BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Financial information required by the
General Superintendency of Financial Entities

Consolidated Financial Statements

June 30, 2018
(With corresponding figures for 2017)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
AS OF JUNE 30, 2018 AND 2017 AND DECEMBER 31, 2017
(In colones)

	Note	June 2018	December 2017	June 2017
ASSETS				
Cash and due from banks	4	**1,176,212,745,885**	**1,282,770,297,704**	**1,323,297,583,513**
Cash		90,397,903,788	67,739,161,550	70,290,516,168
BCCR		877,332,302,906	857,735,999,161	815,849,684,980
Local financial entities		5,822,492,429	16,722,017,718	9,125,157,746
Foreign financial entities		193,149,346,738	321,425,149,449	414,565,668,789
Other cash and due from banks		9,510,700,024	19,147,247,731	13,466,424,872
Accrued interest receivable		-	722,095	130,958
Investments in financial instruments	5	**1,188,795,636,084**	**1,097,332,342,386**	**1,121,121,365,067**
Available for sale		1,156,745,568,312	1,061,043,947,907	1,069,085,990,296
Held to maturity		18,741,104,378	18,562,535,348	27,519,342,882
Derivative financial instruments	6	12,798,317	6,321,903,607	11,288,077,551
Accrued interest receivable		13,297,357,996	11,477,429,720	13,301,246,009
(Allowance for impairment of investments in financial instruments)		(1,192,919)	(73,474,196)	(73,291,671)
Loan portfolio	7	**4,317,326,567,702**	**4,384,681,312,469**	**4,332,787,034,568**
Current		4,094,248,863,852	4,261,225,313,188	4,181,853,700,690
Past due		164,885,533,974	131,836,522,732	124,367,761,453
In legal collection		186,975,200,869	100,044,384,206	91,249,324,539
Accrued interest receivable		36,100,678,453	31,743,485,704	27,763,070,665
(Allowance for loan losses)		(164,883,709,446)	(140,168,393,361)	(92,446,822,779)
Accounts and fees and commissions receivable	8	**2,994,688,795**	**3,085,084,712**	**3,604,824,272**
Fees and commissions receivable		1,381,337,666	1,261,195,967	1,137,357,998
Accounts receivable for brokerage operations		147,461,063	-	166,214,442
Accounts receivable for transactions with related parties		196,615,810	26,675,994	39,704,743
Deferred tax and income tax receivable		1,442,070,705	1,508,835,870	1,291,076,312
Other receivables		4,356,071,038	3,879,229,636	4,719,234,226
Accrued interest receivable		1,564,180	1,724,156	1,572,449
(Allowance for impairment of accounts and fees and commissions receivable)		(4,530,431,667)	(3,592,576,911)	(3,750,335,898)
Foreclosed assets	9	**17,982,406,150**	**18,784,905,854**	**20,978,310,832**
Assets and securities acquired in lieu of payment		77,262,250,966	81,249,127,569	83,446,253,926
Other foreclosed assets		1,840,190	1,832,418	1,471,878
(Allowance for impairment of foreclosed assets and per legal requirements)		(59,281,685,006)	(62,466,054,133)	(62,469,414,972)
Investments in other companies	10	**60,756,221,836**	**61,782,698,467**	**60,565,312,602**
Property and equipment, net	11	**179,593,208,266**	**180,045,509,253**	**175,106,071,787**
Other assets	12	**45,918,709,209**	**51,681,058,910**	**42,291,790,193**
Deferred charges		7,656,887,472	8,915,121,031	10,335,759,622
Intangible assets		5,552,739,657	7,343,386,585	7,421,224,798
Other assets		32,709,082,080	35,422,551,294	24,534,805,773
TOTAL ASSETS		**6,989,580,183,927**	**7,080,163,209,755**	**7,079,752,292,834**

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
AS OF JUNE 30, 2018 AND 2017 AND DECEMBER 31, 2017
(In colones)

LIABILITIES AND EQUITY	Note	June 2018	December 2017	June 2017
LIABILITIES				
Obligations with the public	13	4,800,713,244,496	4,854,295,679,256	4,708,502,625,089
Demand obligations		2,653,954,627,157	2,723,524,433,301	2,535,942,036,949
Term obligations		2,070,893,014,821	2,071,892,923,304	2,120,205,491,564
Other obligations		34,217,872,873	22,916,380,358	22,260,485,678
Finance charges payable		41,647,729,645	35,961,942,293	30,094,610,898
Obligations with BCCR	14	7,127,977,745	125,644,412	133,821,995,280
Term obligations		7,125,644,412	125,644,412	133,800,644,412
Finance charges payable		2,333,333	-	21,350,868
Obligations with entities	15	1,290,902,585,437	1,325,520,882,251	1,374,996,774,941
Demand obligations		196,555,639,269	206,588,859,907	206,144,916,524
Term obligations		1,083,808,496,576	1,109,107,522,604	1,158,096,742,268
Finance charges payable		10,538,449,592	9,824,499,740	10,755,116,149
Accounts payable and provisions		106,456,957,841	102,307,155,957	106,506,563,186
Accounts payable for brokerage services		1,990,788,075	1,257,574,677	823,220,971
Deferred tax	16-b	10,700,656,436	10,400,144,758	11,187,194,600
Provisions	17	21,794,538,648	20,863,416,068	23,734,223,891
Other sundry accounts payable	18	71,970,974,682	69,786,020,454	70,761,923,724
Other liabilities	19	73,216,379,745	98,542,307,102	68,227,648,646
Deferred income		32,145,053,090	32,055,196,858	28,527,077,495
Allowance for stand-by credit losses		272,417,979	265,681,489	345,121,855
Other liabilities		40,798,908,676	66,221,428,755	39,355,449,296
Subordinated obligations	20	74,894,321,078	75,136,063,242	75,188,914,366
Subordinated obligations		73,247,200,000	73,634,600,000	73,721,700,000
Finance charges payable		1,647,121,078	1,501,463,242	1,467,214,366
TOTAL LIABILITIES		6,353,311,466,342	6,455,927,732,220	6,467,244,521,508
EQUITY				
Share capital		172,237,030,102	172,237,030,102	172,237,030,102
Paid-in capital	21-a	172,237,030,102	172,237,030,102	172,237,030,102
Equity adjustments		64,639,641,913	68,259,558,421	68,878,047,691
Surplus from revaluation of property	21-b	61,864,805,939	61,425,174,760	60,806,752,437
Adjustment for valuation of available-for-sale investments	21-c	(3,202,983,825)	(1,998,318,958)	(1,034,067,681)
Adjustment for valuation of restricted financial instruments	21-c	(371,341,938)	(306,670,697)	(846,831,115)
Surplus from revaluation of other assets		43,748,630	43,748,630	43,748,630
Adjustment for valuation of investments in other companies	1-e (iv) and 21-d	6,305,413,107	9,095,624,686	9,908,445,420
Capital reserves	21-e	332,270,009,016	311,121,806,369	310,251,790,907
Prior period retained earnings		21,100,319,339	12,741,841,466	12,019,286,055
Income for the period		15,049,722,768	32,763,283,164	22,009,658,558
Equity of the Development Financing Fund	21-f	30,971,994,447	27,111,958,013	27,111,958,013
TOTAL EQUITY		636,268,717,585	624,235,477,535	612,507,771,326
TOTAL LIABILITIES AND EQUITY		6,989,580,183,927	7,080,163,209,755	7,079,752,292,834
DEBIT MEMORANDA ACCOUNTS	22	645,841,015,862	657,366,663,011	675,912,491,868
TRUST ASSETS	23	1,528,979,572,215	1,640,112,224,019	1,507,304,204,479
TRUST LIABILITIES		122,109,975,913	122,035,907,919	43,723,788,450
TRUST EQUITY		1,406,869,596,302	1,518,076,316,100	1,463,580,416,028
TRUST MEMORANDA ACCOUNTS		71,581,781,504	50,624,717,665	35,112,122,740
OTHER DEBIT MEMORANDA ACCOUNTS	24	21,323,426,805,316	20,651,794,446,437	20,568,396,820,705
Own debit memoranda accounts		6,962,684,374,690	7,064,476,982,966	7,220,760,895,524
Third-party debit memoranda accounts		2,737,506,127,601	2,542,913,153,061	2,404,216,129,576
Own debit memoranda accounts for custodial activities		364,050,369,838	371,296,353,570	265,176,333,936
Third-party debit memoranda accounts for custodial activities		11,259,185,933,187	10,673,107,956,840	10,678,243,461,669

Juan Carlos Corrales Salas
General Manager

Alejandra Morales Centeno
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Ricardo Araya Jiménez
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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
SIX MONTHS ENDED JUNE 30, 2018 AND 2017
(In colones)

	Note	Six months ended June 30, 2018	Six months ended June 30, 2017	Three months ended June 30, 2018	Three months ended June 30, 2017
Finance income					
Cash and due from banks	28	3,032,728,541	1,049,275,453	1,352,363,592	749,390,742
Investments in financial instruments	28	30,169,412,544	24,866,565,826	15,303,307,694	13,056,888,813
Loan portfolio	29	219,369,079,442	190,305,202,929	111,087,428,806	96,433,000,883
Gain on foreign exchange differences and development units, net	46-c	116,158,033	-	(433,017,232)	-
Gain on available-for-sale financial instruments		20,392,313	1,164,657,348	16,716,923	337,661,660
Gain on derivative financial instruments, net	6	-	11,035,630,881	-	6,481,424,323
Other finance income	30	19,360,204,604	6,554,001,132	6,892,285,999	1,952,965,494
Total finance income		272,067,975,477	234,975,333,569	134,219,085,782	119,011,331,915
Finance costs					
Obligations with the public	31	91,976,496,238	66,308,042,327	46,682,927,890	35,370,250,435
Obligations with BCCR		993,000	-	993,000	-
Obligations with financial entities	32	35,856,872,728	33,162,089,076	17,897,847,170	17,590,270,239
Subordinated, convertible, and preferred obligations		2,500,930,587	2,216,413,970	1,276,398,547	1,143,146,206
Loss on foreign exchange differences and development units, net	46-c	-	1,545,867,086	-	1,501,484,349
Loss on available-for-sale financial instruments		259,418,633	75,424,378	138,621,935	36,750,369
Loss on derivative instruments	6	12,076,113,722	-	2,747,608,395	-
Other finance costs	33	4,716,714,709	10,244,333,551	3,117,558,605	5,201,973,653
Total finance costs		147,387,539,617	113,552,170,388	71,861,955,542	60,843,875,251
Allowance for impairment of assets	34	40,718,355,099	17,051,857,134	18,256,522,624	12,331,053,227
Recovery of assets and decrease in allowances	35	4,282,156,874	9,195,247,443	2,441,407,238	5,685,715,974
FINANCE INCOME		88,244,237,635	113,566,553,490	46,542,014,854	51,522,119,411
Other operating income					
Service fees and commissions	36	67,793,600,293	63,374,038,110	33,840,119,944	31,890,533,558
Foreclosed assets		4,762,057,259	1,224,709,889	3,704,331,996	638,001,703
Gain on investments in other foreign companies	1-a and 3	1,523,046,044	1,285,918,211	681,454,310	773,629,313
Gain on investments in other local companies		2,764,988	7,563,715	-	-
Foreign currency exchange and arbitrage		11,649,275,638	12,329,174,583	5,975,062,609	5,915,192,650
Other operating income	37	4,540,482,224	4,434,757,938	1,857,426,296	2,560,866,402
Total other operating income		90,271,226,446	82,656,162,446	46,058,395,155	41,778,223,626

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
SIX MONTHS ENDED JUNE 30, 2018 AND 2017
(In colones)

		Six months ended June 30,		Three months ended June 30,	
		2018	2017	2018	2017
Other operating expenses					
Service fees and commissions		2,155,814,239	2,515,349,369	1,005,556,759	1,209,950,060
Foreclosed assets	38	9,975,694,325	10,845,837,054	4,800,915,738	5,822,866,225
Sundry assets		36,447,856	32,937,257	266,805	(4,789,541)
Provisions	39	7,837,924,545	7,624,130,246	5,019,932,960	3,219,683,332
Bonuses on fees and commissions of voluntary pension funds		58,259,392	41,910,659	32,799,989	20,151,551
Foreign currency exchange and arbitrage		3,698,703	1,064,719	457,589	842,464
Other operating expenses	40	34,196,597,308	36,500,521,541	17,372,789,449	19,874,165,872
Amortization of deferred direct costs related to credits		224,476,764	458,215,651	117,228,028	170,221,272
Total other operating expenses		**54,488,913,132**	**58,019,966,496**	**28,349,947,317**	**30,313,091,235**
GROSS OPERATING INCOME		**124,026,550,949**	**138,202,749,440**	**64,250,462,692**	**62,987,251,802**
Administrative expenses					
Personnel expenses	41	66,431,820,430	66,114,804,780	33,267,260,384	33,133,883,312
Other administrative expenses	42	35,201,346,845	33,482,045,367	18,409,746,812	17,027,732,217
Total administrative expenses		**101,633,167,275**	**99,596,850,147**	**51,677,007,196**	**50,161,615,529**
NET OPERATING INCOME BEFORE TAXES AND STATUTORY ALLOCATIONS		**22,393,383,674**	**38,605,899,293**	12,573,455,496	12,825,636,273
Current tax expense	16-a	1,278,970,111	7,783,042,436	681,722,284	1,812,197,365
Deferred tax expense	16-a	16,175,504	194,732,907	8,087,752	193,955,907
Decrease in current tax for the period	16-a	-	858,011,818	-	858,011,818
Decrease in prior period income tax	16-a	-	19,910,540	-	12,253,356
Deferred tax income	16-a	183,870,590	99,597,921	38,045,305	37,734,979
Statutory allocations	43	6,232,385,881	9,697,098,732	3,463,845,703	3,311,110,861
Decrease in statutory allocations	43	-	101,113,061	-	6,857,889
INCOME FOR THE PERIOD		**15,049,722,768**	**22,009,658,558**	**8,457,845,062**	**8,423,230,182**
OTHER COMPREHENSIVE INCOME, NET OF TAX					
Surplus from revaluation of property		1,043,064,969	-	1,000,967,109	-
Adjustment for valuation of available-for-sale investments, net of income tax		(1,204,664,869)	(1,193,265,676)	672,866,976	(1,159,608,822)
Adjustment for valuation of restricted financial instruments, net of income tax		(64,671,239)	770,387,649	58,801,104	752,594,034
Adjustment for valuation of investments in other companies		(2,790,211,579)	1,824,142,106	(2,181,944,322)	1,243,936,269
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX		**(3,016,482,718)**	**1,401,264,079**	**(449,309,133)**	**836,921,481**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**12,033,240,050**	**23,410,922,637**	**8,008,535,929**	**9,260,151,663**

Juan Carlos Corrales Salas
General Manager

Alejandra Morales Centeno
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General Auditor

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
SIX MONTHS ENDED JUNE 30, 2018 AND 2017
(In colones)

			Equity adjustments								
	Note	**Share capital**	**Surplus from revaluation of property**	**Adjustment for valuation of available-for-sale investments and restricted financial instruments**	**Surplus from revaluation of other assets**	**Adjustment for valuation of investments in other companies**	**Total equity adjustments**	**Capital reserves**	**Retained earnings**	**Equity of the Development Financing Fund**	**Total**
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 valuation 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	27,111,958,013	612,507,771,326

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
SIX MONTHS ENDED JUNE 30, 2018 AND 2017
(In colones)

			Equity adjustments								
	Note	Share capital	Surplus from revaluation of property	Adjustment for valuation of available-for-sale investments and restricted financial instruments	Surplus from revaluation of other assets	Adjustment for valuation of investments in other companies	Total equity adjustments	Capital reserves	Retained earnings	Equity of the Development Financing Fund	Total
Balance at January 1, 2018		**172,237,030,102**	**61,425,174,760**	**(2,304,989,655)**	**43,748,630**	**9,095,624,686**	**68,259,558,421**	**311,121,806,369**	**45,505,124,630**	**27,111,958,013**	**624,235,477,535**
Transactions with owners booked directly in equity:											
Legal reserves		-	-	-	-	-	-	22,901,959,011	(22,901,959,011)	-	-
Other statutory reserves		-	-	-	-	-	-	(1,753,756,364)	1,753,756,364	-	-
Equity of the Development Financing Fund		-	-	-	-	-	-	-	(3,860,036,434)	3,860,036,434	-
Total transactions with owners booked directly in equity		-	-	-	-	-	-	**21,148,202,647**	**(25,008,239,081)**	**3,860,036,434**	-
Comprehensive income for the period:											
Income for the period		-	-	-	-	-	-	-	15,049,722,768	-	15,049,722,768
Adjustment for valuation of available-for-sale investments, net of income tax	5	-	-	(1,204,664,869)	-	-	(1,204,664,869)	-	-	-	(1,204,664,869)
Adjustment for valuation of restricted financial instruments, net of income tax	5	-	-	(64,671,239)	-	-	(64,671,239)	-	-	-	(64,671,239)
Adjustment for valuation of investments in other companies	1-e (iv)	-	-	-	-	(2,790,211,579)	(2,790,211,579)	-	-	-	(2,790,211,579)
Surplus from revaluation of property		-	1,043,064,969	-	-	-	1,043,064,969	-	-	-	1,043,064,969
Realization of surplus from revaluation of property		-	(603,433,790)	-	-	-	(603,433,790)	-	603,433,790	-	-
Total comprehensive income for the period		-	**439,631,179**	**(1,269,336,108)**	-	**(2,790,211,579)**	**(3,619,916,508)**	-	**15,653,156,558**	-	**12,033,240,050**
Balance at June 30, 2018	21	**172,237,030,102**	**61,864,805,939**	**(3,574,325,763)**	**43,748,630**	**6,305,413,107**	**64,639,641,913**	**332,270,009,016**	**36,150,042,107**	**30,971,994,447**	**636,268,717,585**

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2018 AND 2017
(In colones)

	Note	June 2018	June 2017
Cash flows from operating activities			
Income for the period		15,049,722,768	22,009,658,558
Items not requiring cash			
(Gain) loss on foreign exchange differences and development units, net		(4,249,258,649)	26,760,441,561
Loss on allowance for loan losses, net		35,347,954,999	6,880,610,982
(Gain) loss on allowance for impairment of investments, net		(72,281,277)	11,807,773
Loss on allowance for other receivables, net		1,160,524,503	964,190,935
(Gain) loss on allowance for impairment of foreclosed assets, net		(2,518,087,083)	2,824,463,900
Loss on sale of foreclosed assets		5,792,783,262	4,434,499,687
Provision expense, net of payments		(4,692,264,958)	2,163,007,402
Depreciation and amortization		10,969,484,811	9,697,504,331
Share in net profit of foreign associate		(1,523,046,044)	(1,285,918,211)
Statutory allocations, net		6,232,385,881	9,595,985,671
Income tax expense, net	16-a	1,278,970,111	6,905,120,078
Deferred tax		(167,695,086)	95,134,986
Finance income on loan portfolio and investments		(249,538,491,986)	(215,171,768,755)
Finance costs on term obligations with the public and financial entities		102,177,563,237	81,364,037,634
		(84,751,735,511)	**(42,751,223,468)**
(Increase) decrease in assets			
Credits and cash advances		15,713,605,173	(247,487,274,176)
Foreclosed assets		10,818,662,377	6,493,403,175
Accrued interest receivable on other receivables		159,976	228,474
Other assets		(11,202,446)	(573,799,625)
		(58,230,510,431)	**(284,318,665,620)**
Net increase (decrease) in liabilities			
Demand and term obligations		(75,489,559,571)	566,322,932,259
Other accounts payable and provisions		23,021,658,810	(30,587,484,677)
Other liabilities		(25,108,808,679)	20,992,391,229
		(135,807,219,871)	**272,409,173,191**
Interest received on loan portfolio and investments		243,361,370,961	212,268,124,987
Income tax paid		(11,466,522,902)	(7,998,174,686)
Interest paid on term obligations with the public and financial entities		(95,775,492,700)	(72,201,993,804)
Net cash from operating activities		**312,135,488**	**404,477,129,688**
Cash flows from investing activities			
Increase in financial instruments		(3,881,644,253,636)	(10,514,623,965,493)
Decrease in financial instruments		3,774,177,465,485	10,473,112,543,114
Acquisition of property and equipment		(17,732,533,210)	(5,613,363,072)
Sale of property and equipment		1,197,127,293	66,011,796
Cash investments in other companies		(8,953,890)	-
Net cash used in investing activities		**(124,011,147,958)**	**(47,058,773,655)**
Cash flows from financing activities			
Other new financial obligations		7,364,448,291	2,070,638,786,209
Settlement of obligations		(4,190,069,192)	(1,937,963,598,986)
Net cash from financing activities		**3,174,379,099**	**132,675,187,223**
Net (decrease) increase in cash and cash equivalents		**(120,524,633,371)**	**490,093,543,256**
Cash and cash equivalents at beginning of year		**1,501,089,253,239**	**1,019,158,980,617**
Cash and cash equivalents at end of year	4	**1,380,564,619,868**	**1,509,252,523,873**

Juan Carlos Corrales Salas
General Manager

Alejandra Morales Centeno
General Accountant
CPI No.21119

Ricardo Araya Jiménez
General Auditor

(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.

According to IRNBS, if a bank divides its services into departments, its operations must 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 must 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, 2018, the Bank has 169 offices, 466 automated teller machines, and a total of 5,806 employees (2017: 176 offices, 477 automated teller machines, and 5,862 employees). Employees are distributed as follows: Banco Nacional de Costa Rica - 5,396 employees (2017: 5,456); BN Valores Puesto de Bolsa, S.A. - 73 employees (2017: 70); BN Vital Operadora de Planes de Pensiones Complementarias, S.A. - 170 employees (2017: 167); BN Sociedad Administradora de Fondos de Inversión, S.A. - 77 employees (2017: 80); and BN Corredora de Seguros, S.A. - 90 employees (2017: 89). The Bank's website is www.bncr.fi.cr.

(Continued)

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 the *Law of the Private Supplemental Pension Fund System* (Law No. 7523) 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.

(Continued)

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

June 2018		Brokerage Firm	Pension Fund Manager	Investment Fund Manager	Insurance Brokerage Firm	BICSA
Assets	¢	65,179,602,928	9,534,204,737	7,292,693,113	4,304,379,662	507,057,817,119
Liabilities		49,947,350,483	2,212,197,712	687,356,049	779,771,309	446,352,218,583
Equity		15,232,252,445	7,322,007,025	6,605,337,064	3,524,608,353	60,705,598,536
Income for the period		623,448,256	538,389,855	977,612,645	1,099,952,384	1,523,046,044
Memoranda accounts		1,055,541,502,150	1,354,985,805,083	473,480,666,691	-	-

December 2017		Brokerage Firm	Pension Fund Manager	Investment Fund Manager	Insurance Brokerage Firm	BICSA
Assets	¢	56,683,024,910	9,191,299,287	7,431,925,822	3,869,500,100	499,021,964,567
Liabilities		41,150,960,632	1,843,306,812	815,002,349	1,164,963,271	437,289,889,400
Equity		15,532,064,278	7,347,992,475	6,616,923,473	2,704,536,829	61,732,075,167
Income for the year		1,776,740,964	726,185,040	1,741,738,330	2,260,896,827	2,615,822,520
Memoranda accounts		947,725,437,545	1,293,980,298,067	426,243,485,231	-	-

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 period		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	-	-

(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.

- 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 (¢), the monetary unit of the Republic of Costa Rica, in accordance with the accounting regulations 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 on which control commences until the date on which control ceases.

As of June 30, 2018 and 2017, 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%

Subsidiaries were consolidated based on the following accounting principles:

- All subsidiaries which the Bank controls, whether directly or indirectly, are consolidated.
- In the event that there are long-term financial or legal restrictions on the transfer of resources or if 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 is eliminated.
  - Balances of accounts related to intra-group transactions are eliminated from the consolidated balance sheet and consolidated statement of comprehensive income.
  - Uniform accounting policies are applied for group entities.
  - All significant intra-group balances and transactions are 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 are measured using 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, 2018 and 2017, the Bank holds 49% ownership interest in BICSA.

(Continued)

(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 period.

ii. Monetary unit and foreign exchange regulations

The parity of the colon with the US dollar 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, 2018, the exchange rate was ¢563.44 and ¢570.08 to US$1.00 (2017: ¢567.09 and ¢579.67 to US$1.00) for the purchase and sale of US dollars, respectively.

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

As of June 30, 2018, assets and liabilities denominated in US dollars were valued at the exchange rate of ¢563.44 to US$1.00 (2017: ¢567.09 to US$1.00), which is the reference buy rate published by BCCR for that date.

As of June 30, 2018, assets and liabilities denominated in euro were valued at the exchange rate of ¢656.69 to €1.00 (2017: ¢647.87 to €1.00). This exchange rate is calculated by multiplying the international exchange rate published by Reuters by the reference buy rate for US dollars published by BCCR on the last business day of the month.

As of June 30, 2018, assets and liabilities denominated in Development Units (DU) were valued at the exchange rate of ¢888.94 to DU1.00 (2017: ¢870.21 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 US dollars, which is the entity's functional currency. As of June 30, 2018 and 2017, the Bank holds 49% ownership interest in BICSA. Accordingly, the Bank should value its investment in that entity using the equity method rather than on a consolidated basis.

The translation of the financial statements of foreign operations was performed as follows:

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

For the six months ended June 30, 2018, a foreign exchange loss in the amount of ¢2,790,211,579 arising from the translation of the financial statements of foreign operations is presented in equity (December and June 2017: foreign exchange gain of ¢1,011,321,372 and ¢1,824,142,106, respectively). As of June 30, 2018, the adjustment for valuation of investments in other companies amounted to ¢6,305,413,107 (December and June 2017: ¢9,095,624,686 and ¢9,908,445,420, 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 at the time of purchase.

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

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, 2018, 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.

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.

(Continued)

iii. *Derecognition*

A financial asset is derecognized when the Bank loses control over the contractual rights from 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.

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.

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.

(Continued)

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.

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, 2018 and 2017, 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 period.

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.

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.

(Continued)

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.

(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, quality of guarantees, and delinquency.

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, 2018 and 2017, increases in the allowance for loan losses are included in the accounting records in accordance with Article 10 of IRNBS.

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

(Continued)

The net realizable value of an asset should be used as its market 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 of 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 performed the appraisals, and those reports must be updated at least annually.

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

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

For foreclosed assets prior to the aforementioned date, management of the Bank follows the policy of recognizing an allowance equivalent to 100% of the 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, 2018 and 2017, 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.*

(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 the requirements established by the regulating entity SUGEF in Article 8 of Directive 34-02, the Bank must have its real property appraised at least once every five years by an independent appraiser, authorized by the corresponding institute, in order to determine its net realizable value (NRV). If the net realizable value is less or more than the carrying amount, the carrying amount must be adjusted to the appraisal value.

ii. Leased assets

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

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:

Type of asset	Estimated useful life
Buildings	25 to 120 years *(1)*
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

(1) The useful life of buildings varies according to the valuations performed.

(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.

(Continued)

(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.

(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 one 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 thereto for employees with more than 20 years of service, in compliance with Article 34 of the *Collective Bargaining Agreement*. As of June 30, 2018 and 2017, 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.

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 thereto.

(Continued)

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 thereto.

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.

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.

(Continued)

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*) dated 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 composed 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. The Fund operates based on the principle of solidarity.

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

(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 transferring the revaluation surplus to prior period retained earnings, for its subsequent capitalization, in accordance with Article No. 8 of IRNBS (Law No. 1644) and SUGEF Directive 33-07.

(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 consolidated balance sheet.

i. Current tax

Current tax is the expected tax payable on taxable income for the period, using tax rates enacted at the consolidated balance sheet date, and any adjustment to tax payable in respect of prior periods.

(Continued)

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.

Regarding the tax benefits applied to the Development Credit Fund (DCF) as part of the resources of the Development Banking System managed by the Bank, as established in Article 15 of the *Comprehensive Amendment to Law No. 8634, Development Banking System Act, and Amendment to Other Laws* (Law No. 9274), effective from November 27, 2014, that fund is exempt from income tax and from any other type of tax.

The 8% exemption on securities is effective from August 23, 2016, as evidenced in certification SRCST-TV-009-2016 of the Ministry of Finance issued for the period of one year, which was renewed indefinitely by means of resolution DGCN-146-2017, at the request of the banks that manage the fund, i.e. Banco Nacional de Costa Rica and Banco de Costa Rica.

(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 and that is subject to risks and returns 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.

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 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.

(Continued)

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 period's net earnings corresponding 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.

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 the end of the period 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), must 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 must transfer to their respective funds the amount corresponding to prior period's 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.

(cc) Development Credit Fund (FCD)

The Development Credit Fund (FCD) is composed 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 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 a fund.

As a result, 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.

(Continued)

(2) Collateralized or restricted assets

Collateralized or restricted assets are as follows:

Restricted asset	Cause of restriction		June 2018 Carrying amount	December 2017 Carrying amount	June 2017 Carrying amount
Cash and due from banks:					
Checking account – colones (note 4)	Minimum legal deposit	¢	511,311,659,274	506,614,839,613	475,769,800,837
Checking account – US dollars (note 4)	Minimum legal deposit		263,403,458,021	277,771,308,370	277,948,198,718
Checking account – euro (note 4)	Minimum legal deposit		3,891,569,356	4,005,701,580	4,265,615,605
Other cash and due from banks (note 4)	Custody of liabilities of Banco Crédito Agrícola de Cartago		1,185,775,282	8,900,457,858	-
Other cash and due from banks (note 4)	Margin calls for tri-party repurchase agreements		148,573,000	112,717,628	-
Other cash and due from banks (note 4)	Contribution to FOGABONA		151,950,087	187,856,613	208,544,339
		¢	780,092,985,020	797,592,881,662	758,192,159,499
Investments in financial instruments:					
Investments in financial instruments	Guarantee for tri-party repurchase agreements		38,931,989,446	25,698,653,608	25,327,301,881
Investments in financial instruments	Liquidity market operations		16,523,277,696	22,382,659,573	23,096,371,470
Securities issued by BCCR and the Government	Investments securing repurchase agreements		608,853,530	203,162,716	588,217,977
External debt bonds	Nomura Bank guarantee		79,446,218,316	82,461,472,891	77,079,559,099
External debt bonds	Merrill Lynch guarantee (SWAPS)		-	-	3,387,631,735
External debt bonds	Credit Suisse guarantee		-	-	75,090,695,241
External debt bonds	JP-SWAPS guarantee		2,500,715,020	-	1,693,561,118
	Interbank Electronic Payment System (SINPE) guarantee		8,561,514,207		
Central Bank bonds (global bond)				-	140,614,620,828
		¢	146,572,568,215	130,745,948,788	346,877,959,349
Other assets:					
Other assets (note 12)	Security deposits	¢	436,762,552	573,576,820	435,378,608

As of June 30, 2018, the Brokerage Firm has restricted assets in the amount of ¢55,455,267,142 (December and June 2017: ¢48,381,887,422 and ¢48,632,217,690, respectively), corresponding to guarantees for tri-party repurchase agreements, operations in the liquidity market, and contributions to the liquidation and compensation risk management fund.

(3) Balances and transactions with related parties

		June 2018	December 2017	June 2017
Assets:				
Checking accounts in foreign financial entities *(1)* (note 4)	¢	11,485,012,516	17,091,195,563	8,397,007,818
Allowance for impairment for transactions with related parties *(2)*		(437,865,029)	(18,809,848)	(37,274,872)
Investments in other companies *(3)* (note 10)		60,756,221,836	61,782,698,467	60,565,312,602
	¢	71,803,369,323	78,855,084,182	68,925,045,548
Liabilities:				
Demand obligations with entities *(4)*		13,998,284	15,795,754	15,143,772
	¢	13,998,284	15,795,754	15,143,772
Income:				
Finance		7,797,292	-	4,111,350
Operating		5,324,527	-	-
Gain on investments in foreign companies		1,523,046,044	2,615,822,520	1,285,918,211
Gain on investments in entities supervised by SUGEVAL		-	-	7,563,715
	¢	1,536,167,863	2,615,822,520	1,297,593,276

Balances and transactions with related parties are as follows:

1) Foreign checking accounts with BICSA
2) Accounts receivable associated with transactions with employees and related allowance for impairment in accordance with SUGEF Directive 1-05
3) Investments in the share capital of entities over which the Bank exercises control or significant influence (see note 1.l).
4) Subsidiaries' checking accounts with the Bank.

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

		June 2018	December 2017	June 2017
Short-term benefits	¢	937,136,804	1,977,961,998	980,311,265
Long-term benefits		121,827,785	257,135,059	127,440,466
Per diem – Board of directors		79,341,167	141,469,264	71,736,828
	¢	1,138,305,756	2,376,566,321	1,179,488,559

(4) Cash and cash equivalents

As of June 30, for reconciliation purposes of the consolidated statement of cash flows, cash and cash equivalents are as follows:

		June 2018	December 2017	June 2017
Cash and due from banks	¢	1,176,212,745,885	1,282,770,297,704	1,323,297,583,513
Investments with maturities of two months or less		204,351,873,983	218,318,955,535	185,954,940,360
	¢	1,380,564,619,868	1,501,089,253,239	1,509,252,523,873

Cash and due from banks is as follows:

		June 2018	December 2017	June 2017
Cash on hand and in vaults	¢	72,525,254,312	49,786,135,980	53,190,841,141
Cash in transit		17,872,649,476	17,953,025,570	17,099,675,027
Checking account in BCCR *(1)*		89,391,911,800	79,815,528,179	66,145,625,540
Minimum legal deposit in BCCR *(1)*		787,940,391,106	777,920,470,982	749,704,059,440
Checking accounts and demand deposits in State-owned commercial banks and banks created under special laws		98,009,823	71,384,980	1,619,845,941
Checking accounts and other demand accounts in private financial entities		5,099,482,606	15,710,632,738	6,730,311,805
Overnight deposits in local financial entities		625,000,000	940,000,000	775,000,000
Checking accounts in foreign financial entities		177,526,261,405	299,621,722,806	395,433,099,310
Deposits and other demand accounts in foreign financial entities		22,446,410	25,876,591	19,280,026
Checking accounts and demand deposits in related entities (note 3)		11,485,012,516	17,091,195,563	8,397,007,818
Overnight deposits in foreign financial entities		4,115,626,407	4,686,354,489	10,716,281,635
Transfers through the Interbank Electronic Payment System (SINPE)		5,313,200,126	4,178,591,648	10,478,096,448
Local notes receivable		2,089,780,229	4,357,069,947	2,168,540,291
Foreign notes receivable		621,421,300	1,410,554,037	611,243,794
Margin calls for tri-party repurchase agreements		148,573,000	112,717,628	5,523,196
Fondo de Garantía de la Bolsa Nacional de Valores (FOGABONA)		151,950,087	187,856,613	203,021,143
Other restricted cash and due from banks *(2)*		1,185,775,282	8,900,457,858	-
Accrued interest receivable		-	722,095	130,958
	¢	1,176,212,745,885	1,282,770,297,704	1,323,297,583,513

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

(2) "Other restricted cash and due from banks" includes the banking mandate for custody of liabilities, checking accounts, savings accounts, and term certificates of deposit of Banco Crédito Agrícola de Cartago.

As of June 30, 2018 and 2017, 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 a 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 2018	December 2017	June 2017
Available for sale:				
Local issuers:				
Government of Costa Rica	¢	520,036,887,853	585,738,378,031	607,208,530,825
BCCR		123,817,120,469	99,282,603,047	116,869,069,313
State-owned banks		26,958,523,788	44,620,801,705	83,436,657,604
Private banks		-	-	7,042,227,817
Private issuers		11,651,535,939	7,859,915,398	25,589,000,565
		682,464,068,049	737,501,698,181	840,145,486,124
Foreign issuers:				
Governments		109,470,190,008	74,980,395,191	39,362,024,907
Private issuers		280,717,630,424	88,709,226,103	66,828,793,418
Private banks		84,093,679,831	159,852,628,432	122,749,685,847
		474,281,500,263	323,542,249,726	228,940,504,172
		1,156,745,568,312	1,061,043,947,907	1,069,085,990,296
Held to maturity:				
Government of Costa Rica		18,741,104,378	18,562,535,348	27,519,342,882
		18,741,104,378	18,562,535,348	27,519,342,882
Derivative financial instruments:				
Interest rate futures - Hedges (note 6)		869,129	6,179,274,814	11,114,258,024
Purchase of FX futures – Other than hedges (note 6)		581,688	22,730,053	108,654,255
Sale of FX futures – Other than hedges (note 6)		11,347,500	119,898,739	65,165,272
		12,798,317	6,321,903,607	11,288,077,551
Allowance for impairment:				
Allowance for impairment of investments		-	(58,720,473)	(61,483,898)
Allowance for impairment of derivative instruments		(1,192,919)	(14,753,724)	(11,807,773)
		(1,192,919)	(73,474,196)	(73,291,671)
Accrued interest receivable on investments		13,297,357,996	11,477,429,720	13,301,246,009
	¢	1,188,795,636,084	1,097,332,342,386	1,121,121,365,067

Movement in the allowance for impairment of financial instruments is as follows:

		June 2018	December 2017	June 2017
Opening balance	¢	73,474,196	59,433,676	59,433,676
Allowance expense (note 34)		12,848,082	29,794,522	12,107,367
Decrease in allowance (note 35)		(85,129,359)	(17,716,855)	(299,593)
Foreign exchange differences		-	1,962,854	2,050,221
Closing balance	¢	1,192,919	73,474,197	73,291,671

As of June 30, 2018, there is no allowance for impairment of investments in non-derivative financial instruments (December and June 2017: an allowance is booked in the amount of ¢58,720,473 and ¢61,483,898, respectively, for investments in Z Bonds related to the Mortgage Securitization Trust (impairment of 26% for both periods).

As of June 30, 2018, the Bank recognizes an allowance for impairment of derivative instruments other than hedges in the amount of ¢1,192.919, for sales of FX futures other than hedges in accordance with SUGEF Directive 09-08 (December and June 2017: ¢14,753,724 and ¢11,807,773, respectively).

Annual returns on investments in financial instruments are as follows:

Currency	June 2018	December 2017	June 2017
Colones	4.88% to 9.93%	4.00% to 11.13%	4.05% to 11.13%
US dollars	0.75% to 6.85%	0.50% to 6.85%	0.63% to 6.85%
Euro	1.10% to 2.00%	1.10% to 2.00%	1.10% to 5.13%
DU	0.00%	0.00% to 0.74%	0.00% to 0.74%

As of June 30, 2018, the valuation of available-for-sale investments and restricted financial instruments gives rise to an unrealized loss, net of deferred tax, in the amount of ¢1,269,336,108 (December and June 2017: unrealized loss of ¢846,968,886 and ¢422,878,027, respectively). Accordingly, as of June 30, 2018, the cumulative balance of equity adjustments arising from valuation of these investments is an unrealized loss of ¢3,574,325,763 (December and June 2017: unrealized loss of ¢2,304,989,655 and ¢1,880,898,796, respectively).

(Continued)

(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 US dollars at a fixed rate. The purpose of these financial instruments is to offset the changes in fair value attributable to fluctuations in such a reference rate.

Derivative financial instruments are as follows:

		June 30, 2018			
Issuing bank		Notional amount		Valuation	Purpose
CitiBank	US$	100,000,000	US$	(2,517,835)	Swaps to hedge 10-year term obligations in issue (maturing in 2023)
JP Morgan		200,000,000		(1,258,917)	
Bank of America		200,000,000		(2,517,835)	
	US$	500,000,000	US$	(6,294,587)	
Amount in colones	¢	281,720,000,000	¢	(3,546,622,099)	
Bank of America		250,000,000		(10,840,717)	Swaps to hedge 5-year term obligations in issue (maturing in 2021)
JP Morgan		250,000,000		(10,840,717)	
	US$	500,000,000	US$	(21,681,434)	
Amount in colones	¢	281,720,000,000	¢	(12,216,187,426)	
Chicago Board of Trade	US$	19,200,000	US$	(39,864)	Standardized futures contracts (maturing in 2018)
Amount in colones	¢	10,818,048,000	¢	(22,460,668)	

		December 31, 2017			
Issuing bank		Notional amount		Valuation	Purpose
Citibank	US$	100,000,000	US$	2,175,372	Swaps to hedge 10-year term obligations in issue (maturing in 2023)
JP Morgan		200,000,000		4,349,026	
Bank of America		200,000,000		4,350,745	
	US$	500,000,000	US$	10,875,143	
Amount in colones	¢	283,210,000,000	¢	6,159,898,718	
Bank of America		250,000,000		(6,845,495)	Swaps to hedge 5-year term obligations in issue (maturing in 2021)
JP Morgan		250,000,000		(6,845,495)	
	US$	500,000,000	US$	(13,690,990)	
Amount in colones	¢	283,210,000,000	¢	(7,754,850,556)	
Chicago Board of Trade	US$	18,000,000	US$	(2,871)	Standardized futures contracts (maturing in 2018)
Amount in colones	¢	10,195,560,000	¢	(1,626,191)	

		June 30, 2017			
Issuing bank		Notional amount		Valuation	Purpose
CitiBank	US$	100,000,000	US$	3,915,210	Swaps to hedge 10-year term obligations in issue (maturing in 2023)
JP Morgan		200,000,000		7,830,420	
Bank of America		200,000,000		7,830,420	
	US$	500,000,000	US$	19,576,050	
Amount in colones	¢	283,545,000,000	¢	11,101,383,102	
CitiBank		100,000,000		-	Swaps to hedge 5-year term obligations in issue (maturing in 2018)
JP Morgan		150,000,000		-	
	US$	250,000,000	US$	-	
Amount in colones	¢	141,772,500,000	¢	-	
Bank of America		250,000,000		(4,401,422)	Swaps to hedge 5-year term obligations in issue (maturing in 2021)
JP Morgan		250,000,000		(4,401,482)	
	US$	500,000,000	US$	(8,802,904)	
Amount in colones	¢	283,545,000,000	¢	(4,992,038,807)	
Chicago Board of Trade	US$	8,400,000	US$	13,739	Standardized futures contracts (maturing in 2017)
Amount in colones	¢	4,763,556,000	¢	7,791,703	

As of June 30, 2018, total notional amounts of US$1,019,200,000, equivalent to ¢574,258,048,000 (December and June 2017: US$1,018,000,000, equivalent to ¢576,615,560,000, and US$1,258,400,000, equivalent to ¢713,626,056,000, 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, 2018, the Bank booked an increase in the fair value of these hedges in the amount of US$1,542 equivalent to ¢869,129, and a decrease in the fair value of these hedges in the amount of US$28,017,427 equivalent to ¢15,786,139,322 (see note 5).

As of December 31, 2017, the Bank booked an increase in the fair value of these hedges in the amount of US$10,909,351, equivalent to ¢6,179,274,814 (see note 5) and a decrease in the fair value of these hedges in the amount of US$13,728,069, equivalent to ¢7,775,852,843 (see note 5).

As of June 30, 2017, the Bank booked an increase in the fair value of these hedges in the amount of US$19,598,753, equivalent to ¢11,114,258,024 (see note 5) and a decrease in the fair value of these hedges in the amount of US$8,811,868, equivalent to ¢4,997,122,026 (see note 5).

For valuation purposes of the aforementioned interest rate swaps, the Bank decided 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 2018	December 2017	June 2017
5-year issue (maturing in 2018)	-	-	51.00%
10-year issue (maturing in 2023)	114.70%	105.40%	101.10%
5-year issue (maturing in 2021)	90.40%	84.60%	81.00%

A valuation was performed as of June 30, 2018 and 2017, to calculate the change in the fair value of the primary and derivative instruments based on the following inputs:

- a 5- or 10-year LIBOR rate at the issue of the bond
- discount rates from Bloomberg
- zero rates corresponding to the swap curve as of June 30, 2018 and 2017
- 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, 2018, standardized futures contracts are 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$19,200,000, equivalent to ¢10,818,048,000 (December and June 2017: US$18,000,000 and US$8,400,000, equivalent to ¢10,195,560,000 and ¢4,763,556,000, respectively).

As of June 30, 2018, the Bank booked an increase in fair value due to the negotiation of these futures contracts in the amount of US$1,542, equivalent to ¢869,129, and a decrease in the fair value of these hedges in the amount of US$41,406, equivalent to ¢23,329,797, which is booked in "Other sundry accounts payable" (see note 18), establishing the net position of these instruments in the amount of US$39,864, equivalent to ¢22,460,668.

As of December 31, 2017, the Bank booked an increase in fair value due to the negotiation of these futures contracts in the amount of US$34,208, equivalent to ¢19,376,096, and a decrease in the fair value of these hedges in the amount of US$37,079, equivalent to ¢21,002,287, which is booked in "Other sundry accounts payable" (see note 18), establishing the net position of these instruments in the amount of US$2,871, equivalent to ¢1,626,191.

(Continued)

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 in the amount of 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, 2018, the total notional amount is US$1,360,000, equivalent to ¢766,278,400 (December and June 2017: US$27,906,944 and US$23,460,753, equivalent to ¢15,807,051,435 and ¢13,304,358,385, respectively) (see note 22).

As of June 30, 2018, the Bank booked an increase in the fair value of these forwards in the amount of ¢11,929,188 under an asset account and did not book a decrease in the liability account (December and June 2017: increase in the amount of ¢142,628,793 and ¢173,819,527, respectively, and decrease in the amount of ¢46,913,807 and ¢0, respectively) (see note 18).

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 US dollars applicable to different terms.

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

		June 2018	December 2017	June 2017
Gain on derivative financial instruments	¢	6,363,504,486	24,217,078,104	15,366,679,707
Loss on derivative financial instruments		(18,439,618,208)	(18,859,030,471)	(4,331,048,826)
Net gain	¢	(12,076,113,722)	5,358,047,633	11,035,630,881

(7) Loan portfolio

(a) Loan portfolio by sector

The loan portfolio by sector is as follows:

		June 2018	December 2017	June 2017
Trade	¢	396,811,312,496	410,062,171,620	430,655,248,421
Services		918,417,271,066	925,588,456,250	911,702,922,306
Financial services		131,928,936,803	136,448,769,907	138,647,058,673
Mining		862,174,848	911,515,744	993,400,983
Manufacturing and quarrying		165,729,222,625	179,083,732,196	173,295,744,701
Construction		116,092,022,228	106,205,953,983	110,501,086,315
Agriculture and forestry		120,797,028,197	125,660,078,600	121,996,894,500
Livestock, hunting, and fishing		82,877,006,414	83,621,737,863	83,276,565,684
Electricity, water, sanitation, and other related sectors		435,214,412,880	438,885,802,997	420,114,554,178
Transportation and telecommunications		43,699,873,534	46,069,196,429	46,601,822,561
Housing		1,288,120,313,772	1,304,758,486,194	1,276,075,365,270
Personal or consumer loans		562,625,365,525	554,958,089,721	513,993,587,102
Tourism		182,934,658,305	180,852,228,622	169,616,535,988
		4,446,109,598,695	4,493,106,220,126	4,397,470,786,682
Accrued interest receivable		36,100,678,453	31,743,485,704	27,763,070,665
Allowance for loan losses		(164,883,709,446)	(140,168,393,361)	(92,446,822,779)
	¢	4,317,326,567,702	4,384,681,312,469	4,332,787,034,568

(Continued)

Annual interest rates on loans receivable are as follows:

	June 2018		December 2017		June 2017	
Currency	Rates	Average *(1)*	Rates	Average *(1)*	Rates	Average *(1)*
Colones	4.00% to 11.00%	15.40%	4.40% to 40.56%	14.96%	4.35% to 39.00%	13.56%
US dollars	3.00% to 38.40%	10.25%	3.00% to 34.92%	9.44%	3.00% to 34.92%	9.16%
DU	3.85% to 11.00%	6.52%	3.85% to 11.00%	6.57%	3.85% to 11.00%	6.57%

(1) Corresponds to the average of the minimum and maximum values of the portfolio as of June 30, 2018 and 2017.

(b) Loan portfolio by arrears

The loan portfolio by arrears is as follows:

	June 2018	December 2017	June 2017
Current	¢ 4,094,485,284,073	4,261,582,917,145	4,182,129,735,192
1 to 30 days	113,315,753,829	56,313,279,440	85,302,578,206
31 to 60 days	26,030,246,455	44,153,684,890	21,195,149,226
61 to 90 days	23,474,323,552	23,102,210,055	17,323,148,681
91 to 120 days	16,151,547,999	15,367,490,160	9,406,434,159
121 to 180 days	79,314,423,227	10,774,616,091	11,918,507,172
More than 180 days	93,338,019,560	81,812,022,345	70,195,234,046
Total gross loan portfolio	4,446,109,598,695	4,493,106,220,126	4,397,470,786,682
Accrued interest receivable	36,100,678,453	31,743,485,704	27,763,070,665
Allowance for loan losses	(164,883,709,446)	(140,168,393,361)	(92,446,822,779)
	¢ 4,317,326,567,702	4,384,681,312,469	4,332,787,034,568

(c) Allowance for loan losses

Movement in the allowance for loan losses is as follows:

		June 2018	December 2017	June 2017
Opening balance	¢	140,168,393,361	85,464,859,320	85,464,859,320
Expense for the period (note 34)		39,270,825,529	69,399,079,403	15,701,678,367
Write-offs		(14,155,960,375)	(14,982,163,099)	(9,048,034,504)
Decrease in allowance charged to profit or loss		-	(720,000,000)	(720,000,000)
Foreign exchange differences		(399,549,069)	1,006,617,737	1,048,319,596
Closing balance	¢	164,883,709,446	140,168,393,361	92,446,822,779

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

(8) Accounts and fees and commissions receivable

Accounts and fees and commissions receivable are as follows:

		June 2018	December 2017	June 2017
Fees and commissions	¢	1,381,337,666	1,261,195,967	1,137,357,998
Accounts receivable for brokerage operations		147,461,063	-	166,214,442
Accounts receivable for transactions with related parties (officers and employees)		196,615,810	26,675,994	39,704,743
Deferred tax (note 16-b)		1,323,969,385	1,268,629,877	1,181,017,714
Income tax receivable *(1)*		118,101,320	240,205,993	110,058,598
Other sundry accounts receivable		4,356,071,038	3,879,229,636	4,719,234,226
Accrued interest receivable on other sundry accounts receivable		1,564,180	1,724,156	1,572,449
Allowance for impairment of accounts receivable		(4,530,431,667)	(3,592,576,911)	(3,750,335,898)
	¢	2,994,688,795	3,085,084,712	3,604,824,272

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

		June 2018	December 2017	June 2017
Banco Nacional de Costa Rica	¢	67,672,186	134,516,249	63,437,973
BN Vital Operadora de Planes de Pensiones Complementarias, S.A.		22,615	-	-
BN Corredora de Seguros, S.A.		50,406,519	105,689,744	46,620,625
	¢	118,101,320	240,205,993	110,058,598

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

		June 2018	December 2017	June 2017
Opening balance	¢	3,592,576,911	3,451,027,735	3,451,027,735
Allowance expense (note 34)		1,426,941,488	2,026,114,296	1,262,170,418
Decrease in allowance (note 35)		(266,416,985)	(767,042,270)	(297,733,465)
Items settled against allowance		(222,039,839)	(1,120,015,549)	(667,498,175)
Foreign exchange differences		(629,908)	2,492,699	2,369,385
Closing balance	¢	4,530,431,667	3,592,576,911	3,750,335,898

(9) Foreclosed assets

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

		June 2018	December 2017	June 2017
Assets received in lieu of payment	¢	77,262,250,966	81,249,127,569	83,446,253,926
Idle property, furniture and equipment		1,840,190	1,832,418	1,471,878
Allowance for impairment		(59,281,685,006)	(62,466,054,133)	(62,469,414,972)
	¢	17,982,406,150	18,784,905,854	20,978,310,832

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

		June 2018	December 2017	June 2017
Opening balance	¢	62,466,054,133	59,644,951,072	59,644,951,072
Allowance expense (note 38)		1,488,983,915	6,059,997,296	3,614,610,475
Sale or disposal of foreclosed assets		(666,282,044)	-	-
Decrease in allowance		(4,007,070,998)	(3,238,894,235)	(790,146,575)
Closing balance	¢	59,281,685,006	62,466,054,133	62,469,414,972

(10) Investments in other companies

Investments in other companies are as follows:

		June 2018	December 2017	June 2017
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)		60,705,598,536	61,732,075,167	60,514,689,302
	¢	60,756,221,836	61,782,698,467	60,565,312,602

The Bank holds 49% ownership interest in BICSA, represented in 2018 and 2017 by 6,506,563 ordinary shares of US$10 par value each.

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

		June 2018	December 2017	June 2017	Concept
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		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) as per Art. 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
	¢	50,623,300	50,623,300	50,623,300	

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Notes to the Consolidated Financial Statements

(11) Property and equipment

Property and equipment is as follows:

		June 2018					
		Land	Buildings	Furniture and equipment	Computer hardware	Vehicles	Total
Cost:							
Historical cost balance at beginning of period	¢	4,421,981,504	65,365,769,140	62,756,449,219	52,272,157,864	264,401,853	185,080,759,580
Revalued cost balance at beginning of period		43,400,145,058	61,920,804,416	(8,658,186)	(33,536,634)	-	105,278,754,654
Additions		-	1,899,702,563	4,138,118,131	778,455,964	2,200,000	6,818,476,658
Revaluation of assets		-	3,533,193,035	-	-	-	3,533,193,035
Disposals		-	(39,919,165)	(2,359,102,725)	(1,842,594,915)	(1,650,000)	(4,243,266,805)
Sales		(280,902,097)	(273,406,217)	(172,752)	-	-	(554,481,066)
Adjustments		-	-	(127,985)	(18,020,054)	-	(18,148,039)
Reclassifications		-	-	105,263	(105,263)	-	-
Balance at end of period		47,541,224,465	132,406,143,772	64,526,610,965	51,156,356,962	264,951,853	295,895,288,017
Accumulated depreciation:							
Balance at beginning of period		-	38,921,431,767	35,786,150,473	35,403,025,098	203,397,643	110,314,004,981
Depreciation expense on historical cost		-	708,335,520	3,013,811,357	3,217,355,163	8,938,864	6,948,440,904
Depreciation expense on revaluation		-	713,306,070	-	-	-	713,306,070
Disposals		-	(20,459,937)	(1,669,378,478)	(1,829,544,424)	(1,113,750)	(3,520,496,589)
Sales		-	(80,040,686)	(83,303)	-	-	(80,123,989)
Adjustments		-	1,948,923,774	(3,279,403)	(18,695,997)	-	1,926,948,374
Balance at end of period		-	42,191,496,508	37,127,220,646	36,772,139,840	211,222,757	116,302,079,751
Net balance at end of period	¢	47,541,224,465	90,214,647,264	27,399,390,319	14,384,217,122	53,729,096	179,593,208,266

(Continued)

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Notes to the Consolidated Financial Statements

		December 2017					
		Land	Buildings	Furniture and equipment	Computer hardware	Vehicles	Total
Cost:							
Historical cost balance at beginning of year	¢	4,207,876,870	63,103,140,736	61,092,968,044	59,634,596,667	437,323,476	188,475,905,793
Revalued cost balance at beginning of year		42,270,752,875	57,905,955,091	(9,764,538)	(33,599,038)	-	100,133,344,390
Additions		331,825,827	2,352,349,672	5,565,273,956	7,889,562,502	-	16,139,011,957
Revaluation of assets		1,011,670,989	3,851,382,933	-	-	-	4,863,053,922
Disposals		-	-	(4,111,179,980)	(15,387,620,688)	(20,576,060)	(19,519,376,728)
Sales		-	-	(6,125,849)	-	(152,345,563)	(158,471,412)
Adjustments		-	73,745,123	216,619,400	135,681,787	-	426,046,310
Balance at end of year		47,822,126,561	127,286,573,555	62,747,791,033	52,238,621,230	264,401,853	290,359,514,232
Accumulated depreciation:							
Balance at beginning of the 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		-	1,583,624,839	5,760,711,545	6,510,362,273	24,878,540	13,879,577,197
Depreciation expense on revaluation		-	1,406,062,470	-	-	-	1,406,062,470
Disposals		-	-	(4,026,036,958)	(15,324,376,143)	(20,576,059)	(19,370,989,160)
Sales		-	-	(4,520,023)	-	(137,405,629)	(141,925,652)
Adjustments		-	2,747,891,281	186,872,150	102,259,945	58,011	3,037,081,387
Balance at end of year		-	38,921,431,767	35,786,150,474	35,403,025,096	203,397,642	110,314,004,979
Net balance at end of year	¢	47,822,126,561	88,365,141,788	26,961,640,559	16,835,596,134	61,004,211	180,045,509,253

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		June 2017					
		Land	Buildings	Furniture and equipment	Computer hardware	Vehicles	Total
Cost:							
Balance at beginning of period	¢	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 period		46,478,629,745	122,722,892,968	61,661,188,264	51,474,761,471	437,323,476	282,774,795,924
Accumulated depreciation:							
Balance at beginning of period		-	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 period		-	34,589,042,720	35,129,596,854	37,600,492,969	349,591,594	107,668,724,137
Net balance at end of period	¢	46,478,629,745	88,133,850,248	26,531,591,410	13,874,268,502	87,731,882	175,106,071,787

(Continued)

As of the June close, appraisals of the Bank's land and buildings were performed by an independent appraiser, obtaining the net replacement cost, which was compared to the carrying amount to determine the equity increase, affecting related accounts such as accumulated depreciation due to revaluation, impairment, deferred tax, and revaluation of buildings and facilities.

As of June 25, 2018, the total net equity increase for buildings amounts to ¢1,000,967,108 (increase of ¢1,429,953,012 due to a revaluation surplus and a decrease of ¢428,985,904 corresponding to deferred tax). The amounts concerning land are still under analysis.

(12) Other assets

Other assets are as follows:

		June 2018	December 2017	June 2017
Deferred charges:				
Leasehold improvements	¢	750,470,086	859,770,993	1,048,254,950
Cost of issue of financial instruments, net *(3)*		1,230,448,249	1,440,638,368	1,667,697,922
Cost of subordinated debt project		369,212,907	396,529,566	436,127,725
Deferred direct costs related to loans		4,729,600,703	4,957,012,106	5,236,743,481
Other deferred charges		577,155,527	1,261,169,998	1,946,935,544
		7,656,887,472	8,915,121,031	10,335,759,622
Intangible assets:				
Software *(2)*		5,433,929,271	6,520,658,430	5,897,966,895
Other intangible assets *(2)*		118,810,386	822,728,155	1,523,257,903
		5,552,739,657	7,343,386,585	7,421,224,798
Other assets:				
Prepaid interest and fees and commissions		260,026,630	178,093,731	231,089,544
Prepaid taxes		2,134,806,840	8,785,924,358	2,944,676,751
Prepaid insurance policy		145,086,203	196,153,628	151,577,759
Other prepaid expenses		950,685,520	593,292,402	634,170,348
Stationery, office supplies, and other materials		612,204,370	631,381,590	980,236,639
Leased assets		98,773,515	99,453,445	100,139,771
Library and artwork		429,918,818	429,918,818	429,918,818
Construction work-in-progress		6,684,357,189	6,121,061,364	5,267,692,167
Software under development		14,186,987	6,694,166	392,881,006
Rights in social welfare and trade associations		600,000	600,000	600,000
Other sundry assets		8,315,752,417	7,107,623,251	4,505,198,705
Operations pending settlement		12,174,156,390	8,727,470,265	8,250,209,091
Other operations pending application		451,764,649	1,971,307,456	211,036,566
Guarantee deposits *(1)*		231,821,102	390,534,759	282,538,534
Legal and administrative deposits *(1)*		204,941,450	183,042,061	152,840,074
		32,709,082,080	35,422,551,294	24,534,805,773
	¢	45,918,709,209	51,681,058,910	42,291,790,193

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(1) As of June 30, 2018, guarantee deposits amount to ¢436,762,552 (December and June 2017: ¢573,576,820 and ¢435,378,608, respectively) (see note 2).

(2) As of June 30, 2018, net intangible assets are as follows:

		June 2018		
		Software	Other intangible assets	Total
Cost:				
Opening balance	¢	26,625,257,161	2,087,602,654	28,712,859,815
Additions		1,154,698,896	4,862,595	1,159,561,491
Disposals		(48,589,035)	-	(48,589,035)
Reclassifications		-	(6,273,400)	(6,273,400)
Adjustments		(453,539,794)	-	(453,539,794)
Closing balance		27,277,827,228	2,086,191,849	29,364,019,077
Accumulated amortization:				
Opening balance		20,104,598,731	1,264,874,499	21,369,473,230
Expense for the period		1,748,685,272	708,780,364	2,457,465,636
Disposals		(9,386,046)	(6,273,400)	(15,659,446)
Closing balance		21,843,897,957	1,967,381,463	23,811,279,420
Net closing balance	¢	5,433,929,271	118,810,386	5,552,739,657

		December 2017		
		Software	Other intangible assets	Total
Cost:				
Opening balance	¢	22,163,996,115	98,174,640	22,262,170,755
Additions		4,930,852,196	2,002,014,358	6,932,866,554
Disposals		(111,419,028)	-	(111,419,028)
Reclassifications		-	(12,586,344)	(12,586,344)
Adjustments		(358,172,122)	-	(358,172,122)
Closing balance		26,625,257,161	2,087,602,654	28,712,859,815
Accumulated amortization:				
Opening balance		16,942,471,872	94,029,559	17,036,501,431
Expense for the year		3,192,411,142	1,183,431,284	4,375,842,426
Disposals		(12,917,054)	-	(12,917,054)
Reclassifications		(19,894,400)	(12,586,344)	(32,480,744)
Adjustments		2,527,171	-	2,527,171
Closing balance		20,104,598,731	1,264,874,499	21,369,473,230
Net closing balance	¢	6,520,658,430	822,728,155	7,343,386,585

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		June 2017		
		Software	Other intangible assets	Total
Cost:				
Opening balance	¢	22,163,996,115	98,174,640	22,262,170,755
Additions		2,293,120,547	1,995,740,958	4,288,861,505
Disposals		(32,188,654)	-	(32,188,654)
Reclassifications		-	(8,290,160)	(8,290,160)
Adjustments		(124,250,736)	-	(124,250,736)
Closing balance		24,300,677,272	2,085,625,438	26,386,302,710
Accumulated amortization:				
Opening balance		16,942,471,872	94,029,559	17,036,501,431
Expense for the period		1,480,963,989	476,628,136	1,957,592,125
Disposals		(20,725,484)	(8,290,160)	(29,015,644)
Reclassifications		18,402,710,377	562,367,535	18,965,077,912
Adjustments	¢	5,897,966,895	1,523,257,903	7,421,224,798

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

		June 2018			
		5-year issue (maturing in 2018)	10-year issue (maturing in 2023)	5-year issue (maturing in 2021)	Total
Commission - structuring banks	¢	281,720,000	281,720,000	478,924,000	1,042,364,000
Commission - Moody's Investors Service		140,860,000	140,860,000	-	281,720,000
Commission - Société de la Bourse de Luxembourg, S.A.		6,885,800	6,885,800	-	13,771,600
RR Donelley		6,167,982	6,167,955	3,692,377	16,028,314
BNY Mellon		2,227,278	2,227,278	3,249,358	7,703,914
Moody's - issuer rating		18,649,864	18,649,864	140,860,000	178,159,728
Fitch Ratings		140,860,000	140,860,000	140,860,000	422,580,000
Milbank		82,915,830	82,915,830	111,009,292	276,840,952
Shearman & Sterling		83,023,447	83,023,447	123,502,724	289,549,618
External audit		107,053,600	107,053,600	130,718,080	344,825,280
Perkins Cole (Broker)		-	-	7,390,671	7,390,671
Printing of documents		-	-	8,910,713	8,910,713
		870,363,801	870,363,774	1,149,117,215	2,889,844,790
Amortization		(834,536,519)	(355,434,862)	(469,425,160)	(1,659,396,541)
	¢	35,827,282	514,928,912	679,692,055	1,230,448,249

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		December 2017			
		5-year issue (maturing in 2018)	10-year issue (maturing in 2023)	5-year issue (maturing in 2021)	Total
Commission - structuring banks	¢	283,210,000	283,210,000	481,457,000	1,047,877,000
Commission - Moody's Investors Service		141,605,000	141,605,000	-	283,210,000
Commission - Société de la Bourse de Luxembourg, S.A.		6,922,219	6,922,219	-	13,844,438
RR Donelley		6,200,600	6,200,577	3,711,906	16,113,083
BNY Mellon		2,239,058	2,239,058	3,266,544	7,744,660
Moody's - issuer rating		18,748,502	18,748,502	141,605,000	179,102,004
Fitch Ratings		141,605,000	141,605,000	141,605,000	424,815,000
Milbank		83,354,367	83,354,367	111,596,414	278,305,148
Shearman & Sterling		83,462,553	83,462,553	124,155,922	291,081,028
External audit		107,619,800	107,619,800	131,409,440	346,649,040
Perkins Cole (Broker)		-	-	7,429,759	7,429,759
Printing of documents		-	-	8,957,842	8,957,842
		874,967,099	874,967,076	1,155,194,827	2,905,129,002
Amortization		(723,529,495)	(334,347,616)	(406,613,523)	(1,464,490,634)
	¢	151,437,604	540,619,460	748,581,304	1,440,638,368

		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)	(1,240,867,468)
	¢	239,447,813	578,356,318	849,893,791	1,667,697,922

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

(Continued)

(13) Obligations with the public

Obligations with the public by cumulative amount are as follows:

		June 2018	December 2017	June 2017
Demand deposits:				
Checking accounts	¢	1,279,675,470,093	1,315,990,860,053	1,193,648,695,497
Certified checks		109,342,064	129,984,033	120,292,195
Savings deposits		1,333,634,491,235	1,356,884,997,468	1,303,686,655,465
Matured term deposits		23,305,310,231	23,250,148,019	21,185,280,671
Other demand deposits		474,622,689	504,652,034	520,057,078
Drafts and transfers payable		107,484,852	60,778,419	90,759,383
Cashier's checks		4,942,591,177	5,351,772,739	7,190,113,766
Advance collections from customers for credit cards		10,513,601,687	12,442,854,649	9,497,529,248
Banking mandates		1,185,775,282	8,900,457,858	-
Trust fund obligations		5,937,847	7,928,029	2,653,646
		2,653,954,627,157	2,723,524,433,301	2,535,942,036,949
Term deposits:				
Deposits from the public		1,925,700,537,898	1,918,015,501,978	1,981,751,611,452
Other term deposits		145,192,476,923	153,877,421,326	138,453,880,112
		2,070,893,014,821	2,071,892,923,304	2,120,205,491,564
Other obligations with the public:				
Obligations with third parties for third-party repurchase agreements		34,217,872,873	22,916,380,358	22,260,485,678
		34,217,872,873	22,916,380,358	22,260,485,678
Interest payable for obligations with the public		41,647,729,645	35,961,942,293	30,094,610,898
	¢	4,800,713,244,496	4,854,295,679,256	4,708,502,625,089

As of June 30, 2018, deposits in checking accounts denominated in colones bear interest at a maximum rate of 2.55% per annum (December and June 2017: 2.55% and 2.55% per annum, respectively) on balances and at a minimum rate of 0.00% per annum (December and June 2017: 0.00% and 1.65% per annum, respectively) on balances greater than or equal to ¢500,001. Deposits in checking accounts denominated in US dollars bear interest at a maximum rate of 0.45% per annum (December and June 2017: 0.45% and 0.45% per annum, respectively) on balances and at a minimum rate of 0.00% per annum (December and June 2017: 0.00% and 0.30% per annum, respectively) on balances greater than or equal to US$1,000.

Term obligations correspond to term certificates of deposit in colones, US dollars and euro. As of June 30, the annual interest rate on term certificates are as follows:

Currency	June 2018	December 2017	June 2017
Colones	4.00% to 8.20%	4.00% to 8.20%	4.00% to 8.20%
US dollars	0.50% to 5.10%	0.50% to 5.10%	0.50% to 5.10%

The Bank has term certificates of deposit that are restricted to secure certain loan operations. As of June 30, 2018, the balance of those term certificates of deposit is ¢43,875,796,706 (December and June 2017: ¢40,267,805,245 and ¢35,678,326,394, 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 2018	December 2017	June 2017
Financing for loans using internal funds (BCCR)	-	-	133,675,000,000
Financing for loans using external funds	125,644,412	125,644,412	125,644,412
Other term obligations with BCCR	7,000,000,000	-	-
Interest payable on obligations with BCCR	2,333,333	-	21,350,868
	¢ 7,127,977,745	125,644,412	133,821,995,280

(15) Obligations with entities

Obligations with entities are as follows:

		June 2018	December 2017	June 2017
Demand:				
Checking accounts with local financial entities	¢	47,299,571,757	60,409,743,139	40,773,199,106
Savings deposits with local financial entities		70,651,238	67,571,081	129,690,466
Development Credit Fund (FCD) management		142,453,659,333	144,413,540,280	157,822,087,646
Outstanding checks		6,717,758,658	1,682,209,656	7,403,710,565
Checking accounts and obligations with related parties		13,998,283	15,795,751	15,143,768
Other demand obligations with financial entities		-	-	1,084,973
		196,555,639,269	206,588,859,907	206,144,916,524
Term:				
Term deposits with local financial entities		122,350,621,303	117,218,311,393	99,462,881,093
Term deposits with foreign financial entities		-	5,664,200,000	5,670,900,000
Term obligations with foreign financial entities *(2)*		818,657,342,729	841,601,971,462	850,753,704,986
Liquidity market obligations		12,734,400,001	16,022,595,002	17,927,990,002
Loans with local financial entities		35,785,886,375	30,494,577,677	17,280,707,935
Loans with foreign financial entities *(1)*		94,280,246,168	98,105,867,070	159,775,558,252
Obligations for liquidity market operations		-	-	7,225,000,000
		1,083,808,496,576	1,109,107,522,604	1,158,096,742,268
Interest payable on other demand and term obligations with financial entities – foreign currency		179,666,479	180,661,307	176,015,804
Interest payable on other demand and term obligations with financial entities – local currency		1,360,594,897	1,089,818,278	812,957,772
Interest payable on loans with foreign financial entities *(1)*		700,527,313	438,383,591	1,466,736,015
Interest payable on loans with local financial entities		88,819,027	91,353,129	34,266,668
Interest payable on term deposits with foreign financial entities *(2)*		8,208,841,876	8,024,283,435	8,265,139,890
		10,538,449,592	9,824,499,740	10,755,116,149
	¢	1,290,902,585,437	1,325,520,882,251	1,374,996,774,941

(1) As of June 30, loans due to foreign financial entities bear interest at rates ranging between 3.32% and 6.65% per annum (December and June 2017: between 2.76% and 6.65% and between 3.32% and 6.65% per annum, respectively).

(2) Obligations with foreign financial entities are as follows:

Date of issue	Face value	Characteristics
01/11/2013	US$500 million	• Traded amount: 99.331% • Term: 5 years • Interest rate: 4.875% per coupon payment
01/11/2013	US$500 million	• Traded amount: 99.072% • Term: 10 years • Interest rate: 6.250% per coupon payment
25/04/2016	US$500 million	• Traded amount: 99.68% • Term: 5 years • Interest rate: 5.875% per coupon payment

Balances according to the term of the obligations are as follows:

		June 2018			
		5-year issue (maturing in 2018)	10-year issue (maturing in 2023)	5-year issue (maturing in 2021)	Total
Issue	¢	273,835,624,514	279,105,638,400	280,818,496,000	833,759,758,914
Adjustment to fair value of hedged item measured at cost of international issues		(630,974,178)	(10,933,679,112)	(6,924,622,614)	(18,489,275,904)
Amortization of discount in traded amount of issues		2,066,655,065	987,419,123	332,785,531	3,386,859,719
		275,271,305,401	269,159,378,411	274,226,658,917	818,657,342,729
Finance charges payable		2,239,899,376	2,934,583,331	3,034,359,169	8,208,841,876
	¢	277,511,204,777	272,093,961,742	277,261,018,086	826,866,184,605

		December 2017			
		5-year issue (maturing in 2018)	10-year issue (maturing in 2023)	5-year issue (maturing in 2021)	Total
Issue	¢	281,315,325,100	280,581,811,200	282,020,508,371	843,917,644,671
Adjustment to fair value of hedged item measured at cost of international issues		(648,209,761)	4,515,695,088	(8,898,709,124)	(5,031,223,797)
Amortization of discount in traded amount of issues		1,543,736,361	897,534,405	274,279,822	2,715,550,588
		282,210,851,700	285,995,040,693	273,396,079,069	841,601,971,462
Finance charges payable		2,301,081,250	2,950,103,978	2,773,098,207	8,024,283,435
	¢	284,511,932,950	288,945,144,671	276,169,177,276	849,626,254,897

		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
		282,568,322,250	291,524,390,747	276,660,991,989	850,753,704,986
Finance 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

Maturities of loans due to entities

Loans due to entities mature as follows:

		June 2018		
		Local	Foreign	Total
Less than one year		7,002,333,333	-	7,002,333,333
Between 3 and 5 years		-	5,855,597,653	5,855,597,653
More than 5 years		36,000,349,814	89,125,175,828	125,125,525,642
	¢	43,002,683,147	94,980,773,481	137,983,456,628

		December 2017		
		Local	Foreign	Total
Less than 1 year	¢	-	2,288,044,850	2,288,044,850
Between 1 and 2 years		-	6,948,572,303	6,948,572,303
Between 3 and 5 years		125,644,411	-	125,644,411
More than 5 years		30,585,930,807	89,307,633,508	119,893,564,315
	¢	30,711,575,218	98,544,250,661	129,255,825,879

		June 2017		
		Local	Foreign	Total
Less than one 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
	¢	158,361,969,883	161,242,294,266	319,604,264,149

As of June 30, 2018 and 2017, 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 income tax returns each year. As of June 30, income tax is as follows:

a) Current tax

For the six months ended June 30, the income tax expense is as follows:

		June		Quarter from April 1 to June 30,	
		2018	2017	2018	2017
Income tax expense:					
Income tax expense for the Period	¢	1,278,100,710	6,948,668,139	681,722,284	1,812,197,365
Income tax expense from prior Periods		869,401	834,374,297	-	-
	¢	1,278,970,111	7,783,042,436	681,722,284	1,812,197,365

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		June		Quarter from April 1 to June 30,	
		2018	2017	2018	2017
Current tax:					
Income tax expense for the period	¢	1,278,100,710	6,948,668,139	681,722,284	1,812,197,365
Decrease in current income tax for the period		-	(858,011,818)	-	(858,011,818)
		1,278,100,710	6,090,656,321	681,722,284	954,185,547
Income tax from prior periods:					
Income tax expense for prior periods		869,401	834,374,297	-	-
Decrease in income tax from prior periods		-	(19,910,540)	-	(12,253,356)
		869,401	814,463,757	-	(12,253,356)
		1,278,970,111	6,905,120,078	-	941,932,191
Deferred tax:					
Deferred tax expense		16,175,504	194,732,907	8,087,752	193,955,907
Deferred tax income		(183,870,590)	(99,597,921)	(38,045,305)	(37,734,979)
		(167,695,086)	95,134,986	(29,957,553)	156,220,928
Total income tax expense, net	¢	1,111,275,025	7,000,255,064	651,764,731	1,098,153,119

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

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		June 2018	June 2017
Profit before tax	¢	22,393,383,674	38,605,899,293
Plus (less) tax effect of:			
Non-deductible expenses		23,689,041,859	20,801,531,619
Deductible expenses		(1,490,670,192)	(2,905,207,892)
Non-taxable income		(40,779,263,502)	(36,200,035,288)
Tax base		3,812,491,839	20,302,187,732
Tax rate		30%	30%
Subtotal - income tax expense		1,278,100,710	6,090,656,321
Prior-period income tax expense		869,401	834,374,297
Decrease in prior-period income tax		-	(19,910,540)
Subtotal prior-period income tax, net		869,401	814,463,757
Deferred tax expense		16,175,504	194,732,907
Deferred tax income		(183,870,590)	(99,597,921)
Subtotal - deferred tax, net		(167,695,086)	95,134,986
Total income tax expense, net	¢	1,111,275,025	7,000,255,064

b) Deferred tax

Deferred tax assets and liabilities are as follows:

		As of June 30, 2018		
		Assets	Liabilities	Net
Unrealized losses	¢	1,188,880,776	-	1,188,880,776
Provisions		135,088,609	-	135,088,609
Unrealized gains		-	(331,626,469)	(331,626,469)
Revaluation of assets		-	(10,369,029,967)	(10,369,029,967)
	¢	1,323,969,385	(10,700,656,436)	(9,376,687,051)

		As of December 31, 2017		
		Assets	Liabilities	Net
Unrealized losses	¢	986,501,497	-	986,501,497
Provisions		281,420,008	-	281,420,008
Tax base of furniture and equipment		708,372	-	708,372
Unrealized gains		-	(318,355,247)	(318,355,247)
Revaluation of assets		-	(10,081,789,511)	(10,081,789,511)
	¢	1,268,629,877	(10,400,144,758)	(9,131,514,881)

(Continued)

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		As of June 30, 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)
	¢	1,181,017,714	(11,187,194,600)	(10,006,176,886)

Deferred tax assets and liabilities are as follows:

		December 31, 2017	Included in the income statement	Included in equity	June 30, 2018
Unrealized losses	¢	986,501,498	-	202,379,278	1,188,880,776
Provisions		281,420,008	(146,331,400)	-	135,088,608
Tax base of furniture and equipment		708,371	(708,371)	-	-
Unrealized gains		(318,355,244)	(15,603,399)	2,332,174	(331,626,469)
Revaluation of assets		(10,081,789,514)	-	(287,240,453)	(10,369,029,967)
	¢	(9,131,514,881)	(162,643,170)	(82,529,001)	(9,376,687,052)

		December 31, 2016	Included in the income statement	Included in equity	December 31, 2017
Unrealized losses	¢	670,233,485	-	316,268,013	986,501,498
Provisions		346,244,582	(64,824,574)	-	281,420,008
Tax base of furniture and equipment		-	708,371	-	708,371
Unrealized gains		(1,271,998,447)	259,975,365	693,667,838	(318,355,244)
Revaluation of assets		(10,339,228,566)	-	257,439,052	(10,081,789,514)
	¢	(10,594,748,946)	195,859,162	1,267,374,903	(9,131,514,881)

		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)

(Continued)

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, 2014, 2015, 2016, 2017 and the tax return that will be filed for the year ended December 31, 2018 are open to review by the Tax Authorities.

(17) Provisions

Provisions are as follows:

		June 2018	December 2017	June 2017
Severance benefits	¢	659,428,191	1,208,537,980	2,764,830,112
Litigation		4,878,462,151	4,716,284,942	5,141,696,423
Inactive checking and savings accounts liquidated		733,178,443	742,975,900	750,355,974
Manager commissions		11,647,241,255	10,633,343,574	9,619,445,894
SEDI		1,185,358,808	-	2,394,694,208
Variation in RIVM methodology		1,049,472,302	2,917,407,494	2,295,035,537
Notice of deficiency		904,012,573	-	-
Other		737,384,925	644,866,178	768,165,743
	¢	21,794,538,648	20,863,416,068	23,734,223,891

Movement in provisions is as follows:

		Severance benefits	Litigation	Other	Total
Balance as of 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 as of June 30, 2017	¢	2,764,830,112	5,141,696,423	15,827,697,356	23,734,223,891
Balance as of December 31, 2016		2,848,046,997	5,114,477,995	18,331,583,729	26,294,108,721
Increase in provision		1,338,573,809	537,644,287	7,827,589,882	9,703,807,978
Used		(1,510,122,975)	(919,224,585)	(10,404,304,705)	(12,833,652,265)
Decrease in provision		(1,467,959,851)	(16,612,755)	(816,275,760)	(2,300,848,366)
Balance as of December 31, 2017	¢	1,208,537,980	4,716,284,942	14,938,593,146	20,863,416,068
Increase in provision		617,241,875	279,683,412	6,940,999,258	7,837,924,545
Used		(1,159,086,152)	(117,506,203)	(5,620,050,999)	(6,896,643,354)
Decrease in provision		(7,265,512)	-	(2,893,099)	(10,158,611)
Balance as of June 30, 2018	¢	659,428,191	4,878,462,151	16,256,648,306	21,794,538,648

(Continued)

The Bank is a defendant in pending lawsuits 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:

	Claimed amount			Provision		
Type	June 2018	December 2017	June 2017	June 2018	December 2017	June 2017
Ordinary - in colones	65,277,224,187	64,839,814,231	65,827,451,644	3,644,300,350	3,430,405,879	3,915,942,959
Ordinary - in US dollars	194,110,018,861	194,802,842,755	210,258,517,053	458,558,041	452,922,717	456,035,770
Criminal - in colones	1,020,877,223	1,020,877,223	1,009,129,410	513,039,307	487,964,155	512,620,604
Criminal - in US dollars	-	856,520,335	-	-	344,992,191	-
Labor - in colones	877,133,394	-	714,230,103	262,564,453	-	257,097,090
	261,285,253,665	261,520,054,544	277,809,328,210	4,878,462,151	4,716,284,942	5,141,696,423

(18) Other sundry accounts payable

Other sundry accounts payable are as follows:

		June 2018	December 2017	June 2017
Professional fees	¢	8,995,845	2,675,117	28,310,753
Creditors - goods and services		3,731,903,479	3,592,576,341	4,326,818,502
Current tax		1,278,100,710	4,118,343,568	6,090,656,321
Employer contributions		5,146,482,428	5,734,415,243	5,965,513,863
Court-ordered withholdings		3,679,861,406	3,541,023,002	3,419,934,573
Tax withholdings		2,851,548,713	4,010,652,312	3,166,264,952
Employee withholdings		761,962,598	708,613,111	712,654,962
Other third-party withholdings		249,769,490	3,632,240	296,247,398
Compensation		2,654,321,695	5,854,098,303	3,218,777,183
Statutory allocations		6,222,009,192	13,669,031,627	9,678,596,662
Obligations on loans with related parties		1,700,986	27,784	-
Clearing house operations		2,943,136,940	487,367,695	3,259,505,568
Accrued vacation		7,052,917,834	6,491,300,766	7,402,206,870
Accrued statutory Christmas bonus		4,696,422,108	1,156,780,715	5,275,525,814
Contributions to the Superintendencies' budget		-	3,356,740	-
Foreclosed assets		389,067,581	398,477,384	479,913,837
Various creditors - Local currency		7,960,882,185	5,518,664,360	7,025,947,929
Various creditors - Foreign currency		6,555,752,170	6,672,217,496	5,380,363,439
Interest rate futures - Hedges (note 6)		15,786,139,322	7,775,852,843	5,034,685,098
Purchase of FX futures (Other than hedges)		-	46,913,807	-
	¢	71,970,974,682	69,786,020,454	70,761,923,724

As of June 30, 2018, the "Various creditors" account includes ¢3,209 million (December and June 2017: ¢2,746 million and ¢2,148 million, respectively) corresponding to the operations of the Bank's Electronic Processing of Payments Office (VISA). The remaining amount corresponds to the normal operations of other bank divisions.

(19) Other liabilities

Other liabilities are as follows:

		June 2018	December 2017	June 2017
Deferred income:				
Deferred finance income	¢	32,114,297,130	32,021,086,861	28,507,160,245
Deferred fees and commissions for trust management		30,755,960	34,109,997	19,917,250
		32,145,053,090	32,055,196,858	28,527,077,495
Allowance for stand-by credit losses *(1)*		272,417,979	265,681,489	345,121,855
Operations pending application:				
Operations pending settlement		11,080,019,321	56,259,287,267	18,100,938,554
Other operations pending application		29,718,889,355	9,962,141,488	21,254,510,742
		40,798,908,676	66,221,428,755	39,355,449,296
	¢	73,216,379,745	98,542,307,102	68,227,648,646

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

		June 2018	December 2017	June 2017
Opening balance	¢	265,681,489	540,840,567	540,840,567
Allowance expense (note 31)		7,740,000	76,257,000	76,147,000
Decrease in allowance (note 32)		-	(360,000,141)	(280,000,000)
Adjustment for foreign exchange differences		(1,003,510)	8,584,063	8,134,288
Closing balance	¢	272,417,979	265,681,489	345,121,855

(20) Subordinated obligations

The Bank's subordinated obligations are as follows:

Annual interest rate	Term	Maturity		June 2018	December 2017	June 2017
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	¢	73,247,200,000	73,634,600,000	73,721,700,000
		Finance charges payable		1,647,121,078	1,501,463,242	1,467,214,366
			¢	74,894,321,078	75,136,063,242	75,188,914,366

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 2018	December 2017	June 2017
Capital under Law No. 1644	¢	144,618,072,265	144,618,072,265	144,618,072,265
Bank capitalization bonds		27,618,957,837	27,618,957,837	27,618,957,837
	¢	172,237,030,102	172,237,030,102	172,237,030,102

On December 23, 2008, the Executive Branch of the Costa Rican Government authorized a capital contribution with funds from the *Amendment to Law No. 8627 on the Ordinary and Extraordinary Budget of the Republic for Tax Year 2008* (Law No. 8703). This 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 a total of US$50,000,000 (equivalent to ¢27,619,000,002), by means of four securities 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, 2018, based on the exchange rate as of that date, the balance of those investments amounts to ¢18,741,104,378 (December and June 2017: ¢18,562,535,348 and ¢27,519,342,882, respectively) (see note 5).

By means of a study performed for the capitalization of retained earnings as of the 2015 close, and in conformity with SUGEF Directive 8-08, report UGC-001-17 "Capitalization of Retained Earnings" was submitted to the board of directors for approval, along with note DGF-J012-2017 dated January 31, 2017. In Article 10 of Meeting No. 12,137, held on February 6, 2017, it was unanimously agreed to authorize the capitalization of the balance of account 350 Retained Earnings for the period from 2009-2015 in the amount of ¢54,106,726,620. In Article 9 of the Minutes of Meeting No. 1324-2017, held on April 18, 2017, CONASSIF authorized the Bank to increase its capital in the amount of ¢54,106,726,620; thus, the total capital amounts to ¢172,237,030,102.

(b) Revaluation surplus

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

As of June 30, 2018, the revaluation surplus amounts to ¢61,864,805,939 (December and June 2017: ¢61,425,174,760 and ¢60,806,752,437, respectively).

(Continued)

(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, 2018, the adjustment for the valuation of available-for-sale investments and restricted financial instruments results in an unrealized loss of ¢3,574,325,763 (December and June 2017: unrealized loss of ¢2,304,989,655 and ¢1,880,898,796, respectively).

(d) Adjustment for valuation of investments in other companies

As of June 30, 2018, the adjustment for valuation of investments in foreign associates using the equity method amounts to ¢6,305,413,107 (December and June 2017: ¢9,095,624,686 and ¢9,908,445,420). These investments correspond to the Bank's 49% ownership interest in BICSA and Subsidiary.

(e) Capital reserves

Capital reserves are as follows:

		June 2018	December 2017	June 2017
Legal reserve	¢	318,379,605,494	295,477,646,483	295,477,695,728
Statutory reserve for foreclosed assets		170,213,398	154,543,607	154,726,412
Excess of statutory reserve for loans		5,516,219,277	7,219,571,030	6,342,603,877
Statutory dynamic provision		8,203,970,847	8,270,045,249	8,276,764,890
	¢	332,270,009,016	311,121,806,369	310,251,790,907

(f) Equity of the Development Financing Fund

As of June 30, 2018, the allocation of the Bank's earnings for the creation of the Development Financing Fund (FOFIDE) amounts to ¢30,971,994,447 (December and June 2017: ¢27,111,958,013 and ¢27,111,958,013, respectively).

(Continued)

(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. As of June 30, the notional amounts of foreign exchange derivatives are as follows:

		June 2018	December 2017	June 2017
Performance bonds	¢	32,414,277,575	34,914,023,652	28,161,645,783
Bid bonds		5,189,624,416	2,380,121,728	2,898,865,110
Other guarantees		3,433,813,686	4,422,676,186	4,300,905,811
Letters of credit		25,778,849,154	19,229,683,722	22,650,779,535
Credits pending disbursement		211,140,648	224,551,326	251,205,483
		67,027,705,479	61,171,056,614	58,263,401,722
Pre-approved lines of credit		278,275,898,051	280,374,178,088	287,260,454,778
Other contingencies not related to credits		27,398,061	25,898,061	816,524,507
Other contingencies - pending litigation and lawsuits (note 47)		299,743,735,871	299,988,478,812	316,267,752,476
		578,047,031,983	580,388,554,961	604,344,731,761
FX futures - other than hedges (note 6)		766,278,400	15,807,051,436	13,304,358,385
	¢	645,841,015,862	657,366,663,011	675,912,491,868

Letters of credit, guarantees, and sureties granted expose the Bank to credit loss in the event of non-compliance 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, mature without requiring disbursement. Therefore, they do not represent a significant liquidity risk. Most letters of credit are used; however, those used are generally on demand, issued, and confirmed by correspondent banks, and are 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 ordinary 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 customer instructions. 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.

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As of June 30, 2018, trust capital is invested in the following assets:

Nature of trust	Cash or property management	Securitization	Portfolio management	Guaranty	Testamentary	Custody of stock and management of funds	Cash guaranty and management	Custody of stock	Guaranty and custody of stock	Total
Trust assets										
Cash and due from banks	¢ 100,828,444	2,745,026	2,358,577	2,352	-	8,633	-	-	-	105,943,032
Investments in financial instruments	308,773,805,434	17,340,327,618	564,245,504	1,004,340,200,318	1,256,775,498	2,147,732	-	-	-	1,332,277,502,104
Loan portfolio	2,720,370,220	-	1,499,012,852	-	-	-	-	-	-	4,219,383,072
Accounts and accrued interest receivable	28,229,658,303	20,839,633,515	1,665,240,260	26,822,661	45,190	-	52,309,449	-	2,591,824	50,816,301,202
Foreclosed assets	66,451,060	-	-	-	-	-	-	-	-	66,451,060
Investments in other companies	-	-	-	200,000,000	2,376,344	-	-	611,108,490	901,504,000	1,714,988,834
Property and equipment	776,451,781	52,064,787,608	-	59,978,677,883	93,224,756	-	1,544,041,161	-	1,454,901,292	115,912,084,481
Other assets	19,974,326,536	815,647,016	-	1,401,366,929	1,073,223	-	-	-	1,674,504,726	23,866,918,430
	¢ 360,641,891,778	91,063,140,783	3,730,857,193	1,065,947,070,143	1,353,495,011	2,156,365	1,596,350,610	611,108,490	4,033,501,842	1,528,979,572,215

(Continued)

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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
Trust assets											
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

(Continued)

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 guarantee 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.

(24) Other debit memoranda accounts

Other debit memoranda accounts are as follows:

		June 2018	December 2017	June 2017
Pension Fund Manager's own investments in custody – Face value of principal	¢	7,092,932,000	6,393,826,000	6,194,727,000
Pension Fund Manager's own investments in custody – Coupons		1,174,970,860	1,103,393,148	908,270,413
Pension Fund Manager's own investments in custody – Number of shares		23	23	23
Guarantees received in the Bank's custody		650,503,572	1,323,290,684	1,403,040,275
Other guarantees received in the Bank's custody		5,193,519,886,136	5,214,227,292,003	5,230,434,025,521
Lines of credit granted but unused		364,881,639,019	400,321,411,495	433,347,227,129
Loans pending disbursement		197,451,698,532	233,983,980,165	263,444,803,356
Unused overdrafts		67,253,873	207,927,441	497,447,038
Loans settled		184,830,666,391	173,858,782,945	170,464,505,255
Other accounts receivable settled		10,182,740,630	9,765,571,761	9,663,445,689
Accrued interest receivable settled		17,901,021,517	16,739,182,013	16,483,043,894
Interest income on non-accrual loans of loan portfolio		18,169,744,133	16,099,998,875	13,499,688,560
Supporting documentation received in the Bank's custody		1,255	1,255	1,255
Securities issued pending placement		19,858,399,999	26,914,226,643	15,089,554,283
Notified letters of credit		15,014,982,766	14,877,914,261	15,926,750,596
Notional value subject to interest rate futures (note 6)		574,258,048,000	576,615,560,000	713,626,056,000
Reversals made to income accounts for the period		13,085,736,050	16,866,526,419	8,397,886,706
Reversals made to expense accounts for the period		46,641,648,418	43,316,609,467	10,593,182,525
Non-deductible expenses		36,298,578,684	36,206,722,661	36,186,987,331
Non-taxable income		74,813,855,403	74,388,367,866	78,826,408,960
Other memoranda accounts		186,790,067,429	201,266,397,841	195,773,843,715
		6,962,684,374,690	7,064,476,982,966	7,220,760,895,524
Third-party debit memoranda accounts		2,737,506,127,601	2,542,913,153,061	2,404,216,129,576
Own debit memoranda accounts for custodial activities		364,050,369,838	371,296,353,570	265,176,333,936
Third-party debit memoranda accounts for custodial activities		11,259,185,933,187	10,673,107,956,840	10,678,243,461,669
		14,360,742,430,626	13,587,317,463,471	13,347,635,925,181
	¢	21,323,426,805,316	20,651,794,446,437	20,568,396,820,705

Other memoranda accounts by entity are as follows:

		June 2018	June 2017
Banco Nacional de Costa Rica	¢	18,439,418,831,392	18,027,250,620,198
BN Valores Puesto de Bolsa, S.A. (note 25)		1,055,541,502,150	933,152,157,967
BN Sociedad Administradora de Fondos de Inversión, S.A. (note 26)		473,480,666,691	386,864,104,283
BN Vital Operadora de Planes de Pensiones Complementarias, S.A. (note 27)		1,354,985,805,083	1,221,129,938,257
	¢	21,323,426,805,316	20,568,396,820,705

Third-party debit memoranda accounts are as follows:

		June 2018	June 2017
Management of banking mandates	¢	917,461,765,790	803,456,004,280
"TUDES" securities received in custody from affiliates under Article 75 of Law No. 7531		581,988,236	697,912,421
Pension funds (note 27)		1,346,041,630,673	1,213,251,737,816
Investment funds (note 26)		473,420,742,902	386,810,475,059
	¢	2,737,506,127,601	2,404,216,129,576

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

Memoranda accounts for brokerage operations are summarized as follows:

		June 2018	June 2017
Own			
Trading securities in custody (note 25-a)	¢	4,616,083,285	4,458,558,112
Trading securities pledged as guarantees		39,275,548,323	24,565,961,861
Trading securities pending delivery		-	998,078,403
Confirmed cash agreements pending settlement		-	1,026,693,680
Repurchase agreements pending settlement (note 25-b)		34,493,890,778	22,382,980,853
Other own memoranda accounts		5,648,791,240	5,684,556,091
		84,034,313,626	59,116,829,000
Third-party			
Trading securities in custody (note 25-a)		625,720,920,993	626,204,091,440
Trading securities received as guarantees		96,226,556,640	56,028,517,290
Trading securities pledged as guarantees		96,940,552,555	82,302,837,520
Trading securities pending receipt		225,375,997	281,253,452
Signed agreements pending settlement		380,666,827	1,174,436,935
Repurchase agreements pending settlement (note 25-b)		149,874,866,501	107,054,757,828
Cash and accounts receivable		2,138,249,011	989,434,502
		971,507,188,524	874,035,328,967
	¢	1,055,541,502,150	933,152,157,967

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 custody by CEVAL or in foreign entities with which CEVAL has custody agreements.

(Continued)

a) Securities held in custody are as follows:

Location	Type of custody		June 2018	June 2017
Own custodial activities				
Local	At face value - available	¢	4,564,120,638	4,264,152,403
Local	At purchase value of shares - available		15,000,002	15,000,002
Local	At purchase value of investments - available		98,730	70,575,775
Local	At face value - pledged		34,570,962	108,000,000
Local	Amount of physical coupons - pledged		2,292,953	829,932
			4,616,083,285	4,458,558,112
Custodial activities on behalf of third parties				
Local	At face value - available		584,650,142,599	588,910,883,622
Local	At purchase value of shares - available		21,178,238,038	23,709,800,099
Local	At purchase value of investments - available		18,380,522,432	10,847,858,692
Local	At face value - pledged		1,034,998,078	1,734,216,829
Local	At purchase value of shares - pledged		53,790,851	64,798,558
Local	At purchase value of investments - pledged		197,852,996	12,176,940
Local	At face value - pending delivery		225,375,999	924,356,700
			625,720,920,993	626,204,091,440
		¢	630,337,004,278	630,662,649,552

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

June 2018

	Term buyer				Term seller			
	Colones	US dollars	US dollars expressed in colones	Total	Colones	US dollars	US dollars expressed in colones	Total
Own	20,435,601,717	24,950,818	14,058,289,061	34,493,890,778	-	-	-	-
Third parties	13,640,298,086	106,646,310	60,088,796,841	73,729,094,927	18,173,135,432	102,890,523	57,972,636,142	76,145,771,574
	34,075,899,803	131,597,128	74,147,085,902	108,222,985,705	18,173,135,432	102,890,523	57,972,636,142	76,145,771,574

June 2017

	Term buyer				Term seller			
	Colones	US dollars	US dollars expressed in colones	Total	Colones	US dollars	US dollars expressed in 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
	22,315,583,532	110,346,239	62,576,248,559	84,891,832,091	12,514,120,589	56,484,484	32,031,786,001	44,545,906,590

As of June 30, 2018, term buyer and seller positions in tri-party repurchase agreements in US dollars were valued at the exchange rate of ¢563.44 (June 2017: ¢567.09) to US$1.00.

(Continued)

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

	June 2018			
	Term buyer		Term seller	
	Colones	US dollars	Colones	US dollars
Own				
1 to 30 days	¢ 231,199,780	1,974,470	-	-
31 to 60 days	16,347,897,446	6,284,291	-	-
61 to 90 days	3,346,579,833	16,692,057	-	-
More than 91 days	509,924,658	-	-	-
	20,435,601,717	24,950,818	-	-
Third parties				
1 to 30 days	362,399,796	2,010,885	255,510,330	3,587,023
31 to 60 days	10,479,226,508	23,307,417	14,688,051,658	27,777,904
61 to 90 days	2,705,846,710	80,791,271	2,626,823,715	70,988,859
More than 91 days	92,825,072	536,737	602,749,729	536,737
	13,640,298,086	106,646,310	18,173,135,432	102,890,523
	¢ 34,075,899,803	131,597,128	18,173,135,432	102,890,523

	June 2017			
	Term buyer		Term seller	
	Colones	US dollars	Colones	US dollars
Own				
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	-	-
	10,830,311,470	20,371,845	-	-
Third parties				
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
	11,485,272,062	89,974,394	12,514,120,589	56,484,484
	¢ 22,315,583,532	110,346,239	12,514,120,589	56,484,484

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.

(26) Investment fund management agreements

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

		June 2018		
Fund		Net carrying amount	Shares	Value per share
Funds in colones:				
Súper Fondo - colones	¢	146,069,226,483	36,205,563,864	4.03
Fon Depósito - colones		56,200,237,605	38,036,166,185	1.48
Creci Fondo - colones		2,987,320,749	580,527,053	5.15
Redi Fondo - colones		11,360,191,231	3,098,454,931	3.67
Diner Fondo - colones		42,505,476,266	15,646,981,875	2.72
	¢	259,122,452,334	93,567,693,908	
Funds in US dollars:				
Súper Fondo - US dollars	US$	23,286,476	15,623,206	1.49
Creci Fondo - US dollars		4,729,224	2,611,656	1.81
Redi Fondo - US dollars		33,483,395	22,049,007	1.52
Diner Fondo - US dollars		97,426,276	74,996,146	1.30
Fon Depósito - US dollars		57,055,156	51,841,023	1.10
Súper Fondo Plus - US dollars		142,794,493	133,014,358	1.07
Fondo Hipotecario - US dollars (mortgage fund)		155,848	154,521	175.70
BN Infraestructura Pública -1 – US dollars (public infrastructure)		21,408,282	21,750	984.29
	US$	380,339,150	300,311,667	
	¢	214,298,290,567	169,207,605,654	
Total assets of managed funds (note 24)	¢	473,420,742,902	262,775,299,562	
Guarantees:				
Performance bonds		57,948,485		
Outstanding checks		1,975,304		
		59,923,789		
Total memoranda accounts	¢	473,480,666,691		

Fund		June 2017 Net carrying amount	Shares	Value per share
Funds in colones:				
Súper Fondo - colones	¢	94,149,030,356	24,436,563,451	3.85
Fon Depósito - colones		53,555,443,839	37,794,015,602	1.42
Creci Fondo - colones		3,446,298,682	710,143,437	4.85
Redi Fondo - colones		12,990,800,852	3,762,719,501	3.45
Diner Fondo - colones		38,705,675,049	14,871,440,280	2.60
	¢	202,847,248,778	81,574,882,271	
Funds in US dollars:				
Súper Fondo - US dollars	US$	21,908,050	14,961,255	1.46
Creci Fondo - US dollars		3,909,002	2,234,780	1.75
Redi Fondo - US dollars		22,280,085	15,118,306	1.47
Diner Fondo - US dollars		82,821,494	64,682,907	1.28
Fon Depósito - US dollars		61,346,526	56,600,087	1.08
Súper Fondo Plus - US dollars		131,910,139	125,262,341	1.05
Fondo Hipotecario - US dollars (mortgage fund)		223,346	222,036	251.80
	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	
Guarantees:				
Performance bonds		51,653,920		
Outstanding checks		1,975,304		
Total memoranda accounts	¢	386,864,104,283		

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 market value of the assets.

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

- *BN SuperFondo - Colones No Diversificado* (non-diversified - colones): This is an open-end (floating number of outstanding shares) money market fund with a variable income portfolio. Returns on the investment portfolio are not distributed until the customer requests partial or full redemption of shares.
- *BN CreciFondo - Colones No Diversificado* (non-diversified - colones): This is an open-end (floating number of outstanding shares) growth fund with a variable income portfolio. Returns on the investment portfolio are not distributed until the customer requests partial or full redemption of shares.
- *BN RediFondo Mensual - Colones No Diversificado* (monthly, non-diversified - colones): This is an open-end (floating number of outstanding shares) income fund with a fixed income portfolio. Returns on the investment portfolio are not distributed until the customer requests partial or full redemption of shares.
- *BN DinerFondo - Colones No Diversificado* (non-diversified - colones): This is an open-end (floating number of outstanding shares) money market fund with a fixed income portfolio. Returns on the investment portfolio are not distributed until the customer requests partial or full redemption of shares.
- *BN FonDepósito - Colones No Diversificado* (non-diversified - colones): This is an open-end (floating number of outstanding shares) money market fund with a fixed income portfolio. Returns on the investment portfolio are not distributed until the customer requests partial or full redemption of shares.
- *BN SuperFondo - Dólares Diversificado* (diversified - US 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 - US 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 - US 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 - US 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 - US dollars): This is an open-end (floating number of outstanding shares) money market fund with a fixed income portfolio. Returns on the investment portfolio are not distributed until the customer requests partial or full redemption of shares.
- *BN Fondo de Inversión de Titularización Hipotecaria (FHIPO) - Dólares* (mortgage securitization - US 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 - US 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 – US dollars): This is a long-term, closed-end fund, in US 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, 2018 and 2017, this fund does not have operations.
- *Fondo de Inversión de Desarrollo Inmobiliario BN-1 - Dólares* (real estate development - US 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 a fund will lease the buildings to an entity of the BNCR Conglomerate. As of June 30, 2018 and 2017, this fund does not have operations.

(Continued)

- *Fondo de Inversión de Desarrollo Inmobiliario de Infraestructura Pública - 1 - Dólares* (real estate development - US 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 a fund will lease the buildings to BCCR. As of June 30, 2018 and 2017, this fund does not have operations.

(27) Pension fund management agreements

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

		June 2018	June 2017
Mandatory Pension Fund (ROP)	¢	1,107,138,883,784	1,007,655,946,494
ROP erroneous		14,713,282,934	-
Mandatory Retirement Savings Account (FCL)		88,718,681,482	83,199,099,505
FCL erroneous		3,445,356,593	-
Pension Fund in colones A (FPC A)		66,281,969,885	62,566,878,858
Pension Fund in colones B (FPC B)		18,096,892,920	15,000,979,582
Notary Fund (NOT)		27,128,229,720	25,065,364,851
Pension Fund in US dollars A (FPD A) (a)		12,415,216,144	11,404,938,831
Pension Fund in US dollars B (FPD B) (b)		8,103,117,211	8,358,529,695
Total assets of managed funds (note 24)		1,346,041,630,673	1,213,251,737,816
Securities and assets in own custody		8,267,902,883	7,102,997,436
Bid and performance bonds – colones		20,174,169	15,444,605
Bid and performance bonds – US dollars (c)		74,109,122	61,845,979
Securities in DU		581,988,236	697,912,421
Total memoranda accounts (note 24)	¢	1,354,985,805,083	1,221,129,938,257

(a) As of June 30, 2018, this fund amounts to US$22,034,673 and is valued at the exchange rate of ¢563.44 to US$1.00 (June 30, 2017: US$20,111,338 valued at the exchange rate of ¢567.09 to US$1.00).

(b) As of June 30, 2018, this fund amounts to US$14,381,509 and is valued at the exchange rate of ¢563.44 to US$1.00 (June 30, 2017: US$14,739,335 valued at the exchange rate of ¢567.09 to US$1.00).

(c) As of June 30, 2018, this fund amounts to US$131,530 and is valued at the exchange rate of ¢563.44 to US$1.00 (June 30, 2017: US$109,058 valued at the exchange rate of ¢567.09 to US$1.00).

(Continued)

(28) Income from financial instruments

For the six months ended June 30, income from financial instruments is as follows:

		June		Quarter from April 1 to June 30	
		2018	2017	2018	2017
Cash and due from banks:					
Deposits in BCCR	¢	12,098,236	5,753,434	7,973,049	4,584,707
Checking accounts and demand deposits in local entities		88,701,629	33,779,529	47,752,115	17,415,322
Checking accounts and demand deposits in foreign entities		2,931,928,676	1,009,742,490	1,296,638,428	727,390,713
		3,032,728,541	1,049,275,453	1,352,363,592	749,390,742
Financial instruments:					
Investments in available-for-sale securities		29,462,754,689	23,582,486,511	14,929,532,905	12,393,447,584
Investment in securities and restricted deposits		706,657,855	1,284,079,315	373,774,789	663,441,229
		30,169,412,544	24,866,565,826	15,303,307,694	13,056,888,813
	¢	33,202,141,085	25,915,841,279	16,655,671,286	13,806,279,555

(Continued)

(29) Income from loan portfolio

For the six months ended June 30, income from the loan portfolio is as follows:

	June		Quarter from April 1 to June 30	
	2018	2017	2018	2017
Current loans:				
Checking account overdrafts	¢ 7,613,047	35,527,766	6,367,744	21,790,017
Loans granted with funds from BCCR	446,742,137	522,009,984	220,212,182	259,192,859
Loans granted with other funds	176,875,777,594	155,822,299,477	89,130,548,658	78,845,432,754
Credit cards	12,753,374,079	11,762,603,635	6,342,135,950	5,986,097,506
Issued letters of credit	316,118	482,467	315,560	482,467
Other loans	2,236,221	2,234,249	1,136,014	1,153,222
	190,086,059,196	168,145,157,578	95,700,716,108	85,114,148,825
Past due loans and loans in legal collection:				
Checking account overdrafts	813,598	1,334,855	410,110	626,009
Loans granted with funds from BCCR	72,965,593	62,022,012	35,580,701	31,699,895
Loans granted with other funds	27,517,930,242	20,939,653,273	14,509,244,992	10,672,896,565
Credit cards	1,682,565,570	1,156,801,038	832,735,451	613,395,416
Other loans	8,745,243	234,173	8,741,444	234,173
	29,283,020,246	22,160,045,351	15,386,712,698	11,318,852,058
	¢ 219,369,079,442	190,305,202,929	111,087,428,806	96,433,000,883

(Continued)

(30) Other finance income

For the six months ended June 30, other finance income is as follows:

		June		Quarter from April 1 to June 30	
		2018	2017	2018	2017
Fees and commissions on letters of credit	¢	13,327,122	57,265,102	6,607,720	48,266,123
Fees and commissions on guarantees granted		217,499,917	265,456,702	85,376,551	131,497,952
Fees and commissions on lines of credit		153,091,385	33,540,027	78,533,451	9,978,381
Gain on fair value hedge for item measured at cost		17,084,878,462	3,217,007,017	5,679,123,643	94,644,802
Other sundry finance income		1,891,407,718	2,980,732,284	1,042,644,634	1,668,578,236
	¢	19,360,204,604	6,554,001,132	6,892,285,999	1,952,965,494

(31) Finance expenses for obligations with the public

For the six months ended June 30, finance expenses for obligations with the public are as follows:

		June		Quarter from April 1 to June 30	
		2018	2017	2018	2017
Demand deposits	¢	23,569,538,718	16,384,211,169	11,869,293,826	8,247,761,084
Term deposits		67,565,264,603	49,256,908,142	34,357,670,658	26,768,624,933
Third-party repurchase agreements and securities lending		841,692,917	666,923,016	455,963,406	353,864,418
	¢	91,976,496,238	66,308,042,327	46,682,927,890	35,370,250,435

(Continued)

(32) Finance expenses for obligations with financial entities

For the six months ended June 30, finance expenses for obligations with financial entities are as follows:

		June		Quarter from April 1 to June 30	
		2018	2017	2018	2017
Demand obligations	¢	1,245,567,094	1,054,959,584	636,803,486	561,184,851
Term obligations		34,611,305,634	32,107,129,492	17,261,043,684	17,029,085,388
	¢	35,856,872,728	33,162,089,076	17,897,847,170	17,590,270,239

(33) Other finance expenses

For the six months ended June 30, other finance expenses are as follows:

		June		Quarter from April 1 to June 30	
		2018	2017	2018	2017
Fees and commissions on letters of credit obtained	¢	93,878,628	38,882,040	46,782,995	19,601,948
Loss on hedged item measured at cost from fair value hedge on interest rate risk		3,829,213,520	10,041,912,846	2,834,790,359	5,073,354,101
Other sundry finance expenses		793,622,561	163,538,665	235,985,251	109,017,604
	¢	4,716,714,709	10,244,333,551	3,117,558,605	5,201,973,653

(34) Expenses for allowance for impairment of assets

For the six months ended June 30, expenses for allowance for impairment of assets are as follows:

	June		Quarter from April 1 to June 30	
	2018	2017	2018	2017
Allowance for loan losses (note 7-c)	¢ 36,960,641,359	8,612,036,980	16,999,706,813	8,294,046,964
Allowance for impairment of other accounts receivable (note 8)	1,426,941,488	1,261,924,400	1,011,286,441	825,123,609
Allowance for stand-by credit losses (note 19)	4,140,000	18,000,000	-	18,000,000
General and counter-cyclical allowance for loan portfolio (note 7-c)	2,310,184,170	7,089,641,387	245,361,967	3,171,029,160
General and counter-cyclical allowance for stand-by credit losses (note 19)	3,600,000	58,147,000	-	12,035,000
Allowance for impairment of derivative financial instruments (note 5)	12,848,082	12,107,367	167,403	10,818,494
	¢ 40,718,355,099	17,051,857,134	18,256,522,624	12,331,053,227

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

For the six months ended June 30, income from recovery of assets and decreases in allowances and provisions is as follows:

	June		Quarter from April 1 to June 30	
	2018	2017	2018	2017
Recovery of loan write-offs	¢ 3,929,095,004	7,896,276,443	2,321,221,910	5,589,956,740
Recovery of receivable write-offs	1,515,526	937,942	840,045	294,110
Decrease in allowance for loan losses (note 7)	-	720,000,000	-	-
Decrease in allowance for impairment of other accounts receivable (note 8)	266,416,985	297,733,465	104,700,073	95,165,531
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)	85,129,359	299,593	14,645,210	299,593
	¢ 4,282,156,874	9,195,247,443	2,441,407,238	5,685,715,974

(36) Operating income from service fees and commissions

For the six months ended June 30, operating income from service fees and commissions is as follows:

	June		Quarter from April 1 to June 30	
	2018	2017	2018	2017
Drafts and transfers	¢ 4,374,596,265	4,166,555,373	2,222,035,234	2,093,010,049
Certified checks	2,100,420	3,295,833	910,940	1,932,782
Trusts	578,771,793	455,873,053	288,695,939	227,921,010
Custodial services	737,139,340	805,581,034	363,625,233	408,082,768
Banking mandates	66,045	114,097	26,289	40,233
Collections	14,670,726	16,716,490	7,397,314	(53,153,359)
Credit cards	29,025,924,734	26,362,476,689	14,381,587,752	13,200,285,900
Management services	1,660,542,701	1,732,321,751	769,187,061	901,695,666
Management of investment funds	2,701,523,463	2,448,269,553	1,404,856,262	1,270,611,851
Management of pension funds	4,075,089,318	3,535,693,845	2,077,179,453	1,775,089,396
Insurance underwriting	2,861,228,622	2,699,638,951	1,506,096,679	1,696,276,488
Brokerage operations (third parties in local market)	1,168,400,161	1,536,419,308	775,941,596	942,029,264
Brokerage operations (third parties in other markets)	28,271,309	49,605,787	14,618,814	19,550,028
Individual portfolio management	174,807	519,710	(87,224)	262,901
Operations with related parties	120,539,629	-	60,436,527	-
Other	20,444,560,960	19,560,956,636	9,967,612,075	9,406,898,581
	¢ 67,793,600,293	63,374,038,110	33,840,119,944	31,890,533,558

(37) Other operating income

For the six months ended June 30, other operating income is as follows:

		June		Quarter from April 1 to June 30	
		2018	2017	2018	2017
Leasing of assets	¢	26,466,339	30,296,925	17,866,827	13,986,731
Recovery of expenses		1,261,015,429	1,514,431,167	275,508,803	927,895,554
Net valuation of other assets (note 46-c)		148,406,340	86,687,999	21,368,127	39,156,484
Other income from accounts receivable		956,349	647,553	369,830	333,539
Sundry operating income		3,088,154,563	2,306,108,039	1,532,737,379	1,231,855,339
Other income from related parties		5,324,593	-	5,324,593	-
Decrease in provisions		10,158,611	496,586,255	4,250,737	347,638,755
	¢	4,540,482,224	4,434,757,938	1,857,426,296	2,560,866,402

(38) Expenses for foreclosed assets

For the six months ended June 30, expenses for foreclosed assets are as follows:

		June		Quarter from April 1 to June 30	
		2018	2017	2018	2017
Loss on sale of assets acquired in lieu of payment	¢	5,792,783,261	169,686,766	3,320,975,599	33,397,271
Loss on sale of assets awarded in judicial auctions		27,000,385	4,264,812,921	27,000,385	2,096,167,548
Management of assets awarded in judicial auctions		2,592,700,033	2,540,004,242	1,397,764,868	1,295,056,186
Loss on impairment of foreclosed assets (note 9)		12,442,736	42,838,981	-	26,372,484
Loss on allowance for impairment of foreclosed assets and per legal requirements (note 9)		1,476,541,179	3,571,771,494	-	2,137,894,036
Other expenses		74,226,731	256,722,650	55,174,886	233,978,700
	¢	9,975,694,325	10,845,837,054	4,800,915,738	5,822,866,225

(39) Expenses for provisions

For the six months ended June 30, expenses for provisions are as follows:

		June		Quarter from April 1 to June 30	
		2018	2017	2018	2017
Severance benefits	¢	617,241,874	615,900,045	248,353,580	415,459,745
Litigation		279,683,412	376,126,468	169,170,657	200,356,768
BN Premios points program		2,500,541,395	1,295,287,181	1,797,116,961	511,842,987
SEDI		1,185,358,808	2,035,692,340	673,998,136	750,547,959
Manager commissions		1,013,897,681	337,965,894	506,948,841	337,965,894
Variation in RIVM methodology		1,052,554,381	2,454,246,103	608,829,007	750,285,805
Notice of deficiency		904,012,573	-	904,012,573	-
Other		284,634,421	508,912,215	111,503,205	253,224,174
	¢	7,837,924,545	7,624,130,246	5,019,932,960	3,219,683,332

(40) Other operating expenses

For the six months ended June 30, other operating expenses are as follows:

		June		Quarter from April 1 to June 30	
		2018	2017	2018	2017
Fines for noncompliance with legal regulatory provisions	¢	50,000	374,493,549	-	39,529,911
Net valuation of other liabilities (note 46-c)		104,478,420	558,079,668	40,085,399	329,259,030
Income tax on remittances		16,623,485	75,051,617	16,623,485	3,610,315
Income tax (8%) on interest on investments in financial instruments		1,362,323,610	1,531,423,287	673,558,379	795,098,039
Property tax		135,283,766	112,830,296	53,749,675	33,512,809
Licenses		393,884,646	327,561,155	190,531,079	178,822,929
Other local taxes		294,919,304	895,518,059	192,876,885	894,640,238
Transfer to FINADE		1,505,745,987	2,088,362,907	760,531,638	916,033,543
Sundry operating expenses		30,383,288,090	30,537,201,003	15,444,832,909	16,683,659,058
	¢	34,196,597,308	36,500,521,541	17,372,789,449	19,874,165,872

(Continued)

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Notes to the Consolidated Financial Statements

(41) Personnel expenses

For the six months ended June 30, personnel expenses are as follows:

		June		Quarter from April 1 to June 30	
		2018	2017	2018	2017
Salaries and bonuses, permanent staff	¢	34,022,986,099	33,342,106,012	17,142,410,533	16,769,026,235
Salaries and bonuses, contractors		849,170,080	832,650,508	422,288,962	413,957,199
Compensation for directors and statutory examiners		108,412,767	91,615,268	51,402,337	42,474,164
Overtime		350,301,534	500,975,350	177,135,239	286,837,364
Travel expenses		266,879,831	293,675,604	143,362,344	150,150,773
Statutory Christmas bonus		3,657,762,600	3,654,516,593	1,832,572,757	1,807,915,109
Vacation		3,777,816,126	3,775,359,092	1,674,822,303	1,961,507,940
Other compensation		1,935,634,120	1,985,069,878	1,164,211,682	939,094,018
Severance benefits		2,221,995,549	2,235,073,057	1,095,403,703	1,099,927,228
Employer social security taxes		13,871,361,102	13,969,502,827	6,920,130,196	6,964,437,610
Refreshments		182,367,275	183,532,158	49,047,782	82,100,014
Uniforms		107,668,445	136,398,771	19,961,630	95,249,167
Training		175,562,415	230,989,944	132,222,553	167,621,948
Employee insurance		112,256,259	119,981,108	55,950,052	60,343,897
Back-to-school bonus		3,156,682,221	3,129,133,605	1,561,126,525	1,482,352,132
Mandatory retirement savings account		1,334,139,460	1,341,753,226	665,071,503	667,722,440
Other personnel expenses		300,824,547	292,471,779	160,140,283	143,166,074
	¢	66,431,820,430	66,114,804,780	33,267,260,384	33,133,883,312

(42) Other administrative expenses

For the six months ended June 30, other administrative expenses are as follows:

		June		Quarter from April 1 to June 30	
		2018	2017	2018	2017
Outsourcing	¢	7,439,650,424	6,146,554,798	4,063,215,487	3,082,215,587
Transportation and communications		2,125,718,417	2,229,432,920	1,083,049,850	1,068,345,632
Infrastructure		17,514,441,650	17,849,439,146	8,912,003,902	9,114,251,004
Overhead		8,121,536,354	7,256,618,503	4,351,477,573	3,762,919,994
	¢	35,201,346,845	33,482,045,367	18,409,746,812	17,027,732,217

(43) Statutory allocations

For the six months ended June 30, statutory allocations are as follows:

		June		Quarter from April 1 to June 30	
		2018	2017	2018	2017
CONAPE 5%	¢	1,023,958,338	1,860,878,496	577,615,910	595,845,561
CNE (3%)		682,097,336	1,168,629,588	387,499,490	390,332,674
INFOCOOP (10%)		1,903,766,312	2,913,157,737	1,068,491,047	1,063,332,243
Public capital pension operators		538,389,855	297,435,158	271,664,899	114,840,386
RIVM (15%)		2,084,174,040	3,456,997,753	1,158,574,357	1,146,759,997
	¢	6,232,385,881	9,697,098,732	3,463,845,703	3,311,110,861

For the six months ended June 30, statutory allocations decrease as follows:

		June		Quarter from April 1 to June 30	
		2018	2017	2018	2017
CNE 3%	¢	-	6,857,889	-	6,857,889
INFOCOOP 10%		-	63,669,806	-	-
RIVM 15%		-	30,585,366	-	-
	¢	-	101,113,061	-	6,857,889

(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 2018	
		Carrying amount	Fair value
Financial assets:			
Cash and due from banks	¢	1,176,212,745,885	1,176,212,745,885
Investments in financial instruments		1,188,795,636,084	1,188,795,636,084
Loan portfolio		4,482,210,277,148	4,087,126,718,273
	¢	6,847,218,659,117	6,452,135,100,242
Financial liabilities:			
Demand deposits from the public and financial entities	¢	2,875,402,605,227	2,875,402,605,227
Other demand obligations with the public		16,755,390,844	16,755,390,844
Term deposits from the public and financial entities		3,235,076,689,142	3,265,270,509,595
Obligations for tri-party repurchase agreements		34,217,872,873	34,217,872,873
	¢	6,161,452,558,086	6,191,646,378,539

		June 2017	
		Carrying amount	Fair value
Financial assets:			
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
	¢	6,869,652,805,927	6,348,890,556,346
Financial liabilities:			
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		3,487,313,143,478	3,508,000,370,329
Obligations for tri-party repurchase agreements		22,260,485,678	22,260,485,678
	¢	6,281,755,193,527	6,302,442,420,378

(Continued)

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, 2018 and 2017.

(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.

(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.

As of June 30, financial instruments measured at fair value by the level in the fair value hierarchy are as follows:

		June 2018			
		Level 1	Level 2	Level 3	Total
Available for sale	¢	1,093,355,641,434	58,718,490,912	4,671,435,965	1,156,745,568,311
Held to maturity		-	18,741,104,378	-	18,741,104,378
Derivative financial instruments		-	-	-	-
Term obligations with foreign financial entities		-	-	818,657,342,729	818,657,342,729

		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

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					
		2018			2017		
		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	¢	5,884,509,934	6,159,898,498	841,601,971,462	5,676,606,269	5,893,164,907	815,040,918,559
Purchases		(971,250,000)	-	-	-	-	269,968,328,000
Valuation		37,406,064	(6,127,490,572)	(13,458,052,107)	97,327,065	5,033,506,151	51,987,576,400
Amortizations		-	-	671,309,131	-	-	459,096,589
Exchange differences		(279,230,033)	(32,407,926)	(10,157,885,757)	160,689,313	182,503,747	(286,702,214,562)
Closing balance	¢	4,671,435,965	-	818,657,342,729	5,934,622,647	11,109,174,805	850,753,704,986

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(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.

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

		As of June 30, 2018							
		Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations	Consolidated
ASSETS									
Cash and due from banks	¢	1,171,547,966,035	3,205,397,224	88,075,887	267,777,402	3,347,497,686	1,178,456,714,234	2,243,968,286	1,176,212,745,948
Investments in financial instruments		1,113,849,128,275	61,014,046,989	6,392,823,637	7,569,137,182	-	1,188,825,136,083	29,500,000	1,188,795,636,083
Loan portfolio, net		4,317,326,567,701	-	-	-	-	4,317,326,567,701	-	4,317,326,567,701
Accounts and fees and commissions receivable, net		1,667,904,139	584,733,964	56,659,890	757,314,394	527,874,143	3,594,486,530	599,797,735	2,994,688,795
Fees and commissions		233,131,796	13,285,480	32,736,695	685,953,112	452,253,290	1,417,360,373	36,022,706	1,381,337,667
Brokerage services		-	147,461,063	-	-	-	147,461,063	-	147,461,063
Transactions with related parties		755,588,594	-	2,803,986	1,998,261	-	760,390,841	563,775,029	196,615,812
Deferred tax and income tax		864,022,181	423,167,185	20,963,725	58,310,014	75,607,598	1,442,070,703	-	1,442,070,703
Other		4,285,149,594	820,236	155,484	69,932,468	13,255	4,356,071,037	-	4,356,071,037
Accrued interest		1,564,180	-	-	-	-	1,564,180	-	1,564,180
Allowance for impairment of accounts and fees and commissions receivable		(4,471,552,206)	-	-	(58,879,461)	-	(4,530,431,667)	-	(4,530,431,667)
Foreclosed assets, net		17,982,406,150	-	-	-	-	17,982,406,150	-	17,982,406,150
Investments in other companies		93,410,426,721	30,000,000	-	-	-	93,440,426,721	32,684,204,946	60,756,221,775
Property and equipment, net		178,616,245,810	218,270,445	112,618,422	606,588,640	39,484,949	179,593,208,266	-	179,593,208,266
Other assets		44,426,129,623	127,154,306	642,515,277	333,387,120	389,522,883	45,918,709,209	-	45,918,709,209
TOTAL ASSETS	¢	6,938,826,774,454	65,179,602,928	7,292,693,113	9,534,204,738	4,304,379,661	7,025,137,654,894	35,557,470,967	6,989,580,183,927
LIABILITIES AND EQUITY									
LIABILITIES									
Obligations with the public	¢	4,766,336,377,916	34,376,866,579	-	-	-	4,800,713,244,495	-	4,800,713,244,495
Obligations with BCCR		7,127,977,745	-	-	-	-	7,127,977,745	-	7,127,977,745
Obligations with entities		1,280,419,597,803	12,756,455,981	-	-	-	1,293,176,053,784	2,273,468,347	1,290,902,585,437
Demand		198,799,607,616	-	-	-	-	198,799,607,616	2,243,968,347	196,555,639,269
Term		1,071,103,596,575	12,734,400,000	-	-	-	1,083,837,996,575	29,500,000	1,083,808,496,575
Finance charges payable		10,516,393,612	22,055,981	-	-	-	10,538,449,593	-	10,538,449,593
Accounts payable and provisions		100,563,402,577	2,814,027,922	687,356,049	2,212,197,712	779,771,309	107,056,755,569	599,797,727	106,456,957,842
Other liabilities		73,216,379,745	-	-	-	-	73,216,379,745	-	73,216,379,745
Subordinated obligations		74,894,321,078	-	-	-	-	74,894,321,078	-	74,894,321,078
TOTAL LIABILITIES	¢	6,302,558,056,864	49,947,350,482	687,356,049	2,212,197,712	779,771,309	6,356,184,732,416	2,873,266,074	6,353,311,466,342

As of June 30, 2018

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		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	4,796,398,580	369,700,000	187,003,128,682	14,766,098,517	172,237,030,165
Non-capitalized capital contributions		-	-	-	198,526,429	-	198,526,429	198,526,429	-
Equity adjustments		64,639,641,914	(829,656,333)	(18,150,320)	(20,880,869)	-	63,770,954,392	(868,687,521)	64,639,641,913
Capital reserves		332,270,009,016	1,320,000,000	539,734,980	300,000,000	73,940,000	334,503,683,996	2,233,674,980	332,270,009,016
Prior-period retained earnings		21,100,319,343	7,518,460,522	2,106,139,759	1,509,573,030	1,981,015,969	34,215,508,623	13,115,189,279	21,100,319,344
Income for the period		15,049,722,767	623,448,256	977,612,645	538,389,855	1,099,952,384	18,289,125,907	3,239,403,207	15,049,722,700
FOFIDE		30,971,994,447	-	-	-	-	30,971,994,447	-	30,971,994,447
TOTAL EQUITY	¢	636,268,717,589	15,232,252,445	6,605,337,064	7,322,007,025	3,524,608,353	668,952,922,476	32,684,204,891	636,268,717,585
TOTAL LIABILITIES AND EQUITY	¢	6,938,826,774,453	65,179,602,927	7,292,693,113	9,534,204,737	4,304,379,662	7,025,137,654,892	35,557,470,965	6,989,580,183,927
Debit memoranda accounts	¢	645,684,791,156	133,004,706	-	23,220,000	-	645,841,015,862	-	645,841,015,862
Trust assets	¢	1,528,420,608,004	558,964,211	-	-	-	1,528,979,572,215	-	1,528,979,572,215
Trust liabilities	¢	122,108,304,343	1,671,570	-	-	-	122,109,975,913	-	122,109,975,913
Trust equity	¢	1,406,312,303,661	557,292,641	-	-	-	1,406,869,596,302	-	1,406,869,596,302
Other debit memoranda accounts	¢	18,439,418,831,392	1,055,541,502,150	473,480,666,691	1,354,985,805,083	-	21,323,426,805,316	-	21,323,426,805,316

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the period ended June 30, 2018

		Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations	Consolidated
Finance income	¢	269,357,528,851	2,045,194,558	286,204,069	311,513,398	70,704,321	272,071,145,197	3,169,720	272,067,975,477
Finance costs		146,206,882,586	1,141,644,481	42,182,272	-	-	147,390,709,339	3,169,722	147,387,539,617
Allowance expense		40,718,355,099	-	-	-	-	40,718,355,099	-	40,718,355,099
Income from recovery of assets		4,282,156,874	-	-	-	-	4,282,156,874	-	4,282,156,874
FINANCE INCOME		86,714,448,040	903,550,077	244,021,797	311,513,398	70,704,321	88,244,237,633	(2)	88,244,237,635
Other operating income		83,058,328,683	1,677,285,561	2,706,580,544	4,103,365,272	2,633,903,415	94,179,463,475	3,908,237,029	90,271,226,446
Other operating expenses		53,844,734,937	247,798,478	264,830,176	658,332,483	81,613,033	55,097,309,107	608,395,975	54,488,913,132
GROSS OPERATING INCOME		115,928,041,786	2,333,037,160	2,685,772,165	3,756,546,187	2,622,994,703	127,326,392,001	3,299,841,052	124,026,550,949
Personnel expenses		61,530,429,596	1,295,044,115	995,541,189	1,709,417,762	901,387,768	66,431,820,430	-	66,431,820,430
Other administrative expenses		33,918,445,416	398,569,440	324,643,112	507,087,933	113,038,858	35,261,784,759	60,437,914	35,201,346,845
Total administrative expenses		95,448,875,012	1,693,613,555	1,320,184,301	2,216,505,695	1,014,426,626	101,693,605,189	60,437,914	101,633,167,275
NET OPERATING INCOME BEFORE STATUTORY ALLOCATIONS AND TAXES		20,479,166,774	639,423,605	1,365,587,864	1,540,040,492	1,608,568,077	25,632,786,812	3,239,403,138	22,393,383,674
Income tax		-	-	357,794,755	451,791,129	485,559,731	1,295,145,615	-	1,295,145,615
Decrease in income tax		99,647,590	13,584,063	10,706,296	34,731,561	25,201,080	183,870,590	-	183,870,590
Statutory allocations		5,529,091,596	29,559,412	40,886,760	584,591,069	48,257,044	6,232,385,881	-	6,232,385,881
INCOME FOR THE PERIOD	¢	15,049,722,768	623,448,256	977,612,645	538,389,855	1,099,952,382	18,289,125,906	3,239,403,138	15,049,722,768

(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
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 receivable		-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 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 period		22,009,658,558	1,150,908,947	797,572,160	297,435,085	925,851,669	25,181,426,419	3,171,767,861	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	1,221,129,938,258	-	20,568,396,820,705	-	20,568,396,820,705

(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
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)

(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.

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.

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

			Direct			Stand-by	
	Note		June 2018	June 2017	Note	June 2018	June 2017
Loan portfolio							
Principal	7-a	¢	4,446,109,598,695	4,397,470,786,682		345,303,603,530	345,523,856,500
Accounts and accrued interest receivable			36,100,678,453	27,763,070,665		-	-
Carrying amount, gross			4,482,210,277,148	4,425,233,857,347		345,303,603,530	345,523,856,500
Allowance for loan losses (accounting records)			(157,196,584,801)	(87,116,612,150)		(272,417,979)	(345,121,855)
Carrying amount, net		¢	4,325,013,692,347	4,338,117,245,197		345,031,185,551	345,178,734,645

(Continued)

		Direct		Stand-by	
		June 2018	June 2017	June 2018	June 2017
Loan portfolio					
Total balances:					
0	¢	21,111,253,828	10,466,695,847	-	-
A1		3,417,765,108,372	3,581,239,750,970	319,933,817,864	337,052,891,085
A2		35,384,711,744	38,864,762,497	663,725,340	503,769,588
B1		449,793,768,044	301,223,554,376	19,708,217,578	3,048,094,557
B2		5,385,327,851	7,065,356,635	25,235,582	38,335,947
C1		105,857,725,788	142,423,343,483	1,779,406,101	1,864,332,888
C2		19,029,502,557	4,783,268,961	38,498,452	27,003,655
D		142,779,460,398	151,379,054,378	941,036,766	1,150,915,358
E		285,103,418,566	187,788,070,200	2,213,665,847	1,838,513,422
		4,482,210,277,148	4,425,233,857,347	345,303,603,530	345,523,856,500
Structural allowance (subledger – database)		(143,834,674,032)	(86,273,443,983)	(161,934,149)	(159,423,014)
Net carrying amount	¢	4,338,375,603,116	4,338,960,413,364	345,141,669,381	345,364,433,486
Individually assessed loans with allowance:					
0	¢	21,111,253,828	10,466,695,847	-	-
A1		3,417,765,108,372	3,581,239,750,970	38,130,512,514	50,825,062,279
A2		35,384,711,744	38,864,762,497	81,524,298	92,626,834
B1		449,793,768,044	301,223,554,376	14,509,719,810	1,304,994,809
B2		5,385,327,851	7,065,356,635	-	-
C1		105,857,725,788	142,423,343,483	89,490,498	496,824,434
C2		19,029,502,557	4,783,268,961	-	3,679,022
D		142,779,460,398	151,379,054,378	78,861,078	119,741,345
E		285,078,187,630	187,788,070,200	45,009,297	95,993,178
		4,482,185,046,212	4,425,233,857,347	52,935,117,495	52,938,921,901
Structural allowance (subledger – database)		(143,834,674,032)	(86,273,443,983)	(161,934,149)	(159,423,014)
Net carrying amount	¢	4,338,350,372,180	4,338,960,413,364	52,773,183,346	52,779,498,887

		Direct		Stand-by	
		June 2018	June 2017	June 2018	June 2017
Current loans without allowance:					
0	¢	-	-	-	-
A1		-	-	281,803,305,350	286,227,828,807
A2		-	-	582,201,042	411,142,754
B1		-	-	5,198,497,768	1,743,099,748
B2		-	-	25,235,582	38,335,947
C1		-	-	1,689,915,603	1,367,508,453
C2		-	-	38,498,452	23,324,633
D		-	-	862,175,688	1,031,174,013
E		25,230,936	-	2,168,656,550	1,742,520,244
Carrying amount	¢	25,230,936	-	292,368,486,035	292,584,934,599
Gross carrying amount		4,482,210,277,148	4,425,233,857,347	345,303,603,530	345,523,856,500
Allowance for loan losses (database)		(143,834,674,032)	(86,273,443,983)	(161,934,149)	(159,423,014)
Excess of allowance over structural allowance		(13,361,910,769)	(843,168,167)	(110,483,830)	(185,698,841)
Net carrying amount	¢	4,325,013,692,347	4,338,117,245,197	345,031,185,551	345,178,734,645
Restructured loans	¢	116,268,538,398	38,490,705,474	-	-

(Continued)

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 2018	
		Loans to customers	
		Gross	Net
0	¢	21,111,253,828	20,792,249,908
A1		3,417,765,108,372	3,384,845,663,084
A2		35,384,711,744	35,193,985,998
B1		449,793,768,044	445,719,004,632
B2		5,385,327,851	5,310,288,805
C1		105,857,725,788	102,685,561,066
C2		19,029,502,557	17,709,251,841
D		142,779,460,398	131,411,722,322
E		285,103,418,566	181,345,964,691
	¢	4,482,210,277,148	4,325,013,692,347

		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

As shown above, as of June 30, 2018, the gross loan portfolio amounts to ¢4,482 billion. Of that amount, 87.67% is classified in risk ratings "A + B" and 12.33% in risk ratings "C + D + E" (2017: ¢4,425 billion, of which 89.01% is classified in risk ratings "A + B" and 10.99% 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 for which, after considering the guarantee for the loan, there is still a balance to which the applicable allowance percentage will be applied.

Past due loans without allowance:

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

Restructured loans:

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

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.

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 write-off policy:

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

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:

		Direct		Stand-by	
Borrower classification		June 2018	June 2017	June 2018	June 2017
Group 1	¢	2,682,969,972,463	2,694,918,265,433	73,364,178,275	67,141,398,909
Group 2		1,799,240,304,685	1,730,315,591,914	271,939,425,255	278,382,457,591
	¢	4,482,210,277,148	4,425,233,857,347	345,303,603,530	345,523,856,500

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.

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:

Risk rating	Arrears	Historical payment behavior	Creditworthiness
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 or Level 2 or Level 3
C2	90 days or less	Level 1 or Level 2	Level 1 or Level 2 or Level 3
D	120 days or less	Level 1 or Level 2	Level 1 or Level 2 or Level 3 or Level 4
E	More than 121 days	Level 1 or Level 2	Level 1 or Level 2 or 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 a 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.

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.

(Continued)

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:

Risk rating	Specific allowance percentage - Uncovered portion	Specific allowance percentage - Covered portion
A1	0%	0.00%
A2	0%	0.00%
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:

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

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 a Directive. Accordingly, as of December 31, 2015, the Bank applied an allowance percentage of 0.2%, 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:

Risk rating	General allowance	Specific allowance percentage - Uncovered portion	Specific allowance percentage - Covered portion
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.

(Continued)

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:

Arrears	Specific allowance percentage - Uncovered portion	Specific allowance percentage - Covered portion	Creditworthiness (Group 1 borrowers)	Creditworthiness (Group 2 borrowers)
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 or Level 2 or 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 a rating during at least 180 days. During such a period, the allowance percentage will be 100% and the aforementioned exception should not be applied.

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

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

		June 2018		
		Allowance booked	Structural allowance	Excess of allowance
Direct	¢	157,196,584,801	(143,834,674,032)	13,361,910,769
Stand-by		272,417,979	(161,934,149)	110,483,830
		157,469,002,780	(143,996,608,181)	13,472,394,599
Counter-cyclical - SUGEF 19-16		7,687,124,645	(7,687,124,645)	-
	¢	165,156,127,425	(151,683,732,826)	13,472,394,599

		June 2017		
		Allowance booked	Structural allowance	Excess 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

(Continued)

As of June 30, 2018, the balance of the Bank's allowance for loan losses (direct and stand-by), accrued interest receivable, and other receivables amounts to ¢169,686,559,092 (2017: ¢96,542,280,532).

Counter-cyclical allowance

As of June 30, 2018, the counter-cyclical allowance is valued pursuant to the provisions set forth in SUGEF Directive 19-16 *Regulations to Determine and Book Counter-cyclical Allowances*, approved by CONASSIF through Article 6 of minutes of meeting No. 1258-2016 held on June 7, 2016, published in Alcance No. 100 of the Official Gazette No. 117, of June 17, 2016. Those provisions are summarized as follows:

Pursuant to SUGEF Directive 19-16, a counter-cyclical allowance is a generic-type allowance applied to the loan portfolio that has no current indication of impairment, determined by the expected level of allowances in economic recession periods. The purpose of the counter-cyclical allowance is mitigating the effects of the economic cycle on the financial results derived from the provision for loan losses. The purpose of this allowance is to reduce the pro-cyclical effect of specific allowances on the financial system and its consequences on the actual economic sector.

This allowance may be deactivated for the entire financial system or for an individual entity, whenever it is required to safeguard the stability of the financial system prior to a duly supported resolution. In that case, required entities must book the elimination of all of the counter-cyclical allowances made and stop making new ones until the Superintendency indicates that the requirement has been reactivated.

Transition Provision II of SUGEF Directive 19-16 indicates that starting July 2016 each entity must perform the monthly booking of the expense for the counter-cyclical component equivalent to a minimum of 7% of the difference between the balance of income accounts less expenses plus taxes and monthly statutory allocations, until the balance of the analytical account reaches the amount corresponding to the counter-cyclical allowance provided in the regulations (¢29,189,340,618 based on the calculation of the counter-cyclical allowance made by management as of June 30, 2018). Once the entity reaches that level, it shall continue booking the counter-cyclical account as indicated by this Regulation.

The CONASSISF agreement reached in Article 13 of minutes of meeting No. 1416-2018 held on May 15, 2018, published in Gazette N°97 on June 1, 2018, indicates that the percentage applicable for this concept shall be as follows:

Date of application	**Percentage (%)**
When the amendment enters into effect	5.00%
Starting June 1, 2019	6.00%
Starting June 1, 2020	7.00%

As of June 30, 2018, the counter-cyclical allowance booked amounts to ¢7,687,124,645 (2017: ¢5,330,210,628).

Credit equivalent

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

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

Allowance for other assets

Allowances should be established for the following assets:

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

Arrears	Allowance percentage
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, 2018, the carrying amount of the allowance for impairment of foreclosed assets and per legal requirements amounts to ¢59,281,685,006 (2017: ¢62,469,414,972).

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

Sector		Direct June 2018	Direct June 2017	Stand-by June 2018	Stand-by June 2017
Trade	¢	399,216,651,794	432,619,231,762	2,297,108	5,364,818
Services		922,906,282,537	915,471,708,066	66,826,460,831	58,023,489,446
Financial services		132,540,137,603	139,217,139,043	-	-
Mining		864,333,632	995,800,373	-	-
Manufacturing and quarrying		166,364,506,630	173,750,287,049	-	-
Construction		116,977,715,807	111,037,457,315	-	-
Agriculture and forestry		122,308,815,277	123,257,903,404	670,727	15,208,468
Livestock, hunting, and fishing		83,953,132,236	84,091,341,429	-	-
Electricity, water, sanitation, and other related sectors		439,277,798,718	421,850,373,439	-	-
Transportation and telecommunications		43,902,198,182	46,723,776,824	-	-
Housing		1,299,961,173,023	1,286,463,735,331	18,297,831	16,089,735
Personal or consumer		569,941,588,044	519,135,373,016	278,275,898,042	287,260,454,781
Tourism		183,995,943,665	170,619,730,296	179,978,991	203,249,252
	¢	4,482,210,277,148	4,425,233,857,347	345,303,603,530	345,523,856,500

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

		Direct		Stand-by	
		June 2018	June 2017	June 2018	June 2017
Central America	¢	4,482,210,277,148	4,425,233,857,347	345,303,603,530	345,523,856,500

The loan portfolio by type of guarantee is as follows:

		Direct		Stand-by	
Type of guarantee		June 2018	June 2017	June 2018	June 2017
Back to back	¢	42,469,513,400	41,768,459,122	418,675	1,701,270
Mortgage bond		252,793,543	408,118,895	-	-
Assignment of loans		324,580,989,628	480,049,621,073	-	-
Mortgage		1,793,715,369,737	1,797,014,421,800	150,202,715	192,243,562
Surety		923,929,747,498	837,177,891,556	-	24,173,411
Trust		487,966,276,129	387,614,240,394	32,440,503	38,149,891
Securities		2,112,962,848	1,151,087,594	-	-
Chattel mortgage		258,305,666,479	241,531,467,815	-	-
Other		648,876,957,886	638,518,549,098	345,120,541,637	345,267,588,366
	¢	4,482,210,277,148	4,425,233,857,347	345,303,603,530	345,523,856,500

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 market 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 market 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, 2018 and 2017, 57.67% and 66.65%, respectively, of the loan portfolio is secured by collateral guarantees.

(Continued)

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

		Direct		Stand-by	
Loan portfolio concentration		June 2018	June 2017	June 2018	June 2017
¢1 to ¢3,000,000	¢	165,411,761,267	152,911,916,872	104,031,527,680	103,668,980,016
¢3,000,001 to ¢15,000,000		633,431,279,124	608,898,494,733	173,091,495,812	181,374,898,234
¢15,000,001 to ¢30,000,000		471,239,869,674	471,933,436,943	6,160,009,677	6,269,775,441
¢30,000,001 to ¢50,000,000		479,599,691,700	473,309,163,130	2,391,971,248	2,178,884,321
¢50,000,001 to ¢75,000,000		384,591,632,207	368,699,039,857	2,587,913,220	2,360,912,688
¢75,000,001 to ¢100,000,000		189,918,690,545	180,205,486,085	869,146,354	1,398,514,043
¢100,000,001 to ¢200,000,000		236,520,746,814	232,118,961,657	3,053,880,723	4,371,207,702
More than ¢200,000,000		1,921,496,605,817	1,937,157,358,070	53,117,658,816	43,900,684,055
	¢	4,482,210,277,148	4,425,233,857,347	345,303,603,530	345,523,856,500

As of June 30, 2018 and 2017, the portion of the loan portfolio (direct and stand-by loans) corresponding to economic interest groups amounts to ¢481,215,855,422 and ¢505,132,156,399, 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).

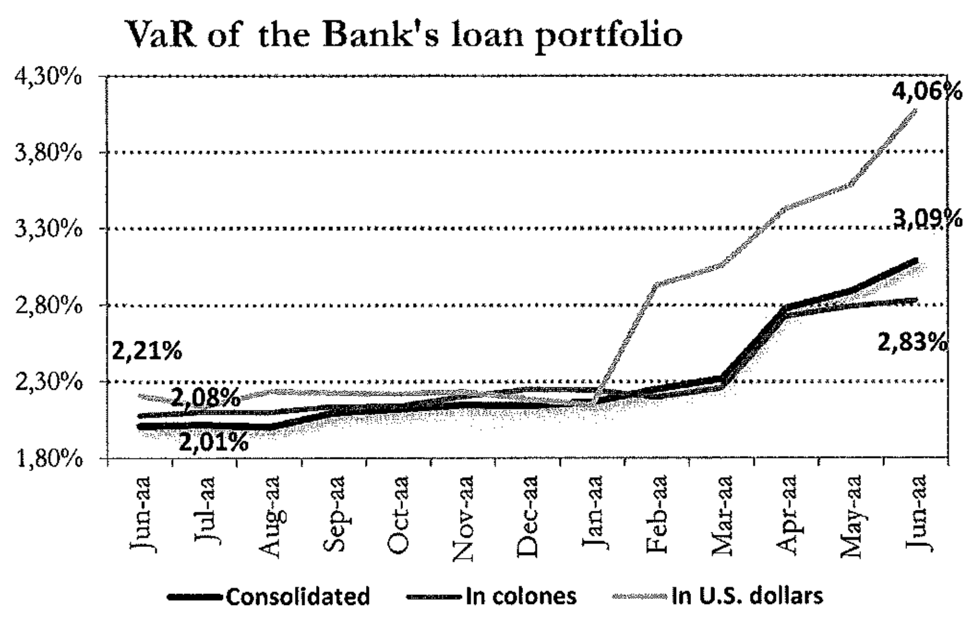
This approach is applied using a computational system developed in "Matlab" software. Also, the credit risk model takes into consideration the impact of changes in macroeconomic variables (endogenous and exogenous) on the loan portfolio when determining systemic factors. Results are compared with prior-month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

The Bank's loan portfolio comprises operations in various currencies, i.e. the Costa Rican colon, the US 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.

(Continued)

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 quarterly increase of the VaR is due to the impairment of the arrears more than 90 days indicator for the entire loan portfolio between March 2018 and June 2018, which went from 2.59% to 4.32%. Although there was a decrease in legal collection for the portfolio as a whole, it remains high, going from 8.05% in March 2018 to 7.91% in June 2018. For the same time periods, by currency, portfolios showed a similar behavior to that of the arrears indicators. In colones, legal collection decreased from 7.18% to 6.94% and arrears more than 90 days increased from 2.54% to 2.74%. In US dollars, legal collection increased from 9.64% to 9.73% and arrears more than 90 days increased from 2.63% to 7.43%. On a year-on-year basis, the consolidated VaR of the loan portfolio also increased during the period from June 2017 to June 2018. By currency, the VaR of the portfolios in colones, in US dollars, and in DU increased.



By economic activity, on a year-on-year basis, most activities show increases in the VaR. Only Services presented a decrease in the VaR. In consolidated terms, the VaR increased from 2.01% in June 2017 to 3.09% in June 2018.

The VaR of the Bank's loan portfolio by economic activity is as follows:

Activity	June 2018	June 2017
Agriculture	5.32%	3.96%
Livestock	3.49%	2.93%
Mining	10.41%	10.35%
Industry	3.69%	3.51%
Energy	6.94%	3.66%
Housing	1.67%	1.48%
Construction	6.35%	3.07%
Trade	4.69%	2.59%
Transportation	1.53%	1.14%
Financial services	0.35%	0.25%
Consumer	7.49%	4.01%
Services	1.92%	2.05%
Tourism	6.28%	5.95%
BNCR	3.09%	2.01%

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 composed of securities issued by BCCR and the Ministry of Finance. Such a 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 analysis 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.

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.

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

For the June 2018 close, the accounting records showed investments in colones, investments in instruments issued by local issuers in US dollars ($CR), and investments in instruments issued by foreign issuers in US dollars ($USA). The Brokerage Firm holds no investments in DU. By currency, most of the Brokerage Firm's financial instruments (67.04%) is concentrated in the portfolio denominated in colones.

With respect to the consolidated portfolio, the portfolio in colones comprises investments in instruments issued by the Government of Costa Rica (62.12%) and BCCR (4.92%), representing 67.04% of the consolidated portfolio. The portfolio in US dollars comprises investments in instruments issued by the Government of Costa Rica in that currency, representing 32.96% of the consolidated portfolio.

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

For the Pension Fund Manager, since April 2008, the Bank's Credit Risk Division has applied a method based on the Merton model to quantify the VaR levels of the investment portfolio, 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 uses the following three basic inputs: the market values of securities, the probability of default for each issuer, and the percentage of expected losses for each issuer. Market 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.

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 US dollars, using the Merton model based on the limits set by SUPEN for investments per issuer.

As of June 30, 2018, the net assets managed by the Pension Fund Manager amount to ¢1,346,041.63 million (June 30, 2017: ¢1,213,251.74 million), growing year-on-year by ¢132,789.89 million in nominal terms, equivalent to a growth rate of 10.94%. These data do not include the Pension Fund Manager's own assets.

The pension fund with the highest relative share is ROP, which represents 82.25%, growing year-on-year by ¢113,343.07 million, an increase of 11.41% with respect to the same period in 2017.

As of June 30, 2018, the Pension Fund Manager's portfolio of own funds is represented by available-for-sale investments in the amount of ¢7,428.76 million (June 30, 2017: ¢6,567.40 million). An adjustment has been made to the price of assets that compose the investments portfolio 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.

As of June 30, 2018, the VaR of credit in absolute terms is ¢30.90 million, equivalent to 0.40% (June 30, 2017: ¢29.89 million, equivalent to 0.46%), indicating a minimal increase.

Consolidated VaR - One year	As of June 30,		
Fund	2018	2017	Variation
FCL	1.36%	1.90%	(0.54%)
FPC A	0.02%	0.15%	(0.14%)
FPC B	3.59%	2.80%	0.78%
FPD A	27.41%	27.37%	0.04%
FPD B	30.25%	26.92%	3.33%
NOT	0.00%	0.00%	0.00%
ROP	5.87%	5.76%	0.11%
BN Vital (OPC)	0.40%	0.46%	(0.05%)
FCLE	5.13%	4.89%	0.24%
ROPE	3.99%	4.18%	(0.18%)

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, 2018 and 2017, 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 corresponds to checking account deposits with a State-owned bank. As of June 30, 2018, 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.

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.

The LCR indicator as of the June 2018 close is presented below. With regard to June 2017, there was a slight decrease in colones and it was stable in US dollars, remaining above the risk appetite level in both currencies. The LCR in colones, in spite of the stagnation in credit during 2018, had a small drop year-on-year; this is because the growth of high-quality assets was less than the proportion of potential outflow obligations and the growth rate in deposit-taking diminished during 2018. The LCR in US dollars has been approximately 300% during the last year, considerably below the risk appetite above $700 million due to the international bonds issue, boom in deposit-taking through CDPs during 2017 and the low rhythm in credit placement.

Indicator	June 2018	June 2017	Variation	Level
LCR in colones	110.60%	117.7%	(7.1) %	Appetite
LCR in US dollars	292.30%	293.0%	(0.7) %	Appetite

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of June 30, 2018, the terms of the Bank's assets and liabilities denominated in local currency are matched as follows:

		Days								
		Past due	Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	More than 365	Total
Cash and due from banks	¢	-	64,980,313,236	-	-	-	-	-	-	64,980,313,236
Minimum legal deposit in BCCR		-	335,951,253,556	33,107,104,679	34,607,783,794	23,261,833,588	59,267,377,102	78,854,134,798	16,574,775,216	581,624,262,733
Investments		-	-	18,161,324,091	13,200,659,228	23,708,121,144	29,714,031,658	69,579,717,250	328,112,331,363	482,476,184,734
Loan portfolio		144,978,452,024	-	51,942,640,248	38,856,640,726	40,991,801,589	95,167,780,908	135,996,332,824	2,487,030,423,264	2,994,964,071,583
Total recovery of assets	¢	144,978,452,024	400,931,566,792	103,211,069,018	86,665,083,748	87,961,756,321	184,149,189,668	284,430,184,872	2,831,717,529,843	4,124,044,832,286
Obligations with the public	¢	-	1,769,549,330,240	242,389,241,586	162,719,885,391	143,583,920,549	370,539,263,772	509,545,107,265	80,204,930,079	3,278,531,678,882
Obligations with BCCR		-	-	7,000,000,000	-	-	-	-	125,644,412	7,125,644,412
Obligations with financial entities		-	76,809,009,785	23,277,144,075	9,629,332,746	3,034,856,571	21,074,416,017	38,828,939,853	35,172,029,728	207,825,728,775
Charges payable		-	9,954,915,996	9,070,565,973	4,753,674,933	3,089,206,503	3,966,248,905	3,474,298,689	1,781,926,598	36,090,837,597
Total maturity of liabilities	¢	-	1,856,313,256,021	281,736,951,634	177,102,893,070	149,707,983,623	395,579,928,694	551,848,345,807	117,284,530,817	3,529,573,889,666
Difference	¢	144,978,452,024	(1,455,381,689,229)	(178,525,882,616)	(90,437,809,322)	(61,746,227,302)	(211,430,739,026)	(267,418,160,935)	2,714,432,999,026	594,470,942,620

(Continued)

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				
		Past due	Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	More than 365	Total
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	18,241,281,428	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	274,267,222,639	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	2,411,748,884,365	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	2,704,257,388,432	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	106,273,477,387	3,081,948,572,467
Obligations with BCCR		-	-	133,675,000,000	-	-	-	-	125,644,412	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	16,890,923,156	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	179,034,233	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	123,469,079,188	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)	2,580,788,309,244	592,204,672,780

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of June 30, 2018, the terms of the Bank's assets and liabilities denominated in foreign currency, expressed in local currency, are matched as follows:

					Days					
		Past due	Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	More than 365	Total
Cash and due from banks	¢	-	233,877,683,321	-	-	-	-	-	22,446,422	233,900,129,743
Minimum legal deposit in BCCR		-	161,756,027,307	13,195,815,520	17,936,146,478	13,966,214,244	21,305,776,627	19,973,211,675	47,574,848,322	295,708,040,173
Investments		-	-	64,898,133,144	108,091,757,520	62,797,804,634	145,104,075,026	89,805,994,043	235,622,879,901	706,320,644,268
Loan portfolio		174,543,365,670	-	26,313,314,592	23,089,823,350	25,503,671,064	55,726,417,553	63,292,655,788	1,118,776,957,547	1,487,246,205,564
Total recovery of assets	¢	174,543,365,670	395,633,710,628	104,407,263,256	149,117,727,348	102,267,689,942	222,136,269,206	173,071,861,506	1,401,997,132,192	2,723,175,019,748
Obligations with the public	¢	-	884,405,296,917	114,551,718,363	91,919,517,372	46,959,571,248	155,118,635,425	133,925,553,573	69,439,682,393	1,496,319,975,291
Obligations with financial entities		-	121,990,597,831	19,275,282,400	9,161,928,808	27,076,673	282,174,769,896	3,890,262,465	636,018,488,998	1,072,538,407,071
Charges payable		-	2,202,484,874	1,691,674,511	788,736,049	387,722,585	3,392,748,934	1,320,674,405	6,313,633,614	16,097,674,972
Total maturity of liabilities	¢	-	1,008,598,379,622	135,518,675,274	101,870,182,229	47,374,370,506	440,686,154,255	139,136,490,443	711,771,805,005	2,584,956,057,334
Difference	¢	174,543,365,670	(612,964,668,994)	(31,111,412,018)	47,247,545,119	54,893,319,436	(218,549,885,049)	33,935,371,063	690,225,327,187	138,218,962,414

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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								
		Past due	Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	More than 365	Total
Cash and due from banks	¢	-	437,318,785,772	-	-	-	-	-	208,544,332	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	50,292,781,531	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	275,667,127,318	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	1,260,347,295,859	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	1,586,515,749,040	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	68,207,736,485	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	948,480,003,904	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	16,527,625,590
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	1,016,983,291,903	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)	569,532,457,137	55,165,344,332

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

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

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

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

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

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

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

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.

Consequently, 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.

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.

Starting December 2017, there was a change in the methodology to calculate the liquidity risk level: a liquidity ratio is calculated, which shows the number of times that cash covers expected withdrawals. For the ROP, FCL, FPC B, and NOT the methodology considers cash plus liquid investments (issued by BCCR and by the government, with maturities less than one month). Consequently, no comparison is made as of the same date for the prior period. As of the 2018 period close the liquidity ratio of the funds was as follows:

Liquidity ratio

Fund	June 2018	June 2017
ROP	15.25	10.21
FCL	5.16	14.50
NOT	17.41	76.97
FPC A	5.87	9.74
FPC B	9.83	10.07
FPD A	7.00	4.01
FPD B	7.30	4.85
FCL Erroneous	34.20	11.75
ROP Erroneous	108.37	68.27

As of June 30, 2017, the methodology consisted of calculating a single liquidity VAR, which did not exceed 1% for most of the funds except for FPD A. However, sufficient funds were maintained to address obligations, thus the risk was hedged.

Historical liquidity VaR

Fund	2017
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%

(Continued)

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.

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 monitors the investment portfolio 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 2018 and June 2017.

	Face value of investments by currency		
Currency	June 2018	June 2017	Variation
Colones	403,287,794,400	483,237,284,889	403,287,794,400
US dollars - local	363,000,000	496,493,064	363,000,000
US dollars - intl	832,612,737	380,772,742	832,612,737
Euro	11,000,000	20,000,000	11,000,000
DU	21,082,530	34,823,795	21,082,530

The duration for each currency has presented variations according to portfolio management, with a decrease during the last year in colones, euro, and DU, and an increase in US dollars.

Duration	June 2018	June 2017	Variation
Colones	0.47	0.47	0.50
US dollars - local	0.93	0.93	(0.15)
US dollars - intl	1.32	1.32	(0.43)
Euro	0.92	0.92	(0.48)
DU	1.39	1.39	(0.40)

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 market value of its financial instrument portfolio before they are derecognized. The loss is equivalent to the difference between the market value when the instrument was acquired and the market value at the date the instrument was derecognized. The degree of risk depends on the settlement period and market volatility and liquidity.

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 composed of fixed income instruments. The model considers yield curves, rate model parameter estimation, scenario simulations, and calculation of the 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.

The VaR of price risk and market 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 the board of directors, respectively, and is based on the local VaR limits of the trading portfolio. The 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 2018	June 2017
VaR (99% confidence level)	0.20%	0.28%

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, 2018 and 2017, 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.

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.

Currently, the Pension Fund Manager's funds are composed of funds in various currencies, i.e. the Costa Rican colon, the US 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. A VaR of investment funds is also 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.

- *Market risk of investments*

i. *Banco Nacional de Costa Rica*

The Bank's consolidated VaR regarding the market value of investments is at the risk appetite level, showing a slight decrease during the last year.

Type of risk	June 2018	June 2017	Variation
VaR (consolidated)	0.14%	0.19%	(0.05)%

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

Currency	VaR by currency June 2018	June 2017	Variation
Colones	0.16%	0.15%	0.01%
US dollars - local	0.24%	0.30%	(0.05)%
US dollars - intl	0.22%	0.40%	(0.18)%
Euro	0.0004%	0.04%	(0.04)%
DU	1.03%	0.20%	0.83%

- *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 on its performance monthly to the Bank's Corporate Risk Committee. A summary is provided below:

Type of risk	June 2018	June 2017	Variation	Level
Interest rate risk in colones	0.060%	0.53%	(0.47) %	Normal
Interest rate risk in foreign currency	0.82%	0.42%	0.40%	Normal

Both indicators closed considerably below SUGEF's regulatory limits. The interest rate risk in colones remains at around 0.06%, resulting from a decrease in the duration of equity, and the expected spread of the lending rate, which went from 3.4 pp to 1.1 pp due to its stability during the last year. In US dollars, the increase corresponds to changes in the 3-month LIBOR rate.

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of June 30, 2018, the interest rate terms for the Bank's assets and liabilities (differences between the recovery of assets and the maturity of liabilities) are matched as follows:

		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
Local currency (LC)								
Investments	¢	18,149,394,904	36,809,191,293	20,297,178,889	69,559,407,005	96,729,975,105	221,302,633,484	462,847,780,680
Loan portfolio		2,570,571,043,967	103,130,066,210	98,614,759,666	15,655,919,009	16,998,559,068	68,065,110,617	2,873,035,458,537
Total recovery of rate-sensitive assets in LC (A)	¢	2,588,720,438,871	139,939,257,503	118,911,938,555	85,215,326,014	113,728,534,173	289,367,744,101	3,335,883,239,217
Obligations with the public	¢	280,956,904,202	317,260,743,885	396,330,601,051	548,428,166,162	55,830,921,842	26,445,140,039	1,625,252,477,181
Obligations with BCCR		7,002,333,333	-	-	-	-	125,644,412	7,127,977,745
Obligations with financial entities in LC		7,224,873,001	-	-	-	-	35,785,886,375	43,010,759,376
Total maturity of rate-sensitive liabilities in LC (B)	¢	295,184,110,536	317,260,743,885	396,330,601,051	548,428,166,162	55,830,921,842	62,356,670,826	1,675,391,214,302
Difference in LC, recovery of assets less maturity of liabilities (A - B)	¢	2,293,536,328,335	(177,321,486,382)	(277,418,662,496)	(463,212,840,148)	57,897,612,331	227,011,073,275	1,660,492,024,915
Foreign currency (FC)								
Investments	¢	64,898,133,355	170,889,562,154	145,103,205,885	78,502,537,028	68,685,144,166	178,068,076,611	706,146,659,199
Loan portfolio		1,200,641,917,183	44,678,434,288	26,130,838,985	2,872,816,019	24,002,521,873	66,638,923,889	1,364,965,452,237
Total recovery of rate-sensitive assets in FC (C)	¢	1,265,540,050,538	215,567,996,442	171,234,044,870	81,375,353,047	92,687,666,039	244,707,000,500	2,071,112,111,436
Obligations with the public	¢	135,782,958,730	143,126,386,507	445,605,286,888	135,807,515,933	27,274,353,850	575,041,922,947	1,462,638,424,855
Obligations with entities		5,634,400,000	45,122,653	354,419,407	300,985,253	-	94,280,246,168	100,615,173,481
Total maturity of rate-sensitive liabilities in FC (D)	¢	141,417,358,730	143,171,509,160	445,959,706,295	136,108,501,186	27,274,353,850	669,322,169,115	1,563,253,598,336
Difference in FC, recovery of assets less maturity of liabilities (C - D)	¢	1,124,122,691,808	72,396,487,282	(274,725,661,425)	(54,733,148,139)	65,413,312,189	(424,615,168,615)	507,858,513,100
Total recovery of rate-sensitive assets 1/ (A + C)	¢	3,854,260,489,409	355,507,253,945	290,145,983,425	166,590,679,061	206,416,200,212	534,074,744,601	5,406,995,350,653
Total maturity of rate-sensitive liabilities 2/ (B + D)	¢	436,601,469,266	460,432,253,045	842,290,307,346	684,536,667,348	83,105,275,692	731,678,839,941	3,238,644,812,638
Difference in LC + FC, recovery of assets less maturity of liabilities (item 1 - item 2)	¢	3,417,659,020,143	(104,924,999,100)	(552,144,323,921)	(517,945,988,287)	123,310,924,520	(197,604,095,340)	2,168,350,538,015

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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 (differences between the recovery of assets and the maturity of liabilities) are matched as follows:

		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
Local currency (LC)								
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 in 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 in 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 in 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
Difference in LC, 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
Foreign currency (FC)	¢	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
Investments		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
Loan portfolio	¢	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 in 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
Difference in FC, 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
Difference in LC + FC, 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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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 (due to relatively low inflation).

The consolidated VaR of the Pension Fund Manager's own funds presents a downward trend with a maximum of 0.42% and a minimum of 0.00%, for an average of 0.27%, equivalent to ¢21.11 million. As of June 30, 2017, the average was 0.25%. Thus, there is a slight increase in the indicator resulting from the proportion of the portfolio invested in fixed-rate instruments, given that this indicator shows the volatility of the portfolio in relation to market interest rates.

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.

Due to the amendments to BCCR's Foreign Exchange Operations and the new regulations of SUGEF Directive 23-17 on market risk, interest rates, and exchange rate, the Bank will eventually modify its appetite in the foreign currency position to a higher level (a long position).

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 2018	June 2017	Variation	Level
Currency risk	0.68%	0.05%	0.63%	Appetite

i. *Banco Nacional de Costa Rica*

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

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Assets and liabilities denominated in foreign currency are as follows:

		US dollars	
		June 2018	June 2017
Assets:			
Cash and due from banks	US$	904,827,211	1,284,477,726
Investments in financial instruments		1,240,545,870	939,004,018
Loan portfolio		2,483,030,848	2,687,967,970
Accounts and accrued interest receivable		601,949	969,428
Investments in other companies		107,741,017	106,710,909
Other assets		6,298,414	2,673,301
	US$	4,743,045,309	5,021,803,352
Liabilities:			
Obligations with the public	US$	2,594,177,002	2,777,090,537
Obligations with entities		1,918,853,007	2,088,698,889
Accounts payable and provisions		132,923,330	22,645,920
Other liabilities		49,295,406	39,560,738
Subordinated obligations		34,976,131	132,587,269
	US$	4,730,224,876	5,060,583,353
Excess (deficit) of assets over liabilities in US dollars	US$	12,820,433	(38,780,001)

		Euro	
		June 2018	June 2017
Assets:			
Cash and due from banks	€	30,139,527	23,695,410
Investments in financial instruments		11,188,657	20,704,452
	€	41,328,184	44,399,862
Liabilities:			
Obligations with the public	€	39,398,776	43,551,073
Obligations with entities		724,097	1,037,211
Accounts payable and provisions		162,259	185,279
Other liabilities		240,786	240,217
	€	40,525,918	45,013,780
Excess (deficit) of assets over liabilities in euro	€	802,266	(613,918)

		DU	
		June 2018	June 2017
Assets:			
Investments in financial instruments	UD	21,082,530	34,807,138
Loan portfolio		11,294,405	18,507,587
	UD	32,376,935	53,314,725
Liabilities:			
Accounts payable and provisions	UD	661,243	769,329
Other liabilities		7,300	3,587
	UD	668,543	772,916
Excess of assets over liabilities in DU	UD	31,708,392	52,541,809

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 2018	June 2017
Foreign exchange gain	¢	40,383,023,447	105,868,585,954
Foreign exchange loss		(40,266,865,414)	(107,414,453,040)
Net gain (loss)	¢	116,158,033	(1,545,867,086)

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 2018	June 2017
Gain on net valuation of other assets (note 37)	¢	148,406,340	86,687,999
Loss on net valuation of other liabilities (note 40)		(104,478,420)	(558,079,668)
Net gain (loss)	¢	43,927,920	(471,391,669)

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 a 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 US dollars.

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

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, 2018, 2.78% of the Pension Fund Manager's portfolio of own funds is represented by investments in US dollars. By adding cash and due from banks denominated in foreign currency, the percentage increases to 3.47%, which in nominal terms represents ¢266.73 million compared to the close as of June 30, 2017 at 3.60% (¢239.74 million), considering cash and due from banks and bonded debt, 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 US 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.

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.

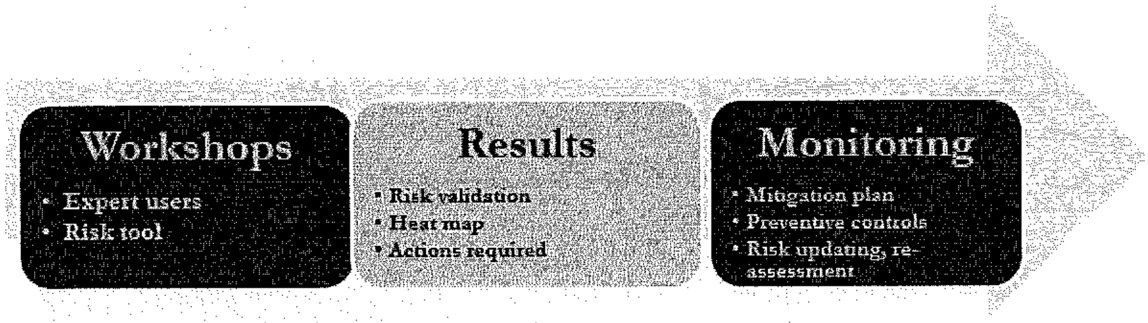
The Information Security and Business Continuity functions are part of the scope of the operational risk in conformity with SUGEF Directive 18-16 *Regulations on operating risk management*.

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 a methodology is applied to institutional processes:



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 a 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.

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.

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 of the market sector in which the Pension Fund Manager operates and for all of its main activities. It manifests as failures, errors, business interruptions, or inappropriate employee behavior, and may cause financial loss, penalties from regulatory authorities, or damage to the reputation of the Pension Fund Manager.

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

- appropriate segregation of duties, including the independent authorization of transactions
- requirements for effective reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- communication and application of conduct guidelines or ethical standards
- monitoring of risks using measurement tools
- reporting of operational losses and proposed remedial actions

- comprehensive planning for resuming activities, including plans to restore key operations and internal and external support to ensure services are not interrupted
- 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.

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, 2018, the Bank's General Risk Division presented the results of the VaR by legal risk for the Pension Fund Manager, indicating that the amount to be provisioned is the EL of ¢22.4 million that covers the main lawsuits against the Pension Fund Manager out of nine pending lawsuits, most of which are in first instance (see note 12, lawsuit section).

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, minus the individual deficits of each company in the financial group or conglomerate.

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

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

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

Tier II capital: calculated as the sum of equity adjustments 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, 2018 and 2017, the Bank's risk rating is at a normal level since its capital adequacy ratio (CAR) is above the required 10% ratio.

(47) Contingencies

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

	Number of cases				Total estimated amount	
	2018	2017	Phase		2018	2017
Bank	253	235	First instance	¢	238,715,917,655	253,465,983,596
	18	22	Second instance		18,798,169,244	20,348,132,875
	6	6	Appeal		3,615,000,000	3,615,000,000
	1	1	Administrative proceedings (note 48)		38,458,424,266	38,458,424,266
	278	264			299,587,511,165	315,887,540,737
Pension Fund Manager	1	1	First instance		23,220,000	288,110,324
	1	1			23,220,000	288,110,324
Investment Fund Manager	1	1	First instance		133,004,706	92,101,415
	1	1			133,004,706	92,101,415
	280	266	(note 22)	¢	299,743,735,871	316,267,752,476

As of June 30, 2018 and 2017, the legal actions filed against the Bank are booked in memoranda accounts under "Other contingencies - pending litigation and lawsuits".

As of June 30, 2018 and 2017, the Bank is a claimant in ordinary, labor, and criminal lawsuits for which the outcome is uncertain and are not booked in the accounting records, as follows:

Number of cases				Total estimated amount	
2018	2017	Phase		2018	2017
156	111	First instance	¢	783,472,849,098	721,283,192,403
156	111		¢	783,472,849,098	721,283,192,403

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, 2018, the Bank does not book a provision for those lawsuits, given that the legal counsel has indicated that such proceedings must not be included in the calculation of the provision since the probability of a loss is low.

The following lawsuits can also be mentioned:

- *File No. 14-003379-1027-CA*

  - ✓ Statement of facts: The plaintiffs seek that the Bank be ordered to pay damages caused to all the plaintiffs and to pay compensation for pain and suffering caused due to the inability to acquire decent housing, as a result of apparent anomalies regarding the management of credits to Grupo Zion, S.A. to build the Bariloche Real condominium. Additionally, it has had media coverage.
  - ✓ Current status: Scheduling of hearing for judicial acknowledgment and public oral proceedings is pending.

- *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: Through a resolution of second instance, vote No. 055-F-18, the Agrarian Court of the Second Judicial Circuit of San José, Goicoechea, annulled the resolution of first instance, so that the judge must issue a ruling on the appeal concerning new facts and claims of the case on which resolution was omitted.

- *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: Vote No. 000061-F-2018, of the Agrarian Court, ordinary proceedings file No. 08-000232-0419-AG against Cooperativa de Producción de Cacao y Palma de Finca Diez, Once y Doce de Palmar Sur R.L., in its operative paragraphs, rejects the motion for application filed by the plaintiff, and confirms the judgment made at 15 hours of May 15, 2014.

- *File No. 08-001455-1027-CA*

  ✓ Court: Administrative Court and Civil Court of the Public Treasury
  ✓ Statement of facts: External notaries that filed a lawsuit against the Bank due to the termination of their contracts for professional services, since they consider that their contracts were for indefinite terms and they had an acquired right.
  ✓ Current status: The appeal for annulment filed by the Bank was admitted, and the judgment of first instance sentencing the Bank was revoked. A decision was made on the merits of the case, rejecting the lawsuit against the Bank in all respects.

- *File No.: 11-001042-0612-PE*

  ✓ Court: Public Prosecutor's Office for Economic, Tax, and Customs Offenses
  ✓ Statement of facts: Denunciation of irregularities related to Zion company in the processing of loans granted to that company, misuse of funds, presentation of false documentation to the Bank to obtain approval of loans, and alleged participation of some Bank employees in the events.
  ✓ Current status: The final report is being drafted, which must be assessed by the Joint Prosecutor's Office for Economic, Tax, and Customs Offenses to prepare the claim. The case is processed by Andrina Guillén.

(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 the "Proposed Sanctioning Ruling Based on Article 81 of the Tax Code of Standards and Procedures".

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.

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.

On August 31, 2016, the Constitutional Chamber resolved the constitutional motion filed against Article 144 of the *Code of Tax Standards and Procedures* (CNPT), declaring unconstitutional Articles 144 and 192 of CNPT (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 resulted 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.

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.

On July 26, 2017, ruling AUR-066-17 of June 23, 2017 rejects the objection of statute of limitations on the motion for dismissal and motion for reconsideration against determination ruling DT-R-030-17 filed by the Bank on May 18, 2017.

On September 5, 2017, management of the Bank appeared before the authorities to file a formal appeal for reversal against Sanctioning Ruling No. 2-10-15-14-1-5178-03 and No. 2-10-15-14-03-582-03, dated April 5, 2017, notified to the Bank on April 19, 2017.

On September 29, 2017, through resolution No. AP10R-110-17 and AP10R-109-17 dated September 14, the Large Taxpayer Administration heard the formal filing of the appeal for reversal filed by the Bank on September 5, 2017 and resolution AUR-066-17 dated July 26, 2017 thus admitting and initiating the processing of the aforementioned appeal.

On June 4, 2018, the First Chamber of the Tax Court submits official communication No. TFA-No. 247-P-2018, in which it hears the appeal filed by the Bank against resolution AU10R-066-17, rejecting the preliminary objection of statute of limitations and appeal for annulment, thus rejecting the appeal filed by the Bank.

On June 20, 2018, the Bank filed a request for additional explanations and clarification of the principal amount for 2013, and asks that the resolution indicate the date as of which interest was suspended.

On June 26, 2018, by means of official communication TFA No. 329-P-2018, it was indicated that the mathematical error corresponding to the amount for fiscal year 2013 was corrected (incorrect amount ¢5,943,535,969; correct amount ¢5,534,592,485) in conformity with Article 157 of the *General Law of the Public Administration*, applicable in addition to that established in Article 155 of the *Tax Code*. Furthermore, the request for additional explanations and clarification was rejected.

b) *Tax audit process – Costa Rican Tax Administration - 2014, 2015 and 2016*

The Bank faces a new tax audit process by the Tax Authorities for the 2014, 2015, and 2016 tax periods. On August 14, 2017, through documents No. DGCN-SF-PD-18-2017-17-11-03 and No. DGCN-SF-PD-18-2017-18-111-03 issued by the National Large Taxpayer Administration, the Bank received the "Notification of the Start of the Tax Audit for Verification and Investigation and Initial Information and Documentation Requirements," which involves confirming the veracity of the tax returns filed.

On November 15, 2017, the National Large Taxpayer Audit Area issued "Provisional Regularization Proposal" No. DGCN-SF-PD-18-2017-28-31-03 and "Proposed Sanctioning Ruling Based on Article 81 of the Tax Code of Standards and Procedures" No. DGCN-SF-PS-18-2017-20-31-03, for periods 2014-2016, claiming that the income tax returns filed by the Bank for the indicated periods were inaccurate and, thus, detrimental to the treasury.

On November 29, 2017, the Bank's management presented 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 the "Proposed Sanctioning Ruling Based on Article 81 of the Tax Standards and Procedures Code".

On January 30, 2018, the National Large Taxpayer Administration issued the report on claims filed against "Provisional Regularization Proposal" No. DGCN-SF-PD-18-2017-01-33-03, indicating in its assessment that for 2016 the Tax Authorities are correct regarding the quantification of the tax base. With respect to the claim filed by the Bank concerning investments abroad, the Tax Authorities consider that the claim has no legal grounds and flatly rejects it; the same goes for provisions and lawsuits. Lastly, regarding the methodology, it fully rejects the claim filed by the Bank.

On January 30, 2018, the National Large Taxpayer Administration issued the report on claims filed against "Proposed Sanctioning Ruling" No. DGCN-SF-PS-18-2017-1-513-03, indicating in its assessment that for 2016 the Tax Authorities are correct regarding the reclassification of the sale of shares of VISA INC, concerning the duplication of the calculation. This is not the case in "Proposed Sanctioning Ruling Based on Article 81 of the Tax Standards and Procedures Code" No. DGCN-SF-PS-18-2017-20-31-03.

On January 30, 2018, the National Large Taxpayer Audit Area issued "Regularization Proposal" No. DGCN-SF-PD-18-2017-1-341-03, which provides the details of the tax adjustments or corrections to the tax base declared by the Bank for fiscal years 2014, 2015, and 2016, for a total tax amount of ¢35,999,804,522, and corresponding interest as of that date in the amount of ¢7,281,607,516.

On January 30, 2018, the National Large Taxpayer Administration issued the Minutes of Final Hearing No. DGCN-SF-PD-18-2017-1-361-03, whereby it communicated the determinations made regarding tax amounts not declared and the corresponding interest for fiscal years 2014, 2015, and 2016; the principal and interest add up to ¢9,971,946,319.82, ¢14,804,200,153.50, and ¢18,505,265,563.57, respectively.

On February 5, 2018, the Bank's management indicates its FULL DISCONFORMITY with "Regularization Proposal" No. DGCN-SF-PD-18-2017-1-341-03 dated January 30, 2018, based on the arguments and the evidence presented. Furthermore, it requests the annulment due to lack of cause of the "Regularization Proposal" regarding the collection of principal, interest, and fines, and of the "Report on claims filed" presented along with "Provisional Regularization Proposal" No. DGCN-SF-PD-18-2017-1-33-03, accepting only the mathematical errors corrected, and rejects the claims against "Proposed Sanctioning Ruling" No. DGCN-SF-PD-18-2017-1-513-03.

On February 7, 2018, the National Large Taxpayer Administration issued notice of deficiency and observations No. DGCN-SF-PD-18-2017-1-41-03, which provides details of the adjustments to the tax base declared by the Bank for fiscal years 2014, 2015, and 2016, for a total tax amount of ¢35,999,804,522, and corresponding interest as of that date in the amount of ¢7,382,604,248, for a total of ¢43,382,408,770.

On March 22, 2018, the Bank's management filed an appeal against notice of deficiency and observations No. DGCN-SF-PD-18-2017-1-41-03 indicating its claims and legal grounds.

c) *Dividends paid to the Bank*

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

Subsidiary	Board of Directors' Agreement 2018	Board of Directors' Agreement 2017		Amount 2018	Amount 2017
BN Corredora de Seguros, S.A.	Article 5, Meeting No. 12,234, held on March 12, 2018	Article 4, Meeting No. 12,172, held on May 29, 2017	¢	279,880,852	1,376,131,467
BN SAFI S.A.	Article 5, Meeting No. 12,235, held on March 12, 2018	Article 4, Meeting No. 12,171, held on May 29, 2017		1,000,000,000	1,000,000,000
BN Valores S.A.	Article 2, Meeting No. 12,236, held on March 12, 2018	Article 2, Meeting No. 12,161, held on April 24, 2017		675,205,850	3,024,096,802
BN Vital S.A.	Article 2, Meeting No. 12,237, held on March 12, 2018	Article 2, Meeting No. 12,163, held on April 24, 2017		560,939,777	560,091,499
			¢	2,516,026,479	5,960,319,768

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

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

In order to regulate application of those Standards, CONASSIF 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, CONASSIF issued official letter 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 aforementioned Regulations.

Subsequently, through official letter C.N.S. 1034-08 dated April 4, 2013, CONASSIF 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, CONASSIF amended SUGEF Directive 34-02 *Accounting Regulations Applicable to Entities Regulated by SUGEF, SUGEVAL, SUPEN, and SUGESE and to Non-financial Issuers* 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 CONASSIF 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 CONASSIF.

A summary of some of the main differences between the accounting regulations issued by CONASSIF and IFRSs, as well as the IFRSs or Interpretations of the International Financial Reporting Interpretations Committee (IFRICs) yet to be adopted, is presented below:

a) <u>IAS 1: Presentation of Financial Statements</u>

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

SUGEF regulations do not allow certain transactions, such as clearing house balances, gains or losses on the sale of financial instruments, gains or losses on 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.

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

CONASSIF has only authorized preparation of the cash flow statement using the indirect method. The direct method is also acceptable under this Standard. In addition, this Standard requires disclosure of the changes in the liabilities that arise from financing activities derived from cash flows as well as those that do not entail cash flows, for example exchange rate variations.

c) IAS 12: Income Taxes

SUGEF's Chart of Accounts presents deferred income tax assets, liabilities, income, and expenses separately. IAS 12 permits the presentation of 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 regulations issued by CONASSIF require 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 charged against 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 regulation issued by CONASSIF allows entities to suspend the depreciation of idle assets and reclassify them as foreclosed assets.

e) IAS 18: Revenue

CONASSIF has allowed regulated financial entities to recognize loan fees and commissions collected prior to January 1, 2003 as revenue. Additionally, CONASSIF has permitted the deferral of 25%, 50%, and 100% of loan fees and commissions for transactions completed in 2003, 2004, and 2005, respectively. IAS 18 prescribes deferral of 100% of those fees and commissions over the loan term.

Until December 31, 2013, CONASSIF 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. IAS 18 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, CONASSIF 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 regulations issued by CONASSIF and IAS 18 and IAS 39, as follows:

- CONASSIF 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.
- CONASSIF 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".

- Under SUGEF regulations, the effective interest rate must 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

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

g) IAS 27: Consolidated and Separate Financial Statements

CONASSIF 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 CONASSIF.

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 a Group 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. The amendments to this standard became mandatory for 2010 financial statements. These amendments have not been adopted by CONASSIF.

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

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

i) Revised IAS 32: Financial Instruments - Presentation

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

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

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

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

SUGEF prescribes recognition of a provision for possible losses on contingent assets. This type of provision is prohibited under IAS 37.

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 SUGEF 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

CONASSIF requires that the loan portfolio be classified pursuant to SUGEF 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, through Official Letter SGF-1729-2016, CONASSIF approved SUGEF Directive 19-16, "Regulations to Determine and Book Counter-cyclical Allowances", which requires entities supervised by SUGEF to book a general allowance for the loan portfolio with no current indications of impairment, in order to mitigate the effects of the economic cycle on the profit or loss derived from the allowance for the loan portfolio.

IAS 39 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 CONASSIF. Those changes include the following:

1. The option of classifying loans and receivables as available for sale was established.

2. Securities quoted in an active market may be classified as available for sale, held for trading, or held to maturity.

3. 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).

4. 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 instruments, 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 the provisions of IAS 39.

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

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 regulation issued by CONASSIF 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 entities under common control can be performed at cost or at fair value. CONASSIF 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

CONASSIF 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. IFRS 5 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

This Standard 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 CONASSIF.

r) IFRS 10: Consolidated Financial Statements

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

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

An entity is not required to make adjustments to the accounting for its involvement with an investee when entities that were previously consolidated or unconsolidated in accordance with IAS 27 (2008), SIC 12, and this Standard continue to be consolidated or continue not to be consolidated.

The Standard is effective for annual periods beginning on or after January 1, 2013. Early application is permitted. This Standard has not been adopted by CONASSIF.

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 CONASSIF.

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 CONASSIF.

u) IFRS 13: Fair Value Measurement

This Standard clarifies the definition of fair value, 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 CONASSIF.

a) 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 CONASSIF.

b) 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 CONASSIF.

c) 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 CONASSIF.

d) IFRS 17: Insurance Contracts

This Standard was approved in March 2017. It establishes the guidelines for recognition, measurement, presentation, and disclosure of insurance contracts issued. It also requires similar principles to be applied by to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This Standard replaces IFRS 4 Insurance Contracts. It is effective for annual periods beginning on or after January 1, 2021. Early application is permitted for those entities that will perform the early adoption of IFRS 9 and IFRS 15. This Standard has not been adopted by CONASSIF.

e) 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. CONASSIF permits the reversal thereof.

f) 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 CONASSIF.

g) IFRIC 22: Foreign currency transactions and advance considerations

The Interpretation covers foreign currency transactions (or a portion thereof) when an entity recognizes a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income (or the corresponding portion thereof). This Interpretation is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. IFRIC 22 has not been adopted by CONASSIF.

h) IFRIC 23: Uncertainty over Income Tax Treatments

The Interpretation clarifies application of recognition and measurement requirements in IAS 12 Income Taxes when there is uncertainty over income tax treatments. In these circumstances, an entity shall recognize and measure its current or deferred tax assets or liabilities applying the requirements of IAS 12 on the taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined applying this Interpretation. This Interpretation is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. This Interpretation has not been adopted by CONASSIF.

(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 a determination impractical.