,828	116,489,305,654
Cash and accounts receivable	989,434,502	1,561,846,567
	874,035,328,967	778,837,213,631
	¢ 933,152,157,967	861,196,907,934

(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 2017	June 2016
<i>Own custodial activities</i>			
Local	At face value - available	¢ 4,264,152,403	6,887,277,710
Local	At purchase value of shares - available	15,000,002	15,000,002
Local	At purchase value of investments - available	70,575,775	62,445,849
Local	At face value - pledged	108,000,000	257,000,000
Local	Amount of physical coupons - pledged	829,932	2,623,840
		<u>4,458,558,112</u>	<u>7,224,347,401</u>
<i>Custodial activities on behalf of third parties</i>			
Local	At face value - available	588,910,883,622	489,084,049,646
Local	At purchase value of shares - available	23,709,800,099	18,208,930,083
Local	At purchase value of investments - available	10,847,858,692	12,003,382,314
Local	At face value - pledged	1,734,216,829	1,643,739,527
Local	At purchase value of shares - pledged	64,798,558	59,432,323
Local	At purchase value of investments - pledged	12,176,940	15,960,209
Local	At face value - pending delivery	924,356,700	182,001,280
		<u>626,204,091,440</u>	<u>521,197,495,382</u>
		¢ <u>630,662,649,552</u>	<u>528,421,842,783</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 2017								
	Term buyer				Term seller			
	Colones	U.S. dollars	U.S. dollars expressed in		Colones	U.S. dollars	U.S. dollars expressed in	
			colones	Total			colones	Total
Own	10,830,311,470	20,371,845	11,552,669,383	22,382,980,853	-	-	-	-
Third								
parties	11,485,272,062	89,974,394	51,023,579,176	62,508,851,238	12,514,120,589	56,484,484	32,031,786,001	44,545,906,590
	<u>22,315,583,532</u>	<u>110,346,239</u>	<u>62,576,248,559</u>	<u>84,891,832,091</u>	<u>12,514,120,589</u>	<u>56,484,484</u>	<u>32,031,786,001</u>	<u>44,545,906,590</u>
June 2016								
	Term buyer				Term seller			
	Colones	U.S. dollars	U.S. dollars expressed in		Colones	U.S. dollars	U.S. dollars expressed in	
			colones	Total			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
	<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>

As of June 30, 2017, term buyer and seller positions in tri-party repurchase agreements in U.S. dollars were valued at the exchange rate of ¢567.09 (2016: ¢541.67) to US\$1.00.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

June 2017				
	Term buyer		Term seller	
	Colones	U.S. dollars	Colones	U.S. dollars
<i>Own</i>				
1 to 30 days	¢ 1,986,236,019	6,624,013	-	-
31 to 60 days	6,767,313,558	6,406,350	-	-
61 to 90 days	2,076,761,893	7,341,482	-	-
	<u>10,830,311,470</u>	<u>20,371,845</u>	<u>-</u>	<u>-</u>
<i>Third parties</i>				
1 to 30 days	1,545,642,334	1,357,443	2,572,304,802	6,134,614
31 to 60 days	6,147,148,264	29,114,994	8,521,712,480	19,709,335
61 to 90 days	3,792,481,464	59,501,957	1,420,103,307	30,640,535
	<u>11,485,272,062</u>	<u>89,974,394</u>	<u>12,514,120,589</u>	<u>56,484,484</u>
¢	<u>22,315,583,532</u>	<u>110,346,239</u>	<u>12,514,120,589</u>	<u>56,484,484</u>
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>

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.

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(26) Investment fund management agreements

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

		June 2017	
Fund		Net value	Value per share
<i>Funds in colones:</i>			
Súper Fondo - colones	¢	94,149,030,356	24,436,563,451
Fon Depósito - colones		53,555,443,839	37,794,015,602
Creci Fondo - colones		3,446,298,682	710,143,437
Redi Fondo - colones		12,990,800,852	3,762,719,501
Diner Fondo - colones		38,705,675,049	14,871,440,280
	¢	202,847,248,778	81,574,882,271
<i>Funds in U.S. dollars:</i>			
Súper Fondo - U.S. dollars	US\$	21,908,050	14,961,255
Creci Fondo - U.S. dollars		3,909,002	2,234,780
Redi Fondo - U.S. dollars		22,280,085	15,118,306
Diner Fondo - U.S. dollars		82,821,494	64,682,907
Fon Depósito - U.S. dollars		61,346,526	56,600,087
Súper Fondo Plus - U.S. dollars		131,910,139	125,262,341
Fondo Hipotecario - U.S. dollars (mortgage fund)		223,346	222,036
	US\$	324,398,642	279,081,712
	¢	183,963,226,281	158,264,448,058
Total assets of managed funds (note 24)	¢	386,810,475,059	239,839,330,329
<i>Guarantees:</i>			
Performance bonds		51,653,920	
Outstanding checks		1,975,304	
Total memoranda accounts	¢	386,864,104,283	

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Fund	June 2016		
	Net value	Shares	Value per share
<i>Funds in colones:</i>			
Súper 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
	¢ 231,088,914,210	97,420,946,615	
<i>Funds in U.S. dollars:</i>			
Súper 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
Súper 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
	US\$ 269,326,954	235,621,653	
	¢ 145,886,330,848	127,629,180,781	
Total assets of managed funds (note 24)	¢ 376,975,245,058	225,050,127,396	
<i>Guarantees:</i>			
Performance bonds	¢ 76,835,682		
Outstanding checks	1,975,304		
Total memoranda accounts	¢ 377,054,056,044		

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

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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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.
- 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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- 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, 2017 and 2016, this fund does not have operations.
- 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, 2017 and 2016, 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, 2017 and 2016, this fund does not have operations.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(27) Pension fund management agreements

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

	June 2017	June 2016
Mandatory Pension Fund (ROP)	¢ 1,007,655,946,494	890,768,873,508
Mandatory Retirement Savings Account (FCL)	83,199,099,505	73,011,028,670
Pension Fund in Colones A (FPC A)	62,566,878,858	55,245,746,284
Pension Fund in Colones B (FPC B)	15,000,979,582	12,454,875,470
Notary Fund (NOT)	25,065,364,851	23,289,556,093
Pension Fund in U.S. dollars A (FPD A) (a)	11,404,938,831	10,476,704,737
Pension Fund in U.S. dollars B (FPD B) (b)	8,358,529,695	6,352,686,070
Total assets of managed funds (note 24)	1,213,251,737,816	1,071,599,470,832
Securities and assets in own custody	7,102,997,436	7,482,455,873
Bid and performance bonds – colones	15,444,605	13,128,636
Bid and performance bonds – U.S. dollars (c)	61,845,979	39,654,177
Securities in DU	697,912,421	1,078,224,766
Total memoranda accounts (note 24)	¢ 1,221,129,938,257	1,080,212,934,284

- (a) As of June 30, 2017, this fund amounts to US\$20,111,338 and is valued at the exchange rate of ¢567.09 to US\$1.00 (2016: US\$19,341,490 valued at the exchange rate of ¢541.67 to US\$1.00).
- (b) As of June 30, 2017, this fund amounts to US\$14,739,335 and is valued at the exchange rate of ¢567.09 to US\$1.00 (2016: US\$11,727,964 valued at the exchange rate of ¢541.67 to US\$1.00).
- (c) As of June 30, 2017, this fund amounts to US\$109,058 and is valued at the exchange rate of ¢567.09 to US\$1.00 (2016: US\$73,207 valued at the exchange rate of ¢541.67 to US\$1.00).

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(28) Finance income on financial instruments

Finance income on financial instruments is as follows:

	June		Quarter from April 1 to June 30	
	2017	2016	2017	2016
<i><u>Cash and due from banks:</u></i>				
Deposits in BCCR	¢ 5,753,434	2,531,535	4,584,707	1,247,268
Checking accounts and demand deposits in local entities	33,779,529	46,748,583	17,415,322	20,591,646
Checking accounts and demand deposits in foreign entities	1,009,742,490	362,685,183	727,390,713	266,644,902
	<u>1,049,275,453</u>	<u>411,965,301</u>	<u>749,390,742</u>	<u>288,483,816</u>
<i><u>Financial instruments:</u></i>				
Investments in available-for-sale securities	23,582,486,511	18,071,305,452	12,393,447,584	9,089,194,630
Investment in securities and restricted deposits	1,284,079,315	4,860,517,550	663,441,229	2,241,265,755
	<u>24,866,565,826</u>	<u>22,931,823,002</u>	<u>13,056,888,813</u>	<u>11,330,460,385</u>
	<u>¢ 25,915,841,279</u>	<u>23,343,788,303</u>	<u>13,806,279,555</u>	<u>11,618,944,201</u>

(29) Finance income on loan portfolio

Finance income on the loan portfolio is as follows:

	June		Quarter from April 1 to June 30	
	2017	2016	2017	2016
<i><u>Current loans:</u></i>				
Checking account overdrafts	¢ 35,527,766	36,083,183	21,790,017	10,576,563
Discounted notes	-	626,964	-	626,964
Loans granted with funds from BCCR	522,009,984	596,432,852	259,192,859	296,257,836
Loans granted with other funds	155,822,299,477	138,398,399,704	78,845,432,754	69,772,989,707
Credit cards	11,762,603,635	10,051,081,138	5,986,097,506	5,139,101,121
Issued letters of credit	482,467	30,516	482,467	29,973
Other loans	2,234,249	2,243,755	1,153,222	1,127,925
	<u>168,145,157,578</u>	<u>149,084,898,112</u>	<u>85,114,148,825</u>	<u>75,220,710,089</u>
<i><u>Past due loans and loans in legal collection:</u></i>				
Checking account overdrafts	1,334,855	8,853,468	626,009	8,426,175
Loans granted with funds from BCCR	62,022,012	93,269,625	31,699,895	42,567,089
Loans granted with other funds	20,939,653,273	20,806,250,122	10,672,896,565	10,449,097,214
Credit cards	1,156,801,038	1,126,821,446	613,395,416	550,412,005
Other loans	234,173	-	234,173	-
	<u>22,160,045,351</u>	<u>22,035,194,661</u>	<u>11,318,852,058</u>	<u>11,050,502,483</u>
	<u>¢ 190,305,202,929</u>	<u>171,120,092,773</u>	<u>96,433,000,883</u>	<u>86,271,212,572</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(30) Other finance income

Other finance income is as follows:

	June		Quarter from April 1 to June 30	
	2017	2016	2017	2016
Fees and commissions on letters of credit	¢ 57,265,102	38,507,758	48,266,123	22,429,272
Fees and commissions on guarantees granted	265,456,702	231,268,962	131,497,952	157,818,065
Fees and commissions on lines of credit	33,540,027	57,708,312	9,978,381	26,658,370
Gain on fair value hedge for item measured at cost	3,217,007,017	4,633,349,357	94,644,802	3,168,159,550
Other sundry finance income	2,980,732,284	2,331,916,070	1,668,578,236	909,135,133
	¢ 6,554,001,132	7,292,750,459	1,952,965,494	4,284,200,390

(31) Expenses for obligations with the public

Expenses for obligations with the public are as follows:

	June		Quarter from April 1 to June 30	
	2017	2016	2017	2016
Demand deposits	¢ 16,384,211,169	14,258,342,425	8,247,761,084	6,584,173,730
Term deposits	49,256,908,142	38,151,794,680	26,768,624,933	19,323,942,251
Tri-party repurchase agreements and securities lending	666,923,016	780,388,668	353,864,418	407,716,526
	¢ 66,308,042,327	53,190,525,773	35,370,250,435	26,315,832,507

(32) Expenses for obligations with financial entities

Expenses for obligations with financial entities are as follows:

	June		Quarter from April 1 to June 30	
	2017	2016	2017	2016
Demand obligations	¢ 1,054,959,584	893,594,537	561,184,851	437,869,637
Term obligations	32,107,129,492	24,778,223,601	17,029,085,388	13,640,074,501
	¢ 33,162,089,076	25,671,818,138	17,590,270,239	14,077,944,138

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(33) Other finance costs

Other finance costs are as follows:

	June		Quarter from April 1 to June 30	
	2017	2016	2017	2016
Fees and commissions on letters of credit obtained	¢ 38,882,040	43,420,768	19,601,948	18,605,664
Loss on hedged item measured at cost from fair value hedge of interest rate risk	10,041,912,846	26,303,655,293	5,073,354,101	11,954,724,682
Other sundry interest expenses	163,538,665	286,345,950	109,017,604	127,897,377
	<u>¢ 10,244,333,551</u>	<u>26,633,422,011</u>	<u>5,201,973,653</u>	<u>12,101,227,723</u>

(34) Expenses for allowance for impairment of assets

Expenses for allowance for impairment of assets are as follows:

	June		Quarter from April 1 to June 30	
	2017	2016	2017	2016
Allowance for loan losses (note 7-c)	¢ 8,612,036,980	14,831,698,158	8,294,046,964	8,303,582,281
General and counter-cyclical allowance for loan portfolio (note 7-c)	7,089,641,387	2,428,603,290	3,171,029,160	1,356,100,023
Allowance for impairment of other accounts receivable (note 8)	1,261,924,400	676,672,856	825,123,609	306,952,468
Allowance for stand-by credit losses (note 19)	18,000,000	130,000,001	18,000,000	25,000,000
General and counter-cyclical allowance for stand-by credit losses (note 19)	58,147,000	45,330,016	12,035,000	10,010,010
Allowance for impairment of derivative financial instruments (note 5)	12,107,367	20,527,701	10,818,494	-
	<u>¢ 17,051,857,134</u>	<u>18,132,832,022</u>	<u>12,331,053,227</u>	<u>10,001,644,782</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(35) 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	
	2017	2016	2017	2016
Recovery of loan write-offs	¢ 7,896,276,443	4,273,739,187	5,589,956,740	2,465,591,298
Decrease in allowance for loan losses (note 7)	720,000,000	-	-	-
Recovery of receivable write-offs	937,942	234,418	294,110	136,998
Decrease in allowance for impairment of other accounts receivable (note 8)	297,733,465	448,377,380	95,165,531	289,453,272
Decrease in allowance for stand-by credit losses (note 19)	230,000,000	-	-	-
Decrease in general and counter-cyclical allowance for stand-by credit losses (note 19)	50,000,000	-	-	-
Decrease in allowance for impairment of investments in financial instruments (note 5)	299,593	97,495,429	299,593	4,242,805
	¢ 9,195,247,443	4,819,846,414	5,685,715,974	2,759,424,373

(36) 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	
	2017	2016	2017	2016
Drafts and transfers	¢ 4,166,555,373	3,798,268,724	2,093,010,049	1,910,980,76
Certified checks	3,295,833	2,268,155	1,932,782	1,093,16
Trusts	455,873,053	369,354,003	227,921,010	186,256,06
Custodial services	805,581,034	731,046,916	408,082,768	368,877,04
Banking mandates	114,097	77,757	40,233	37,53
Collections	16,716,490	17,958,399	(53,153,359)	8,961,54
Credit cards	26,362,476,689	22,191,565,574	13,200,285,900	10,929,628,21
Management services	1,732,321,751	1,980,003,441	901,695,666	1,054,336,03
Management of investment funds	2,448,269,553	2,756,661,779	1,270,611,851	1,360,152,73
Management of pension funds	3,535,693,845	4,272,796,285	1,775,089,396	2,036,359,69
Insurance underwriting	2,699,638,951	1,957,741,255	1,696,276,488	1,114,564,62
Brokerage operations (third parties in local market)	1,536,419,308	1,498,160,730	942,029,264	742,101,75
Brokerage operations (third parties in other markets)	49,605,787	89,032,447	19,550,028	31,406,94
Individual portfolio management	519,710	593,077	262,901	307,88
Other	19,560,956,636	19,573,094,025	9,406,898,581	9,634,559,84
	¢ 63,374,038,110	59,238,622,567	31,890,533,558	29,379,623,84

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(37) Other operating income

Other operating income is as follows:

	June		Quarter from April 1 to June 30	
	2017	2016	2017	2016
Leasing of assets	¢ 30,296,925	20,980,097	13,986,731	12,430,097
Recovery of expenses	1,514,431,167	1,390,837,603	927,895,554	1,134,038,087
Net valuation of other assets (note 46-c)	86,687,999	118,464,635	39,156,484	64,800,627
Other income from accounts receivable	647,553	667,479	333,539	330,155
Sundry operating income	2,306,108,039	13,908,796,691	1,231,855,339	13,057,568,688
Decrease in provisions	496,586,255	1,357,817,123	347,638,755	1,150,079,558
	<u>¢ 4,434,757,938</u>	<u>16,797,563,628</u>	<u>2,560,866,402</u>	<u>15,419,247,212</u>

(38) Expenses for foreclosed assets

Expenses for foreclosed assets are as follows:

	June		Quarter from April 1 to June 30	
	2017	2016	2017	2016
Securities, property, and other assets acquired in lieu of payment	¢ 169,686,766	168,973,753	33,397,271	103,959,370
Loss on sale of assets awarded in judicial auctions	4,264,812,921	2,624,620,279	2,096,167,548	2,202,155,182
Management of assets awarded in judicial auctions	2,540,004,242	4,254,084,450	1,295,056,186	1,954,428,008
Loss on impairment of foreclosed assets (note 9)	42,838,981	37,148,730	26,372,484	19,392,552
Loss on allowance for impairment of foreclosed assets and per legal requirements (note 9)	3,571,771,494	3,941,783,741	2,137,894,036	1,512,278,314
Other expenses for foreclosed assets	256,722,650	13,581,967	233,978,700	7,706,007
	<u>¢ 10,845,837,054</u>	<u>11,040,192,920</u>	<u>5,822,866,225</u>	<u>5,799,919,433</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(39) Expenses for provisions

Expenses for provisions are as follows:

		June		Quarter from April 1 to June 30	
		2017	2016	2017	2016
Severance benefits	¢	615,900,045	1,491,470,152	415,459,745	828,052,100
Pending litigation		376,126,468	885,635,174	200,356,768	751,502,483
Other provisions		6,632,103,733	8,255,657,624	2,603,866,819	4,742,073,812
	¢	<u>7,624,130,246</u>	<u>10,632,762,950</u>	<u>3,219,683,332</u>	<u>6,321,628,395</u>

(40) Other operating expenses

Other operating expenses are as follows:

		June		Quarter from April 1 to June 30	
		2017	2016	2017	2016
Fines for noncompliance with legal regulatory provisions	¢	374,493,549	19,561,755	39,529,911	19,481,612
Net valuation of other liabilities (note 46-c)		558,079,668	321,195,340	329,259,030	312,854,315
Income tax on foreign remittances		75,051,617	1,115,317,794	3,610,315	996,963,130
Income tax (8%) on interest on investments in financial instruments		1,531,423,287	1,460,826,976	795,098,039	703,178,933
Property tax		112,830,296	121,584,442	33,512,809	40,992,010
Licenses		327,561,155	250,722,388	178,822,929	85,713,144
Other local taxes		895,518,059	1,098,845	894,640,238	(9,538,249)
Transfer to FINADE		2,088,362,907	1,560,118,323	916,033,543	827,372,953
Sundry operating expenses		30,537,201,003	23,561,601,121	16,683,659,058	11,860,592,433
	¢	<u>36,500,521,541</u>	<u>28,412,026,984</u>	<u>19,874,165,872</u>	<u>14,837,610,281</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(41) Personnel expenses

Personnel expenses are as follows:

	June		Quarter from April 1 to June 30	
	2017	2016	2017	2016
Salaries and bonuses, permanent staff	¢ 33,342,106,012	33,261,484,410	16,769,026,235	16,765,768,009
Salaries and bonuses, contractors	832,650,508	859,430,555	413,957,199	428,335,281
Compensation for directors and statutory examiners	91,615,268	78,234,209	42,474,164	36,588,678
Overtime	500,975,350	497,137,445	286,837,364	265,866,994
Travel expenses	293,675,604	328,487,702	150,150,773	183,198,201
Statutory Christmas bonus	3,654,516,593	3,723,240,810	1,807,915,109	1,877,738,198
Vacation	3,775,359,092	4,442,234,654	1,961,507,940	2,198,303,106
Other compensation	1,985,069,878	1,909,696,684	939,094,018	971,504,094
Severance benefits	2,235,073,057	2,218,040,967	1,099,927,228	1,117,273,098
Employer social security taxes	13,969,502,827	13,963,530,456	6,964,437,610	6,924,712,459
Refreshments	183,532,158	194,831,632	82,100,014	85,904,935
Uniforms	136,398,771	9,465,610	95,249,167	8,808,004
Training	230,989,944	224,052,675	167,621,948	155,626,532
Employee insurance	119,981,108	136,805,886	60,343,897	69,710,046
Back-to-school bonus	3,129,133,605	3,169,560,395	1,482,352,132	1,594,632,250
Mandatory retirement savings account	1,341,753,226	1,340,409,037	667,722,440	659,798,217
Other personnel expenses	292,471,779	301,920,239	143,166,074	160,700,129
	¢ <u>66,114,804,780</u>	<u>66,658,563,366</u>	<u>33,133,883,312</u>	<u>33,504,468,231</u>

(42) Other administrative expenses

Other administrative expenses are as follows:

	June		Quarter from April 1 to June 30	
	2017	2016	2017	2016
Outsourcing	¢ 6,146,554,798	6,126,109,879	3,082,215,587	2,841,992,612
Transportation and communications	2,229,432,920	2,044,885,228	1,068,345,632	1,008,325,927
Infrastructure	17,849,439,146	17,794,650,277	9,114,251,004	9,135,810,559
Overhead	7,256,618,503	5,783,730,299	3,762,919,994	3,374,923,124
	¢ <u>33,482,045,367</u>	<u>31,749,375,683</u>	<u>17,027,732,217</u>	<u>16,361,052,222</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(43) Statutory allocations

Statutory allocations are as follows:

		June		Quarter from April 1 to June 30	
		2017	2016	2017	2016
CONAPE (5%)	¢	1,860,878,496	2,087,329,231	595,845,561	1,176,248,052
CNE (3%)		1,168,629,588	1,308,644,946	390,332,674	733,971,060
INFOCOOP (10%)		2,913,157,737	3,576,589,269	1,063,332,243	2,180,779,948
Public capital pension operators - Local currency		297,435,158	598,641,974	114,840,386	305,603,648
RIVM (15%) (June 2016: 7%)		3,456,997,753	2,016,511,789	1,146,759,997	1,169,769,316
	¢	<u>9,697,098,732</u>	<u>9,587,717,209</u>	<u>3,311,110,861</u>	<u>5,566,372,024</u>

Statutory allocations decreased as follows:

		June		Quarter from April 1 to June 30	
		2017	2016	2017	2016
CNE (3%)	¢	6,857,889	-	6,857,889	-
INFOCOOP (10%)		63,669,806	-	-	-
RIVM (15%) (June 2016: 7%)		30,585,366	-	-	-
	¢	<u>101,113,061</u>	<u>-</u>	<u>6,857,889</u>	<u>-</u>

(44) 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 2017	
		Carrying amount	Fair value
<i>Financial assets:</i>			
Cash and due from banks	¢	1,323,297,583,513	1,323,297,583,513
Investments in financial instruments		1,121,121,365,067	1,121,121,365,067
Loan portfolio		4,425,233,857,347	3,904,471,607,766
	¢	<u>6,869,652,805,927</u>	<u>6,348,890,556,346</u>
<i>Financial liabilities:</i>			
Demand deposits from the public and financial entities	¢	2,755,400,508,328	2,755,400,508,328
Other demand obligations with the public		16,781,056,043	16,781,056,043
Term deposits from the public and financial entities		3,485,824,578,244	3,506,511,805,095
Obligations for tri-party repurchase agreements		22,260,485,678	22,260,485,678
	¢	<u>6,280,266,628,293</u>	<u>6,300,953,855,144</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		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 repurchase agreements		34,558,903,263	34,558,903,263
	¢	<u>5,518,109,216,104</u>	<u>5,504,802,645,392</u>

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 consolidated balance sheet:

- (a) Cash and due from banks, demand deposits from the public, and obligations from tri-party repurchase agreements

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

- (b) 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, 2017 and 2016.

- (c) Term deposits

The fair value of term deposits is calculated by discounting cash flows at the interest rates in effect offered for term deposits with similar maturities.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(d) Obligations with entities

The fair value of obligations with entities is calculated by discounting cash flows at the interest rates in effect.

Fair value estimates are made at a specific date, based on 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 accuracy. Estimates could vary significantly if changes are made to those assumptions.

Financial instruments measured at fair value by the level in the fair value hierarchy are as follows:

		June 2017			
		Level 1	Level 2	Level 3	Total
Available for sale	¢	945,810,583,017	117,340,784,632	5,934,622,647	1,069,085,990,296
Held to maturity		-	27,519,342,882	-	27,519,342,882
Derivative financial instruments		-	-	11,101,383,102	11,101,383,102
Term obligations with foreign financial entities		-	-	850,753,704,986	850,753,704,986
		June 2016			
		Level 1	Level 2	Level 3	Total
Available for sale	¢	892,387,516,016	222,415,218,838	5,573,994,756	1,120,376,729,610
Held to maturity		-	27,069,336,275	-	27,069,336,275
Derivative financial instruments		-	-	29,419,536,376	29,419,536,376
Term obligations with foreign financial entities		-	-	841,747,366,204	841,747,366,204

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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						
2017			2016			
	Available for sale	Derivative financial instruments	Term obligations with foreign financial entities	Available for sale	Derivative financial instruments	Term obligations with foreign financial entities
Opening balance	¢ 5,676,606,269	5,893,164,907	815,040,918,559	5,594,435,115	12,835,716,456	539,553,389,165
Purchases	-	-	269,968,328,000	-	-	269,968,328,000
Valuation	97,327,065	5,033,506,151	51,987,576,400	(105,005,519)	20,154,721,695	(15,022,250,052)
Amortizations	-	-	459,096,589	-	-	332,882,888
Exchange differences	160,689,313	182,503,861	(286,702,214,562)	84,565,160	234,784,977	46,915,016,203
Closing balance	¢ 5,934,622,647	11,109,174,919	850,753,704,986	5,573,994,756	33,225,223,128	841,747,366,204

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(45) 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.

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

	As of June 30, 2017							
	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations	Consolidated
ASSETS								
Cash and due from banks	¢ 1,320,566,816,144	2,123,267,680	153,750,390	98,927,558	1,530,745,773	1,324,473,507,545	1,175,924,032	1,323,297,583,513
Investments in financial instruments	1,055,186,008,924	54,791,595,306	5,611,867,638	6,683,870,210	-	1,122,273,342,078	1,151,977,011	1,121,121,365,067
Loan portfolio, net	4,332,787,034,568	-	-	-	-	4,332,787,034,568	-	4,332,787,034,568
Accounts and fees and commissions receivable, net	2,121,601,866	293,034,718	61,945,533	698,557,357	473,415,738	3,648,555,212	43,730,940	3,604,824,272
Fees and commissions	179,714,584	27,535,734	12,838,706	573,418,109	378,059,318	1,171,566,451	34,208,453	1,137,357,998
Brokerage services	-	166,214,442	-	-	-	166,214,442	-	166,214,442
Transactions with related parties	43,672,844	88,380	2,806,506	1,526,943	1,132,482	49,227,155	9,522,412	39,704,743
Deferred tax and income tax	943,790,106	91,278,157	46,181,219	115,616,147	94,210,683	1,291,076,312	-	1,291,076,312
Other	4,644,265,392	7,918,005	119,102	66,918,547	13,255	4,719,234,301	75	4,719,234,226
Accrued interest	1,572,449	-	-	-	-	1,572,449	-	1,572,449
Allowance for impairment of accounts and fees and commissions	-3,691,413,509	-	-	-58,922,389	-	-3,750,335,898	-	-3,750,335,898
Foreclosed assets, net	20,978,310,832	-	-	-	-	20,978,310,832	-	20,978,310,832
Investments in other companies	90,103,338,724	30,000,000	-	-	-	90,133,338,724	29,568,026,122	60,565,312,602
Property, furniture, and equipment, net	174,027,642,912	308,647,676	163,118,166	558,987,466	47,675,567	175,106,071,787	-	175,106,071,787
Other assets	40,810,705,557	123,582,595	688,604,705	380,397,094	288,500,242	42,291,790,193	-	42,291,790,193
TOTAL ASSETS	¢ 7,036,581,459,527	57,670,127,975	6,679,286,432	8,420,739,685	2,340,337,320	7,111,691,950,939	31,939,658,105	7,079,752,292,834
LIABILITIES AND EQUITY								
LIABILITIES								
Obligations with the public	¢ 4,687,324,445,157	22,330,156,943	-	-	-	4,709,654,602,100	1,151,977,011	4,708,502,625,089
Obligations with BCCR	133,821,995,280	-	-	-	-	133,821,995,280	-	133,821,995,280
Obligations with entities	1,358,210,943,251	17,961,755,800	-	-	-	1,376,172,699,051	1,175,924,110	1,374,996,774,941
Demand	207,320,840,635	-	-	-	-	207,320,840,635	1,175,924,110	206,144,916,525
Term	1,140,168,752,266	17,927,990,002	-	-	-	1,158,096,742,268	-	1,158,096,742,268
Finance charges payable	10,721,350,350	33,765,798	-	-	-	10,755,116,148	-	10,755,116,148
Accounts payable and provisions	101,299,741,501	1,847,563,666	969,552,864	1,462,590,372	970,845,651	106,550,294,054	43,730,868	106,506,563,186
Other liabilities	68,227,648,646	-	-	-	-	68,227,648,646	-	68,227,648,646
Subordinated obligations	75,188,914,366	-	-	-	-	75,188,914,366	-	75,188,914,366
TOTAL LIABILITIES	¢ 6,424,073,688,201	42,139,476,409	969,552,864	1,462,590,372	970,845,651	6,469,616,153,497	2,371,631,989	6,467,244,521,508

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of June 30, 2017								
	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations	Consolidated
EQUITY								
Share capital	¢ 172,237,030,102	6,600,000,000	3,000,000,000	4,470,465,932	369,700,000	186,677,196,034	14,440,165,932	172,237,030,102
Non-capitalized capital contributions	-	-	-	524,459,076	-	524,459,076	524,459,076	-
Equity adjustments	68,878,047,691	42,817,211	8,025,001	21,461,453	-	68,950,351,356	72,303,665	68,878,047,691
Capital reserves	310,251,790,907	1,262,017,387	452,648,062	300,000,000	73,940,000	312,340,396,356	2,088,605,449	310,251,790,907
Prior period retained earnings	12,019,286,055	6,474,908,021	1,451,488,345	1,344,327,767	-	21,290,010,188	9,270,724,133	12,019,286,055
Income for the year	22,009,658,558	1,150,908,947	797,572,160	297,435,085	925,851,669	25,181,426,419	3,171,767,861	22,009,658,558
FOFIDE	27,111,958,013	-	-	-	-	27,111,958,013	-	27,111,958,013
TOTAL EQUITY	¢ 612,507,771,326	15,530,651,566	5,709,733,568	6,958,149,313	1,369,491,669	642,075,797,442	29,568,026,116	612,507,771,326
TOTAL LIABILITIES AND EQUITY	¢ 7,036,581,459,527	57,670,127,975	6,679,286,432	8,420,739,685	2,340,337,320	7,111,691,950,939	31,939,658,105	7,079,752,292,834
Debit memoranda accounts	¢ 675,532,280,128	92,101,415	-	288,110,325	-	675,912,491,868	-	675,912,491,868
Trust assets	¢ 1,505,130,149,850	2,174,054,629	-	-	-	1,507,304,204,479	-	1,507,304,204,479
Trust liabilities	¢ 43,722,972,744	815,706	-	-	-	43,723,788,450	-	43,723,788,450
Trust equity	¢ 1,461,407,177,106	2,173,238,922	-	-	-	1,463,580,416,028	-	1,463,580,416,028
Other debit memoranda accounts	¢ 18,027,250,620,198	933,152,157,966	386,864,104,283	1,221,129,938,257	-	20,568,396,820,705	-	20,568,396,820,705
As of June 30, 2017								
	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations	Consolidated
Finance income	¢ 232,367,317,062	2,082,097,306	252,483,533	286,937,546	26,930,037	235,015,765,484	40,431,915	234,975,333,569
Finance costs	112,615,023,586	893,643,183	54,169,459	30,081,320	-315,242	113,592,602,306	40,431,915	113,552,170,388
Allowance expense	9,195,247,443	-	-	-	-	9,195,247,443	-	9,195,247,443
Income from recovery of assets	17,051,857,134	-	-	-	-	17,051,857,134	-	17,051,857,134
FINANCE INCOME	111,895,683,785	1,188,454,123	198,314,074	256,856,226	27,245,279	113,566,553,487	-	113,566,553,490
Other operating income	75,872,247,937	2,154,150,119	2,450,060,111	3,583,736,992	2,340,128,100	86,400,323,259	3,744,160,813	82,656,162,446
Other operating expenses	57,218,542,242	266,862,406	310,557,893	645,934,729	72,428,665	58,514,325,935	494,359,439	58,019,966,496
GROSS OPERATING INCOME	130,549,389,480	3,075,741,836	2,337,816,292	3,194,658,489	2,294,944,714	141,452,550,811	3,249,801,371	138,202,749,440
Personnel expenses	61,295,459,817	1,410,610,921	943,623,359	1,654,488,778	810,621,905	66,114,804,780	-	66,114,804,780
Other administrative expenses	32,196,416,839	377,991,897	271,605,911	599,686,489	114,377,742	33,560,078,878	78,033,511	33,482,045,367
Total administrative expenses	93,491,876,656	1,788,602,818	1,215,229,270	2,254,175,267	924,999,647	99,674,883,658	78,033,511	99,596,850,147
NET OPERATING INCOME BEFORE STATUTORY ALLOCATIONS AND TAXES	37,057,512,824	1,287,139,018	1,122,587,022	940,483,222	1,369,945,067	41,777,667,153	3,171,767,860	38,605,899,293
Income tax	6,748,873,584	148,403,572	318,166,252	337,599,979	424,731,955	7,977,775,342	-	7,977,775,343
Decrease in income tax	858,011,819	50,787,672	26,782,381	20,201,499	21,736,909	977,520,280	-	977,520,279
Statutory allocations	9,258,105,562	38,614,171	33,630,991	325,649,657	41,098,352	9,697,098,733	-	9,697,098,732
Decrease in statutory allocations	101,113,061	-	-	-	-	101,113,061	-	101,113,061
INCOME FOR THE PERIOD	¢ 22,009,658,558	1,150,908,947	797,572,160	297,435,085	925,851,669	25,181,426,419	3,171,767,860	22,009,658,558

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of June 30, 2016								
	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations	Consolidated
ASSETS								
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	3,577,225,081	4,703,404	96,514	64,385,123	-	3,646,410,122	-	3,646,410,122
Accrued interest	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, furniture, 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
TOTAL ASSETS	¢ 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
LIABILITIES AND EQUITY								
LIABILITIES								
Obligations with the public	¢ 4,071,964,943,931	34,671,075,263	-	-	-	4,106,636,019,194	30,999,999	4,106,605,019,195
Obligations with BCCR	125,644,412	-	-	-	-	125,644,412	-	125,644,412
Obligations with entities	1,345,101,686,466	6,603,731,389	-	-	-	1,351,705,417,855	1,967,364,511	1,349,738,053,344
Demand	213,625,459,055	-	-	-	-	213,625,459,055	1,967,364,511	211,658,094,544
Term	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
TOTAL LIABILITIES	¢ 5,640,992,716,602	44,407,385,944	1,118,704,625	1,994,877,136	625,466,184	5,689,139,150,491	2,043,310,604	5,687,095,839,887

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of 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
For the year ended June 30, 2016								
	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations	Consolidated
Finance 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
Finance costs	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
Income from recovery of assets	4,819,846,414	-	-	-	-	4,819,846,414	-	4,819,846,414
Allowance expense	18,132,832,022	-	-	-	-	18,132,832,022	-	18,132,832,022
FINANCE 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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(46) Risk management

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

- credit risk
- liquidity risk
- market risk:
 - interest rate risk
 - currency risk
- 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, and Pension Fund Manager.

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. The 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:

- The Bank has defined procedures for the monitoring, application of controls, and loan processing. The functions, tasks, and procedures performed by the Credit Risk Division have been documented with the support of the Quality Management Division. Consequently, the Bank has been able to optimize and standardize the process.
- The Bank has performed and reviewed the administrative loan follow-up procedures for branches and regional offices.
- The Bank is comprehensively evaluating the Loan Process and, based on that evaluation, the procedures performed through offices, shared service centers, trade zones, and the corporate center in accordance with the organizational structure project named "Reconquest."
- 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 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.

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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 2017	June 2016		June 2017	June 2016
Loan portfolio						
Principal	7-a	¢ 4,397,470,786,682	3,876,752,438,232		345,523,856,500	296,047,484,334
Accounts and accrued interest receivable		27,763,070,665	25,579,739,890		-	-
Carrying amount, gross		4,425,233,857,347	3,902,332,178,122		345,523,856,500	296,047,484,334
Allowance for loan losses (accounting records)		(87,116,612,150)	(73,694,845,648)		(345,121,855)	(1,746,923,668)
Carrying amount, net	¢	4,338,117,245,197	3,828,637,332,474		345,178,734,645	294,300,560,666
Loan portfolio						
0	¢	10,466,695,847	-		-	-
A1		3,581,239,750,970	3,185,663,599,838		337,052,891,085	288,268,103,784
A2		38,864,762,497	38,120,080,090		503,769,588	544,403,790
B1		301,223,554,376	289,810,582,652		3,048,094,557	2,641,746,581
B2		7,065,356,635	7,652,760,036		38,335,947	38,232,549
C1		142,423,343,483	102,318,853,614		1,864,332,888	2,373,864,061
C2		4,783,268,961	5,677,364,490		27,003,655	9,369,221
D		151,379,054,378	95,876,666,619		1,150,915,358	460,668,833
E		187,788,070,200	177,212,270,783		1,838,513,422	1,711,095,515
		4,425,233,857,347	3,902,332,178,122		345,523,856,500	296,047,484,334
Structural allowance (subledger – database)		(86,273,443,983)	(67,630,577,088)		(159,423,014)	(1,011,933,777)
Carrying amount, net	¢	4,338,960,413,364	3,834,701,601,034		345,364,433,486	295,035,550,557
Individually assessed loans with allowance:						
0	¢	10,466,695,847	-		-	-
A1		3,581,239,750,970	3,185,663,599,838		50,825,062,279	282,744,741,773
A2		38,864,762,497	38,120,080,090		92,626,834	543,903,790
B1		301,223,554,376	289,810,582,652		1,304,994,809	2,614,081,184
B2		7,065,356,635	7,652,760,036		-	38,107,549
C1		142,423,343,483	102,318,853,614		496,824,434	1,557,323,825
C2		4,783,268,961	5,677,364,490		3,679,022	9,369,221
D		151,379,054,378	95,876,666,619		119,741,345	460,338,833
E		187,788,070,200	177,212,270,783		95,993,178	1,694,402,381
		4,425,233,857,347	3,902,332,178,122		52,938,921,901	289,662,268,556
Structural allowance (subledger – database)		(86,273,443,983)	(67,630,577,088)		(159,423,014)	(1,011,933,777)
Carrying amount, net	¢	4,338,960,413,364	3,834,701,601,034		52,779,498,887	288,650,334,779

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	Direct		Stand-by	
	June 2017	June 2016	June 2017	June 2016
Current loans without allowance:				
0			-	-
A1	-	-	286,227,828,807	5,523,362,009
A2	-	-	411,142,754	500,000
B1	-	-	1,743,099,748	27,665,397
B2	-	-	38,335,947	125,000
C1	-	-	1,367,508,453	816,540,237
C2	-	-	23,324,633	-
D	-	-	1,031,174,013	330,000
E	-	-	1,742,520,244	16,693,135
Carrying amount	¢ -	-	292,584,934,599	6,385,215,778
Carrying amount, gross	4,425,233,857,347	3,902,332,178,122	345,523,856,500	296,047,484,334
Allowance for loan losses (database)	(86,273,443,983)	(67,630,577,088)	(159,423,014)	(1,011,933,777)
Excess of allowance over structural allowance	(843,168,167)	(6,064,268,560)	(185,698,841)	(734,989,891)
Carrying amount, net	7-a ¢ 4,338,117,245,197	3,828,637,332,474	345,178,734,645	294,300,560,666
Restructured loans	¢ 38,490,705,474	28,984,270,524	-	4,020,204

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 2017	
		Loans to customers	
		Gross	Net
0	¢	10,466,695,847	10,436,707,662
A1		3,581,239,750,970	3,563,931,382,211
A2		38,864,762,497	38,701,740,996
B1		301,223,554,376	298,917,340,144
B2		7,065,356,635	7,000,981,462
C1		142,423,343,483	139,142,481,219
C2		4,783,268,961	4,581,682,573
D		151,379,054,378	142,245,793,610
E		187,788,070,200	133,159,135,320
	¢	4,425,233,857,347	4,338,117,245,197

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		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>

As shown above, as of June 30, 2017, the gross portfolio amounts to ¢4,425 billion. Of that amount, 89.01% is classified in risk ratings “A + B” and 10.99% in risk ratings “C + D + E” (2016: ¢3,902 billion, of which 90.23% is classified in risk ratings “A + B” and 9.77% 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.

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.

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- 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.

Loan charge-off policy:

The Bank charges 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.

Borrower classification

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.

The loan portfolio by borrower classification is as follows:

Borrower classification	Direct		Stand-by	
	June 2017	June 2016	June 2017	June 2016
Group 1	₡ 2,694,918,265,433	2,352,035,397,845	67,141,398,909	62,923,634,858
Group 2	1,730,315,591,914	1,550,296,780,277	278,382,457,591	233,123,849,476
	₡ 4,425,233,857,347	3,902,332,178,122	345,523,856,500	296,047,484,334

Risk ratings

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

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For purposes of the analysis of creditworthiness, pursuant to SUGEF Directive 1-05, borrowers in Group 1 are classified based on arrears, historical payment behavior, and creditworthiness; whereas, pursuant to the Bank's internal policies and based on the credit web, borrowers in Group 2 are classified based on arrears and historical payment behavior:

<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
E	More than 121 days	Level 1 or Level 2	Level 1, Level 2, Level 3, or Level 4

In all cases, borrowers without valid authorization for a credit check through SUGEF's Credit Information Center (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.

Borrowers are to be assigned a risk rating of E if they fail to meet the conditions for any of the risk ratings defined above, are in a state of bankruptcy, meeting of creditors, court protected reorganization procedure, or takeover, or if the Bank considers assignment of such rating to be appropriate.

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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- 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.

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 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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Structural allowance for loan losses

The specific allowance is calculated on the covered and uncovered balance of each loan operation. The allowance on the uncovered balance is equivalent to the total outstanding balance of each loan operation less the adjusted weighted value of the corresponding guarantee, multiplying the resulting amount by the allowance percentage corresponding to the risk rating of the borrower or co-borrower in the lowest risk rating. 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 should be used in accordance with article 13 of SUGEF Directive 1-05.

The allowance for the covered portion of each loan operation is equivalent to the result of multiplying the covered amount by the corresponding allowance percentage pursuant to the aforementioned article. The adjusted value of the corresponding guarantee must be weighted at 100% when the borrower or co-borrower with the lowest risk rating is rated C2 or in another lower-risk rating, at 80% when rated D, and at 60% when rated E.

Weightings lower than 100% apply for all guarantees except for the guarantees mentioned in subsections d. through r. of article 14 of SUGEF Directive 1-05. Weightings mentioned in subsection s. apply for trust assets whose nature corresponds to that of the assets mentioned in subsections a. through c. of article 14 of SUGEF Directive 1-05.

Specific allowance percentages based on borrower risk rating are as follows:

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

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

<u>Arrears</u>	<u>Allowance percentage</u>
0 to 30 days	20%
31 to 60 days	50%
More than 61 days	100%

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

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Pursuant to articles 11 bis and 12 of SUGEF Directive 1-05, the calculations of the general allowance and the specific allowance for the covered portion of loan operations must consider the provisions of Transition Provision XII of such Directive. Accordingly, as of December 31, 2015, the Bank applied an allowance percentage of 0.32%, which will gradually increase on a quarterly basis to 0.5%, pursuant to the aforementioned Transition Provision.

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.

As an exception in the case of risk rating E, the minimum specific allowance for borrowers whose historical payment behavior is classified in 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 of 100% and the aforementioned exception should not be applied.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

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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 June 30, the Bank must maintain a structural allowance, as follows:

June 2017			
	Allowance booked	Structural allowance	Excess (insufficiency) of allowance
Direct	¢ 87,116,612,151	(86,273,443,983)	843,168,168
Stand-by	345,121,855	(159,423,014)	185,698,841
	87,461,734,006	(86,432,866,997)	1,028,867,009
Counter-cyclical - SUGEF 19-16	5,330,210,628	(5,330,210,629)	-
	¢ 92,791,944,634	(91,763,077,626)	1,028,867,009
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
	¢ 75,441,769,316	(68,642,510,865)	6,799,258,451

As of June 30, 2017, the balance of the Bank's allowance for loan losses (direct and stand-by), accrued interest receivable, and other receivables amounts to ¢96,542,280,532 (December and June 2016: ¢59,644,951,072 and ¢81,326,859,181, respectively).

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:

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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 the 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 the end of the month in which the assets were acquired.

As of June 30, 2017, the carrying amount of the allowance for impairment of foreclosed assets and per legal requirements amounts to ¢62,469,414,972 (December and June 2016: ¢59,644,951,072 and ¢63,263,247,969, respectively).

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Notes to the Consolidated Financial Statements

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

Sector		Direct		Stand-by	
		June 2017	June 2016	June 2017	June 2016
Trade	¢	432,619,231,762	369,005,775,951	5,364,818	43,464,413
Services		915,471,708,066	831,660,210,864	58,023,489,446	56,825,914,019
Financial services		139,217,139,043	130,110,929,883	-	-
Mining		995,800,373	845,475,353	-	-
Manufacturing and quarrying		173,750,287,049	142,676,466,208	-	1,684,610
Construction		111,037,457,315	97,976,174,075	-	-
Agriculture and forestry		123,257,903,404	115,252,932,274	15,208,468	14,543,547
Livestock, hunting, and fishing		84,091,341,429	71,114,337,897	-	-
Electricity, water, sanitation, and other related sectors		421,850,373,439	417,857,823,262	-	-
Transportation and telecommunications		46,723,776,824	31,255,449,571	-	-
Housing		1,286,463,735,331	1,158,047,114,451	16,089,735	13,971,395
Personal or consumer		519,135,373,016	396,258,461,777	287,260,454,781	238,956,815,977
Tourism		170,619,730,296	140,271,026,556	203,249,252	191,090,373
	¢	<u>4,425,233,857,347</u>	<u>3,902,332,178,122</u>	<u>345,523,856,500</u>	<u>296,047,484,334</u>

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

		Direct		Stand-by	
		June 2017	June 2016	June 2017	June 2016
Central America	¢	<u>4,425,233,857,347</u>	<u>3,902,332,178,122</u>	<u>345,523,856,500</u>	<u>296,047,484,334</u>

The loan portfolio by type of guarantee is as follows:

Type of guarantee		Direct		Stand-by	
		June 2017	June 2016	June 2017	June 2016
Back to back	¢	41,768,459,122	11,392,809,963	1,701,270	5,096,373
Mortgage bond		408,118,895	545,348,284	-	-
Assignment of loans		480,049,621,073	448,741,538,940	-	93,398,750
Mortgage		1,797,014,421,800	1,663,370,911,659	192,243,562	317,499,168
Surety		837,177,891,556	728,502,985,620	24,173,411	27,707,021
Trust		387,614,240,394	330,927,381,914	38,149,891	82,247,438
Securities		1,151,087,594	1,029,653,905	-	-
Chattel mortgage		241,531,467,815	177,023,071,983	-	-
Other		638,518,549,098	540,798,475,854	345,267,588,366	295,521,535,584
	¢	<u>4,425,233,857,347</u>	<u>3,902,332,178,122</u>	<u>345,523,856,500</u>	<u>296,047,484,334</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, 2017 and 2016, 66.65% and 67.47%, respectively, of the loan portfolio is secured by collateral guarantees.

The concentration of the loan portfolio by individual borrower is as follows:

Loan portfolio concentration	Direct		Stand-by	
	June 2017	June 2016	June 2017	June 2016
¢1 to ¢3,000,000	¢ 152,911,916,872	141,077,003,631	103,668,980,016	95,756,452,723
¢3,000,001 to ¢15,000,000	608,898,494,733	531,937,943,652	181,374,898,234	141,372,144,125
¢15,000,001 to ¢30,000,000	471,933,436,943	434,973,881,879	6,269,775,441	5,927,535,111
¢30,000,001 to ¢50,000,000	473,309,163,130	426,430,646,367	2,178,884,321	2,021,412,641
¢50,000,001 to ¢75,000,000	368,699,039,857	312,537,185,673	2,360,912,688	2,653,349,659
¢75,000,001 to ¢100,000,000	180,205,486,085	135,885,097,267	1,398,514,043	881,678,698
¢100,000,001 to ¢200,000,000	232,118,961,657	212,335,682,515	4,371,207,702	3,926,066,447
More than ¢200,000,000	1,937,157,358,070	1,707,154,737,138	43,900,684,055	43,508,844,930
	¢ 4,425,233,857,347	3,902,332,178,122	345,523,856,500	296,047,484,334

As of June 30, 2017 and 2016, the portion of the loan portfolio (direct and stand-by loans) corresponding to economic interest groups amounts to ¢505,132,156,399 and ¢491,610,660,876, 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.

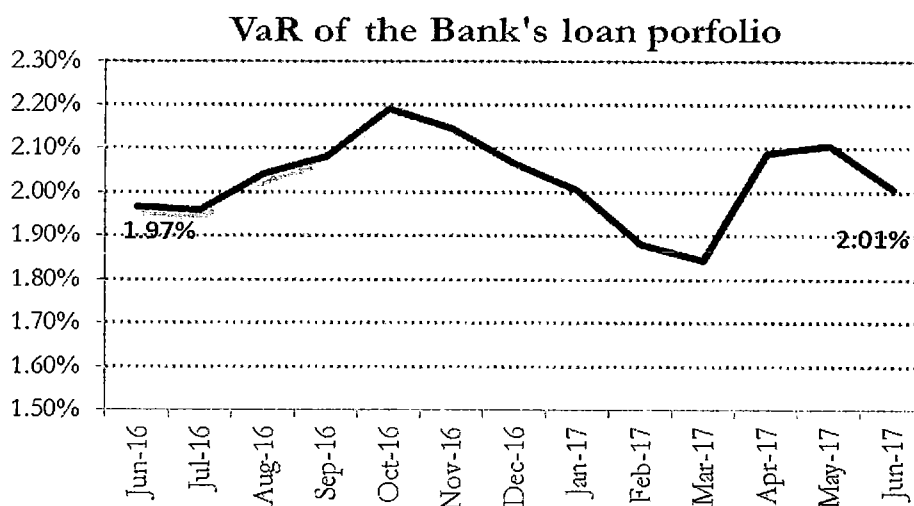
The monthly decrease in the VaR and EL is due to the decrease in the legal collection and in arrears of more than 90 days observed in the entire loan portfolio between April and June 2017. Also during that period, by currency, the VaR and EL of portfolio in colones and DU decreased due to the decrease in the legal collection and in arrears of more than 90 days, while in U.S. dollars the decrease is due to the decrease in arrears of more than 90 days.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The consolidated VaR of the loan portfolio presented a marginal increase on a year-on-year basis between June 2016 and June 2017. By currency, the VaR of the portfolio in colones decreased, while in DU and U.S. dollars increased. EL had the same behavior as the VaR both at the consolidated level and by currency.



By economic activity, on a year-on-year basis, Agriculture, Mining, Energy, Housing, Trade, Financial Services, Services, and Tourism show increases in VaR, while Livestock, Industry, Construction, Transportation, and Consumer show decreases in VaR. In consolidated terms, VaR shows a marginal increase from 1.97% in June 2016 to 2.01% in June 2017.

VaR of the Bank's loan portfolio by economic activity

Activity	Jun-16	Sep-16	Dec-16	Jun-17	Jun-16
Agriculture	3.08%	2.86%	3.01%	3.96%	3.08%
Livestock	3.48%	3.49%	3.11%	2.93%	3.48%
Mining	5.14%	7.38%	9.11%	10.35%	5.14%
Industry	4.51%	4.11%	3.84%	3.51%	4.51%
Energy	2.88%	2.64%	3.65%	3.66%	2.88%
Housing	1.47%	1.49%	1.51%	1.48%	1.47%
Construction	3.11%	3.37%	3.94%	3.07%	3.11%
Trade	2.68%	2.67%	2.73%	2.59%	2.68%
Transportation	1.37%	1.10%	1.14%	1.14%	1.37%
Financial services	0.50%	0.27%	0.36%	0.25%	0.50%
Consumer	4.31%	4.78%	4.35%	4.01%	4.31%
Services	1.64%	2.05%	1.78%	2.05%	1.64%
Tourism	6.50%	6.51%	6.36%	5.95%	6.50%
BNCR	1.97%	2.08%	2.07%	2.01%	1.97%

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Source: Credit Risk Division

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

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.

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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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.

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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

For the June 2017 year-end, 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 (68.10%) 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 (53.49%), BCCR (10.92%), BNCR (2.13%), and MUCAP (1.55%). These issuers represent 68.10% of the consolidated portfolio. The portfolio in U.S. dollars represents 31.90%, comprised of investments in instruments issued by the Government of Costa Rica (31.77%), and other issuers (0.13%).

ii. *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, replacing the Default model approach. The aforementioned 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.

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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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, 2017, the net assets managed by the Pension Fund Manager amount to ¢1,213,251.74 million (2016: ¢1,071,599.47 million), growing year-on-year by ¢141,652.27 million in nominal terms, equivalent to a growth rate of 13.22%. 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%, growing year-on-year by ¢116,022.85 million, equivalent to a growth rate of 13.22% with respect to the same period in 2016.

As of June 30, 2017, the Pension Fund Manager's portfolio of own funds is represented by available-for-sale investments in the amount of ¢6,567.40 million (2016: ¢6,462.95 million). As of June 2017, that amount includes gains on the valuation at market prices amounting to ¢30.66 million (2016: ¢176.79 million). An adjustment has been made to the price of assets that comprise the portfolio of investments of the Pension Fund Manager due to the increase in market's interest rates. This has a negative effect on the price of bonds, with a direct impact on gains on assets and a decrease in gains over the last year.

In June 2017, the VaR of credit in absolute terms is ¢29.89 million, equivalent to 0.46% (2016: ¢27.99 million, equivalent to 0.43%), showing a minimum increase.

Consolidated Value at Risk - 1 year			
<i>Fund</i>	<i>June 2017</i>	<i>June 2016</i>	<i>Change</i>
FCL	1.90%	2.43%	-0.53%
FPC A	0.15%	0.17%	-0.02%
FPC B	2.80%	4.70%	-1.90%
FPD A	27.37%	37.76%	-10.39%
FPD B	26.92%	39.77%	-12.85%
NOT	0.00%	0.00%	0.00%
ROP	5.76%	5.60%	0.16%
BN Vital (OPC)	0.46%	0.43%	0.03%
FCLE	4.89%	4.89%	0.00%
ROPE	4.18%	3.80%	0.38%

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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.

As of June 30, 2017 and 2016, 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, 2017, 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.

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of June 30, 2017, 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	¢	-	69,920,568,350	-	-	-	-	-	69,920,568,350
Minimum legal deposit in BCCR		-	300,780,280,245	18,270,324,319	26,066,882,508	24,300,061,773	65,097,321,722	56,855,554,206	509,611,706,201
Investments		-	-	42,449,355,268	70,150,961,629	26,573,126,126	32,896,518,489	128,883,028,385	575,220,212,536
Loan portfolio		99,358,324,299	-	49,893,794,180	38,436,209,383	37,048,612,029	103,992,366,765	126,068,790,836	2,866,546,981,857
Total recovery of assets	¢	99,358,324,299	370,700,848,595	110,613,473,767	134,654,053,520	87,921,799,928	201,986,206,976	311,807,373,427	4,021,299,468,944
Obligations with the public	¢	-	1,646,896,392,205	194,417,773,045	171,443,700,994	153,897,704,243	413,141,569,785	395,877,954,808	3,081,948,572,467
Obligations with BCCR		-	-	133,675,000,000	-	-	-	-	133,800,644,412
Obligations with financial entities		-	86,922,651,739	19,974,577,960	3,068,007,558	5,057,978,000	39,765,430,786	17,322,557,762	189,002,126,961
Charges payable		-	8,268,753,260	5,746,246,986	3,671,967,765	2,942,232,618	2,596,466,685	938,750,777	24,343,452,324
Total maturity of liabilities	¢	-	1,742,087,797,204	353,813,597,991	178,183,676,317	161,897,914,861	455,503,467,256	414,139,263,347	3,429,094,796,164
Difference	¢	99,358,324,299	(1,371,386,948,609)	(243,200,124,224)	(43,529,622,797)	(73,976,114,933)	(253,517,260,280)	(102,331,889,920)	592,204,672,780

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	
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	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	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	2,385,793,651,397
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	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	2,840,945,301,727
Obligations with BCCR		-	-	-	-	-	-	-	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	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	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	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	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, 2017, 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	¢	-	437,318,785,772	-	-	-	-	-	437,527,330,104.
Minimum legal deposit in BCCR		-	166,711,605,238	9,641,999,116	16,102,848,325	11,673,716,663	31,300,962,956	20,514,064,950	306,237,978,779
Investments		-	-	32,023,160,006	41,331,463,536	15,424,005,816	116,075,664,351	65,453,023,175	545,974,444,202
Loan portfolio		73,140,926,365	-	28,264,802,661	26,413,765,975	25,450,868,515	76,688,287,920	68,380,928,195	1,558,686,875,490
Total recovery of assets	¢	73,140,926,365	604,030,391,010	69,929,961,783	83,848,077,836	52,548,590,994	224,064,915,227	154,348,016,320	2,848,426,628,575
Obligations with the public	¢	-	889,045,644,744	121,446,555,522	84,409,597,305	62,368,998,453	218,736,387,532	157,279,206,781	1,601,494,126,822
Obligations with financial entities		-	120,398,188,897	6,549,889,502	59,551,595,334	11,341,800	27,237,332,700	13,011,179,694	1,175,239,531,831
Charges payable		-	1,853,099,203	1,479,298,745	2,167,909,182	430,147,092	9,679,853,864	621,765,990	295,551,514
Total maturity of liabilities	¢	-	1,011,296,932,844	129,475,743,769	146,129,101,821	62,810,487,345	255,653,574,096	170,912,152,465	2,793,261,284,243
Difference	¢	73,140,926,365	(407,266,541,834)	(59,545,781,986)	(62,281,023,985)	(10,261,896,351)	(31,588,658,869)	(16,564,136,145)	55,165,344,332

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 cash reserve 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	1,239,748,866,791
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	995,855,288,085
Charges payable		-	1,071,814,250	744,360,290	1,593,520,996	418,351,848	8,881,739,697	331,371,539	80,057,245
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	1,019,815,991,361
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	504,316,375,355

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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 (LCR), systemic liquidity indicators, and variables with the greatest impact on SUGEF's term matching indicators.

Below is the LCR indicator, which increases in both currencies with respect to June 2016, remaining at an appetite level. The indicator in colones is influenced by measures to increase profit-taking, such as adjustments to rates and dynamism in placing standardized issues, and an adjustment to the method of measurement to better capture the expected outflows from micro and small enterprises, while in U.S. dollars it is influenced by the expectation and evolution of the exchange rate that has decelerated the placement of credits and increased profit-taking.

Indicator	June 30, 2016	June 30, 2017	Variation	Level
LCR in colones	96.80%	117.67%	20.87%	Appetite
LCR in U.S. dollars	150.37%	292.98%	142.61%	Appetite

This information is communicated to management in a monthly report that is reviewed by the Corporate Risk Committee and subsequently presented to 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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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.

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 return 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 instruments 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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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.

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 as of June 30, 2017, using a new methodology with a three-year historical data (the results are not comparable with 2016 due to the change in methodology). This new methodology concludes that the results obtained by decreasing the amount of data to be used (historical data) and the historical VaR calculated with the original data (without filters by currency drops and without truncation) are similar. Additionally, the VaR by simulation, using three-year historical data parameters, is the risk measure that offers best results. It was implemented with calculations obtained for the month indicated below.

Value at risk 1 year	
<i>Fund</i>	<i>June 2017</i>
ROP	0.04%
FCL	0.45%
NOT	0.07%
FPC A	0.37%
FPC B	0.55%
FPD A	1.20%
FPD B	0.89%
FCL-E	0.33%
ROP-E	0.04%

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

According to the results above, as of June 30, 2017, the VaR of liquidity does not exceed 1% for most funds, except for the FPD A, where the VaR at 99%, eliminating two standard deviations, reaches 1.20%. ROP and ROP Erroneous show the lowest VaR (0.04%).

Liquidity risk management

Risk management policies establish a liquidity limit which determines that a sufficient liquidity level will be maintained to address the investment needs and operations of the company and the characteristics of the pension plan, according to the need arising from the nature of the Pension Fund Manager itself.

All policies and procedures are subject to review and approval by the Risk Committee and the Investment Committee. The board of directors has established minimum liquidity levels on the minimum portion of funds available to meet the fund requirements.

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 highly-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 4 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.

Exposure to liquidity risk:

Additionally, according to the portfolio's nature, the Pension Fund Manager has established limits to manage liquidity risk that allow determining liquidity levels. To assess liquidity risk, indicators are used, such as the market index of investment instruments.

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 risk

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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The main indicator used is the market VaR of the Bank's investments, which is quantified by means of an internal methodology and determined for each currency in which the Bank holds positions. That indicator is complemented with the duration and return, which show the Bank's risk-return profile derived from holding an investment portfolio.

The Market Risk Division periodically analyzes and follows-up on the investment portfolio on a periodic basis through the Comprehensive Risk Assessment Report, which is submitted to the Corporate Risk Committee and the board of directors.

Below is the variation of the portfolios in each currency between June 2016 and June 2017. The decrease in the face value in colones is due to the reallocation of funds toward credit in that currency because of the high demand of credit in that currency and as part of the optimization of productive assets.

Face value of investments by currency

Currency	June 30, 2016	June 30, 2017	Variation
Colones	507,224,400,000	483,237,284,889	(23,987,115,111.11)
U.S. dollars - local	436,602,000	496,493,064	59,891,064.02
U.S. dollars - intl.	497,485,199	380,772,742	(116,712,456.65)
Euros	33,726,000	20,000,000	(13,726,000.00)
DU	34,823,795	34,823,795	-

The duration for each currency has presented variations according to portfolio management, with a decrease during the last year in local dollars, international dollars, and development units.

Duration	June 30, 2016	June 30, 2017	Variation
Colones	0.62	0.47	(0.16)
U.S. dollars - local	0.81	0.93	0.12
U.S. dollars - intl.	1.10	1.32	0.22
Euros	0.79	0.92	0.13
DU	2.37	1.39	(0.98)

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 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 market volatility and liquidity.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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.

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 from 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 the 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 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 2017	June 2016
VaR (99% confidence level)	0.28%	0.28%

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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, 2017 and 2016, 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 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.

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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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. The calculation of market risk indicators are mainly performed using the RiMeR software, which estimates the VaR of the portfolios managed by the Bank. VaR is determined by adjusting the portfolio and calculating its duration and price. The total portfolio duration is the average amount-weighted durations. The RiMeR methodology applies daily parameters (modeling rising volatility curves) and efficiently captures market movements. Such parameters are denominated G2++ and are an extension of the Hull-White model.

As of June 30, 2017, net assets held by the Pension Fund Manager amount to a total of ¢1,213,251.74 million (June 30, 2016: ¢1,071,599.47 million). That amount is distributed among nine funds, i.e. ROP, FCL, FPC A, FPC B, FPD A, FPD B, NOT, and more recently as of June 2016, ROP erroneous and FCL erroneous (see note 25-c). ROP represents 81.91% 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.

v. BN Corredora de Seguros, S.A.

For the Insurance 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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- Market risk of investments

- i. Banco Nacional de Costa Rica.

The Bank's consolidated VaR regarding market value is at the risk appetite limit, showing a decrease in the last year.

Type of risk	June 30, 2016	June 30, 2017	Variation	Level
Consolidated VaR	0.14%	0.19%	0.05%	Appetite

The individual VaR by currency and its variation with respect to the last year is also included.

VaR by currency			
Currency	June 30, 2016	June 30, 2017	Variation
Colones	0.13%	0.15%	0.02%
U.S. dollars - local	0.16%	0.30%	0.14%
U.S. dollars - intl.	0.23%	0.40%	0.17%
Euros	0.05%	0.04%	-0.02%
DU	0.42%	0.20%	-0.23%

- 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.

The Market Risk Division monitors this risk regularly and reports monthly on its performance to the Bank's Corporate Risk Committee. Below is a detail:

Type of risk	June 30, 2016	June 30, 2017	Level
Interest rate risk in colones	1.77%	0.53%	Normal
Interest rate risk in foreign currency	0.50%	0.42%	Normal

Both indicators closed considerably below SUGEF's regulatory maximum limit. The decrease in the interest rate risk in colones is due improvements in the source of data, which makes better use of the distribution of credit by time band based on the interest rate renegotiated starting June 2017.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of June 30, 2017, 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	¢ 42,341,232,156	96,621,570,745	23,596,486,394	128,771,412,862	84,253,846,520	172,266,788,623	547,851,337,300
Loan portfolio	161,425,316,383	58,720,982,584	90,119,317,496	121,245,597,100	199,943,448,970	2,151,026,784,333	2,782,481,446,866
Total recovery of rate-sensitive assets LC (A)	¢ 203,766,548,539	155,342,553,329	113,715,803,890	250,017,009,962	284,197,295,490	2,323,293,572,956	3,330,332,784,166
Obligations with the public	¢ 201,209,880,134	338,594,741,687	455,846,313,328	413,645,939,652	98,153,808,788	12,872,449,287	1,520,323,132,876
Obligations with BCCR	133,696,350,868	-	-	-	-	125,644,412	133,821,995,280
Obligations with financial entities LC	19,897,229,917	296,506,959	282,039,956	580,885,937	1,182,407,871	14,804,311,633	37,043,382,273
Total maturity of rate-sensitive liabilities LC (B)	¢ 354,803,460,919	338,891,248,646	456,128,353,284	414,226,825,589	99,336,216,659	27,802,405,332	1,691,188,510,429
LC difference, recovery of assets less maturity of liabilities (A - B)	¢ (151,036,912,380)	(183,548,695,317)	(342,412,549,394)	(164,209,815,627)	184,861,078,831	2,295,491,167,624	1,639,144,273,737
<i>Foreign currency (FC)</i>							
Investments	¢ 32,023,160,981	56,755,471,998	115,468,154,616	64,585,053,297	146,693,348,936	119,236,185,639	534,761,375,467
Loan portfolio	46,032,270,137	40,025,331,470	65,372,805,737	65,659,308,934	94,661,886,894	1,200,097,040,581	1,511,848,643,753
Total recovery of rate-sensitive assets FC (C)	¢ 78,055,431,118	96,780,803,468	180,840,960,353	130,244,362,231	241,355,235,830	1,319,333,226,220	2,046,610,019,220
Obligations with the public	¢ 127,382,255,958	147,305,348,052	255,794,720,951	167,699,622,293	38,665,647,152	878,109,255,131	1,614,956,849,537
Obligations with entities	4,134,083,145	60,643,186,875	2,627,196,768	3,206,919,214	5,466,518,263	87,831,737,132	163,909,641,397
Total maturity of rate-sensitive liabilities FC (D)	¢ 131,516,339,103	207,948,534,927	258,421,917,719	170,906,541,507	44,132,165,415	965,940,992,263	1,778,866,490,934
FC difference, recovery of assets less maturity of liabilities (C - D)	¢ (53,460,907,985)	(111,167,731,459)	(77,580,957,366)	(40,662,179,276)	197,223,070,415	353,392,233,957	267,743,528,286
Total recovery of rate-sensitive assets 1/ (A + C)	¢ 281,821,979,657	252,123,356,797	294,556,764,243	380,261,372,193	525,552,531,320	3,642,626,799,176	5,376,942,803,386
Total maturity of rate-sensitive liabilities 2/ (B + D)	¢ 486,319,800,022	546,839,783,573	714,550,271,003	585,133,367,096	143,468,382,074	993,743,397,595	3,470,055,001,363
LC + FC difference, recovery of assets less maturity of liabilities (item 1 - item 2)	¢ (204,497,820,365)	(294,716,426,776)	(419,993,506,760)	(204,871,994,903)	382,084,149,246	2,648,883,401,581	1,906,887,802,023

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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
Total recovery of rate-sensitive assets FC (C)	¢	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
Obligations with the public	¢	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 entities		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
Total maturity of rate-sensitive liabilities FC (D)	¢	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
FC difference, recovery of assets less maturity of liabilities (C - 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
Total recovery of rate-sensitive assets 1/ (A + C)	¢	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 maturity of rate-sensitive liabilities 2/ (B + D)	¢	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
LC + FC difference, recovery of assets less maturity of liabilities (item 1 - item 2)	¢	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

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.

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, which were unusually high during the year (relatively low inflations).

The consolidated VaR of the Pension Fund Manager's own funds presents a downward trend with a maximum of 1.21% and a minimum of 0.07%, for an average of 0.25%.

The volatility observed mid-year caused a considerable increase in VaR levels. However, sales were made, materializing capital gains in the portfolio and decreasing the probability of losses due to movements in 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 (ALCO) 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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The Bank calculates the SUGEF currency risk indicator on a monthly basis, which remains at a normal level for both years, as follows:

Type of risk	June 30, 2016	June 30, 2017	Variation	Level
Currency risk	0.02%	0.05%	0.03%	Appetite

i. Banco Nacional de Costa Rica

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

Assets and liabilities denominated in foreign currency are as follows:

		U.S. dollars	
		June 2017	June 2016
<u>Assets:</u>			
Cash and due from banks	US\$	1,284,477,726	765,749,868
Investments in financial instruments		939,004,018	1,025,852,813
Loan portfolio		2,687,967,970	2,756,977,043
Accounts and accrued interest receivable		969,428	496,404
Investments in other companies		106,710,909	103,911,298
Other assets		2,673,301	6,133,308
	US\$	5,021,803,352	4,659,120,734
<u>Liabilities:</u>			
Obligations with the public	US\$	2,777,090,537	2,245,714,591
Obligations with entities		2,088,698,889	2,276,100,358
Accounts payable and provisions		22,645,920	15,119,994
Other liabilities		39,560,738	28,710,346
Subordinated obligations		132,587,269	132,240,027
	US\$	5,060,583,353	4,697,885,316
Excess (deficit) of assets over liabilities in U.S. dollars	US\$	(38,780,001)	(38,764,582)

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		Euros	
		June 2017	June 2016
<u>Assets:</u>			
Cash and due from banks	€	23,695,410	20,092,130
Investments in financial instruments		20,704,452	35,348,725
	€	44,399,862	55,440,855
<u>Liabilities:</u>			
Obligations with the public	€	43,551,073	51,659,048
Obligations with entities		1,037,211	1,111,157
Accounts payable and provisions		185,279	168,618
Other liabilities		240,217	437,378
	€	45,013,780	53,376,201
Excess (deficit) of assets over liabilities in euros	€	(613,918)	2,064,654

		DU	
		June 2017	June 2016
<u>Assets:</u>			
Investments in financial instruments	UD	34,807,138	34,770,504
Loan portfolio		18,507,587	27,315,572
	UD	53,314,725	62,086,076
<u>Liabilities:</u>			
Accounts payable and provisions	UD	769,329	870,369
Other liabilities		3,587	5,128
	UD	772,916	875,497
Excess of assets over liabilities in DU	UD	52,541,809	61,210,579

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 ALCO.

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

		June 2017	June 2016
Foreign exchange gain	¢	105,868,585,954	70,893,088,373
Foreign exchange loss		(107,414,453,040)	(71,858,627,174)
Net (loss) gain	¢	(1,545,867,086)	(965,538,801)

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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 2017	June 2016
Gain on net valuation of other assets (see note 37)	₡ 86,687,999	118,464,635
Loss on net valuation of other liabilities (note 40)	(558,079,668)	(321,195,340)
Net gain (loss)	₡ (471,391,669)	(202,730,705)

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

ii. 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 the Investment Fund Manager 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.

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

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

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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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.

As of June 30, 2017, 3.31% of the Pension Fund Manager's portfolio of own funds is represented by investments in U.S. dollars. By adding cash and due from banks denominated in foreign currency, the percentage increases to 3.60%, which is a relatively low currency risk for the size of the managed portfolio.

v. 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 consolidated statement of comprehensive income.

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 statement of comprehensive income.

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.

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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

That policy is implemented through a comprehensive model with roles and responsibilities assigned to each level:

- 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 senior 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 and the reporting of operating risk events.

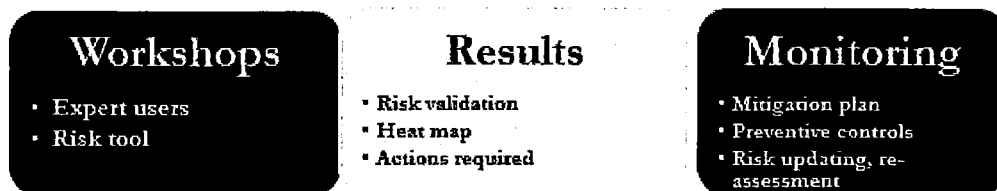
The Information Security and Business Continuity functions are part of the scope of the operational risk in conformity with SUGEF Directive 18-16 *Regulations on operating risk management*.

One of the Bank's fundamental operational risk management principles is transparency, which refers to the following:

All events should be identified, documented, and reported 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.

All potential events must be identified and assessed so as to establish preventive controls and mitigating actions.

Operational risk management is the assessment and analysis of risk in institutional processes by applying a specific methodology that controls the frequency, impact, and quality of identified potential risks. The diagram below shows how such methodology is applied to institutional processes:



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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.

Senior 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 that enables estimating 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.

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.

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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: Senior management informs employees of risk management trends and strategies as well the results of assessments through meetings with employees or announcements.

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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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.

iv. *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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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
- personnel training.

At the financial conglomerate level, the 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. The UAIR analyzes and verifies the limits established by SUPEN in the Investment Regulations of the regulated entities.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Litigation risk: The 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, 2017, the Bank's General Risk Division presented the results of the VaR by legal risk for the Pension Fund Manager, which indicate that the amount to be provisioned is the EL of ¢288.11 million (see note 12, Litigation section), amount that covers the two main lawsuits against the Pension Fund Manager out of seven pending lawsuits, most of which are in first instance.

v. BN Corredora de Seguros, S.A.

For the Insurance Brokerage Firm, operational risk is the possibility of incurring losses arising from deficient, failed, or inadequate processes, personnel, technology, infrastructure, or related external events. This risk includes legal risk and reputational risk.

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 renewal of individual insurance policies.

Information systems are being purchased, which implies a risk since the current information system process is not appropriate.

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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Tier II capital: calculated as the sum of equity adjustments 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.

As of June 30, 2017 and 2016, the Group's risk rating is at a normal level since its capital adequacy ratio is above the required 10% ratio.

(47) Contingencies

As of June 30, the Bank, Pension Fund Manager, and Investment Fund Manager are defendants in ordinary, labor, and criminal lawsuits, as follows:

	Number of cases		Phase	Total estimated amount	
	2017	2016		2017	2016
Bank	235	221	First instance	¢ 253,465,983,596	216,081,353,895
	22	23	Second instance	20,348,132,875	17,844,312,577
	6	3	Appeal	3,615,000,000	5,089,047,215
	1	-	Administrative proceedings (see note 48)	38,458,424,266	-
	264	247		315,887,540,737	239,014,713,687
Pension Fund Manager	1	-	First instance	288,110,324	-
	1	-		288,110,324	-
Investment Fund Manager	1	1	First instance	92,101,415	133,194,104
	1	1		92,101,415	133,194,104
	266	248	(see note 22)	¢ 316,267,752,476	239,147,907,791

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of June 30, 2017 and 2016, the legal actions filed against the Bank are booked in memoranda accounts under “Other contingencies - pending litigation and lawsuits”.

As of June 30, 2017 and 2016, 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	
2017	2016		2017	2016
111	89	First instance	¢ 721,283,192,403	13,059,170,195
-	1	Second instance	-	375,839,600
111	90		¢ 721,283,192,403	13,435,009,795

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

As of June 30, 2016, the Bank does not book a provision for litigation because a reliable estimate for the proceedings has not been determined by the legal counsel and the probability of a loss is low.

The following lawsuits can also be mentioned:

- File No. 11-001042-0612-PE
 - ✓ Court: Office of Economic, Tax, and Customs Crimes, Public Prosecutor’s Office, First Judicial Circuit of San José
 - ✓ Statement of facts: The plaintiffs argue that the Bank’s officers and employees and representatives of the developer companies defrauded them by purchasing land that does not have the value stated in the appraisal, that the project is abandoned, and that they used fake documents.
 - ✓ Current status: The investigation by the Office of Economic and Tax Crimes continues, and the Economic and Financial Crimes Section of the Judicial Investigation Agency (OIJ) has not issued a financial accounting report prepared by an expert.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- File No. 08-000388-0419-AG
 - ✓ Court: Agrarian Court of Corredores
 - ✓ Statement of facts: The proceedings seek to declare the liability of CORBANA, as Trustee of a banana plantation Management Trust, in which the Bank was the Trust Beneficiary.
 - ✓ Current status: An appeal was filed and is being discussed by the Agrarian Court of the Second Judicial Circuit of San José, Goicoechea. No judicial records exist for this case. It seems clear that, since the case relates to a contractual commercial liability, it has lapsed.

- File No. 08-000232-0419-AG
 - ✓ Court: Agrarian Court of Corredores
 - ✓ Statement of facts: This process was filed by the Bank against Surcoop R.L. It seeks to nullify the auction, awarding, and registration of lots of the Agrarian Court of Corredores processed through file No. 97-010656-1701 AG.
 - ✓ Current status: First instance ruling 56-2014 in favor of the Bank upheld the objection due to lack of legal grounds given that no damages caused by the defendants were demonstrated since there is no direct relationship between the factual substance of the complaint and the legal claims. No background exists regarding issues like this. A motion for appeal was filed and is under consideration by the Agrarian Court of the Second Judicial Circuit of San José, Goicoechea.

- File No. 01-160127-0638-AG
 - ✓ Court: Agrarian Court of San Ramón
 - ✓ Statement of facts: Claim for breach of contract.
 - ✓ Current status: This process was filed before the First Chamber of the Supreme Court of Justice since June 9, 2015. Due to the delay of the justice administration, there is certainty that no payment will be required.

- File No. 14-008626-1027-CA
 - ✓ Statement of the facts: The plaintiffs seek that the Bank be ordered to pay damages caused to all of the investors of the Trust for Management of the Real Estate Development and Private Issue of Securities of the Coyote Beach Project, due to noncompliance with the due diligence as Trustee.
 - ✓ Current status: The response to petition was filed and the preliminary hearing held. The oral and public proceedings are pending before the Finance Administrative Law and Civil Court.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(48) Significant events

a) Review by the Tax Authorities - 2010, 2011, 2012, and 2013

On May 21, 2014, the Bank was informed that the Tax Authorities would perform a review 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 involved 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 13, 2014, the National Large Taxpayer Audit Area issued “Proposed Sanctioning Ruling Based on Article 81 of the Tax Code of Standards and Procedures for periods 2010-2013” No. 2-10-015-14-116-511-03 and No. 2-10-015-14-022-512-03, claiming that the income tax returns filed by the Bank for the indicated periods were inaccurate and, thus, detrimental to the treasury.

On November 27, 2014, the Bank’s management issued Document No. SGRF-397-2014 presenting the 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 December 11, 2014, the National Large Taxpayer Audit Area presented a report on the claims against the proposed sanctioning ruling for the mentioned periods, through documents No. 2-10-015-14-072-513-3 and No. 2-10-015-14-055-033-3, indicating for each period its valuation and whether it rules in favor of the Bank or partially admits the claims presented by the Bank.

On January 9, 2015, the National Large Taxpayer Audit Area 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 fiscal years 2010, 2011, 2012, and 2013. The total tax liability and interest amount to ₡29,089,100,723 and ₡9,036,647,719, respectively.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

On January 16, 2015, the Bank presented Official Letter SGR-012-2015 expressing 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 issue 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 the Code of Tax Standards and Procedures (CNPT) (File No. 14-011798-0007-CO).

On January 19, 2015, the National Large Taxpayer Audit Area issued Document No. SFGCN-020-15, notified to the Bank on January 21, 2015, whereby it maintained its decision and confirmed the actions taken, stating the following:

"(...) In this regard, it is inadmissible in this procedural stage to resolve motions for dismissal or assess arguments concerning merits or the correction of errors since those claims were already examined and the reports on the claims filed against provisional regularization proposal No. 1-10-015-14-055-033-03 and on the claims filed against proposed sanctioning ruling No. 2-10-015-14-072-513-03 were already issued; therefore, this Audit Area has fully complied with the regulated process, and the claims filed by your company were already resolved in a timely manner, and were partially admitted."

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

"Therefore, in response to the inquiries made, no legally-binding tax liability has been established for the Bank. For such purposes, an administrative act must be issued on the jeopardy assessment of taxes, which is subject to the decision of the Constitutional Chamber of the Supreme Court of Justice regarding 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".

On February 5, 2015, in response to Official Letter SFGCN-020-15, management of the Bank filed Note SGR-044-2015 before the Large Taxpayer Division claiming that it is defenseless since it does not know the arguments and additional evidence provided and this infringes the right to defend oneself.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

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- On August 31, 2016, the Constitutional Chamber resolved the constitutional motion filed against article 144 of the Code of Tax Standards and Procedures, declaring unconstitutional articles 144 and 192 of the Code of Tax Standards and Procedures (Vote No. 12496-16).
- On October 12, 2016, the National Large Taxpayer Audit Area issued Notice of Deficiency and Observations No. 1-10-15-14-009-041-03, which details the tax payment in accordance with the tax base declared by the Bank for tax periods 2010, 2011, 2012, and 2013, assessing a tax liability in the amount of ¢29,089,100,723 and interest calculated as of that date in the amount of ¢9,369,323,543, for a total of ¢38,458,424,266.
- On November 28, 2016, the Bank filed before the Large Taxpayer Administration Official Letter GG-395-16 “Administrative Claim and Appeal for Annulment” against Notice of Deficiency and Observations No. 1-10-15-14-009-041-03, presenting the considerations of fact and of law and its claims.
- On March 28, 2017, the National Large Taxpayer Audit Area issued Determination Ruling DT10R-030-17 rejecting the annulment of the actions and rejecting the claim filed by the Bank against Notice of Deficiency and Observations No. 1-10-15-14-009-041-03, Regularization Proposal No. 1-10-015-14-091-341-03, and the official letter of the National Large Taxpayer Audit Area No. SFGCN 020-15. Additionally, taxes updated as of January 29, 2017 result in a tax liability of ¢29,089,100,723 and interest calculated as of that date in the amount of ¢10,453,749,273, for a total of ¢39,542,849,996.
- On April 19, 2017, the National Large Taxpayer Audit Area issues “Sanctioning Ruling Based on Article 81 of the Tax Code of Standards and Procedures” No. 2-10-15-14-5178-03 and No. 2-10-15-14-03-582-03, applying to the tax assessment in the amount of ¢29,089,100,723 the corresponding fines: 25% for 2010-2011 and 50% for 2012-2013, for a total of ¢11,286,519,808.
- On May 18, 2017, through file No. GC-02/10, management of the Bank filed an appeal for reversal against Ruling No. DT10R-030-17 before the Large Taxpayer Administration in accordance with article 145 of the Code of Tax Standards and Procedures and in light of the considerations of fact and of law and claims filed, to admit the appeal and annul the aforementioned ruling, and accept the claims for annulment due to procedural defects and statute of limitations described in the aforementioned file and declare the annulment of the administrative-tax procedure and the statute of limitations of tax periods already closed to the tax audit.
- On May 23, 2017, through file No. 2-10-015-14 management of the Bank filed an appeal for reversal against Sanctioning Ruling No. 2-10-15-14-5178-03 and 2-10-15-14-03-582-03 to annul the sanction imposed to the Bank.

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Notes to the Consolidated Financial Statements

On June 7, 2017, as a supplement to file No. GC-02/100, management presented the documentation required according to DTR-030-17 to be analyzed together with the arguments developed by the Bank.

a) Dividends paid to the Bank

As of June 30, dividends of the subsidiaries are as follows:

Subsidiary	Board of Directors' Agreement		Amount	
	2017	2016	2017	2016
BN Corredora de Seguros, S.A.	Article 4, Meeting No. 12,172 held on May 29, 2017	Article 4, Meeting No. 12,127 held on December 5, 2016	¢ 1,376,131,467	826,027,662
BN Sociedad Administradora de Fondos de Inversión, S.A.	Article 4, Meeting No. 12,171 held on May 29, 2017	Article 3, Meeting No. 12,120 held on November 21, 2016	1,000,000,000	1,000,000,000
BN Valores Puesto de Bolsa, S.A.	Article 2, Meeting No. 12,161 held on April 24, 2017	Article 2, Meeting No. 12,119 held on November 21, 2016	3,024,096,802	2,404,923,470
BN Vital Operadora de Planes de Pensiones Complementarias, S.A.	Article 2, Meeting No. 12,163 held on April 24, 2017	Article 2, Meeting No. 12,121 held on November 21, 2016	560,091,499	550,231,826
			¢ 5,960,319,768	4,781,182,958

(49) 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

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Subsequently, through Official 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 the presentation of annual financial statements, unaudited interim consolidated and separate financial statements prepared by the entity, and audited consolidated and separate 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, income and expenses from 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.

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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

c) IAS 12: Income Taxes

SUGEF's Chart of Accounts presents deferred income tax assets, liabilities, income, and expenses separately. This Standard permits presenting assets and liabilities on a net basis if the taxes are levied on the same taxable entity. In accordance with this Standard, 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 December 31, 2014.

Moreover, under this Standard, 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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Notes to the Consolidated Financial Statements

Until December 31, 2013, the Board 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, loan fee and commission income originating prior to December 31, 2013 may not be deferred in full. This treatment does not conform to IAS 18 and 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 as of January 1, 2014. However, the following differences remain between the accounting standards issued by the Board and IAS 18 and IAS 39, as follows:

- 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 "Finance 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 year.

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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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 IAS 27, effective as of 2011 (replaced by IFRS 10, effective as of 2012), 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, IAS 27, effective as of 2011, requires that investments be accounted for at cost. With the amendments to IAS 27 effective starting 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 amendments to IAS 27 have not been adopted by the Board.

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 amendments to SUGEF Directive 31-04 and SUGEF Directive 34-02, savings and credit cooperatives and the Education Savings and Loan Association, as holding companies, 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.

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.

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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 amendments 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 using 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. Furthermore, on June 17, 2016, by means of Official Letter SGF-1729-2016, the Board approved SUGEFE Directive 19-16, "Regulations to Determine and Book Counter-cyclical Allowances", which requires entities supervised by SUGEFE to book a general allowance for the loan portfolio with no current indicators of impairment, in order to mitigate the effects of the economic cycle on the profit or loss derived from the allowance for loan losses.

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Notes to the Consolidated Financial Statements

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.

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.

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.

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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 a business combination between jointly controlled entities 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. 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.

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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.

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 in January 2014. It specifies the accounting policies for regulatory deferral account balances arising from a rate regulation. This Standard 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.

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Notes to the Consolidated Financial Statements

w) IFRS 15: Revenue from Contracts with Customers

This Standard was approved 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 statements 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. This 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.

x) IFRS 16: Leases

This Standard was approved in January 2016. It establishes the guidelines for recognition, measurement, presentation, and disclosure of leases. This Standard replaces IAS 17, IFRIC 4, SIC 15, and SIC 27. This Standard is effective for annual periods beginning on or after January 1, 2019. Early application is permitted for those entities that will perform the early adoption of IFRS 15. This Standard has not been adopted by the Board.

y) La 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 thereof.

z) IFRIC 21: Levies

This Interpretation addresses the accounting of liabilities related to the payment of levies imposed by governments. This Interpretation 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.

(50) 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 certain account balances.

The Bank's management has chosen not to determine the economic impact of those differences since it considers such determination impractical.