

**BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES**

Financial information required by the  
Superintendency General of Financial Entities

Consolidated Financial Statements

As of June 30, 2019

*(With corresponding figures for 2018)*

(Translation into English of the original  
Independent Auditors' Report issued in Spanish)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEET  
AS OF JUNE 30, 2019 AND 2018 AND DECEMBER 31, 2018  
(In colones)

	Note	June 2019	December 2018	June 2018
<b>ASSETS</b>				
<b>Cash and due from banks</b>	4	1,099,260,131,135	1,025,465,414,007	1,176,212,745,885
Cash		90,285,697,935	79,721,131,128	90,397,903,788
BCCR		775,610,729,149	856,105,137,933	877,332,302,906
Local financial entities		5,183,221,363	6,683,469,272	5,822,492,429
Foreign financial entities		216,139,554,328	71,106,869,756	193,149,346,738
Other cash and due from banks		12,040,860,632	11,848,805,918	9,510,700,024
Accrued interest receivable		67,728	-	-
<b>Investments in financial instruments</b>	5	1,246,385,719,674	1,171,705,000,676	1,188,795,636,084
Held for trading		-	12,096,981,603	-
Available for sale		1,216,739,449,214	1,144,183,068,457	1,156,745,568,312
Held to maturity		-	-	18,741,104,378
Derivative financial instruments	6	10,777,343,339	678,813,152	12,798,317
Accrued interest receivable		18,869,780,485	14,756,839,149	13,297,357,996
(Allowance for impairment of investments in financial instruments)		(853,364)	(10,701,685)	(1,192,919)
<b>Loan portfolio</b>	7	4,287,344,899,214	4,416,292,531,288	4,317,326,567,702
Current		4,006,693,040,571	4,223,554,423,932	4,094,248,863,852
Past due		236,281,198,520	149,989,262,621	164,885,533,974
In legal collection		140,155,436,022	147,602,847,205	186,975,200,869
Accrued interest receivable		39,176,957,233	36,776,953,763	36,100,678,453
(Allowance for loan losses)		(134,961,733,132)	(141,630,956,233)	(164,883,709,446)
<b>Accounts and fees and commissions receivable</b>	8	3,779,751,108	3,986,324,592	2,994,688,795
Fees and commissions receivable		1,747,200,481	1,379,493,008	1,381,337,666
Accounts receivable for brokerage operations		121,111,237	56,675	147,461,063
Accounts receivable for transactions with related parties		55,070,169	23,953,056	196,615,810
Deferred tax and income tax receivable		1,522,341,544	2,486,073,653	1,442,070,705
Other receivables		4,419,240,573	4,009,191,298	4,356,071,038
Accrued interest receivable		4,163,083	2,082,892	1,564,180
(Allowance for impairment of accounts and fees and commissions receivable)		(4,089,375,979)	(3,914,525,990)	(4,530,431,667)
<b>Foreclosed assets</b>	9	24,065,772,900	20,074,903,998	17,982,406,150
Assets and securities acquired in lieu of payment		83,211,168,643	79,173,439,587	77,262,250,966
Other foreclosed assets		1,674,833	1,840,189	1,840,190
(Allowance for impairment of foreclosed assets and per legal requirements)		(59,147,070,576)	(59,100,375,778)	(59,281,685,006)
<b>Investments in other companies</b>	10	64,863,734,422	66,495,484,274	60,756,221,836
<b>Property and equipment, net</b>	11	183,111,646,315	185,735,321,962	179,593,208,266
<b>Other assets</b>	12	97,047,263,576	112,783,371,783	45,918,709,209
Deferred charges		69,931,922,619	77,656,451,038	7,656,887,472
Intangible assets		5,662,841,703	5,049,553,312	5,552,739,657
Other assets		21,452,499,254	30,077,367,433	32,709,082,080
<b>TOTAL ASSETS</b>		<b>7,005,858,918,344</b>	<b>7,002,538,352,580</b>	<b>6,989,580,183,927</b>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEET  
AS OF JUNE 30, 2019 AND 2018 AND DECEMBER 31, 2018  
(In colones)

LIABILITIES AND EQUITY	Note	Jun-19	December 2018	June 2018
<b>LIABILITIES</b>				
<b>Obligations with the public</b>	13	5,110,525,615,095	4,783,549,987,583	4,800,713,244,496
Demand obligations		2,663,268,504,216	2,741,094,583,154	2,653,954,627,157
Term obligations		2,388,854,519,243	1,989,376,199,821	2,070,893,014,821
Other obligations		11,167,668,507	12,135,686,821	34,217,872,873
Finance charges payable		47,234,923,129	40,943,517,787	41,647,729,645
<b>Obligations with BCCR</b>	14	125,644,412	150,630,088,856	7,127,977,745
Term obligations		125,644,412	150,525,644,412	7,125,644,412
Finance charges payable		-	104,444,444	2,333,333
<b>Obligations with entities</b>	15	962,601,791,155	1,168,782,406,639	1,290,902,585,437
Demand obligations		196,006,038,924	181,672,052,001	196,555,639,269
Term obligations		759,675,811,350	978,094,176,748	1,083,808,496,576
Finance charges payable		6,919,940,881	9,016,177,890	10,538,449,592
<b>Accounts payable and provisions</b>		107,823,334,318	104,573,300,619	106,456,957,841
Accounts payable for brokerage services		767,431,579	1,077,656,970	1,990,788,075
Deferred tax	16-b	11,062,744,247	10,009,306,802	10,700,656,436
Provisions	17	25,849,231,701	24,754,699,577	21,794,538,648
Other sundry accounts payable	18	70,143,926,791	68,731,637,270	71,970,974,682
<b>Other liabilities</b>	19	75,357,595,501	67,159,254,065	73,216,379,745
Deferred income		33,388,901,725	33,255,354,768	32,145,053,090
Allowance for stand-by credit losses		141,017,723	169,073,348	272,417,979
Other liabilities		41,827,676,053	33,734,825,949	40,798,908,676
<b>Subordinated obligations</b>	20	76,813,143,466	80,488,169,915	74,894,321,078
Subordinated obligations		74,973,600,000	78,570,700,000	73,247,200,000
Finance charges payable		1,839,543,466	1,917,469,915	1,647,121,078
<b>TOTAL LIABILITIES</b>		<b>6,333,247,123,947</b>	<b>6,355,183,207,677</b>	<b>6,353,311,466,342</b>
<b>EQUITY</b>				
<b>Share capital</b>		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
<b>Equity adjustments</b>		75,035,897,601	69,226,390,881	64,639,641,913
Surplus from revaluation of property	21-b	66,193,911,011	66,193,911,011	61,864,805,939
Adjustment for valuation of available-for-sale investments	21-c	1,126,600,198	(5,106,902,948)	(3,202,983,825)
Adjustment for valuation of restricted financial instruments	21-c	44,529,976	(1,053,043,002)	(371,341,938)
Surplus from revaluation of other assets		66,585,248	66,585,248	43,748,630
Adjustment for valuation of investments in other companies	1-e (iv), 21-d	7,604,271,168	9,125,840,572	6,305,413,107
<b>Capital reserves</b>	21-e	347,600,226,049	334,043,304,638	332,270,009,016
<b>Prior period retained earnings</b>		30,045,152,677	19,485,203,956	21,100,319,339
<b>Income for the period</b>		13,044,952,004	21,391,220,879	15,049,722,768
<b>Equity of the Development Financing Fund</b>	21-f	34,648,535,964	30,971,994,447	30,971,994,447
<b>TOTAL EQUITY</b>		<b>672,611,794,397</b>	<b>647,355,144,903</b>	<b>636,268,717,585</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>7,005,858,918,344</b>	<b>7,002,538,352,580</b>	<b>6,989,580,183,927</b>
<b>DEBIT MEMORANDA ACCOUNTS</b>	22	605,122,752,392	635,962,468,859	645,841,015,862
<b>TRUST ASSETS</b>	23	2,182,013,863,761	2,277,259,672,045	1,528,979,572,215
<b>TRUST LIABILITIES</b>		201,017,090,344	209,981,156,957	122,109,975,913
<b>TRUST EQUITY</b>		1,980,996,773,417	2,067,278,515,088	1,406,869,596,302
<b>TRUST MEMORANDA ACCOUNTS</b>		106,177,092,358	99,962,938,570	71,581,781,504
<b>OTHER DEBIT MEMORANDA ACCOUNTS</b>	24	22,773,335,766,937	23,025,592,011,994	21,323,426,805,316
Own debit memoranda accounts		7,008,560,008,738	7,588,595,867,700	6,962,684,374,690
Third-party debit memoranda accounts		3,231,093,120,532	2,992,442,398,537	2,737,506,127,601
Own debit memoranda accounts for custodial activities		382,758,826,684	230,639,645,060	364,050,369,838
Third-party debit memoranda accounts for custodial activities		12,150,923,810,983	12,213,914,100,697	11,259,185,933,187

Gustavo Vargas Fernández  
General Manager

Alejandra Morales Centeno  
General Accountant  
CPI 21119

Ricardo Araya Jiménez  
General Auditor

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



**BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2019 AND 2018**  
(In colones)

	Note	For the six months ended		For the three months ended	
		June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
<b>Finance income</b>					
Cash and due from banks	28	1,915,872,514	3,032,728,541	1,181,227,129	1,352,363,592
Investments in financial instruments	28	35,724,819,009	30,169,412,544	18,399,511,061	15,303,307,694
Loan portfolio	29	226,459,010,984	219,369,079,442	113,093,921,760	111,087,428,806
Gain on foreign exchange differences and DU, net	46-c	3,488,561,814	116,158,033	2,138,490,515	(433,017,232)
Gain on available-for-sale financial instruments		350,009,228	20,392,313	173,601,907	16,716,923
Gain on derivative financial instruments, net	6	13,052,715,150	-	7,852,553,899	-
Other finance income	30	3,521,833,534	19,360,204,604	1,079,293,372	6,892,285,999
<b>Total finance income</b>		<b>284,512,822,233</b>	<b>272,067,975,477</b>	<b>143,918,599,643</b>	<b>134,219,085,782</b>
<b>Finance costs</b>					
Obligations with the public	31	100,778,429,375	91,976,496,238	53,428,778,783	46,682,927,890
Obligations with BCCR		427,413,535	993,000	-	993,000
Obligations with financial entities	32	28,539,645,621	35,856,872,728	13,205,366,172	17,897,847,170
Subordinated, convertible, and preferred obligations		2,916,707,050	2,500,930,587	1,563,669,083	1,276,398,547
Loss on available-for-sale financial instruments		456,398,526	259,418,633	54,457,428	138,621,935
Loss on derivative financial instruments	6	-	12,076,113,722	-	2,747,608,395
Other finance costs	33	20,667,158,879	4,716,714,709	9,260,150,457	3,117,558,605
<b>Total finance costs</b>		<b>153,785,752,986</b>	<b>147,387,539,617</b>	<b>77,512,421,923</b>	<b>71,861,955,542</b>
<b>Allowance for impairment of assets</b>	34	<b>30,004,366,885</b>	<b>40,718,355,099</b>	<b>17,831,194,613</b>	<b>18,256,522,624</b>
<b>Recovery of assets and decrease in allowances</b>	35	<b>3,589,313,697</b>	<b>4,282,156,874</b>	<b>1,593,536,543</b>	<b>2,441,407,238</b>
<b>FINANCE INCOME</b>		<b>104,312,016,059</b>	<b>88,244,237,635</b>	<b>50,168,519,650</b>	<b>46,542,014,854</b>
<b>Other operating income</b>					
Service fees and commissions	36	72,377,794,766	67,793,600,293	35,891,363,716	33,840,119,944
Foreclosed assets		3,912,486,016	4,762,057,259	1,043,806,963	3,704,331,996
Gain on investments in other foreign companies	1-a, 3	1,348,021,798	1,523,046,044	737,815,550	681,454,310
Gain on investments in other local companies		3,278,195	2,764,988	3,278,195	-
Foreign currency exchange and arbitrage		10,980,023,485	11,649,275,638	5,379,978,325	5,975,062,609
Other operating income	37	5,871,869,251	4,540,482,224	3,640,965,411	1,857,426,296
<b>Total other operating income</b>		<b>94,493,473,511</b>	<b>90,271,226,446</b>	<b>46,697,208,160</b>	<b>46,058,395,155</b>


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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE SIX MONTHS ENDED JUNE 30, 2019 AND 2018  
(In colones)

		For the six months ended		For the three months ended	
		June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Other operating expenses					
Service fees and commissions		2,378,271,410	2,155,814,239	1,232,286,126	1,005,556,759
Foreclosed assets	38	10,453,349,568	9,975,694,325	4,079,778,213	4,800,915,738
Sundry assets		464,456,707	36,447,856	219,364,524	266,805
Provisions	39	6,166,214,829	7,837,924,545	3,057,898,440	5,019,932,960
Bonuses on fees and commissions of voluntary pension funds		86,805,610	58,259,392	52,937,671	32,799,989
Foreign currency exchange and arbitrage		3,701,076	3,698,703	2,910,108	457,589
Other operating expenses	40	41,773,159,099	34,196,597,308	23,591,941,515	17,372,789,449
Amortization of deferred direct costs related to credits		193,555,116	224,476,764	99,482,609	117,228,028
Total other operating expenses		61,519,513,415	54,488,913,132	32,336,599,206	28,349,947,317
GROSS OPERATING INCOME		137,285,976,155	124,026,550,949	64,529,128,604	64,250,462,692
Administrative expenses					
Personnel expenses	41	68,723,763,451	66,431,820,430	34,194,366,566	33,267,260,384
Other administrative expenses	42	32,672,491,829	35,201,346,845	13,656,394,257	18,409,746,812
Total administrative expenses		101,396,255,280	101,633,167,275	47,850,760,823	51,677,007,196
NET OPERATING INCOME BEFORE TAXES AND STATUTORY ALLOCATIONS		35,889,720,875	22,393,383,674	16,678,367,781	12,573,455,496
Current tax	16-a	7,004,462,182	1,278,100,710	3,235,602,439	681,722,284
Prior period income tax	16-a	7,095,323,421	869,401	3,547,309,483	-
Deferred tax	16-a	16,175,504	16,175,504	8,087,752	8,087,752
Deferred tax income	16-a	59,093,460	183,870,590	19,508,458	38,045,305
Statutory allocations	43	8,787,901,224	6,232,385,881	4,049,705,044	3,463,845,703
INCOME FOR THE PERIOD		13,044,952,004	15,049,722,768	5,857,171,521	8,457,845,062
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		6,233,503,146	(1,204,664,869)	3,948,210,445	672,866,976
Adjustment for valuation of restricted financial instruments, net of income tax		1,097,572,978	(64,671,239)	109,637,872	58,801,104
Adjustment for valuation of investments in other companies		(1,521,569,404)	(2,790,211,579)	(475,026,799)	(2,181,944,322)
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX		5,809,506,720	(3,016,482,718)	3,582,821,518	(449,309,133)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		18,854,458,724	12,033,240,050	9,439,993,039	8,008,535,929

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

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE SIX MONTHS ENDED JUNE 30, 2019  
(In colones)

Note	Share capital	Equity adjustments				Total equity adjustments	Capital reserves	Retained earnings	Equity of the Development Financing Fund	Total
		Surplus from revaluation of property	Adjustment for valuation of available-for-sale investments and restricted financial instruments	Surplus from revaluation of other assets	Adjustment for valuation of investments in other companies					
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	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 CHANGES IN EQUITY  
FOR THE SIX MONTHS ENDED JUNE 30, 2019  
(In colones)

Note	Equity adjustments					Total equity adjustments	Capital reserves	Retained earnings	Equity of the Development Financing Fund	Total
	Share capital	Surplus from revaluation of property	Adjustment for valuation of available-for-sale investments and restricted financial instruments	Surplus from revaluation of other assets	Adjustment for valuation of investments in other companies					
Balance at December 31, 2018	172,237,030,102	66,193,911,011	(6,159,945,950)	66,585,248	9,125,840,572	69,226,390,881	334,043,304,638	40,876,424,835	30,971,994,447	647,355,144,903
Advance payment para-fiscal contribution (Amnesty Law)	-	-	-	-	-	-	-	6,402,190,770	-	6,402,190,770
Balance at January 1, 2019	172,237,030,102	66,193,911,011	(6,159,945,950)	66,585,248	9,125,840,572	69,226,390,881	334,043,304,638	47,278,615,605	30,971,994,447	653,757,335,673
Transactions with owners booked directly in equity:										
Legal reserves	-	-	-	-	-	-	14,380,127,481	(14,380,127,481)	-	-
Other statutory reserves	-	-	-	-	-	-	(823,206,070)	823,206,070	-	-
Equity of the Development Financing Fund	-	-	-	-	-	-	-	(3,676,541,517)	3,676,541,517	-
Total transactions with owners booked directly in equity	-	-	-	-	-	-	13,556,921,411	(17,233,462,928)	3,676,541,517	-
Comprehensive income for the period:										
Income for the period	-	-	-	-	-	-	-	13,044,952,004	-	13,044,952,004
Adjustment for valuation of available-for-sale investments, net of income tax	5	-	6,233,503,146	-	-	6,233,503,146	-	-	-	6,233,503,146
Adjustment for valuation of restricted financial instruments, net of income tax	5	-	1,097,572,978	-	-	1,097,572,978	-	-	-	1,097,572,978
Adjustment for valuation of investments in other companies	1-e (iv)	-	-	-	(1,521,569,404)	(1,521,569,404)	-	-	-	(1,521,569,404)
Total comprehensive income for the period		-	7,331,076,124	-	(1,521,569,404)	5,809,506,720	-	13,044,952,004	-	18,854,458,724
Balance at June 30, 2019	21	172,237,030,102	66,193,911,011	1,171,130,174	66,585,248	7,604,271,168	347,600,226,049	43,090,104,681	34,648,535,964	672,611,794,397

Gustavo Vargas Fernández  
General Manager

Alejandra Morales Centeno  
General Accountant  
CPI 21119

Ricardo Araya Jiménez  
General Auditor

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



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE SIX MONTHS ENDED JUNE 30, 2019 AND 2018  
(In colones)

	Note	June 2019	June 2018
<b>Cash flows from operating activities</b>			
Income for the period		13,044,952,004	15,049,722,768
<b>Items not requiring cash</b>			
Gain on foreign exchange differences and development units, net		(29,438,655,521)	(4,249,258,649)
Loss on allowance for loan losses, net		25,902,582,074	35,347,954,999
Decrease in allowance for impairment of investments, net		(9,848,321)	(72,281,277)
Loss on allowance for other receivables, net		522,319,436	1,160,524,503
Loss (gain) on allowance for impairment of foreclosed assets, net		46,694,798	(2,518,087,083)
Loss on sale of foreclosed assets		4,830,045,677	5,792,783,262
Provision expense, net of payments		(973,091,091)	(4,692,264,958)
Depreciation and amortization		10,684,964,158	10,969,484,811
Share in net profit of foreign associate		(1,348,021,798)	(1,523,046,044)
Statutory allocations, net		8,787,901,224	6,232,385,881
Income tax expense	16-a	14,099,785,603	1,278,970,111
Deferred tax, net	16-a	(42,917,956)	(167,695,086)
Finance income on loan portfolio and investments		(262,183,829,993)	(249,538,491,986)
Finance costs on term obligations with the public and financial entities		103,233,127,880	102,177,563,237
		<u>(112,843,991,826)</u>	<u>(84,751,735,511)</u>
<b>(Increase) decrease in assets</b>			
Credits and cash advances		25,320,626,233	15,713,605,173
Foreclosed assets		9,770,598,579	10,818,662,377
Accrued interest receivable on other receivables		(2,080,191)	159,976
Other assets		20,073,124,046	1,148,359,045
		<u>(57,681,723,159)</u>	<u>(57,070,948,940)</u>
<b>Net (increase) decrease in liabilities</b>			
Demand and term obligations		237,656,734,810	(75,489,559,571)
Other accounts payable and provisions		10,268,454,413	36,608,079,445
Other liabilities		8,819,191,070	(25,108,808,679)
		<u>199,062,657,134</u>	<u>(121,061,237,745)</u>
Interest received on loan portfolio and investments		255,670,885,187	243,361,370,961
Income tax paid		(8,142,777,994)	(11,466,522,902)
Interest paid on term obligations with the public and financial entities		(99,142,403,992)	(95,775,492,700)
Statutory allocations paid		(8,985,023,395)	(13,586,420,635)
<b>Net cash from operating activities</b>		<u>338,463,336,940</u>	<u>1,471,696,979</u>
<b>Cash flows from investing activities</b>			
Increase in financial instruments		(2,794,933,362,825)	(3,881,653,207,526)
Decrease in financial instruments		2,801,681,213,200	3,774,177,465,485
Acquisition of property and equipment		(15,010,236,593)	(17,732,533,210)
Sale of property, furniture, and equipment		166,120,419	1,197,127,293
Acquisition of intangible assets		(3,238,349,317)	(1,159,561,491)
<b>Net cash used in investing activities</b>		<u>(11,334,615,116)</u>	<u>(125,170,709,449)</u>
<b>Cash flows from financing activities</b>			
Other new financial obligations		554,013,470	7,364,448,291
Settlement of obligations		(159,616,599,071)	(4,190,069,192)
<b>Net cash (used in) from financing activities</b>		<u>(159,062,585,601)</u>	<u>3,174,379,099</u>
<b>Net increase (decrease) in cash and cash equivalents</b>		<u>168,066,136,223</u>	<u>(120,524,633,371)</u>
<b>Cash and cash equivalents at beginning of year</b>		<u>1,117,943,115,083</u>	<u>1,501,089,253,239</u>
<b>Cash and cash equivalents at end of year</b>	4	<u>1,286,009,251,306</u>	<u>1,380,564,619,868</u>

Gustavo Vargas Fernández  
General Manager

Alejandra Morales Centeno  
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CPI 21119

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



# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

As of June 30, 2019  
(With corresponding figures for 2018)

(1) Summary of operations and significant accounting policies

(a) Operations

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

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

In agreement with IRNBS, if a bank divides its services into departments, its operations 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.

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

As of June 30, 2019, the Bank has 162 offices, 464 automated teller machines (ATMs), and along with its subsidiaries a total of 5,589 employees (2018: 169 offices, 466 ATMs, and 5,806 employees). Employees are distributed as follows: Banco Nacional de Costa Rica – 5,145 employees (2018: 5,396); BN Valores Puesto de Bolsa, S.A. - 70 employees (2018: 73); BN Vital Operadora de Planes de Pensiones Complementarias, S.A. - 195 employees (2018: 170); BN Sociedad Administradora de Fondos de Inversión, S.A. - 85 employees (2018: 77); and BN Corredora de Seguros, S.A. – 94 employees (2018: 90). The Bank’s website is [www.bncr.fi.cr](http://www.bncr.fi.cr).

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 performing 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).

(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

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.

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

June 2019					
	BN Valores Puesto de Bolsa, S.A.	BN Vital Operadora de Planes de Pensiones Complementarias S.A.	BN Sociedad Administradora de Fondos de Inversión, S.A.	BN Sociedad Corredora de Seguros, S.A.	Banco Internacional de Costa Rica, S.A. and Subsidiary
Assets	¢ 66,959,854,850	10,321,838,970	8,267,838,977	5,135,068,436	552,292,928,878
Liabilities	50,653,131,505	2,005,348,005	757,429,687	960,097,247	487,479,817,756
Equity	16,306,723,345	8,316,490,965	7,510,409,290	4,174,971,189	64,813,111,122
Income for the period	1,048,057,659	693,374,862	1,009,585,335	1,526,375,346	1,348,021,798
Memoranda accounts	1,027,005,309,883	1,552,341,596,750	470,999,908,614	-	-

(Continued)



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 2018

	BN Vital Operadora de Planes de Pensiones Complementarias S.A.	BN Sociedad Administradora de Fondos de Inversión, S.A.	BN Sociedad Corredora de Seguros, S.A.	Banco Internacional de Costa Rica, S.A. and Subsidiary
	BN Valores Puesto de Bolsa, S.A.			
Assets	¢ 66,647,192,065	9,751,692,412	8,222,761,263	3,769,728,920
Liabilities	51,635,210,085	1,826,600,775	551,313,311	776,043,817
Equity	15,011,981,980	7,925,091,637	7,671,447,952	2,993,685,103
Income for the period	1,684,605,746	1,146,194,956	2,038,605,185	2,550,045,103
Memoranda accounts	966,935,348,700	1,450,052,605,752	434,748,836,782	-

June 2018

	BN Vital Operadora de Planes de Pensiones Complementarias S.A.	BN Sociedad Administradora de Fondos de Inversión, S.A.	BN Sociedad Corredora de Seguros, S.A.	Banco Internacional de Costa Rica, S.A. and Subsidiary
	BN Valores Puesto de Bolsa, S.A.			
Assets	¢ 65,179,602,928	9,534,204,737	7,292,693,113	4,304,379,662
Liabilities	49,947,350,483	2,212,197,712	687,356,049	779,771,309
Equity	15,232,252,445	7,322,007,025	6,605,337,064	3,524,608,353
Income for the period	623,448,256	538,389,855	977,612,645	1,099,952,384
Memoranda accounts	1,055,541,502,150	1,354,985,805,083	473,480,666,691	-

(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.

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

- Basis of measurement of assets and liabilities

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

- available-for-sale assets, derivative instruments and term obligations with foreign financial entities are measured at fair value (see Note 44)
- property is measured at revalued cost (see Note 11).

The accounting policies have been consistently applied.

- (c) Functional and presentation currency

These consolidated financial statements and notes thereto are expressed in colones (¢), the currency 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 that control commences until the date that control ceases.

As of June 30, 2019 and 2018, the consolidated financial statements include the financial figures of the following subsidiaries:

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

Subsidiaries were consolidated based on the following accounting principles:

- All subsidiaries which the Bank controls, whether directly or indirectly, are consolidated.
- If 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 has been eliminated.
  - Balances of accounts related to reciprocal intra-group transactions have been eliminated from the consolidated balance sheet and consolidated statement of comprehensive income.
  - Uniform accounting policies have been applied by group entities.
  - All significant intra-group balances and transactions have been eliminated. Profit or loss presented in the consolidated financial statements does not differ from profit or loss presented in the parent company's unconsolidated financial statements since the subsidiaries were measured using the equity method in 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, 2019 and 2018, the Bank holds 49% ownership interest in BICSA.

#### *(e) Foreign currency*

##### *i. Foreign currency transactions*

Monetary assets and liabilities denominated in foreign currencies 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 period are translated at the exchange rates ruling on the dates of the transactions. Foreign currency differences arising on translation are recognized in profit or loss for the period.

(Continued)



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

ii. *Monetary unit and foreign exchange regulations*

The parity of the colon with the 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, 2019, the exchange rate was established at ¢576.72 and ¢585.45 to US\$1.00 (2018: ¢563.44 and ¢570.08 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, 2019, assets and liabilities denominated in US dollars are valued at the exchange rate of ¢576.72 to US\$1.00 (2018: ¢563.44 to US\$1.00), which is the reference buy rate published by BCCR for that date.

As of June 30, 2019, assets and liabilities denominated in euro are valued at the exchange rate of ¢656.42 to €1.00 (2018: ¢656.69 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, 2019, assets and liabilities denominated in Development Units (DU) are valued at the exchange rate of ¢908.72 to DU1.00 (2018: ¢888.94 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, 2019 and 2018, the Bank holds 49% ownership interest in BICSA. Accordingly, the Bank should value its investment in that entity by the equity method rather than on a consolidated basis.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The financial statements of foreign operations are translated as follows:

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

For the six months ended June 30, 2019, a foreign exchange loss in the amount of ¢1,521,569,404 (December and June 2018: foreign exchange gain of ¢30,215,886 and foreign exchange loss of ¢2,790,211,579, respectively) is presented in equity for the translation of the consolidated financial statements of foreign operations. As of June 30, 2019, the adjustment for valuation of investments in other companies amounts to ¢7,604,271,168 (December and June 2018: ¢9,125,840,572 and ¢6,305,413,107, 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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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, 2019 and 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).

(Continued)



## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### 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 initially recognized 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.

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

*iii. Derecognition*

A financial asset is derecognized when the Bank loses control over the contractual rights that comprise the asset. This occurs when the rights are realized, expire, or are surrendered. A financial liability is derecognized when the specific contractual obligation has been paid or settled, or when the obligation has expired.

*iv. Offsetting*

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

*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)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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.

The Bank's management 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, 2019 and 2018, the Bank uses the methodology established by Proveedor Integral de Precios Centroamérica (PIPCA) for this measurement.

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

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

(Continued)



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

vii. *Gains and losses on subsequent measurement*

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

viii. *Impairment of financial assets*

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

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

If, in a subsequent period, the amount of the impairment loss decreases, and the decrease can be related objectively to an event occurring after the impairment loss was recognized, then the impairment loss 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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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, 2019 and 2018, 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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(j) Other receivables

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

(k) Foreclosed assets

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

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

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

(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

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

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

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

### (1) 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. As of June 30, 2019 and 2018, 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. (Panamá)	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 profit or loss of the issuer of the capital assets.

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

As of June 30, 2019 and 2018, the Bank has no full or partial share or influence over the management of other companies, in accordance with Article 73 of IRNBS and Article 146 of the Internal Regulations of the Central Bank of Costa Rica.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(m) Property, furniture and equipment

*i. Own assets*

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

Pursuant to the requirements established in Article 8 of SUGEF 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 NRV 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.

(Continued)



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

*iv. Depreciation and amortization*

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

<u>Type of asset</u>	<u>Estimated useful life</u>
Buildings	25 to 120 years (1)
Vehicles	10 years
Furniture and equipment	10 years
Computer hardware	5 years
Laptops	3 years
Leasehold improvements	According to the estimated useful life or the term of the lease

*(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 assets. Computer programs and software licenses have an estimated useful life of three years.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(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 the consolidated statement of changes in equity, as appropriate.

(p) Accounts payable and other liabilities

Accounts payable and other liabilities are carried at amortized 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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(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 therewith for employees with more than 20 years of service, in compliance with Article 34 of the Collective Bargaining Agreement.

As of June 30, 2019 and 2018, 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 year incurred. The aforementioned contributions are considered advance severance payments.

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### ii. *Short-term employee benefits*

##### *Statutory Christmas bonus*

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

##### *Vacation*

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

For the Brokerage Firm, in Meeting No. 208 held on December 14, 2011, the board of directors approved the policy, pursuant to the approved vacations regime, of granting 1.17 vacation days each month for employees with less than 11 years of continuous service and 1.5 vacation days each month for employees with more than 11 years of continuous service.

For the Pension Fund Manager, the Policy on Payment and Enjoyment of Vacations for Employees of the Pension Fund Manager, approved in board of directors' Meeting No. 267 held on April 30, 2012, established the following:

- a) Employees are entitled to 14 vacation days up to 10 years of continuous service.
- b) All employees are entitled to 18 vacations days after the 11th year of continuous service.
- c) For all employees that come from the public sector or the Financial Conglomerate of Banco Nacional de Costa Rica, their length of service is recognized and items a) or b) will be applied as appropriate.
- d) Employees hired on or after January 1, 2012 are entitled to 14 vacation days. Before that date, employees are entitled to 15 vacation days until reaching 10 years of continuous service.

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### *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 the Bank at least six months 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 the following year that account is cleared upon payment of incentives to employees that met the aforementioned conditions.

On November 12, 2018, a constitutional motion was filed before the Constitutional Chamber against Articles No. 34, 37, 44, 45, 46 and 48 of the Seventh Collective Bargaining Agreement; therefore, the payment of the economic benefits indicated in those articles has been temporarily suspended, awaiting resolution by that chamber.

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### *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 comprised of the following:

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

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

The Governing Body is responsible for the Fund's Internal Management. The Fund's accounting records are kept by Bank employees selected based on their qualifications, in accordance with the provisions of the Governing Body and with the oversight of the Internal Audit Department. Those employees are independent from the Bank's general accounting department. 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.

(Continued)



# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

### (s) Deferred income

Deferred income corresponds to income received in advance by the Bank and its subsidiaries that should not be recognized in profit or loss for the year 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 8 of IRNBS (Law No. 1644) and SUGEF Directive 33-07.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(v) Income tax

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

i. *Current tax*

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

ii. *Deferred tax*

Deferred tax is recognized 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.

iii. *Tax benefits - FOCREDE*

Regarding the tax benefits applied to the Development Credit Fund (FOCREDE), the Development Financing Fund (FOFIDE) and the National Development Fund (FINADE) 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.

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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) Financial statements of the departments

The consolidated financial statements include 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.

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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. Interest income and interest expense*

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

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

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

*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.

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### *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 payable to the National Institute for Cooperative Development (INFOCOOP), the National Emergency Commission (CNE), the National Commission for Educational Loans (CONAPE), and the Disability, Old Age, and Death Benefit System (RIVM) are recognized as expenses in the consolidated statement of comprehensive income.

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

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

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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the Pension Fund Manager, Article 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 5 and 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 year. The allocation amount must be adjusted at the end of the period based on the annual earnings reflected in the audited financial statements.

(bb) Development Financing Fund (FOFIDE)

In accordance with Article 32 of the *Development Banking System Act* (Law 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 year'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.

(Continued)



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(cc) Development Credit Fund (FOCREDE)

The Development Credit Fund (FOCREDE) is comprised of the funds prescribed in Article 59 of IRNBS (Law No. 1644). FOCREDE 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 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 FOCREDE 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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- c. Pursuant to Article 35 of Law No. 8634, the Managing Banks may channel FOCREDE 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)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(2) Collateralized or restricted assets

Collateralized or restricted assets are as follows:

Restricted asset	Cause of restriction		June 2019	December 2018	June 2018
<i>Cash and due from banks:</i>					
Checking account – colones (Note 4)	Minimum legal deposit	¢	431,745,286,314	490,472,341,154	511,311,659,274
Checking account – US dollars (Note 4)	Minimum legal deposit		269,660,085,011	283,010,610,003	263,403,458,021
Checking account – euro (Note 4)	Minimum legal deposit		3,792,485,160	4,152,775,150	3,891,569,356
Other cash and due from banks (Note 4)	Custody of liabilities of Banco Crédito Agrícola de Cartago		1,121,778,245	1,198,002,163	1,185,775,282
Other cash and due from banks (Note 4)	Margin calls for tri-party repurchase agreements		43,098,502	8,462,542	148,573,000
Other cash and due from banks (Note 4)	Contribution to FOGABONA		259,848,189	214,975,302	151,950,087
		¢	<u>706,622,581,421</u>	<u>779,057,166,314</u>	<u>780,092,985,020</u>
<i>Investments in financial instruments:</i>					
Investments in financial instruments	Guarantee for tri-party repurchase agreements	¢	12,122,305,196	13,392,509,848	38,931,989,446
Investments in financial instruments	Liquidity market operations		48,127,275,247	44,979,191,022	16,523,277,696
Securities issued by BCCR and the Government	Investments securing repurchase agreements		603,998,358	607,442,622	608,853,530
External debt bonds	Nomura Bank guarantee		55,773,678,962	45,173,015,838	79,446,218,316
External debt bonds	JP-SWAPS guarantee		-	-	2,500,715,020
Central Bank bonds (global bond)	Interbank Electronic Payment System (SINPE) guarantee		-	96,089,536,625	8,561,514,207
External debt bonds	SINPE guarantee		-	180,308,749,905	-
Monetary stabilization bonds	SINPE guarantee		-	29,739,359,400	-
		¢	<u>116,627,257,763</u>	<u>410,289,805,260</u>	<u>146,572,568,215</u>
<i>Other assets:</i>					
Other assets (Note 12)	Security deposits	¢	<u>537,118,131</u>	<u>529,032,006</u>	<u>436,762,552</u>

(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

As of June 30, 2019, the Brokerage Firm has restricted assets in the amount of ¢60,266,308,854 (December and June 2018: ¢58,388,594,807 and ¢55,455,267,142, 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

Balances and transactions with related parties are as follows:

	June 2019	December 2018	June 2018
<u>Assets:</u>			
Checking accounts in foreign financial entities (1) (Note 4)	¢ 16,136,481,207	17,945,463,302	11,485,012,516
Investments in financial instruments with foreign related parties (2)	5,767,200,000	-	-
Accounts receivable	5,116,975	-	-
Allowance for impairment for transactions with related parties	(28,009,665)	-	(437,865,029)
Investments in other companies (3)	64,762,487,822	66,444,860,974	60,756,221,836
	¢ <u>86,643,276,339</u>	<u>84,390,324,276</u>	<u>71,803,369,323</u>
<u>Liabilities:</u>			
Demand obligations with entities (4)	75,599,317	510,449,626	13,998,284
Accounts payable	-	65,818	-
	¢ <u>75,599,317</u>	<u>510,515,444</u>	<u>13,998,284</u>
<u>Income:</u>			
Finance	-	-	7,797,292
Operating	5,116,976	-	5,324,527
Gain on investments in foreign companies	1,348,021,798	3,160,852,893	1,523,046,044
	¢ <u>1,353,138,774</u>	<u>3,160,852,893</u>	<u>1,536,167,863</u>
<u>Expenses:</u>			
Operating	12,279	-	-

Balances and transactions with related parties are as follows:

- (1) Foreign checking accounts with BICSA.
- (2) Investment made in BICSA Panama.
- (3) Investments in the share capital of entities over which the Bank exercises control or significant influence
- (4) Movements in the subsidiaries' checking accounts with the Bank.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

		June 2019	December 2018	June 2018
Short-term benefits	¢	990,733,637	1,871,232,334	937,136,804
Long-term benefits		128,795,373	243,260,203	121,827,785
Per diem – Board of directors		91,615,061	160,987,264	79,341,167
	¢	<u>1,211,144,071</u>	<u>2,275,479,801</u>	<u>1,138,305,756</u>

The price for services in transactions with subsidiaries is established by the Bank at market value through a transfer pricing study performed in conformity with Directive 20-03 dated June 10, 2003, Decree No. 37898-H dated June 5, 2013, and Rulings No. 2012008739 and No. 2012004940 of the Constitutional Chamber of the Supreme Court of Justice.

(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 2019	December 2018	June 2018
Cash and due from banks	¢	1,099,260,131,135	1,025,465,414,007	1,176,212,745,885
Investments with maturities of two months or less		186,749,120,171	92,477,701,076	204,351,873,983
	¢	<u>1,286,009,251,306</u>	<u>1,117,943,115,083</u>	<u>1,380,564,619,868</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Cash and due from banks is as follows:

	June 2019	December 2018	June 2018
Cash on hand and in vaults	¢ 70,599,891,167	54,926,278,487	72,525,254,312
Cash in transit	19,685,806,768	24,794,852,641	17,872,649,476
Checking account in BCCR (1)	75,726,653,853	68,856,647,714	89,391,911,800
Minimum legal deposits in BCCR (1)	699,884,075,296	787,248,490,219	787,940,391,106
Checking accounts and demand deposits in State-owned commercial banks and banks created under special laws	146,177,828	231,548,826	98,009,823
Checking accounts and other demand accounts in private financial entities	4,237,043,535	6,451,920,446	5,099,482,606
Overnight deposits in local financial entities	800,000,000	-	625,000,000
Checking accounts in foreign financial entities	195,246,802,149	49,891,592,911	177,526,261,405
Deposits and other demand accounts in foreign financial entities	51,614,508	101,093,880	22,446,410
Checking accounts and demand deposits in related entities (Note 3)	16,136,481,207	17,945,463,302	11,485,012,516
Overnight deposits in foreign financial entities	4,704,656,464	3,168,719,663	4,115,626,407
Transfers through the Interbank Electronic Payment System (SINPE)	7,664,267,990	1,785,642,086	5,313,200,126
Local notes receivable	2,348,550,452	6,098,464,304	2,089,780,229
Foreign notes receivable	603,317,254	2,543,259,521	621,421,300
Margin calls for tri-party repurchase agreements	43,098,502	8,462,542	148,573,000
Fondo de Garantía de la Bolsa Nacional de Valores (FOGABONA)	259,848,188	214,975,302	151,950,087
Other restricted cash and due from banks (2)	1,121,778,246	1,198,002,163	1,185,775,282
Accrued interest on cash and due from banks	67,728	-	-
¢	<u>1,099,260,131,135</u>	<u>1,025,465,414,007</u>	<u>1,176,212,745,885</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

As of June 30, 2019, the percentage for the minimum legal deposit was changed to 12%, according to note GD-5879/09 issued by BCCR on June 3, 2019 (2018: 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.

- (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 (BCAC).

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(5) Investments in financial instruments

Investments in financial instruments are as follows:

	June 2019	December 2018	June 2018
<u>Trading:</u>			
Open investment funds (1)	¢ -	12,096,981,603	-
	-	12,096,981,603	-
<u>Available for sale:</u>			
<u>Local issuers:</u>			
Government of Costa Rica	526,821,976,075	501,672,592,983	520,036,887,853
BCCR	114,765,338,128	123,888,398,241	123,817,120,469
State-owned banks	38,314,149,833	35,603,879,775	26,958,523,788
Private issuers (1)	117,046,276,658	5,374,960,833	11,651,535,939
	796,947,740,694	666,539,831,832	682,464,068,049
<u>Foreign issuers:</u>			
Governments	201,647,792,522	250,699,141,704	109,470,190,008
Private issuers	124,946,473,153	145,841,940,179	280,717,630,424
Private banks	93,197,442,845	81,102,154,742	84,093,679,831
	419,791,708,520	477,643,236,625	474,281,500,263
	1,216,739,449,214	1,156,280,050,060	1,156,745,568,312
<u>Held to maturity:</u>			
Government of Costa Rica	-	-	18,741,104,378
	-	-	18,741,104,378
<u>Derivative financial instruments:</u>			
Interest rate futures - Hedges (Note 6)	10,755,754,491	564,329,586	869,129
Purchase of FX futures – Other than hedges (Note 6)	-	106,663,896	581,688
Sale of FX futures – Other than hedges (Note 6)	21,588,848	7,819,670	11,347,500
	10,777,343,339	678,813,152	12,798,317
<u>Allowance for impairment:</u>			
Allowance for impairment of derivative instruments other than hedges	(853,364)	(10,701,685)	(1,192,919)
	(853,364)	(10,701,685)	(1,192,919)
Accrued interest receivable on investments	18,869,780,485	14,756,839,149	13,297,357,996
¢	1,246,385,719,674	1,171,705,000,676	1,188,795,636,084

(Continued)



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- (1) Trading investments correspond to investment funds held with BN Sociedad Administradora de Fondos de Inversión, S.A. (the Investment Fund Manager) (see Note 3).

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

	June 2019	December 2018	June 2018
Opening balance	¢ 10,701,685	73,474,196	73,474,196
Allowance expense (Note 34)	2,673,601	27,236,248	12,848,082
Decrease in allowance (Note 35)	(12,521,922)	(90,008,759)	(85,129,359)
Closing balance	¢ 853,364	10,701,685	1,192,919

As of June 30, 2019, the Bank recognizes an allowance for impairment of derivative instruments other than hedges in the amount of ¢853,364, for sales of FX futures other than hedges in accordance with SUGEF Directive 09-08 (December and June 2018: ¢10,701,685 and ¢1,192,919, respectively).

Annual returns on investments in financial instruments are as follows:

Currency	June 2019	December 2018	June 2018
Colones	5.66% to 11.96%	4.87% to 11.20%	4.88% to 9.93%
US dollars	0.75% to 9.32%	0.75% to 6.85%	0.75% to 6.85%
Euro	0.00% to 0.00%	1.62% to 2.00%	1.10% to 2.00%
DU	0.00%	0.00%	0.00%

As of June 30, 2019, the valuation of available-for-sale investments and restricted financial instruments gave rise to an unrealized gain, net of deferred tax, in the amount of ¢7,331,076,124 (December and June 2018: unrealized loss of ¢3,854,956,295 and unrealized loss of ¢1,269,336,108, respectively). Accordingly, as of June 30, 2019, the cumulative balance of equity adjustments arising from valuation of these investments is an unrealized loss of ¢1,171,130,174 (December and June 2018: unrealized loss of ¢6,159,945,950 and unrealized loss of ¢3,574,325,763, respectively).

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(6) Derivative financial instruments

The Bank holds the following types of derivative financial instruments:

✓ Derivatives as risk hedging instruments:

Interest rate futures - hedges:

The Bank obtained interest rate hedges to hedge exposure to the LIBOR rate on international debt issues made in October 2013 and April 2016 in 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:

Issuing bank		June 30, 2019		Purpose
		Notional	Valuation	
CitiBank	US\$	100,000,000	US\$ 3,720,848	Swaps to hedge 10-year issues (maturing in 2023)
JP Morgan		200,000,000	7,441,696	
Bank of America		200,000,000	7,441,696	
	US\$	500,000,000	US\$ 18,604,240	
Amount in colones	¢	288,360,000,000	¢ 10,729,437,183	
Bank of America	US\$	100,200,000	US\$ (1,233,683)	Swaps to hedge 5-year issues (maturing in 2021)
JP Morgan		250,000,000	(2,744,594)	
	US\$	350,200,000	US\$ (3,978,277)	
Amount in colones	¢	201,967,344,000	¢ (2,294,352,177)	
Chicago Board of Trade	US\$	9,300,000	US\$ 391	Standardized futures contracts (maturing in 2019)
Amount in colones	¢	5,363,496,000	¢ 225,209	

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		December 31, 2018		Purpose
Issuing bank		Notional amount	Valuation	
CitiBank	US\$	100,000,000	US\$ 169,937	Swaps to hedge 10-year issues (maturing in 2023)
JP Morgan		200,000,000	339,871	
Bank of America		200,000,000	339,871	
	US\$	500,000,000	US\$ 849,679	Swaps to hedge 5-year issues (maturing in 2021)
Amount in colones	¢	302,195,000,000	¢ 513,537,219	
Bank of America	US\$	250,000,000	US\$ (7,870,900)	Swaps to hedge 5-year issues (maturing in 2021)
JP Morgan		250,000,000	(7,870,900)	
	US\$	500,000,000	US\$ (15,741,800)	
Amount in colones	¢	302,195,000,000	¢ (9,514,186,508)	Standardized futures contracts (maturing in 2019)
Chicago Board of Trade	US\$	6,700,000	US\$ 84,039	
Amount in colones	¢	4,049,413,000	¢ 50,792,367	
		June 30, 2018		
Issuing bank		Notional amount	Valuation	Purpose
CitiBank	US\$	100,000,000	US\$ (2,517,835)	Swaps to hedge 10-year issues (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)	Swaps to hedge 5-year issues (maturing in 2021)
Amount in colones	¢	281,720,000,000	¢ (3,546,622,099)	
Bank of America	US\$	250,000,000	(10,840,717)	Swaps to hedge 5-year issues (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)	Standardized futures contracts (maturing in 2019)
Chicago Board of Trade	US\$	19,200,000	US\$ (39,864)	
Amount in colones	¢	10,818,048,000	¢ (22,460,668)	

As of June 30, 2019, total notional amounts of US\$859,500,000, equivalent to ¢495,690,840,000 (December and June 2018: US\$1,006,700,000, equivalent to ¢608,439,413,000, and US\$1,019,200,000, equivalent to ¢574,258,048,000, 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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of June 30, 2019, the Bank booked an increase in the fair value of swaps in the amount of US\$18,649,873, equivalent to ₡10,755,754,491 (December and June 2018: US\$51,642,046 equivalent to ₡564,329,586 and US\$1,542 equivalent to ₡869,129, respectively; see Note 5) and a decrease in the fair value of those hedges in the amount of US\$4,023,519, equivalent to ₡2,320,444,276 (December and June 2018: US\$15,741,800 equivalent to ₡9,514,186,508 and US\$28,017,427 equivalent to ₡15,786,139,322, respectively; see Note 18).

As of June 30, 2019, the Bank booked an increase in the fair value of futures contracts in the amount of US\$45,633, equivalent to ₡26,317,308 (December and June 2018: US\$84,039, equivalent to ₡50,792,367, and US\$1,542, equivalent to ₡869,129, respectively; see Note 5) and a decrease in the fair value of those contracts in the amount of US\$45,242, equivalent to ₡26,092,099 (December 2018: nil; June 2018: US\$41,406, equivalent to ₡23,329,797; see Note 18). The net position of those instruments is thus US\$391, equivalent to ₡225,209 (December and June 2018: US\$84,039, equivalent to ₡50,792,367 and US\$39,864, equivalent to ₡22,460,668, respectively).

(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

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 2019	December 2018	June 2018
10-year issue (maturing in 2023)	114.70%	114.70%	114.70%
5-year issue (maturing in 2021)	90.40%	90.40%	90.40%

A valuation was performed as of June 30, 2019 and 2018 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, 2019 and 2018
- 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.

✓ 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.

(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

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, 2019, the total notional amount is US\$1,126,336, equivalent to ¢649,580,440 (December and June 2018: US\$8,853,765, equivalent to ¢5,351,126,744 and US\$1,360,000, equivalent to ¢766,278,400, respectively; see Note 22).

As of June 30, 2019, the Bank booked an increase in the fair value of these forwards in the amount of ¢21,588,848 under an asset account (see Note 5) and a decrease in the amount of ¢13,055,213 under a liability account (see Note 18) (December and June 2018: increase in the amount of ¢114,483,566 and ¢11,929,188, respectively, and decrease in the amount of ¢760,675 and nil, respectively).

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 2019	December 2018	June 2018
Gain on derivative financial instruments	¢ 16,637,254,523	20,850,704,979	6,363,504,486
Loss on derivative financial instruments	<u>(3,584,539,373)</u>	<u>(26,913,712,578)</u>	<u>(18,439,618,208)</u>
Net gain (loss)	¢ <u>13,052,715,150</u>	<u>(6,063,007,599)</u>	<u>(12,076,113,722)</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(7) Loan portfolio

(a) Loan portfolio by sector

The loan portfolio by sector is as follows:

		<u>June 2019</u>	<u>December2018</u>	<u>June 2018</u>
Trade	¢	379,908,367,159	396,785,279,700	396,811,312,498
Services		925,218,538,959	939,030,870,995	918,417,271,066
Financial services		114,911,609,281	136,874,986,400	131,928,936,803
Mining		877,271,490	884,454,369	862,174,848
Manufacturing and quarrying		176,983,102,435	193,446,458,802	165,729,222,625
Construction		96,739,200,318	116,304,451,617	116,092,022,228
Agriculture and forestry		112,041,329,034	121,629,572,584	120,797,028,197
Livestock, hunting, and fishing		79,272,949,170	81,952,751,313	82,877,006,414
Electricity, water, sanitation, and other related sectors		399,371,581,964	412,573,611,859	435,214,412,880
Transportation and telecommunications		41,925,467,030	45,062,571,105	43,699,873,534
Housing		1,305,876,355,940	1,304,945,620,152	1,288,120,313,772
Personal or consumer loans		566,461,563,740	580,323,359,989	562,625,365,525
Tourism		183,542,338,593	191,332,544,873	182,934,658,305
		<u>4,383,129,675,113</u>	<u>4,521,146,533,758</u>	<u>4,446,109,598,695</u>
Accrued interest receivable		39,176,957,233	36,776,953,763	36,100,678,453
Allowance for loan losses		<u>(134,961,733,132)</u>	<u>(141,630,956,233)</u>	<u>(164,883,709,446)</u>
	¢	<u><u>4,287,344,899,214</u></u>	<u><u>4,416,292,531,288</u></u>	<u><u>4,317,326,567,702</u></u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Annual interest rates on loans receivable are as follows:

Currency	June 2019		December 2018		June 2018	
	Rates	Average (I)	Rates	Average (I)	Rates	Average (I)
Colones	2.00% to 48.80%	15.66%	4.00% to 47.28%	15.28%	4.00% to 11.00%	15.40%
US dollars	2.31 to 34.92%	9.47%	2.89% to 38.40%	10.46%	3.00% to 38.40%	10.25%
DU	3.85% to 10.50%	6.42%	3.85% to 11.00%	6.53%	3.85% to 11.00%	6.52%

(I) Corresponds to the average of the minimum and maximum values of the portfolio as of June 30, 2019 and 2018.

(b) Loan portfolio by arrears

The loan portfolio by arrears is as follows:

	June 2019	December 2018	June 2018
Current	¢ 4,006,943,593,055	4,223,913,959,985	4,094,485,284,073
1 to 30 days	151,401,564,481	68,387,417,598	113,315,753,829
31 to 60 days	37,632,777,165	53,200,289,272	26,030,246,455
61 to 90 days	41,458,815,130	27,612,191,520	23,474,323,552
91 to 120 days	16,004,352,566	14,006,115,691	16,151,547,999
121 to 180 days	20,870,382,633	16,987,435,996	79,314,423,227
More than 180 days	108,818,190,083	117,039,123,696	93,338,019,560
	4,383,129,675,113	4,521,146,533,758	4,446,109,598,695
Accrued interest receivable	39,176,957,233	36,776,953,763	36,100,678,453
Allowance for loan losses	(134,961,733,132)	(141,630,956,233)	(164,883,709,446)
	¢ 4,287,344,899,214	4,416,292,531,288	4,317,326,567,702

(c) Allowance for loan losses

Movement in the allowance for loan losses is as follows:

	June 2019	December 2018	June 2018
Opening balance	¢ 141,630,956,233	140,168,393,361	140,168,393,361
Allowance expense for the period (Note 31)	29,316,524,908	86,529,016,148	39,270,825,529
Write-offs	(34,117,018,563)	(91,064,341,598)	(14,155,960,375)
Decrease in allowance	(175,919)	-	-
Foreign exchange differences	(1,868,553,527)	5,997,888,322	(399,549,069)
Closing balance	¢ 134,961,733,132	141,630,956,233	164,883,709,446

(Continued)



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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 2019	December 2018	June 2018
Fees and commissions	¢ 1,747,200,481	1,379,493,008	1,381,337,666
Accounts receivable for brokerage operations	121,111,237	56,675	147,461,063
Accounts due from officers	55,070,169	23,953,056	196,615,810
Deferred tax (Note 16-b)	1,392,389,392	2,217,534,051	1,323,969,385
Income tax receivable (1)	129,952,152	268,539,602	118,101,320
Sundry accounts receivable for credit cards	173,388,057	82,482,719	-
Advance payments to suppliers	200,094,043	-	-
Other recoverable expenses	20,963,523	21,163,480	-
Other accounts receivable (2)	4,024,794,950	3,905,545,099	4,356,071,038
Accrued interest receivable on other sundry accounts receivable	4,163,083	2,082,892	1,564,180
Allowance for impairment of accounts receivable	(4,089,375,979)	(3,914,525,990)	(4,530,431,667)
	¢ 3,779,751,108	3,986,324,592	2,994,688,795

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

	June 2019	December 2018	June 2018
Banco Nacional de Costa Rica	¢ 68,045,930	156,399,541	67,672,186
BN Vital Operadora de Planes de Pensiones Complementarias, S.A.	38,817	80,512	22,615
BN Sociedad Corredora de Seguros, S.A.	61,867,405	112,059,549	50,406,519
	¢ 129,952,152	268,539,602	118,101,320

(2) As of June 30, 2019, other accounts receivable include ¢2,817 million corresponding to theft and fraud (2018: ¢1,677 million corresponding to theft or misappropriation, malicious acts, scams and fraud).

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the six months ended June 30, movement in the allowance for impairment of other accounts receivable is as follows:

	June 2019	December 2018	June 2018
Opening balance	¢ 3,914,525,990	3,592,576,911	3,592,576,911
Allowance expense (Note 34)	678,068,375	1,949,617,277	1,426,941,488
Decrease in allowance (Note 35)	(145,664,736)	(1,149,713,455)	(266,416,985)
Items settled against allowance	(355,131,056)	(483,865,137)	(222,039,839)
Foreign exchange differences	(2,422,594)	5,910,394	(629,908)
Closing balance	¢ 4,089,375,979	3,914,525,990	4,530,431,667

(9) Foreclosed assets

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

	June 2019	December 2018	June 2018
Assets received in lieu of payment	83,211,168,643	79,173,439,587	77,262,250,966
Idle property, furniture and equipment	1,674,833	1,840,189	1,840,190
Allowance for impairment	(59,147,070,576)	(59,100,375,778)	(59,281,685,006)
	24,065,772,900	20,074,903,998	17,982,406,150

For the six months ended June 30, movement in the allowance for impairment of foreclosed assets is as follows:

	June 2019	December 2018	June 2018
Opening balance	59,100,375,778	62,466,054,133	62,466,054,133
Allowance expense (Note 38)	3,317,974,721	4,111,275,986	1,488,983,915
Disposal of foreclosed assets	-	(956,183,973)	(666,282,044)
Decrease in allowance	(3,271,279,923)	(6,520,770,368)	(4,007,070,998)
Closing balance	59,147,070,576	59,100,375,778	59,281,685,006

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(10) Investments in other companies

Investments in other companies are as follows:

		<u>June 2019</u>	<u>December 2018</u>	<u>June 2018</u>
Other financial and non-financial entities (1)	¢	50,623,300	50,623,300	50,623,300
Banco Internacional de Costa Rica, S.A. and Subsidiary (BICSA) (Note 3) (2)		64,813,111,122	66,444,860,974	60,705,598,536
	¢	<u>64,863,734,422</u>	<u>66,495,484,274</u>	<u>60,756,221,836</u>

(1) As of June 30, the Bank's investments in other entities are as follows:

		<u>June 2019</u>	<u>December 2018</u>	<u>June 2018</u>	<u>Concept</u>
National Stock Exchange	¢	15,000,000	15,000,000	15,000,000	Investment to operate as custodian of electronic securities
Central de Valores de la Bolsa Nacional de Valores, S.A.		15,000,000	15,000,000	15,000,000	Investment to operate as custodian of electronic securities
Interclear Central de Valores		15,000,000	15,000,000	15,000,000	Investment to operate as custodian of electronic securities
Depósito Libre Comercial Golfito (Golfito Duty Free Shopping Center) per 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
	¢	<u>50,623,300</u>	<u>50,623,300</u>	<u>50,623,300</u>	

(2) The Bank holds 49% ownership interest in BICSA, represented in 2019 and 2018 by 6,506,563 ordinary shares of US\$10 par value.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(11) Property, furniture and equipment, net

Property, furniture and equipment is as follows:

		June 2019				
		Land	Buildings	Furniture and equipment	Computer hardware	Vehicles
						Total
<u>Cost:</u>						
Historical cost balance at beginning of the period	¢	4,281,149,677	69,580,863,035	65,263,465,984	50,713,063,855	264,951,853
Revalued cost balance at beginning of the period		49,234,856,453	65,881,300,846	(9,367,058)	(33,530,103)	-
Additions		-	732,142,019	3,369,809,533	1,094,919,972	-
Disposals		-	-	(2,315,015,458)	(389,142,515)	-
Sales		-	-	(13,039,226)	-	-
Adjustments		-	(108,714,152)	466,993,921	55,640,455	-
Balance at end of the period		53,516,006,130	136,085,591,748	66,762,847,696	51,440,951,664	264,951,853
<u>Accumulated depreciation:</u>						
Balance at beginning of the period		-	43,897,512,315	38,877,680,174	36,445,870,667	220,369,424
Depreciation expense on historical cost		-	889,676,273	3,251,512,863	3,005,514,064	9,007,614
Depreciation expense on revalued cost		-	548,993,778	-	-	-
Disposals		-	-	(2,151,608,920)	(386,521,926)	-
Sales		-	-	(12,945,934)	-	-
Adjustments		-	(102,444,817)	414,069,023	52,018,178	-
Balance at end of the period	¢	-	45,233,737,549	40,378,707,206	39,116,880,983	229,377,038
Net balance at end of the period	¢	53,516,006,130	90,851,854,199	26,384,140,490	12,324,070,681	35,574,815
						183,111,646,315

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		December 2018					
		Land	Buildings	Furniture and equipment	Computer hardware	Vehicles	Total
<u>Cost:</u>							
Historical cost balance at beginning of year	¢	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 year		43,400,145,058	61,920,804,416	(8,658,186)	(33,536,634)	-	105,278,754,654
Additions		-	7,165,927,553	6,631,379,834	3,721,218,714	2,200,000	17,520,726,101
Revaluation of assets		6,558,097,036	1,561,779,065	3,808,347	46,156,991	-	8,169,841,439
Disposals		-	(39,919,164)	(4,126,169,331)	(5,291,792,094)	(1,650,000)	(9,459,530,589)
Sales		(355,489,489)	(357,880,881)	(467,191)	-	-	(713,837,561)
Reclassifications (i)		(508,727,979)	(154,316,248)	(2,243,766)	(34,671,090)	-	(699,959,083)
Balance at end of year		53,516,006,130	135,462,163,881	65,254,098,926	50,679,533,751	264,951,853	305,176,754,541
<u>Accumulated depreciation:</u>							
Balance at beginning of year		-	38,921,431,767	35,786,150,473	35,403,025,098	203,397,643	110,314,004,981
Depreciation expense on historical cost		-	1,433,440,132	6,222,953,216	6,337,566,233	18,085,531	14,012,045,112
Depreciation expense on revalued cost		-	1,462,409,623	-	-	-	1,462,409,623
Disposals		-	(20,459,937)	(3,140,688,503)	(5,253,973,221)	(1,113,750)	(8,416,235,411)
Sales		-	(101,779,142)	(261,634)	-	-	(102,040,776)
Reclassifications (ii)		-	2,202,469,870	9,526,623	(40,747,443)	-	2,171,249,050
Balance at end of year	¢	-	43,897,512,313	38,877,680,175	36,445,870,667	220,369,424	119,441,432,579
Net balance at end of year	¢	53,516,006,130	91,564,651,568	26,376,418,751	14,233,663,084	44,582,429	185,735,321,962

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		June 2018					
		Land	Buildings	Furniture and equipment	Computer hardware	Vehicles	Total
<u>Cost:</u>							
Historical cost balance at beginning of year	¢	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 year		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 (i)		-	-	105,263	(105,263)	-	-
Balance at end of year		47,541,224,465	132,406,143,772	64,526,610,965	51,156,356,962	264,951,853	295,895,288,017
<u>Accumulated depreciation:</u>							
Balance at beginning of year		-	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 revalued cost		-	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 year		-	42,191,496,508	37,127,220,646	36,772,139,840	211,222,757	116,302,079,751
Net balance at end of year	¢	47,541,224,465	90,214,647,264	27,399,390,319	14,384,217,122	53,729,096	179,593,208,266

- i. Correspond to reclassifications between asset accounts, change in asset type (classification of assets) between accounts of the same group, asset transfer process (change of location by office), reversal of journal entries and correction of differences in reconciliation offset between asset accounts, depreciation expense, loss or lower balance.
- ii. Correspond to the asset transfer process (change of location by office), correction of differences in reconciliation offset between asset accounts, depreciation expense, loss or lower balance. Includes adjustment to accumulated depreciation based on the valuation of buildings performed during the period.

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

(12) Other assets

Other assets are as follows:

	June 2019	December 2018	June 2018
<i><u>Deferred charges:</u></i>			
Leasehold improvements (1) ¢	495,456,656	690,513,572	750,470,086
Cost of issue of financial instruments, net (2)	883,856,149	1,020,486,226	1,230,448,249
Cost of subordinated debt project	291,621,826	340,742,718	369,212,907
Deferred direct costs related to loans	4,273,659,856	4,488,822,065	4,729,600,703
Other deferred charges (3)	63,987,328,132	71,115,886,457	577,155,527
	<u>69,931,922,619</u>	<u>77,656,451,038</u>	<u>7,656,887,472</u>
<i><u>Intangible assets:</u></i>			
Software (4)	5,659,551,932	5,046,893,109	5,433,929,271
Other intangible assets (4)	3,289,771	2,660,203	118,810,386
	<u>5,662,841,703</u>	<u>5,049,553,312</u>	<u>5,552,739,657</u>
<i><u>Other assets:</u></i>			
Prepaid interest and fees and commissions	238,366,116	365,324,853	260,026,630
Prepaid taxes	1,916,846,642	6,376,957,110	2,134,806,840
Prepaid insurance policy	129,101,479	144,379,676	145,086,203
Other prepaid expenses (5)	5,302,955,673	728,395,586	950,685,520
Stationery, office supplies, and other materials	783,413,083	452,274,191	612,204,370
Leased assets	120,343,059	121,011,254	98,773,515
Library and artwork	429,918,818	429,918,818	429,918,818
Construction work-in-progress	1,058,016,559	2,471,766,478	6,684,357,189
Software under development	-	953,628	14,186,987
Rights in welfare and trade associations	600,000	600,000	600,000
Other sundry assets	2,137,049,647	7,105,562,703	8,315,752,417
Operations pending settlement	8,541,263,895	11,126,219,515	12,174,156,390
Other operations pending application	257,506,155	224,971,615	451,764,649
Security deposits (Note 2)	307,648,328	368,859,948	231,821,102
Legal and administrative deposits (Note 2)	229,469,800	160,172,058	204,941,450
	<u>21,452,499,254</u>	<u>30,077,367,433</u>	<u>32,709,082,080</u>
¢	<u>97,047,263,576</u>	<u>112,783,371,783</u>	<u>45,918,709,209</u>

- (1) As of June 30, 2019, the expense for amortization of leasehold improvements amounts to ¢220,225,311 (December and June 2018: ¢332,162,531 and ¢172,401,628, respectively).

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

June 2019				
	5-year issue (maturing in 2018)	10-year issue (maturing in 2023)	5-year issue (maturing 2021)	Total
Commission - structuring banks	¢ 288,360,000	288,360,000	490,212,000	1,066,932,000
Commission - Moody's Investors Service	144,180,000	144,180,000	-	288,360,000
Commission - Société de la Bourse de Luxembourg, S.A.	7,048,095	7,048,095	-	14,096,190
RR Donelley	6,313,354	6,313,331	3,779,405	16,406,090
BNY Mellon	2,279,774	2,279,774	3,325,944	7,885,492
Moody's - issuer rating	19,089,432	19,089,432	144,180,000	182,358,864
Fitch Ratings	144,180,000	144,180,000	144,180,000	432,540,000
Milbank	84,870,115	84,870,115	113,625,726	283,365,956
Shearman & Sterling	84,980,269	84,980,269	126,413,621	296,374,159
External audit	109,576,800	109,576,800	133,799,040	352,952,640
Perkins Cole (Broker)	-	-	7,564,865	7,564,865
Printing of documents	-	-	9,120,735	9,120,735
	890,877,839	890,877,816	1,176,201,336	2,957,956,991
Amortization	(890,877,839)	(492,345,611)	(690,877,393)	(2,074,100,843)
	¢ -	398,532,205	485,323,943	883,856,148
December 2018				
	5-year issue (maturing in 2018)	10-year issue (maturing in 2023)	5-year issue (maturing 2021)	Total
Commission - structuring banks	¢ 302,195,000	302,195,000	513,731,500	1,118,121,500
Commission - Moody's Investors Service	151,097,500	151,097,500	-	302,195,000
Commission - Société de la Bourse de Luxembourg, S.A.	7,386,250	7,386,250	-	14,772,500
RR Donelley	6,616,257	6,616,233	3,960,734	17,193,224
BNY Mellon	2,389,154	2,389,154	3,485,518	8,263,826
Moody's - issuer rating	20,005,309	20,005,309	151,097,500	191,108,118
Fitch Ratings	151,097,500	151,097,500	151,097,500	453,292,500
Milbank	88,942,032	88,942,032	119,077,286	296,961,350
Shearman & Sterling	89,057,471	89,057,471	132,478,722	310,593,664
External audit	114,834,100	114,834,100	140,218,480	369,886,680
Perkins Cole (Broker)	-	-	7,927,814	7,927,814
Printing of documents	-	-	9,558,331	9,558,331
	933,620,573	933,620,549	1,232,633,385	3,099,874,507
Amortization	(933,620,573)	(469,459,691)	(676,308,017)	(2,079,388,281)
	¢ -	464,160,858	556,325,368	1,020,486,226

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	June 2018			Total
	5-year issue (maturing in 2018)	10-year issue (maturing in 2023)	5-year issue (maturing 2021)	
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

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

- (3) As of December 31, 2018, the General Board of Directors, in Article 19 of minutes of meeting No. 12,310, held on December 10, 2018, agreed to “...*adhere to the Tax Amnesty according to the term established in Transition Provision XXIV of the Law to Strengthen Public Finances...*”; consequently, the amount corresponding to the notices of deficiency for 2010-2013 and 2014-2016 were booked in this account (see Note 44).

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(4) Intangible assets, net, are as follows:

		June 2019		
		Software	Other intangible assets	Total
<u>Cost:</u>				
Opening balance	¢	29,090,446,091	2,087,126,157	31,177,572,248
Additions		3,232,399,343	5,949,974	3,238,349,317
Revaluations		(12,819,318)	-	(12,819,318)
Sales		-	(5,320,406)	(5,320,406)
Disposals		(2,760,715,648)	-	(2,760,715,648)
Adjustments		(188,789,092)	-	(188,789,092)
Closing balance		29,360,521,376	2,087,755,725	31,448,277,101
<u>Accumulated amortization:</u>				
Opening balance		24,043,552,982	2,084,465,954	26,128,018,936
Expense for the period		2,593,397,028	-	2,593,397,028
Sales		(5,622,227)	-	(5,622,227)
Disposals		(2,760,182,747)	-	(2,760,182,747)
Adjustments		(170,175,592)	-	(170,175,592)
Closing balance		23,700,969,444	2,084,465,954	25,785,435,398
Net closing balance	¢	5,659,551,932	3,289,771	5,662,841,703
		December 2018		
		Software	Other intangible assets	Total
<u>Cost:</u>				
Opening balance	¢	26,625,257,162	2,087,602,654	28,712,859,816
Additions		2,303,398,073	10,183,001	2,313,581,074
Disposals		(157,923,350)	-	(157,923,350)
Reclassifications		-	(10,659,498)	(10,659,498)
Adjustments		319,714,207	-	319,714,207
Closing balance		29,090,446,092	2,087,126,157	31,177,572,249
<u>Accumulated amortization:</u>				
Opening balance		20,104,598,731	1,264,874,499	21,369,473,230
Expense for the period		6,005,104,580	830,250,953	6,835,355,533
Disposals		(9,548,115)	-	(9,548,115)
Reclassifications		(79,589,410)	(10,659,498)	(90,248,908)
Adjustments		(1,977,012,803)	-	(1,977,012,803)
Closing balance		24,043,552,983	2,084,465,954	26,128,018,937
Net closing balance	¢	5,046,893,109	2,660,203	5,049,553,312

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		June 2018	
		Software	Other intangible assets
			Total
<i>Cost:</i>			
Opening balance	¢	26,625,257,161	2,087,602,654
Additions		1,154,698,896	4,862,595
Disposals		(48,589,035)	-
Reclassifications		-	(6,273,400)
Adjustments		(453,539,794)	-
Closing balance		27,277,827,228	2,086,191,849
<i>Accumulated amortization:</i>			
Opening balance		20,104,598,731	1,264,874,499
Expense for the year		1,748,685,272	708,780,364
Disposals		(9,386,046)	(6,273,400)
Closing balance		21,843,897,957	1,967,381,463
Net closing balance	¢	5,433,929,271	118,810,386

- (5) As of June 30, 2019, other prepaid expenses include the recording of amounts paid due to the recalculation of the parafiscal contributions for fiscal years 2010-2016, due to the notice of deficiency and pursuant to the *Amnesty Law* of the Ministry of Finance.

(13) Obligations with the public

Obligations with the public by cumulative amount are as follows:

	June 2019	December 2018	June 2018
<i>Demand deposits:</i>			
Checking accounts	¢ 1,259,246,080,770	1,266,981,098,817	1,279,675,470,093
Certified checks	403,826,195	73,507,572	109,342,064
Savings deposits	1,371,420,924,581	1,429,099,932,052	1,333,634,491,235
Matured-term deposits	15,934,835,658	26,930,306,912	23,305,310,231
Other demand deposits	254,997,809	331,158,380	474,622,689
Drafts and transfers payable	68,879,089	210,113,339	107,484,852
Cashier's checks	3,567,626,134	3,573,252,271	4,942,591,177
Advance collections from customers for credit cards	11,053,246,095	12,462,263,255	10,513,601,687
Banking mandates	1,121,778,245	1,198,002,163	1,185,775,282
Trust fund obligations	196,309,640	234,948,393	5,937,847
	2,663,268,504,216	2,741,094,583,154	2,653,954,627,157
<i>Term deposits:</i>			
Deposits from the public	2,211,688,110,579	1,862,962,601,087	1,925,700,537,898
Other term deposits	177,166,408,664	126,413,598,734	145,192,476,923
	2,388,854,519,243	1,989,376,199,821	2,070,893,014,821
<i>Other obligations with the public:</i>			
Obligations with third parties for third-party repurchase agreements	11,167,668,507	12,135,686,821	34,217,872,873
Finance charges payable	47,234,923,129	40,943,517,787	41,647,729,645
	¢ 5,110,525,615,095	4,783,549,987,583	4,800,713,244,496

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of June 30, 2019, deposits in checking accounts denominated in colones bear interest at a maximum rate of 3.05% per annum (December and June 2018: 3.05% and 2.55% per annum, respectively) on balances and at a minimum rate of 0.00% per annum (December and June 2018: 0.00% per annum) 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 2018: 0.45% per annum) on balances and at a minimum rate of 0.00% per annum (December and June 2018: 0.00% per annum) 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, term certificates bear annual interest at the following rates:

Currency	June 2019	December 2018	June 2018
Colones	4.00% to 8.95%	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, 2019, the balance of those term certificates of deposit is ¢45,773,867,930 (December and June 2018: ¢45,565,025,114 and ¢43,875,796,706, 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 2019	December 2018	June 2018
Financing for loans using external funds (i)	¢ 125,644,412	125,644,412	125,644,412
Other term obligations with BCCR (ii)	-	150,400,000,000	7,000,000,000
Finance charges payable	-	104,444,444	2,333,333
	¢ 125,644,412	150,630,088,856	7,127,977,745

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- i.* According to Agreement MAG/AID 515-T-027 signed on December 15, 1981, obligations related to financing of loans using external funds correspond to the agreement between the Government of Costa Rica and the Bank regarding management of the funds of the Agricultural Production Systems Project. This loan bears no interest and the agreement shall remain effective until otherwise agreed.
- ii.* Other term obligations with BCCR correspond to deferred liquidity operations (Integrated Liquidity Market (MIL) operations), with the corresponding interest.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(15) Obligations with financial entities

Obligations with financial entities are as follows:

	June 2019	December 2018	June 2018
<i><u>Demand:</u></i>			
Checking accounts with local financial entities	¢ 43,758,180,876	46,734,855,631	47,299,571,757
Savings deposits with local financial entities	139,271,988	77,408,367	70,651,238
Development Credit Fund (FOCREDE) management	142,181,987,214	132,343,259,393	142,453,659,333
Outstanding checks	9,650,084,053	1,912,750,821	6,717,758,658
Matured-term deposits	200,915,476	93,328,163	-
Checking accounts and obligations with related parties	75,599,317	510,449,626	13,998,283
	<u>196,006,038,924</u>	<u>181,672,052,001</u>	<u>196,555,639,269</u>
<i><u>Term:</u></i>			
Term deposits from local financial entities	103,880,967,741	111,103,688,102	122,350,621,303
Term obligations with foreign financial entities (1)	494,729,412,620	590,621,555,713	818,657,342,729
Liquidity market obligations	37,705,831,998	37,631,699,999	12,734,400,001
Loans from local financial entities (2)	33,635,289,223	34,750,337,565	35,785,886,375
Loans from foreign financial entities (2)(3)	89,724,309,768	98,386,895,369	94,280,246,168
Deferred liquidity operations (2)	-	105,600,000,000	-
	<u>759,675,811,350</u>	<u>978,094,176,748</u>	<u>1,083,808,496,576</u>
Interest payable on other demand and term obligations with financial entities – foreign currency	109,750,220	96,502,933	179,666,479
Interest payable on other demand and term obligations with financial entities – local currency	1,146,702,055	1,632,784,606	1,360,594,897
Interest payable on loans with foreign financial entities (2)(3)	393,706,991	731,444,521	700,527,313
Interest payable on loans with local financial entities (2)	90,675,012	152,689,267	88,819,027
Interest payable on term deposits from foreign financial entities (1)	5,179,106,603	6,402,756,563	8,208,841,876
	<u>6,919,940,881</u>	<u>9,016,177,890</u>	<u>10,538,449,592</u>
¢	<u>962,601,791,155</u>	<u>1,168,782,406,639</u>	<u>1,290,902,585,437</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

	June 2019		
	10-year issue (maturing in 2023)	5-year issue (maturing in 2021)	Total
Issue	¢ 285,684,019,200	201,321,048,499	487,005,067,699
Adjustment to fair value of hedged item measured at cost of international issues	9,433,120,836	(3,354,570,649)	6,078,550,187
Amortization of discount in traded amount of issues	1,276,891,662	368,903,072	1,645,794,734
	296,394,031,698	198,335,380,922	494,729,412,620
Finance charges payable	3,003,750,004	2,175,356,599	5,179,106,603
	¢ 299,397,781,702	200,510,737,521	499,908,519,223

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		December 2018		
		10-year issue (maturing in 2023)	5-year issue (maturing in 2021)	Total
Issue	¢	299,390,630,400	301,227,976,000	600,618,606,400
Adjustment to fair value of hedged item measured at cost of international issues		(918,500,797)	(10,728,073,748)	(11,646,574,545)
Amortization of discount in traded amount of issues		1,196,480,126	453,043,732	1,649,523,858
		299,668,609,729	290,952,945,984	590,621,555,713
Finance charges payable		3,147,864,581	3,254,891,982	6,402,756,563
	¢	302,816,474,310	294,207,837,966	597,024,312,276

		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

On June 27, 2018, the Bank made a partial repurchase of the 5-year issue of securities maturing in 2018, in the amount of US\$10,720,000, corresponding to issue BNALCR 4 7/8 maturing November 1, 2018, ISIN No. USP14623AA33.

On March 18, 2019, the Bank made a partial repurchase of the 5-year issue of securities maturing in 2021, in the amount of US\$149,800,000, corresponding to issue BNALCR 5.875 maturing April 25, 2021, ISIN No. USP14623AC98.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- (2) The maturity of loans and term obligations payable with financial entities is as follows:

	June 2019		
	Local	Foreign	Total
1 to 2 years	-	3,814,381,857	3,814,381,857
3 to 5 years	-	42,825,915,600	42,825,915,600
More than 5 years	33,725,964,235	43,477,719,302	77,203,683,537
¢	<u>33,725,964,235</u>	<u>90,118,016,759</u>	<u>123,843,980,994</u>
	December 2018		
	Local	Foreign	Total
Less than 1 year	256,171,857,332	-	256,171,857,332
1 to 2 years	-	5,141,281,219	5,141,281,219
2 to 5 years	34,835,613,944	93,977,058,672	128,812,672,616
¢	<u>291,007,471,276</u>	<u>99,118,339,891</u>	<u>390,125,811,167</u>
	June 2018		
	Local	Foreign	Total
Less than 1 year	7,002,333,333	-	7,002,333,333
3 to 5 years	-	5,855,597,653	5,855,597,653
More than 5 years	35,874,705,402	89,125,175,828	124,999,881,230
¢	<u>42,877,038,735</u>	<u>94,980,773,481</u>	<u>137,857,812,216</u>

- (3) As of June 30, 2019, loans due to foreign financial entities bear interest at rates ranging between 3.32% and 6.81% per annum (December and June 2018: between 3.32% and 7.11%, and 3.32% and 6.65% per annum, respectively).

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(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	
	2019	2018	2019	2018
<u>Income tax expense:</u>				
Income tax expense for the period	¢ 7,004,462,182	1,278,100,710	3,235,602,439	681,722,284
Income tax expense for prior periods	7,095,323,421	869,401	3,547,309,483	-
	¢ 14,099,785,603	1,278,970,111	6,782,911,922	681,722,284

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	June		Quarter from April 1 to June 30	
	2019	2018	2019	2018
<i><u>Current tax:</u></i>				
Income tax expense for the period	¢ 7,004,462,182	1,278,100,710	3,235,602,439	681,722,284
<i><u>Prior-period income tax:</u></i>				
Prior-period income tax expense	7,095,323,421	869,401	3,547,309,483	-
	<u>14,099,785,603</u>	<u>1,278,970,111</u>	<u>6,782,911,922</u>	<u>-</u>
<i><u>Deferred tax:</u></i>				
Deferred tax expense	16,175,504	16,175,504	8,087,752	8,087,752
Deferred tax income	(59,093,460)	(183,870,590)	(19,508,458)	(38,045,305)
	<u>(42,917,956)</u>	<u>(167,695,086)</u>	<u>(11,420,706)</u>	<u>(29,957,553)</u>
Total income tax expense, net	¢ <u>14,056,867,647</u>	<u>1,111,275,025</u>	<u>6,771,491,216</u>	<u>651,764,731</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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:

	June 2019	June 2018
Profit before tax	¢ 35,889,720,875	22,393,383,674
Plus (less) tax effect of:		
Non-deductible expenses	30,814,997,466	23,689,041,859
Deductible expenses	(2,097,324,910)	(1,490,670,192)
Non-taxable income	(41,259,186,164)	(40,779,263,502)
Tax base	23,348,207,267	3,812,491,839
Tax rate	30%	30%
Subtotal - income tax expense	7,004,462,182	1,278,100,710
Prior-period income tax expense	7,095,323,421	869,401
Deferred tax expense	16,175,504	16,175,504
Deferred tax income	(59,093,460)	(183,870,590)
Income tax expense, net	¢ 14,056,867,647	1,111,275,025

b) Deferred tax

Deferred tax assets and liabilities are as follows:

	June 2019	
	Assets	Liabilities
Unrealized losses	¢ 1,277,515,473	-
Provisions	114,873,919	-
Unrealized gains	-	(1,299,657,015)
Revaluation of assets	-	(9,763,087,232)
	¢ 1,392,389,392	(11,062,744,247)
	December 2018	
	Assets	Liabilities
Unrealized losses	¢ 2,172,375,621	-
Provisions	45,158,430	-
Unrealized gains	-	(246,219,571)
Revaluation of assets	-	(9,763,087,231)
	¢ 2,217,534,051	(10,009,306,802)

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		June 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)
	¢	<u>1,323,969,385</u>	<u>(10,700,656,436)</u>	<u>(9,376,687,051)</u>

Deferred tax assets and liabilities are as follows:

		December 31, 2018	Included in the income statement	Included in equity	June 30, 2019
Unrealized losses	¢	2,171,066,820	(6,066,520)	(887,484,827)	1,277,515,473
Provisions		46,467,231	68,406,687	-	114,873,918
Unrealized gains		(246,219,570)	(22,208,152)	(1,031,229,292)	(1,299,657,014)
Revaluation of assets		(9,763,087,232)	-	-	(9,763,087,232)
	¢	<u>(7,791,772,751)</u>	<u>40,132,015</u>	<u>(1,918,714,119)</u>	<u>(9,670,354,855)</u>

		December 31, 2017	Included in the income statement	Included in equity	December 31, 2018
Unrealized losses	¢	986,501,498	-	1,184,565,322	2,171,066,820
Provisions		281,420,008	(234,952,777)	-	46,467,231
Unrealized gains		(317,646,873)	(34,351,319)	105,778,622	(246,219,570)
Revaluation of assets		(10,081,789,514)	-	318,702,282	(9,763,087,232)
	¢	<u>(9,131,514,881)</u>	<u>(269,304,096)</u>	<u>1,609,046,226</u>	<u>(7,791,772,751)</u>

		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
Unrealized gains		(317,646,873)	(16,311,770)	2,332,174	(331,626,469)
Revaluation of assets		(10,081,789,514)	-	(287,240,452)	(10,369,029,966)
	¢	<u>(9,131,514,881)</u>	<u>(162,643,170)</u>	<u>(82,529,000)</u>	<u>(9,376,687,051)</u>

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# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

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

As of June 30, 2019, the Bank has not recognized a deferred tax liability in the amount of ¢4,195,075,995 (2018: ¢2,276,401,619), given that the Bank controls the moment when the subsidiaries pay dividends.

Tax returns filed by the Bank for the year ended December 31, 2018 and the tax return that will be filed for the year ended December 31, 2019 are open to review by the Tax Authorities.

### (17) Provisions

Provisions are as follows:

	June 2019	December 2018	June 2018
Severance benefits	¢ 559,671,649	610,346,000	659,428,191
Litigation	7,009,646,874	6,949,309,790	4,878,462,151
Checking and savings accounts liquidated	732,125,876	772,565,219	733,178,443
Manager commissions	13,990,561,130	12,787,348,741	11,647,241,255
Incentives and Performance Evaluation System (SEDI)	-	-	1,185,358,808
Variation in RIVM methodology	2,497,880,386	2,852,491,877	1,049,472,302
Notice of deficiency	803,138,414	782,637,950	904,012,573
Other	256,207,372	-	737,384,925
	¢ 25,849,231,701	24,754,699,577	21,794,538,648

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Movement in provisions is as follows:

		Severance benefits	Litigation	Other	Total
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
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 (Note 39)		1,549,587,597	2,441,577,318	11,662,198,229	15,653,363,144
Used		(1,876,145,392)	(187,552,470)	(7,254,785,037)	(9,318,482,899)
Decrease in provision (Note 37)		(271,634,185)	(21,000,000)	(2,150,962,551)	(2,443,596,736)
Balance as of December 31, 2018	¢	610,346,000	6,949,309,790	17,195,043,787	24,754,699,577
Increase in provision		254,601,777	168,684,061	5,742,928,991	6,166,214,829
Used		(266,044,031)	(108,346,977)	(4,653,739,237)	(5,028,130,245)
Decrease in provision		(39,232,097)	-	(4,320,363)	(43,552,460)
Balance as of June 30, 2019	¢	559,671,649	7,009,646,874	18,279,913,178	25,849,231,701

As of June 30, the Bank and its subsidiaries are defendants in pending litigations and management considers that an outflow of economic benefits will be required. The Bank and its subsidiaries have estimated future outflows and made the following provisions:

Type	Claimed amount			Provision		
	June 2019	December 2018	June 2018	June 2019	December 2018	June 2018
Ordinary - in colones	67,224,064,998	65,950,513,209	65,277,224,187	4,237,454,806	4,296,568,066	3,644,300,350
Ordinary - in US dollars	213,351,783,811	214,868,706,304	194,110,018,861	1,925,284,410	1,877,804,885	458,558,041
Criminal - in colones	1,020,877,223	1,020,877,223	1,020,877,223	545,938,216	506,644,203	513,039,307
Labor - in colones	864,333,394	864,333,394	877,133,394	300,969,442	268,292,636	262,564,453
	<u>282,461,059,426</u>	<u>282,704,430,130</u>	<u>261,285,253,665</u>	<u>7,009,646,874</u>	<u>6,949,309,790</u>	<u>4,878,462,151</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(18) Other sundry accounts payable

Other sundry accounts payable are as follows:

	June 2019	December 2018	June 2018
Professional fees	¢ 8,357,717	-	8,995,845
Creditors - goods and services	4,382,748,523	3,602,343,718	3,731,903,479
Current tax	7,004,462,182	6,263,277,755	1,278,100,710
Employer contributions	5,376,734,967	5,518,675,886	5,146,482,428
Court-ordered withholdings	3,554,506,457	3,697,873,283	3,679,861,406
Tax withholdings	3,637,370,299	3,781,589,858	2,851,548,713
Employee withholdings	624,281,957	614,833,686	761,962,598
Other third-party withholdings	335,275,196	13,160,925	249,769,490
Compensation	5,154,642,175	5,599,261,127	2,654,321,695
Statutory allocations	8,787,901,237	8,971,707,328	6,222,009,192
Obligations on loans with related parties	171,342	237,161	1,700,986
Clearing house operations	5,530,232,716	173,998,387	2,943,136,940
Accrued vacation	4,963,305,104	6,499,439,265	7,052,917,834
Accrued statutory Christmas bonus	4,532,604,640	995,517,307	4,696,422,108
Contributions to the Superintendencies' budget	4,997,897	8,078,817	-
Foreclosed assets	814,231,172	783,217,563	389,067,581
Fees and commissions due to related parties	15,175,856	-	-
Temporary deposits for the payment of premiums	3,358,806,346	3,525,879,600	4,061,401,324
Direct contracts with the Government Purchases department - various (1)	1,345,591,415	1,172,877,958	1,348,531,141
Bid bonds and performance bonds	1,133,064,811	1,270,064,536	1,223,361,640
Accounts due to customers	1,736,160,906	1,804,936,443	993,945,120
Various creditors (2)	5,509,804,387	4,919,719,484	6,889,395,130
Interest rate futures – Hedges (Note 6)	2,320,444,276	9,514,186,508	15,786,139,322
Purchase of FX futures (Other than hedges) (Note 6)	13,055,213	-	-
Sale of FX futures (other than hedges) (Note 6)	-	760,675	-
	¢ <u>70,143,926,791</u>	<u>68,731,637,270</u>	<u>71,970,974,682</u>

- (1) Corresponds to allowances booked for the payment of the Visa and Master Card brands.
- (2) As of June 30, 2019, the “Various creditors” account includes ¢2,897 million (December and June 2018: ¢2,746 million and ¢3,209 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 divisions.

(Continued)



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(19) Other liabilities

As of June 30, other liabilities are as follows:

		<u>June 2019</u>	<u>December 2018</u>	<u>June 2018</u>
<i><u>Deferred income:</u></i>				
Deferred finance income	¢	33,356,855,834	33,218,566,310	32,114,297,130
Deferred fees and commissions for trust management		<u>32,045,891</u>	<u>36,788,458</u>	<u>30,755,960</u>
		<u>33,388,901,725</u>	<u>33,255,354,768</u>	<u>32,145,053,090</u>
Allowance for stand-by credit losses (1)		<u>141,017,723</u>	<u>169,073,348</u>	<u>272,417,979</u>
<i><u>Operations pending application:</u></i>				
Operations pending settlement		12,940,330,407	19,899,787,694	11,080,019,321
Other operations pending application		<u>28,887,345,646</u>	<u>13,835,038,255</u>	<u>29,718,889,355</u>
		<u>41,827,676,053</u>	<u>33,734,825,949</u>	<u>40,798,908,676</u>
	¢	<u><u>75,357,595,501</u></u>	<u><u>67,159,254,065</u></u>	<u><u>73,216,379,745</u></u>

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

		<u>June 2019</u>	<u>December 2018</u>	<u>June 2018</u>
Opening balance	¢	169,073,348	265,681,489	265,681,489
Allowance expense (Note 34)		7,100,000	20,750,000	7,740,000
Decrease in allowance (Note 35)		(30,000,000)	(130,000,000)	-
Adjustment for foreign exchange differences		<u>(5,155,625)</u>	<u>12,641,859</u>	<u>(1,003,510)</u>
Closing balance	¢	<u><u>141,017,723</u></u>	<u><u>169,073,348</u></u>	<u><u>272,417,979</u></u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(20) Subordinated obligations

The Bank's subordinated obligations are as follows:

<u>Annual interest rate</u>	<u>Term</u>	<u>Maturity</u>		<u>June 2019</u>	<u>December 2018</u>	<u>June 2018</u>
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
	Equivalent in colones		¢	74,973,600,000	78,570,700,000	73,247,200,000
	Finance charges payable			1,839,543,466	1,917,469,915	1,647,121,078
			¢	76,813,143,466	80,488,169,915	74,894,321,078

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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(21) Equity

(a) Share capital

The Bank's share capital is as follows:

	June 2019	December 2018	June 2018
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

(b) Revaluation surplus

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

As of June 30, 2019, revaluation surplus amounts to ¢66,193,911,011 (December and June 2018: ¢66,193,911,011 and ¢61,864,805,939, respectively).

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

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

As of June 30, 2019, the adjustment for the valuation of available-for-sale investments and restricted financial instruments resulted in an unrealized gain of ¢1,171,130,174 (December and June 2018: unrealized loss of ¢6,159,945,950 and ¢3,574,325,763, respectively).

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(d) Adjustment for valuation of investments in other companies

As of June 30, 2019, the adjustment for valuation of investments in foreign associates using the equity method amounts to ¢7,604,271,168 (December and June 2018: ¢9,125,840,572 and ¢6,305,413,107, respectively). These investments correspond to the Bank's 49% ownership interest in BICSA.

(e) Capital reserves

Capital reserves are as follows:

	June 2019	December 2018	June 2018
Legal reserve	¢ 333,021,653,758	318,382,615,318	318,379,605,494
Statutory reserve for foreclosed assets	241,010,400	247,445,202	170,213,398
Excess of statutory reserve for loans	5,122,030,954	5,739,879,198	5,516,219,277
Statutory dynamic provision	9,215,530,937	9,673,364,920	8,203,970,847
	¢ <u>347,600,226,049</u>	<u>334,043,304,638</u>	<u>332,270,009,016</u>

(f) Equity of the Development Financing Fund

As of June 30, 2019, the allocation of the Bank's earnings for the creation of the Development Financing Fund (FOFIDE) amounts to ¢34,648,535,964 (December and June 2018: ¢30,971,994,447).

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(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 2019	December 2018	June 2018
Performance bonds	¢ 33,030,356,938	32,794,951,309	32,414,277,575
Bid bonds	3,668,081,105	5,632,858,532	5,189,624,416
Other guarantees	3,505,881,532	3,517,184,123	3,433,813,686
Letters of credit	8,873,592,868	17,288,986,781	25,778,849,154
Credits pending disbursement	190,746,142	212,097,543	211,140,648
	<u>49,268,658,585</u>	<u>59,446,078,288</u>	<u>67,027,705,479</u>
Pre-approved lines of credit	272,715,615,498	288,433,381,312	278,275,898,051
Other contingencies not related to credits	27,398,061	27,398,060	27,398,061
Other contingencies - Pending litigation and lawsuits (Note 47)	<u>282,461,499,808</u>	<u>282,704,484,455</u>	<u>299,743,735,871</u>
	<u>555,204,513,367</u>	<u>571,165,263,827</u>	<u>578,047,031,983</u>
Sale of FX futures - Other than hedges (Note 6)	649,580,440	5,351,126,744	766,278,400
¢	<u><u>605,122,752,392</u></u>	<u><u>635,962,468,859</u></u>	<u><u>645,841,015,862</u></u>

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 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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of June 30, 2019, 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	Custody of stock	Managemen t custody and guaranty of stock	Guaranty and custody of stock	Total
<i>Trust assets</i>												
Cash and due from banks	¢ 236,719,568	2,899,157	15,674,280	37,365,232	-	-	8,864	-	-	-	-	292,667,101
Investments in financial instruments	352,788,736,640	16,207,911,152	1,285,515,783	1,530,889,803,753	1,260,723,975	-	2,361,139	-	-	34,614,250	-	1,902,469,666,692
Loan portfolio	3,123,276,942	-	1,470,033,235	-	-	-	-	-	-	-	-	4,593,310,177
Accounts and accrued interest receivable	44,454,168,923	25,673,634,443	1,764,575,396	28,920,349	149,432	-	-	114,437,464	-	-	4,037,040	72,039,923,047
Foreclosed assets	43,988,034	-	-	-	-	-	-	-	-	-	-	43,988,034
Investments in other companies	-	-	-	200,000,000	3,377,672	164,000	-	-	36,000	-	922,752,000	1,126,329,672
Property and equipment	812,701,201	45,730,430,731	-	71,775,087,956	93,224,756	-	-	8,719,375,327	-	-	1,738,460,805	128,869,280,776
Other assets	67,660,697,946	3,007,411,216	-	235,000,000	1,084,374	-	-	-	-	-	1,674,504,726	72,578,698,262
	469,120,289,25											
¢	4	90,622,286,699	4,535,798,694	1,603,166,177,290	1,358,560,209	164,000	2,370,003	8,833,812,791	36,000	34,614,250	4,339,754,571	2,182,013,863,761

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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 with testamentary clauses	Custody of stock and management of funds	Cash guaranty and management	Guaranty and custody of stock	Total
<i>Trust assets</i>										
Cash and due from banks	¢ 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)



## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

a) Housing mortgage

These trusts are exclusively dedicated to managing housing loan portfolios.

b) Cash or property management

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

c) Securitization

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

d) Portfolio management

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

e) Special accounts

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

f) Guaranty

These trusts hold trust property that is to be transferred as a 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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

h) Custody of stock with testamentary clause

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

(24) Other debit memoranda accounts

Other debit memoranda accounts are as follows:

	June 2019	June 2018
Pension Fund Manager's own investments in custody		
– Face value of principal	¢ 7,760,732,000	7,092,932,000
Pension Fund Manager's own investments in custody		
– Coupons	2,826,879,739	1,174,970,860
Pension Fund Manager's own investments in custody		
– Number of shares	23	23
Guarantees received in the Bank's custody	641,503,286	650,503,572
Other guarantees received in the Bank's custody	5,214,132,690,308	5,193,519,886,136
Lines of credit granted but unused	344,703,536,196	364,881,639,019
Loans pending disbursement	204,147,854,004	197,451,698,532
Unused overdrafts	53,343,836	67,253,873
Loans settled	284,601,661,178	184,830,666,391
Other accounts receivable settled	11,548,435,510	10,182,740,630
Accrued interest receivable settled	24,708,827,917	17,901,021,517
Interest income on non-accrual loans of loan portfolio	22,253,975,817	18,169,744,133
Supporting documentation received in the Bank's custody	1,255	1,255
Securities issued pending placement	-	19,858,399,999
Notified letters of credit	14,681,841,914	15,014,982,766
Notional value subject to interest rate futures (Note 6)	495,690,840,000	574,258,048,000
Reversals made to income accounts for the year	14,990,092,334	13,085,736,050
Reversals made to expense accounts for the year	42,606,592,444	46,641,648,418
Non-deductible expenses	60,426,069,492	36,298,578,684
Non-taxable income	78,925,461,561	74,813,855,403
Other memoranda accounts	183,859,669,924	186,790,067,429
	<u>7,008,560,008,738</u>	<u>6,962,684,374,690</u>
Third-party debit memoranda accounts (1)	3,231,093,120,532	2,737,506,127,601
Own debit memoranda accounts for custodial activities	382,758,826,684	364,050,369,838
Third-party debit memoranda accounts for custodial activities	12,150,923,810,983	11,259,185,933,187
	<u>15,764,775,758,199</u>	<u>14,360,742,430,626</u>
¢	<u>22,773,335,766,937</u>	<u>21,323,426,805,316</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Other memoranda accounts by entity are as follows:

	June 2019	June 2018
Banco Nacional de Costa Rica	¢ 19,722,988,951,689	18,439,418,831,392
BN Valores Puesto de Bolsa, S.A. (Note 25)	1,027,005,309,883	1,055,541,502,150
BN Sociedad Administradora de Fondos de Inversión, S.A. (Note 26)	470,999,908,613	473,480,666,691
BN Vital Operadora de Planes de Pensiones Complementarias, S.A. (Note 27)	1,552,341,596,752	1,354,985,805,083
	¢ <u>22,773,335,766,937</u>	<u>21,323,426,805,316</u>

(1) Third-party debit memoranda accounts are as follows:

	June 2019	June 2018
Management of banking mandates	¢ 1,218,496,044,910	917,461,765,790
“TUDES” securities received in custody from affiliates under Article 75 of Law No. 7531	522,546,312	581,988,236
Pension funds (Note 27)	1,541,126,406,991	1,346,041,630,673
Investment funds (Note 26)	470,948,122,319	473,420,742,902
	¢ <u>3,231,093,120,532</u>	<u>2,737,506,127,601</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

Memoranda accounts for brokerage operations are summarized as follows:

	June 2019	June 2018
<i>Own</i>		
Trading securities in custody (Note 25-a) ¢	-	4,616,083,285
Trading securities pledged as guarantees	-	39,275,548,323
Repurchase agreements pending settlement (Note 25-b)	49,402,763,171	34,493,890,778
Own trading securities	14,393,615,912	-
Other own memoranda accounts	14,341,864	5,648,791,240
	<u>63,810,720,947</u>	<u>84,034,313,626</u>
<i>Third-party</i>		
Trading securities received as guarantees (Note 25-a)	53,532,009,221	625,720,920,993
Trading securities pledged as guarantees	-	96,226,556,640
Trading securities pending receipt	-	96,940,552,555
Signed agreements pending settlement	718,744,388	225,375,997
Repurchase agreements pending settlement (Note 25-b)	107,628,265,470	380,666,827
Third-party trading securities	800,427,015,274	149,874,866,501
Cash and accounts receivable	888,554,583	2,138,249,011
	<u>963,194,588,936</u>	<u>971,507,188,524</u>
¢	<u>1,027,005,309,883</u>	<u>1,055,541,502,150</u>

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

Securities that back repurchase agreements are held in the custody of Central de Valores de la Bolsa Nacional de Valores, S.A. (CEVAL) or in foreign entities with which CEVAL has custody agreements.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

a) Securities held in custody are as follows:

Location	Type of custody	June 2019	June 2018
<i>Own custodial activities</i>			
Local	At face value - available	¢ -	4,564,120,638
Local	At purchase value of shares - available	-	15,000,002
Local	At purchase value of investments - available	-	98,730
Local	At face value - pledged	-	34,570,962
Local	Amount of physical coupons - pledged	-	2,292,953
Local	Central de Valores (CEVAL) - private	12,122,356,119	-
Local	CEVAL - public	2,226,759,791	-
Local	Vault	44,500,002	-
		<u>14,393,615,912</u>	<u>4,616,083,285</u>
<i>Custodial activities on behalf of third parties</i>			
Local	At face value - available	-	584,650,142,599
Local	At purchase value of shares - available	-	21,178,238,038
Local	At purchase value of investments - available	-	18,380,522,432
Local	At face value - pledged	-	1,034,998,078
Local	At purchase value of shares - pledged	-	53,790,851
Local	At purchase value of investments - pledged	-	197,852,996
Local	At face value - pending delivery	-	225,375,999
Local	CEVAL - private	223,048,859,320	-
Foreign	CEVAL - private	17,865,680,745	-
Local	CEVAL - public	538,511,183,904	-
Foreign	International custody	20,573,702,145	-
Local	Vault	8,024,829	-
Local - Foreign	Securities that are doubtful, in arrears or in litigation	419,564,331	-
		<u>800,427,015,274</u>	<u>625,720,920,993</u>
		¢ <u>814,820,631,186</u>	<u>630,337,004,278</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

June 2019								
Term buyer					Term seller			
		US dollars expressed in					US dollars expressed in	
Colones		US dollars	colones	Total	Colones	US dollars	colones	Total
Own Third parties	28,271,037,017	36,381,056	20,981,682,404	49,252,719,421	150,043,750	-	-	150,043,750
	10,998,891,930	97,625,481	56,302,567,557	67,301,459,487	9,258,167,084	53,871,270	31,068,638,899	40,326,805,983
	39,269,928,947	134,006,537	77,284,249,961	116,554,178,908	9,408,210,834	53,871,270	31,068,638,899	40,476,849,733
June 2018								
Term buyer					Term seller			
		US dollars expressed in					US dollars expressed in	
Colones		US dollars	colones	Total	Colones	US dollars	colones	Total
Own Third parties	20,435,601,717	24,950,818	14,058,289,061	34,493,890,778	-	-	-	-
	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

As of June 30, 2019, term buyer and seller positions in tri-party repurchase agreements in US dollars were valued at the exchange rate of ¢576.72 (2018: ¢563.44) to US\$1.00.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

		June 2019			
		Term buyer		Term seller	
		Colones	US dollars	Colones	US dollars
<u>Own</u>					
1 to 30 days	¢	4,772,472,202	5,112,747	150,043,750	-
31 to 60 days		20,172,775,190	-	-	-
61 to 90 days		3,325,789,625	31,268,309	-	-
		<u>28,271,037,017</u>	<u>36,381,056</u>	<u>150,043,750</u>	<u>-</u>
<u>Third parties</u>					
1 to 30 days		2,701,274,604	7,775,502	1,331,510,158	3,935,004
31 to 60 days		7,259,184,048	42,310,175	6,436,267,100	15,705,747
61 to 90 days		461,995,177	47,114,314	913,951,725	33,503,252
More than 91 days		576,438,101	425,490	576,438,101	727,267
		<u>10,998,891,930</u>	<u>97,625,481</u>	<u>9,258,167,084</u>	<u>53,871,270</u>
	¢	<u>39,269,928,947</u>	<u>134,006,537</u>	<u>9,408,210,834</u>	<u>53,871,270</u>
		June 2018			
		Term buyer		Term seller	
		Colones	US dollars	Colones	US dollars
<u>Own</u>					
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	-	-	-
		<u>20,435,601,717</u>	<u>24,950,818</u>	<u>-</u>	<u>-</u>
<u>Third parties</u>					
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
		<u>13,640,298,086</u>	<u>106,646,310</u>	<u>18,173,135,432</u>	<u>102,890,523</u>
	¢	<u>34,075,899,803</u>	<u>131,597,128</u>	<u>18,173,135,432</u>	<u>102,890,523</u>

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

(26) Investment fund management agreements

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

		June 2019		
Fund		Net value	Shares	Value per share
<i>Funds in colones:</i>				
Súper Fondo - colones	¢	134,238,486,026	31,589,734,789	4.25
Fon Depósito - colones		50,539,385,755	32,674,490,491	1.55
Creci Fondo - colones		3,048,434,247	547,303,822	5.57
Redi Fondo - colones		16,227,671,313	4,090,034,841	3.97
Diner Fondo - colones		48,434,695,603	16,991,668,061	2.85
	¢	<u>252,488,672,944</u>	<u>85,893,232,004</u>	
<i>Funds in US dollars:</i>				
Súper Fondo - US dollars	US\$	17,682,850	11,640,075	1.52
Creci Fondo - US dollars		7,959,207	4,140,660	1.92
Redi Fondo - US dollars		23,947,059	14,926,914	1.60
Diner Fondo - US dollars		79,881,260	60,194,549	1.33
Fon Depósito - US dollars		64,265,455	57,136,648	1.12
Súper Fondo Plus - US dollars		163,849,201	148,873,729	1.10
Fondo Hipotecario - US dollars (mortgage fund)		78,309	78,021	88.29
BN Infraestructura Pública -1 – US dollars (public infrastructure)		21,133,041	21,750	971.63
	US\$	<u>378,796,382</u>	<u>297,012,346</u>	
	¢	<u>218,459,449,375</u>	<u>171,292,960,185</u>	
Assets of managed funds	¢	<u>470,948,122,319</u>	<u>257,186,192,189</u>	
<i>Guarantees:</i>				
Performance bonds		49,810,990		
Outstanding checks		1,975,304		
		<u>51,786,294</u>		
Memoranda accounts (Note 24)	¢	<u>470,999,908,613</u>		

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		June 2018		
Fund		Net value	Shares	Value per share
<b>Fund</b>				
<i>Funds in colones:</i>	¢	146,069,226,483	36,205,563,864	4.03
Súper Fondo - colones		56,200,237,605	38,036,166,185	1.48
Fon Depósito - colones		2,987,320,749	580,527,053	5.15
Creci Fondo - colones		11,360,191,231	3,098,454,931	3.67
Redi Fondo - colones		42,505,476,266	15,646,981,875	2.72
	¢	<u>259,122,452,334</u>	<u>93,567,693,908</u>	
<i>Funds in US dollars:</i>				
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\$	<u>380,339,150</u>	<u>300,311,667</u>	
	¢	<u>214,298,290,568</u>	<u>169,207,605,654</u>	
Assets of managed funds (Note 24)	¢	<u>473,420,742,902</u>	<u>262,775,299,562</u>	
<i>Guarantees:</i>				
Performance bonds		57,948,485		
Outstanding checks		1,975,304		
		<u>59,923,789</u>		
Memoranda accounts (Note 24)	¢	<u>473,480,666,691</u>		

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

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

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## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

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

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## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

- *BN DinerFondo - US 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 - US 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) - US 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 - US 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, 2019 and 2018, this fund does not have operations.
- *Fondo de Inversión de Desarrollo Inmobiliario BN-1* (real estate development): This fund invests in the construction of buildings to be occupied by entities of the Banco Nacional Conglomerate (BNCR Conglomerate). Once the works are completed, the buildings will be sold to an entity of the BNCR Conglomerate or a real estate fund managed by BN Fondos, and investors thus realize their potential gains. If the buildings are sold to a real estate fund, such fund will lease the buildings to an entity of the BNCR Conglomerate. As of June 30, 2019 and 2018, this fund does not have operations.

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# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

- *Fondo de Inversión de Desarrollo Inmobiliario de Infraestructura Pública - I - 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 fund will lease the buildings to BCCR. As of June 30, 2019 and 2018, this fund does not have operations.

### (27) Pension fund management agreements

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

		June 2019	June 2018
Mandatory Pension Fund (ROP)	¢	1,272,572,841,940	1,107,138,883,784
ROP erroneous		15,916,251,037	14,713,282,934
Mandatory Retirement Savings Account (FCL)		101,452,294,969	88,718,681,482
FCL erroneous		3,706,400,238	3,445,356,593
Pension Fund in Colones A (FPC A)		76,200,400,740	66,281,969,885
Pension Fund in Colones B (FPC B)		19,395,913,833	18,096,892,920
Notary Fund (NOT)		30,491,984,389	27,128,229,720
Pension Fund in US dollars A (FPD A) (i)		14,124,400,551	12,415,216,144
Pension Fund in US dollars B (FPD B) (ii)		7,265,919,294	8,103,117,211
Assets of managed funds (Note 24)		1,541,126,406,991	1,346,041,630,673
Securities and assets in own custody		10,587,611,762	8,267,902,883
Bid and performance bonds – colones		27,327,673	20,174,169
Bid and performance bonds – US dollars (iii)		77,704,012	74,109,122
Securities in DU		522,546,314	581,988,236
Memoranda accounts (Note 24)	¢	1,552,341,596,752	1,354,985,805,083

- As of June 30, 2019, this fund amounts to US\$24,490,915 and is valued at the exchange rate of ¢576.72 to US\$1.00 (2018: US\$22,034,673 valued at the exchange rate of ¢563.44 to US\$1.00).
- As of June 30, 2019, this fund amounts to US\$12,598,695 and is valued at the exchange rate of ¢576.72 to US\$1.00 (2018: US\$14,381,509 valued at the exchange rate of ¢563.44 to US\$1.00).

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- iii. As of June 30, 2019, this fund amounts to US\$134,734 and is valued at the exchange rate of ¢576.72 to US\$1.00 (2018: US\$131,530 valued at the exchange rate of ¢563.44 to US\$1.00).

(28) Finance income on financial instruments

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

	June		Quarter from April 1 to June 30	
	2019	2018	2019	2018
<u>Cash and due from banks:</u>				
Deposits in BCCR	¢ 18,486,147	12,098,236	7,504,058	7,973,049
Checking accounts and demand deposits in local entities	68,350,884	88,701,629	40,598,964	47,752,115
Checking accounts and demand deposits in foreign entities	1,829,035,483	2,931,928,676	1,133,124,107	1,296,638,428
	<u>1,915,872,514</u>	<u>3,032,728,541</u>	<u>1,181,227,129</u>	<u>1,352,363,592</u>
<u>Financial instruments:</u>				
Investments in available-for-sale securities	34,574,157,356	29,462,754,689	18,117,709,671	14,929,532,905
Investment in securities and restricted deposits	1,150,661,653	706,657,855	281,801,390	373,774,789
	<u>35,724,819,009</u>	<u>30,169,412,544</u>	<u>18,399,511,061</u>	<u>15,303,307,694</u>
¢	<u>37,640,691,523</u>	<u>33,202,141,085</u>	<u>19,580,738,190</u>	<u>16,655,671,286</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(29) Finance income on loan portfolio

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

	June		Quarter from April 1 to June 30	
	2019	2018	2019	2019
<u>Current loans:</u>				
Checking account overdrafts	¢ 47,782,655	7,613,047	22,459,862	6,367,744
Loans granted with funds from BCCR	387,358,015	446,742,137	187,385,102	220,212,182
Loans granted with other funds	181,274,543,092	176,875,777,594	90,509,341,423	89,130,548,658
Credit cards	12,396,436,811	12,753,374,079	6,207,762,313	6,342,135,950
Issued letters of credit	467,212	316,118	467,212	315,560
Loan portfolio due to sales	25,800,196	-	24,473,507	-
Other loans	2,278,807	2,236,221	1,113,789	1,136,014
	<u>194,134,666,788</u>	<u>190,086,059,196</u>	<u>96,953,003,208</u>	<u>95,700,716,108</u>
<u>Past due loans and loans in legal collection:</u>				
Checking account overdrafts	1,315,741	813,598	262,174	410,110
Loans granted with funds from BCCR	83,443,528	72,965,593	42,170,913	35,580,701
Loans granted with other funds	30,480,696,002	27,517,930,242	15,157,241,422	14,509,244,992
Credit cards	1,757,100,628	1,682,565,570	939,459,084	832,735,451
Term sale of foreclosed assets	1,762,465	-	1,759,127	-
Other loans	25,832	8,745,243	25,832	8,741,444
	<u>32,324,344,196</u>	<u>29,283,020,246</u>	<u>16,140,918,552</u>	<u>15,386,712,698</u>
¢	<u>226,459,010,984</u>	<u>219,369,079,442</u>	<u>113,093,921,760</u>	<u>111,087,428,806</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(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	
	2019	2018	2019	2018
Fees and commissions on letters of credit	¢ 10,473,307	13,327,122	7,196,763	6,607,720
Fees and commissions on guarantees granted	218,924,981	217,499,917	111,461,972	85,376,551
Fees and commissions on lines of credit	115,718,888	153,091,385	57,713,691	78,533,451
Valuation of financial instruments held for trading	110,689,293	-	30,080,519	-
Gain on fair value hedge for item measured at cost	453,140,043	17,084,878,462	-	5,679,123,643
Other sundry finance income	2,612,887,022	1,891,407,718	872,840,427	1,042,644,634
	<u>¢ 3,521,833,534</u>	<u>19,360,204,604</u>	<u>1,079,293,372</u>	<u>6,892,285,999</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(31) Finance costs for obligations with the public

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

		June		Quarter from April 1 to June 30	
		2019	2018	2019	2018
Demand deposits	¢	24,707,728,818	23,569,538,718	12,235,917,732	11,869,293,826
Term deposits		75,723,113,650	67,565,264,603	41,031,590,356	34,357,670,658
Tri-party repurchase agreements and securities lending		347,586,907	841,692,917	161,270,695	455,963,406
	¢	<u>100,778,429,375</u>	<u>91,976,496,238</u>	<u>53,428,778,783</u>	<u>46,682,927,890</u>

(32) Finance costs for obligations with financial entities

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

		June		Quarter from April 1 to June 30	
		2019	2018	2019	2018
Demand obligations	¢	1,457,044,926	1,245,567,094	720,689,821	636,803,486
Term obligations		27,082,600,695	34,611,305,634	12,484,676,351	17,261,043,684
	¢	<u>28,539,645,621</u>	<u>35,856,872,728</u>	<u>13,205,366,172</u>	<u>17,897,847,170</u>

(Continued)



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(33) Other finance costs

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

	June		Quarter from April 1 to June 30	
	2019	2018	2019	2018
Fees and commissions on letters of credit obtained	¢ 100,578,112	93,878,628	49,670,532	46,782,995
Loss on hedged item measured at cost from fair value hedge on interest rate risk	19,760,418,549	3,829,213,520	8,901,490,292	2,834,790,359
Other sundry finance costs	806,162,218	793,622,561	308,989,633	235,985,251
	¢ <u>20,667,158,879</u>	<u>4,716,714,709</u>	<u>9,260,150,457</u>	<u>3,117,558,605</u>

(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	
	2019	2018	2019	2018
Allowance for loan losses (Note 7-c)	¢ 27,398,907,000	36,960,641,359	16,479,007,000	16,999,706,813
Allowance for impairment of other accounts receivable (Note 8)	678,068,376	1,426,941,488	455,894,067	1,011,286,441
Allowance for stand-by credit losses (Note 19)	3,000,000	4,140,000	-	-
General and counter-cyclical allowance for loan portfolio (Note 7-c)	1,917,617,908	2,310,184,170	893,897,737	245,361,967
General and counter-cyclical allowance for stand-by credit losses (Note 19)	4,100,000	3,600,000	1,000,000	-
Allowance for impairment of derivative financial instruments (Note 5)	2,673,601	12,848,082	1,395,809	167,403
	¢ <u>30,004,366,885</u>	<u>40,718,355,099</u>	<u>17,831,194,613</u>	<u>18,256,522,624</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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	
	2019	2018	2019	2018
Recovery of loan write-offs	¢ 3,390,866,916	3,929,095,004	1,541,291,702	2,321,221,910
Recovery of receivable write-offs	10,084,204	1,515,526	8,015,111	840,045
Decrease in allowance for loan losses (Note 6)	175,919	-	175,919	-
Decrease in allowance for impairment of other accounts receivable (Note 8)	145,664,736	266,416,985	11,946,455	104,700,073
Decrease in allowance for stand-by credit losses (Note 18)	30,000,000	-	30,000,000	-
Decrease in allowance for impairment of investments in financial instruments (Note 5)	12,521,922	85,129,359	2,107,356	14,645,210
	<u>¢ 3,589,313,697</u>	<u>4,282,156,874</u>	<u>1,593,536,543</u>	<u>2,441,407,238</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(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	
	2019	2018	2019	2018
Drafts and transfers	¢ 4,702,606,724	4,374,596,265	2,389,001,320	2,222,035,234
Certified checks	1,674,594	2,100,420	857,053	910,940
Trusts	740,338,605	578,771,793	376,096,057	288,695,939
Custodial services	949,042,618	737,139,340	477,498,670	363,625,233
Banking mandates	86,576	66,045	56,865	26,289
Collections	12,298,054	14,670,726	5,682,430	7,397,314
Credit cards	31,006,113,347	29,025,924,734	15,061,942,108	14,381,587,752
Management services	1,781,887,803	1,660,542,701	883,639,690	769,187,061
Management of investment funds	2,719,111,331	2,701,523,463	1,387,277,386	1,404,856,262
Management of pension funds	4,835,145,986	4,075,089,318	2,562,013,809	2,077,179,453
Insurance underwriting	3,475,600,233	2,861,228,622	1,827,248,099	1,506,096,679
Brokerage operations (third parties in local market)	1,455,816,167	1,168,400,161	821,204,983	775,941,596
Brokerage operations (third parties in other markets)	30,649,852	28,271,309	10,950,830	14,618,814
Individual portfolio management	-	174,807	-	(87,224)
Sundry custodies	-	120,539,629	-	60,436,527
Operations with related parties	135,390,278	-	69,040,780	-
Other service fees and commissions (1)	<u>20,532,032,598</u>	<u>20,444,560,960</u>	<u>10,018,853,636</u>	<u>9,967,612,075</u>
	<u>¢ 72,377,794,766</u>	<u>67,793,600,293</u>	<u>35,891,363,716</u>	<u>33,840,119,944</u>

(1) Other service fees and commissions correspond to Servibanca local interchange fees and commissions for agreements with affiliated businesses.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(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	
	2019	2018	2019	2018
Leasing of assets	¢ 21,746,924	26,466,339	11,400,001	17,866,827
Recovery of expenses	2,393,721,247	1,261,015,429	2,225,524,377	275,508,803
Net valuation of other assets (Note 46-c)	790,272,330	148,406,340	510,573,941	21,368,127
Other income from accounts receivable	2,886,542	956,349	1,433,828	369,830
Sundry operating income	2,614,572,772	3,088,154,563	884,901,685	1,532,737,379
Other income from related parties	5,116,976	5,324,593	5,116,976	5,324,593
Decrease in provisions	43,552,460	10,158,611	2,014,603	4,250,737
	¢ <u>5,871,869,251</u>	<u>4,540,482,224</u>	<u>3,640,965,411</u>	<u>1,857,426,296</u>

(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	
	2019	2018	2019	2018
Loss on sale of assets received in lieu of payment	¢ 82,966,026	5,792,783,261	44,935,924	3,320,975,599
Loss on sale of assets awarded in judicial auctions	4,747,079,650	27,000,385	1,239,559,931	27,000,385
Management of assets received in lieu of payment	5,162,596	-	1,308,151	1,397,764,868
Management of assets awarded in judicial auctions	2,291,203,886	2,592,700,033	1,165,269,896	-
Loss on impairment of foreclosed assets (Note 9)	35,757,587	12,442,736	23,335,419	-
Loss on allowance for impairment and per legal requirements (Note 9)	3,282,217,134	1,476,541,179	1,600,373,802	-
Other expenses	8,962,689	74,226,731	4,995,090	55,174,886
	¢ <u>10,453,349,568</u>	<u>9,975,694,325</u>	<u>4,079,778,213</u>	<u>4,800,915,738</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(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	
	2019	2018	2019	2018
Severance benefits	¢ 254,601,777	617,241,874	174,145,612	248,353,580
Pending litigation	168,684,060	279,683,412	55,556,616	169,170,657
Provision for “BN Premios” points program	1,110,978,416	2,500,541,395	658,344,809	1,797,116,961
Incentives and Performance Evaluation System (SEDI)	-	1,185,358,808	-	673,998,136
Case on the manager commissions with CCSS	1,203,212,389	1,013,897,681	601,606,195	506,948,841
Case on the RIVM contribution	2,666,244,748	1,052,554,381	1,179,323,319	608,829,007
Notice of deficiency	752,715,013	904,012,573	488,901,158	904,012,573
Other provisions	9,778,426	284,634,421	(99,979,269)	111,503,205
	¢ <u>6,166,214,829</u>	<u>7,837,924,545</u>	<u>3,057,898,440</u>	<u>5,019,932,960</u>

(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	
	2019	2018	2019	2018
Penalties for noncompliance with legal regulatory provisions	¢ 37,892	50,000	37,892	-
Net valuation of other liabilities (Note 46-c)	283,764,509	104,478,420	91,295,569	40,085,399
Income tax on remittances from abroad	3,631,632	16,623,485	1,662,046	16,623,485
Income tax (8%) on interest on investments in financial instruments	1,802,315,089	1,362,323,610	900,793,995	673,558,379
Property tax	124,655,703	135,283,766	85,154,190	53,749,675
Licenses	456,087,138	393,884,646	315,154,478	190,531,079
Other local taxes	455,711,528	294,919,304	454,808,223	192,876,885
Transfer to FINADE	1,701,516,623	1,505,745,987	991,308,152	760,531,638
Sundry operating expenses	36,945,438,985	30,383,288,090	20,751,726,970	15,444,832,909
	¢ <u>41,773,159,099</u>	<u>34,196,597,308</u>	<u>23,591,941,515</u>	<u>17,372,789,449</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

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	
	2019	2018	2019	2018
Salaries and bonuses, permanent staff	¢ 33,930,493,364	34,022,986,099	16,987,781,684	17,142,410,533
Salaries and bonuses, contractors	811,297,849	849,170,080	409,581,728	422,288,962
Compensation for directors and statutory examiners	122,218,851	108,412,767	58,728,645	51,402,337
Overtime	351,104,750	350,301,534	189,709,939	177,135,239
Travel expenses	193,375,679	266,879,831	91,963,959	143,362,344
Statutory Christmas bonus	3,651,815,237	3,657,762,600	1,827,754,522	1,832,572,757
Vacation	3,612,049,110	3,777,816,126	1,630,713,454	1,674,822,303
Incentives	1,963,036,457	-	1,105,558,230	-
Other compensation	2,042,404,568	1,935,634,120	1,213,372,877	1,164,211,682
Severance benefits	2,262,973,859	2,221,995,549	1,180,522,443	1,095,403,703
Employer social security taxes	13,819,351,419	13,871,361,102	6,874,983,490	6,920,130,196
Refreshments	190,794,641	182,367,275	97,220,379	49,047,782
Uniforms	7,933,157	107,668,445	5,211,617	19,961,630
Training	276,389,543	175,562,415	176,584,098	132,222,553
Employee insurance	100,431,001	112,256,259	50,079,774	55,950,052
Back-to-school bonus	3,820,429,315	3,156,682,221	1,531,294,013	1,561,126,525
Mandatory retirement savings account	1,330,401,429	1,334,139,460	660,086,975	665,071,503
Other personnel expenses	237,263,222	300,824,547	103,218,739	160,140,283
	¢ <u>68,723,763,451</u>	<u>66,431,820,430</u>	<u>34,194,366,566</u>	<u>33,267,260,384</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(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	
		2019	2018	2019	2018
Outsourcing	¢	8,775,917,328	7,439,650,424	4,088,050,533	4,063,215,487
Transportation and communications		1,793,472,057	2,125,718,417	881,356,458	1,083,049,850
Infrastructure		14,798,672,895	17,514,441,650	5,025,639,757	8,912,003,902
Overhead		7,304,429,549	8,121,536,354	3,661,347,509	4,351,477,573
	¢	<u>32,672,491,829</u>	<u>35,201,346,845</u>	<u>13,656,394,257</u>	<u>18,409,746,812</u>

(43) Statutory allocations

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

		June		Quarter from April 1 to June 30	
		2019	2018	2019	2018
CONAPE 5%	¢	1,669,873,695	1,023,958,338	764,580,943	577,615,910
CNE (3%)		1,076,691,626	682,097,336	503,978,894	387,499,490
INFOCOOP (10%)		2,548,753,201	1,903,766,312	1,185,566,121	1,068,491,047
Public capital pension operators		693,374,862	538,389,855	329,965,005	271,664,899
RIVM (15%)		<u>2,799,207,840</u>	<u>2,084,174,040</u>	<u>1,265,614,081</u>	<u>1,158,574,357</u>
	¢	<u>8,787,901,224</u>	<u>6,232,385,881</u>	<u>4,049,705,044</u>	<u>3,463,845,703</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(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 2019	
		Carrying amount	Fair value
<i><u>Financial assets:</u></i>			
Cash and due from banks	¢	1,099,260,131,135	1,099,260,131,135
Loan portfolio		4,422,306,632,346	4,280,442,648,202
	¢	<u>5,521,566,763,481</u>	<u>5,379,702,779,337</u>
<i><u>Financial liabilities:</u></i>			
Demand deposits from the public and financial entities	¢	2,890,501,627,066	2,890,501,627,066
Other demand obligations with the public		16,007,839,203	16,007,839,203
Term deposits from the public and financial entities		3,148,655,975,005	3,137,955,265,627
Obligations for tri-party repurchase agreements		11,167,668,507	11,167,668,507
	¢	<u>6,066,333,109,781</u>	<u>6,055,632,400,403</u>
		June 2018	
		Carrying amount	Fair value
<i><u>Financial assets:</u></i>			
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
	¢	<u>6,847,218,659,117</u>	<u>6,452,135,100,242</u>
<i><u>Financial liabilities:</u></i>			
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
	¢	<u>6,161,452,558,086</u>	<u>6,191,646,378,539</u>

(Continued)



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

*Fair value estimates*

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

- (a) Cash and due from banks, demand deposits from customers, obligations from tri-party repurchase agreements and accrued interest payable.

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, 2019 and 2018.

- (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 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 accuracy. Estimates could vary significantly if changes are made to those assumptions.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

		June 2019			
		Level 1	Level 2	Level 3	Total
Available for sale	¢	1,137,089,414,959	75,108,230,456	4,541,803,799	1,216,739,449,214
Derivative financial instruments		-	-	10,751,251,241	10,751,251,241
Term obligations with foreign financial entities		-	-	494,729,412,620	494,729,412,620
		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
Term obligations with foreign financial entities		-	-	818,657,342,729	818,657,342,729

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).

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

June 30						
	2019			2018		
	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	¢ 4,760,401,682	576,258,774	590,621,555,713	5,884,509,934	6,159,898,498	841,601,971,462
Repurchases	-	-	(86,116,199,501)	(971,250,000)	-	-
Valuation	(658,614)	10,191,168,772	17,725,124,732	37,406,064	(6,127,490,572)	(13,458,052,107)
Amortizations	-	-	(3,729,125)	-	-	671,309,131
Foreign exchange differences	(217,939,269)	(16,176,305)	(27,497,339,199)	(279,230,033)	(32,407,926)	(10,157,885,757)
Closing balance	¢ 4,541,803,799	10,751,251,241	494,729,412,620	4,671,435,965	-	818,657,342,729

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(45) Segments

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

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

		As of June 30, 2019							
		Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations	Consolidated
ASSETS									
Cash and due from banks	¢	1,095,902,516,996	2,224,384,389	44,377,254	352,245,252	957,999,152	1,099,481,523,043	221,391,908	1,099,260,131,135
Investments in financial instruments		1,164,187,433,621	63,942,816,133	7,150,714,291	8,176,517,880	2,969,137,750	1,246,426,619,675	40,900,000	1,246,385,719,675
Loan portfolio, net		4,287,344,899,214	-	-	-	-	4,287,344,899,214	-	4,287,344,899,214
Accounts and fees and commissions receivable, net		1,669,979,966	511,564,705	82,015,461	885,184,957	671,553,196	3,820,298,285	40,547,176	3,779,751,109
Fees and commissions		307,876,299	11,724,532	48,812,402	823,674,973	589,664,520	1,781,752,726	34,552,244	1,747,200,482
Brokerage services		-	121,111,237	-	-	-	121,111,237	-	121,111,237
Transactions with related parties		52,122,928	2,421,596	3,555,769	2,964,808	-	61,065,101	5,994,932	55,070,169
Deferred tax and income tax		998,749,814	375,354,083	20,751,883	53,017,817	74,467,946	1,522,341,543	-	1,522,341,543
Other		4,337,408,173	953,257	8,895,407	64,563,006	7,420,730	4,419,240,573	-	4,419,240,573
Accrued interest		4,163,083	-	-	-	-	4,163,083	-	4,163,083
Allowance for impairment of accounts and fees and commissions receivable		(4,030,340,331)	-	-	(59,035,647)	-	(4,089,375,978)	-	(4,089,375,978)
Foreclosed assets, net		24,065,772,900	-	-	-	-	24,065,772,900	-	24,065,772,900
Investments in other companies		101,142,329,201	30,000,000	-	-	-	101,172,329,201	36,308,594,788	64,863,734,413
Property and equipment, net		182,089,843,970	135,999,894	259,894,714	495,007,337	130,900,407	183,111,646,322	-	183,111,646,322
Other assets		95,382,975,115	115,089,729	730,837,257	412,883,544	405,477,931	97,047,263,576	-	97,047,263,576
TOTAL ASSETS	¢	6,951,785,750,983	66,959,854,850	8,267,838,977	10,321,838,970	5,135,068,436	7,042,470,352,216	36,611,433,872	7,005,858,918,344
LIABILITIES AND EQUITY									
LIABILITIES									
Obligations with the public	¢	5,099,317,608,028	11,208,007,068	-	-	-	5,110,525,615,096	-	5,110,525,615,096
Obligations with BCCR		125,644,412	-	-	-	-	125,644,412	-	125,644,412
Obligations with entities		924,985,420,580	37,866,411,838	-	-	-	962,851,832,418	250,041,262	962,601,791,156
Demand		196,215,180,187	-	-	-	-	196,215,180,187	209,141,262	196,006,038,925
Term		722,010,879,352	37,705,831,998	-	-	-	759,716,711,350	40,900,000	759,675,811,350
Finance charges payable		6,759,361,041	160,579,840	-	-	-	6,919,940,881	-	6,919,940,881
Accounts payable and provisions		102,562,293,945	1,578,712,599	757,429,687	2,005,348,005	960,097,247	107,863,881,483	40,547,168	107,823,334,315
Other liabilities		75,369,846,148	-	-	-	-	75,369,846,148	12,250,646	75,357,595,502
Subordinated obligations		76,813,143,466	-	-	-	-	76,813,143,466	-	76,813,143,466
TOTAL LIABILITIES	¢	6,279,173,956,579	50,653,131,505	757,429,687	2,005,348,005	960,097,247	6,333,549,963,023	302,839,076	6,333,247,123,947

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of June 30, 2019								
	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	5,275,701,134	369,700,000	187,482,431,236	15,245,401,134	172,237,030,102
Non-capitalized capital contributions	-	-	-	919,223,874	-	919,223,874	919,223,874	-
Equity adjustments	75,035,897,601	(583,837,283)	16,344,065	150,042,620	6,500,528	74,624,947,531	(410,950,072)	75,035,897,603
Capital reserves	347,600,226,049	1,320,000,000	600,000,000	300,000,000	73,940,000	349,894,166,049	2,293,940,000	347,600,226,049
Prior-period retained earnings	30,045,152,677	7,922,502,969	2,884,479,890	978,148,475	2,198,455,315	44,028,739,326	13,983,586,649	30,045,152,677
Income for the period	13,044,952,005	1,048,057,659	1,009,585,335	693,374,862	1,526,375,346	17,322,345,207	4,277,393,210	13,044,951,997
FOFIDE	34,648,535,964	-	-	-	-	34,648,535,964	(5)	34,648,535,969
TOTAL EQUITY	¢ 672,611,794,398	16,306,723,345	7,510,409,290	8,316,490,965	4,174,971,189	708,920,389,187	36,308,594,790	672,611,794,397
TOTAL LIABILITIES AND EQUITY	¢ 6,951,785,750,977	66,959,854,850	8,267,838,977	10,321,838,970	5,135,068,436	7,042,470,352,210	36,611,433,866	7,005,858,918,344
Debit memoranda accounts	¢ 604,981,449,534	133,004,706	233,662	8,064,490	-	605,122,752,392	-	605,122,752,392
Trust assets	¢ 2,180,700,598,376	1,313,265,385	-	-	-	2,182,013,863,761	-	2,182,013,863,761
Trust liabilities	¢ 201,015,408,042	1,682,302	-	-	-	201,017,090,344	-	201,017,090,344
Trust equity	¢ 1,979,685,190,334	1,311,583,083	-	-	-	1,980,996,773,417	-	1,980,996,773,417
Other debit memoranda accounts	¢ 19,722,988,951,689	1,027,005,309,883	470,999,908,613	1,552,341,596,752	-	22,773,335,766,937	-	22,773,335,766,937

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the period ended June 30, 2019

	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations	Consolidated
Finance income	281,074,512,213	2,657,172,109	339,020,216	392,432,787	111,370,794	284,574,508,119	61,685,886	284,512,822,233
Finance costs	152,278,531,997	1,496,647,035	20,978,053	44,317,326	6,964,462	153,847,438,873	61,685,887	153,785,752,986
Allowance expense	30,004,366,885	-	-	-	-	30,004,366,885	-	30,004,366,885
Income from recovery of assets	3,589,313,697	-	-	-	-	3,589,313,697	-	3,589,313,697
FINANCE INCOME	102,380,927,028	1,160,525,074	318,042,163	348,115,461	104,406,332	104,312,016,058	(1)	104,312,016,059
Other operating income	86,605,028,614	2,080,874,079	2,734,407,737	4,840,521,944	3,296,640,275	99,557,472,649	5,063,999,138	94,493,473,511
Other operating expenses	61,062,938,648	193,350,307	226,335,997	673,684,015	44,159,213	62,200,468,180	680,954,765	61,519,513,415
GROSS OPERATING INCOME	127,923,016,994	3,048,048,846	2,826,113,903	4,514,953,390	3,356,887,394	141,669,020,527	4,383,044,372	137,285,976,155
Personnel expenses	63,126,171,506	1,542,732,774	1,070,818,989	1,996,178,252	987,861,930	68,723,763,451	-	68,723,763,451
Other administrative expenses	31,399,371,596	359,899,366	365,000,835	513,885,090	139,986,108	32,778,142,995	105,651,166	32,672,491,829
Total administrative expenses	94,525,543,102	1,902,632,140	1,435,819,824	2,510,063,342	1,127,848,038	101,501,906,446	105,651,166	101,396,255,280
NET OPERATING INCOME BEFORE STATUTORY ALLOCATIONS AND TAXES	33,397,473,892	1,145,416,706	1,390,294,079	2,004,890,048	2,229,039,356	40,167,114,081	4,277,393,206	35,889,720,875
Income tax	12,461,084,733	62,996,545	350,438,576	593,047,886	648,393,369	14,115,961,109	-	14,115,961,109
Decrease in income tax	-	-	11,438,656	35,054,264	12,600,540	59,093,460	-	59,093,460
Statutory allocations	7,891,437,155	34,362,501	41,708,823	753,521,563	66,871,181	8,787,901,223	(1)	8,787,901,224
INCOME FOR THE PERIOD	13,044,952,004	1,048,057,660	1,009,585,336	693,374,863	1,526,375,346	17,322,345,209	4,277,393,205	13,044,952,004

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		As of June 30, 2018							
		Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations	Consolidated
<b>ASSETS</b>									
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
<b>TOTAL ASSETS</b>	¢	<b>6,938,826,774,454</b>	<b>65,179,602,928</b>	<b>7,292,693,113</b>	<b>9,534,204,738</b>	<b>4,304,379,661</b>	<b>7,025,137,654,894</b>	<b>35,557,470,967</b>	<b>6,989,580,183,927</b>
<b>LIABILITIES AND EQUITY</b>									
<b>LIABILITIES</b>									
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
<b>TOTAL LIABILITIES</b>	¢	<b>6,302,558,056,864</b>	<b>49,947,350,482</b>	<b>687,356,049</b>	<b>2,212,197,712</b>	<b>779,771,309</b>	<b>6,356,184,732,416</b>	<b>2,873,266,074</b>	<b>6,353,311,466,342</b>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of June 30, 2018								
	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations	Consolidated
<b>EQUITY</b>								
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
<b>TOTAL EQUITY</b>	¢ 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
<b>TOTAL LIABILITIES AND EQUITY</b>	¢ 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
<b>Debit memoranda accounts</b>	¢ 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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(46) Risk management

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

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

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

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

The Bank manages the above risks as follows:

a) Credit risk

i. Banco Nacional de Costa Rica

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

The Bank has established the following credit risk management procedures:

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

	Note	Direct		Stand-by	
		June 2019	June 2018	June 2019	June 2018
Loan portfolio					
Principal	7-a	¢ 4,383,129,675,113	4,446,109,598,695	321,984,274,083	345,303,603,530
Accounts and accrued interest receivable		39,176,957,233	36,100,678,453	-	-
Carrying amount, gross		4,422,306,632,346	4,482,210,277,148	321,984,274,083	345,303,603,530
Allowance for loan losses (accounting records)		(124,039,321,687)	(157,196,584,801)	(141,017,723)	(272,417,979)
Carrying amount, net	¢	4,298,267,310,659	4,325,013,692,347	321,843,256,360	345,031,185,551
		Direct		Stand-by	
		June 2019	June 2018	June 2019	June 2018
Loan portfolio					
Total balances:					
0	¢	36,910,066,747	21,111,253,828	-	-
A1		3,282,871,756,871	3,417,765,108,372	309,589,902,699	319,933,817,864
A2		34,397,494,405	35,384,711,744	646,653,719	663,725,340
B1		457,409,466,629	449,793,768,044	4,904,292,694	19,708,217,578
B2		7,127,197,688	5,385,327,851	32,021,806	25,235,582
C1		112,830,131,827	105,857,725,788	2,657,738,284	1,779,406,101
C2		21,219,561,801	19,029,502,557	37,172,110	38,498,452
D		196,181,413,373	142,779,460,398	1,002,557,773	941,036,766
E		273,359,543,005	285,103,418,566	3,113,934,998	2,213,665,847
		4,422,306,632,346	4,482,210,277,148	321,984,274,083	345,303,603,530
Structural allowance (subledger – database)		(120,405,319,937)	(143,834,674,032)	(102,015,883)	(161,934,149)
Carrying amount, net	¢	4,301,901,312,409	4,338,375,603,116	321,882,258,200	345,141,669,381
Individually assessed loans with allowance:					
0	¢	36,910,066,747	21,111,253,828	-	-
A1		3,282,871,756,871	3,417,765,108,372	36,671,906,572	38,130,512,514
A2		34,397,494,405	35,384,711,744	149,346,637	81,524,298
B1		457,409,466,629	449,793,768,044	1,225,773,977	14,509,719,810
B2		7,127,197,688	5,385,327,851	-	-
C1		112,830,131,827	105,857,725,788	481,015,021	89,490,498
C2		21,219,561,801	19,029,502,557	-	-
D		196,181,413,373	142,779,460,398	96,861,300	78,861,078
E		273,359,543,005	285,078,187,630	18,679,541	45,009,297
		4,422,306,632,346	4,482,185,046,212	38,643,583,048	52,935,117,495
Structural allowance (subledger – database)		(120,405,319,937)	(143,834,674,032)	(102,015,883)	(161,934,149)
Carrying amount, net	¢	4,301,901,312,409	4,338,350,372,180	38,541,567,165	52,773,183,346

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		Direct		Stand-by	
		June 2019	June 2018	June 2019	June 2018
Current loans without allowance:					
A1	¢	-	-	272,917,996,125	281,803,305,350
A2		-	-	497,307,082	582,201,042
B1		-	-	3,678,518,717	5,198,497,768
B2		-	-	32,021,806	25,235,582
C1		-	-	2,176,723,264	1,689,915,603
C2		-	-	37,172,110	38,498,452
D		-	-	905,696,474	862,175,688
E		-	25,230,936	3,095,255,457	2,168,656,550
Carrying amount	¢	-	25,230,936	283,340,691,035	292,368,486,035
Carrying amount, gross	¢	4,422,306,632,346	4,482,210,277,148	321,984,274,083	345,303,603,530
Allowance for loan losses (database)		(120,405,319,937)	(143,834,674,032)	(102,015,883)	(161,934,149)
Excess of allowance over structural allowance		(3,634,001,750)	(13,361,910,769)	(39,001,840)	(110,483,830)
Carrying amount, net	¢	4,298,267,310,659	4,325,013,692,347	321,843,256,360	345,031,185,551
Restructured loans	¢	74,324,973,333	116,268,538,398	-	-

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 2019	
		Loans to customers	
		Gross	Net
0	¢	36,910,066,747	36,195,918,362
A1		3,282,871,756,871	3,261,431,695,985
A2		34,397,494,405	34,223,650,648
B1		457,409,466,629	452,715,426,482
B2		7,127,197,688	7,040,953,390
C1		112,830,131,827	108,980,972,440
C2		21,219,561,801	19,612,842,385
D		196,181,413,373	184,717,720,225
E		273,359,543,005	193,348,130,742
	¢	4,422,306,632,346	4,298,267,310,659

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		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
	¢	<u>4,482,210,277,148</u>	<u>4,325,013,692,347</u>

As shown above, as of June 30, 2019, the gross loan portfolio amounts to ¢4,422 billion. Of that amount, 86.35% is classified in risk ratings “A + B” and 13.65% in risk ratings “C + D + E” (2018: ¢4,482 billion, of which 87.67% is classified in risk ratings “A + B” and 12.33% 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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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. The various types of restructured loans are as follows:

- 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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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:

<u>Borrower classification</u>	<u>Direct</u>		<u>Stand-by</u>	
	<u>June 2019</u>	<u>June 2018</u>	<u>June 2019</u>	<u>June 2018</u>
Group 1	₡ 2,276,238,849,649	2,682,969,972,463	44,777,554,298	73,364,178,275
Group 2	2,146,067,782,697	1,799,240,304,685	277,206,719,785	271,939,425,255
	₡ 4,422,306,632,346	4,482,210,277,148	321,984,274,083	345,303,603,530

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:

<u>Risk rating</u>	<u>Arrears</u>	<u>Historical payment behavior</u>	<u>Creditworthiness</u>
A1	30 days or less	Level 1	Level 1
A2	30 days or less	Level 2	Level 1
B1	60 days or less	Level 1	Level 1 or Level 2
B2	60 days or less	Level 2	Level 1 or Level 2
C1	90 days or less	Level 1	Level 1, Level 2, or Level 3
C2	90 days or less	Level 1 or Level 2	Level 1, Level 2, or Level 3
D	120 days or less	Level 1 or Level 2	Level 1, Level 2, Level 3, or Level 4
E	More than 121 days	Level 1 or Level 2	Level 1, Level 2, Level 3, or Level 4

(Continued)



## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

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

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

#### *Analysis of creditworthiness*

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

- a. *Financial position and expected cash flows*: Analysis of the stability and continuity of main sources of income. The effectiveness of the analysis depends on the quality and timeliness of information.
- 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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- 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)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Structural allowance for loan losses

Such 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 of the latter 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 in accordance with the aforementioned Article 13. 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%

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

Pursuant to Articles 11 bis and 12 of SUGEF Directive 1-05, the calculations of the general allowance and the specific allowance for covered portion for loan operations must consider the provisions of Transition Provision XII of such Directive. Accordingly, as of 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 ratings, are as follows:

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

In accordance with Article 11 bis *General allowance* of CONASSIF Letter 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 SUGEF Directive 1-05 are to be applied to stand-by credits.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

If a borrower was rated E before subscribing a special loan operation, the borrower should remain in such rating during at least 180 days. During such period, the allowance percentage will be 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, the Bank must maintain a structural allowance, as follows:

	<u>June 2019</u>		
	<u>Allowance booked</u>	<u>Structural allowance</u>	<u>Excess of allowance</u>
Allowance for direct loans	¢ 124,039,321,687	(120,405,319,937)	3,634,001,750
Allowance for stand-by credit losses	141,017,723	(102,015,883)	39,001,840
	<u>124,180,339,410</u>	<u>(120,507,335,820)</u>	<u>3,673,003,590</u>
Counter-cyclical allowance per SUGEF Directive 19-16	<u>10,922,411,445</u>	<u>(10,922,411,445)</u>	<u>-</u>
	¢ <u>135,102,750,855</u>	<u>(131,429,747,265)</u>	<u>3,673,003,590</u>
	<u>June 2018</u>		
	<u>Allowance booked</u>	<u>Structural allowance</u>	<u>Excess of allowance</u>
Allowance for direct loans	¢ 157,196,584,801	(143,834,674,032)	13,361,910,769
Allowance for stand-by credit losses	272,417,979	(161,934,149)	110,483,830
	<u>157,469,002,780</u>	<u>(143,996,608,181)</u>	<u>13,472,394,599</u>
Counter-cyclical allowance per SUGEF Directive 19-16	<u>7,687,124,645</u>	<u>(7,687,124,645)</u>	<u>-</u>
	¢ <u>165,156,127,425</u>	<u>(151,683,732,826)</u>	<u>13,472,394,599</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

*Counter-cyclical allowance*

As of June 30, 2019, 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 (¢10,942,648,033 based on the calculation of the counter-cyclical allowance made by management as of June 30, 2019). Once the entity reach that level, it shall continue booking the counter-cyclical account as indicated by this regulation.

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# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

CONASSIF's agreement was published in Official Gazette No. 97 dated June 1, 2018. Through Article 13 of the minutes of meeting No. 1416-2018, held on May 15, 2018, such agreement establishes that the percentage to be applied for the counter-cyclical allowance will increase gradually as follows:

Date of application	Percentage (%)
Starting from the date when the amendment is effective	5.00%
Starting from June 1, 2019	6.00%
Starting from June 1, 2020	7.00%

As of June 30, 2019, the counter-cyclical allowance booked amounts to ¢10,922,411,455 (2018: ¢7,687,124,645).

### Credit equivalent

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

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

### Allowance for other assets

Allowances should be established for the following assets:

- 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%

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- 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 all booked assets each month until the allowance is equivalent to 100% of the assets' carrying amount. The booking of the allowance shall begin at month-end of the month in which the assets were acquired.

As of June 30, 2019, the carrying amount of the allowance for impairment of foreclosed assets and per legal requirements amounts to ¢59,147,070,576 (2018: ¢59,281,685,006).

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

Sector	Direct		Stand-by	
	June 2019	June 2018	June 2019	June 2018
Trade	¢ 382,860,755,392	399,216,651,794	2,589,926	2,297,108
Services	930,680,015,939	922,906,282,537	49,077,912,332	66,826,460,831
Financial services	115,513,419,028	132,540,137,603	-	-
Mining	884,443,089	864,333,632	-	-
Manufacturing and quarrying	177,633,982,313	166,364,506,630	-	-
Construction	97,464,163,419	116,977,715,807	-	-
Agriculture and forestry	113,900,093,401	122,308,815,277	1,040,463	670,727
Livestock, hunting, and fishing	80,646,737,977	83,953,132,236	-	-
Electricity, water, sanitation, and other related sectors	401,222,722,455	439,277,798,718	-	-
Transportation and telecommunications	42,269,476,243	43,902,198,182	-	-
Housing	1,319,036,238,163	1,299,961,173,023	21,012,565	18,297,831
Personal or consumer	575,285,636,574	569,941,588,044	272,715,615,498	278,275,898,042
Tourism	184,908,948,353	183,995,943,665	166,103,299	179,978,991
	¢ 4,422,306,632,346	4,482,210,277,148	321,984,274,083	345,303,603,530

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

	Direct		Stand-by	
	June 2019	June 2018	June 2019	June 2018
Central America	¢ 4,422,306,632,346	4,482,210,277,148	321,984,274,083	345,303,603,530

The loan portfolio by type of guarantee is as follows:

Guarantee	Direct		Stand-by	
	June 2019	June 2018	June 2019	June 2018
Back to back	¢ 17,489,958,258	42,469,513,400	393,906	418,675
Mortgage bond	159,567,591	252,793,543	-	-
Assignment of loans	328,731,674,945	324,580,989,628	-	-
Mortgage	1,768,935,555,097	1,793,715,369,737	1,539,153	150,202,715
Surety	878,389,235,431	923,929,747,498	26,486,091	-
Trust	494,401,587,287	487,966,276,129	8,193,762	32,440,503
Securities	28,135,701,355	2,112,962,848	-	-
Chattel mortgage	273,281,727,683	258,305,666,479	-	-
Other	632,781,624,699	648,876,957,886	321,947,661,171	345,120,541,637
	¢ 4,422,306,632,346	4,482,210,277,148	321,984,274,083	345,303,603,530

Guarantees:

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

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

The Bank conducts strict credit analyses before granting loans and requires guarantees from its borrowers before disbursing loans. As of June 30, 2019 and 2018, 58.00% and 57.67% of the loan portfolio is secured by collateral guarantees, respectively.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

Loan portfolio concentration	Direct		Stand-by	
	June 2019	June 2018	June 2019	June 2018
¢1 to ¢3,000,000	¢ 164,528,978,351	165,411,761,267	105,077,169,662	104,031,527,680
¢3,000,001 to ¢15,000,000	630,701,521,706	633,431,279,124	166,493,170,815	173,091,495,812
¢15,000,001 to ¢30,000,000	468,556,605,940	471,239,869,674	5,800,836,559	6,160,009,677
¢30,000,001 to ¢50,000,000	478,974,030,370	479,599,691,700	1,925,782,274	2,391,971,248
¢50,000,001 to ¢75,000,000	398,537,172,610	384,591,632,207	1,991,442,062	2,587,913,220
¢75,000,001 to ¢100,000,000	202,429,031,892	189,918,690,545	862,023,238	869,146,354
¢100,000,001 to ¢200,000,000	238,649,801,230	236,520,746,814	3,581,225,689	3,053,880,723
More than ¢200,000,000	1,839,929,490,247	1,921,496,605,817	36,252,623,784	53,117,658,816
	¢ 4,422,306,632,346	4,482,210,277,148	321,984,274,083	345,303,603,530

As of June 30, 2019 and 2018, the portion of the loan portfolio (direct and stand-by loans) corresponding to economic interest groups amounts to ¢596,479,649,585 and ¢481,215,855,422, 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 is comprised of 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.

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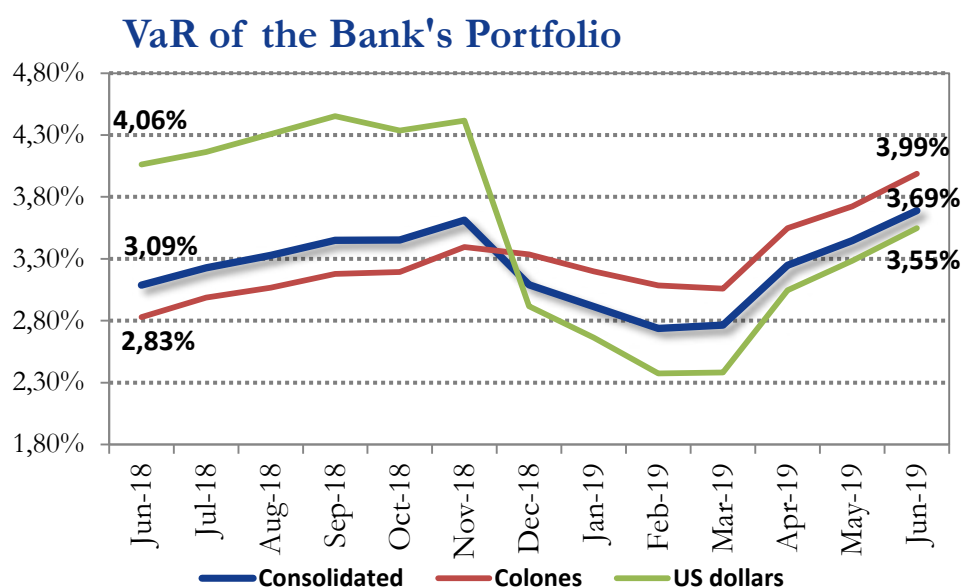
## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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 year-on-year growth observed in the VaR of the entire loan portfolio is due to the increase in arrears over 90 days between June 2018 and June 2019. The legal collection indicator increased from 7.15% to 8.58%, while arrears over 90 days increased from 3.04% to 3.36% during the aforementioned period.

By currency, the VaR of the portfolio in colones increased by 0.93% due to the increase in arrears. A similar behavior was observed in the portfolio in DU, with an increase in the VaR and increase in arrears. Regarding the portfolio in US dollars, the VAR decreased by 1.17% due to a considerable increase in legal collection from March to June 2019.



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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

By economic activity, with respect to June 2018, massive portfolios such as Housing, Consumer, and Trade show increases in VaR due to the deterioration of the quality of the portfolio in line with the behavior of the economic environment.

As of June 30, the VaR of the Bank's loan portfolio by economic activity is as follows:

Activity	June 2019	June 2018
Agriculture	8.47%	5.32%
Livestock	5.23%	3.49%
Mining	16.84%	10.41%
Industry	4.72%	3.69%
Energy	4.72%	6.94%
Housing	2.20%	1.67%
Construction	5.47%	6.35%
Trade	5.75%	4.69%
Transportation	2.88%	1.53%
Financial services	0.81%	0.35%
Consumer	11.16%	7.49%
Services	2.84%	1.92%
Tourism	7.60%	6.28%
<b>BNCR</b>	<b>3.69%</b>	<b>3.09%</b>

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

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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
- policy compliance reviews through analyses of the composition of the investment portfolio.

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

ii. 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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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.

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

For the June 2019 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 (67.77%) is concentrated in the portfolio denominated in colones.

With respect to the consolidated portfolio, investments in instruments issued by the Government of Costa Rica (64.38%) and BCCR (3.34%) comprise the portfolio in colones, representing 67.77% of the consolidated portfolio. Investments in instruments issued by the Government of Costa Rica comprise the portfolio in US dollars, representing 32.23% of the consolidated portfolio.

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

For the Pension Fund Manager, the credit risk of an investment is defined as the uncertainty that the issuer of the acquired instrument, or counterparty, may not fulfill its obligations, resulting in nonpayment, also known as issuer credit risk.

In order to measure the VaR levels of the Pension Fund Manager's investment portfolio, starting January 2019 the Bank's Credit Risk Division has applied a method based on the financial copulas model. This model replaced the Merton Model.

VaR is calculated through a procedure prepared by the Mathematical Modelling Risk Unit using the Matlab software. The results are communicated monthly in the consolidated risk report.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of June 30, 2019, the net assets managed by the Pension Fund Manager amount to ¢1,541,950 million (2018: ¢1,346,727 million), growing year-on-year by ¢195,222 million in nominal terms, equivalent to a growth rate of 14.50%. These data do not include the Pension Fund Manager's own assets.

The pension fund with the highest relative share is ROP, which represents 82.57% growing year-on-year by ¢165,501 million, an increase of 14.94% with respect to 2018.

As of June 30, 2019, the Pension Fund Manager's portfolio of own funds is represented by available-for-sale investments in the amount of ¢8,028 million (2018: ¢7,428 million).

As of June 30, 2019, the credit risk methodology is different from that used as of June 30, 2018, given that the VaR of credit is calculated using the financial copulas model. Consequently, it is not compared. As of June 30, 2019, the VaR of credit was 0.29% (¢23.26 million), (June 2018: 0.40% and ¢30.90 million).

Consolidated VaR – One year Fund	As of June 30,	
	2019	2018
FCL	0.61%	1.36%
FPC A	1.19%	0.02%
FPC B	0.93%	3.59%
FPD A	3.89%	27.41%
FPD B	4.57%	30.25%
NOT	1.02%	0.00%
ROP	0.54%	5.87%
BN Vital (OPC)	0.29%	0.40%
FCLE	1.03%	5.13%
ROPE	0.69%	3.99%

(Continued)



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

iii. 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 consolidated 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, 2019, exposure to credit risk is represented by the carrying amounts of cash and due from banks and available-for-sale investments. Cash and due from banks correspond to checking account deposits at BNCR and participation in open investment funds managed by BN SAFI.

As of June 30, 2019, 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. In addition, an investment was made in Monetary Stabilization Bonds issued by BCCR, which mature between November 2019 and April 2020.

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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Below is the LCR indicator as of June 2019, which increased in colones and decreased in US dollars with respect to June 2018, remaining above the risk appetite level in both currencies during the last year. During the first quarter of 2019 and most of 2018 the indicators in both currencies remained above appetite level.

Year on year, the LCR indicator in colones shows a significant increase due to recovery in the rhythm of placements at the beginning of 2019, while the loan portfolio increases slowly. In US dollars, the LCR was approximately 250% during the last quarter, considerably above risk appetite, above \$600 million, resulting from the shrinking balance in foreign currency (especially loans) during the last year.

In US dollars and in colones, the LCR indicator includes the adjustments established in SUGEF Directive 17-13 starting from November 1, 2018, the effective date of this new regulatory adjustment.

<u>Indicator</u>	<u>June 2019</u>	<u>June 2018</u>	<u>Variation</u>	<u>Level</u>
LCR colones	198.03%	110.60%	87.45%	Appetite
LCR US dollars	302.94%	292.30%	10.60%	Appetite

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of June 30, 2019, the terms of the Bank and its Subsidiaries' assets and liabilities denominated in local currency are matched as follows:

		Days							Total
		Past Due	Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	
Cash and due from banks	¢	-	71,504,085,254	-	-	-	-	-	71,504,085,254
Minimum legal deposit in BCCR		-	261,969,209,417	17,768,415,838	35,682,005,103	16,775,458,637	40,886,811,376	69,202,176,685	474,317,795,164
Investments		-	-	138,228,180,693	2,189,882,759	27,037,724,567	17,845,217,460	64,228,306,790	682,836,299,980
Loan portfolio		198,309,224,731	-	50,008,527,738	45,114,532,337	46,176,780,341	94,851,859,298	139,373,683,253	3,105,432,493,784
Recovery of assets	¢	198,309,224,731	333,473,294,671	206,005,124,269	82,986,420,199	89,989,963,545	153,583,888,134	272,804,166,728	4,334,090,674,182
Obligations with the public	¢	-	1,739,010,916,342	254,188,977,544	135,706,655,751	118,435,021,989	286,854,104,840	624,959,314,160	3,452,849,871,298
Obligations with BCCR		-	-	-	-	-	-	-	125,644,412
Obligations with financial entities		-	83,859,323,465	36,047,732,290	20,373,280,502	14,963,631,464	35,469,849,081	1,096,512,009	33,881,804,761
Charges payable		-	9,810,131,361	15,620,324,362	5,046,201,398	2,697,201,141	5,550,947,043	1,944,551,260	668,046,361
Maturity of liabilities		-	1,832,680,371,168	305,857,034,196	161,126,137,651	136,095,854,594	327,874,900,964	628,000,377,429	3,720,005,052,208
Difference	¢	198,309,224,731	(1,499,207,076,497)	(99,851,909,927)	(78,139,717,452)	(46,105,891,049)	(174,291,012,830)	(355,196,210,701)	614,085,621,974

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

		Days							Total
		Past due	Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	
Cash and due from banks	¢	-	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	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	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	2,994,964,071,583
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	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	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	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	36,090,837,597
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	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)	594,470,942,620

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of June 30, 2019, the terms of the Bank and its Subsidiaries' assets and liabilities denominated in foreign currency, expressed in local currency, are matched as follows:

		Days							Total
		Past due	Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	
Cash and due from banks	¢	-	251,885,468,537	-	-	-	-	-	252,145,316,733
Minimum legal deposit in BCCR		-	171,598,717,545	8,942,217,150	14,391,536,510	12,816,467,477	27,873,088,357	21,246,708,400	301,292,933,985
Investments		-	-	28,040,456,247	18,290,600,472	46,064,249,163	52,699,835,166	181,892,630,464	563,550,273,060
Loan portfolio		111,480,382,050	-	18,264,154,215	16,571,295,959	14,991,879,650	42,704,470,003	11,491,819,482	1,316,874,138,560
Recovery of assets	¢	111,480,382,050	423,484,186,082	55,246,827,612	49,253,432,941	73,872,596,290	123,277,393,526	214,631,158,346	2,433,862,662,338
Obligations with the public	¢	-	924,257,587,874	57,055,761,782	119,256,701,749	41,000,158,248	170,814,540,163	168,247,670,579	1,612,774,320,156
Obligations with financial entities		-	112,355,856,722	10,444,399,200	14,994,720,000	4,631,061,600	2,906,668,800	281,844,794	729,989,716,703
Charges payable		-	2,078,746,735	1,552,440,367	1,025,662,638	363,339,070	6,255,604,179	900,839,160	12,817,461,085
Maturity of liabilities	¢	-	1,038,692,191,331	69,052,601,349	135,277,084,387	45,994,558,918	179,976,813,142	169,430,354,533	2,355,581,497,944
Difference	¢	111,480,382,050	(615,208,005,249)	(13,805,773,737)	(86,023,651,446)	27,878,037,372	(56,699,419,616)	45,200,803,813	78,281,164,394

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of June 30, 2018, the terms of the Bank and its Subsidiaries' 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
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
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

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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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.



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Liquidity ratio Fund	As of June 30		Variation
	2019	2018	
FCL	6.79	5.16	1.63
FPC A	2.62	5.87	(3.25)
FPC B	2.72	9.83	(7.11)
FPD A	1.59	7.00	(5.41)
FPD B	1.72	7.30	(5.58)
NOT	30.02	17.41	12.61
ROP	8.91	15.25	(6.34)
FCL Erroneous	10.95	34.20	(23.25)
ROP Erroneous	13.34	108.37	(95.03)

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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

v. BN Corredora de Seguros, S.A.

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

c) Market risks

i. Banco Nacional de Costa Rica.

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

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

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

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Below is the variation of the portfolios in each currency between June 2018 and June 2019:

<u>Currency</u>	<u>Face value of investments by currency</u>		<u>Variation</u>
	<u>June 2019</u>	<u>June 2018</u>	
Colones	603,835,950,000	403,287,794,400	200,548,155,600
US dollars - local issuers	180,261,000	363,000,000	(182,739,000)
US dollars - intl issuers	716,948,000	832,612,737	(115,664,736)
Euro	-	11,000,000	(11,000,000)
DU	-	21,082,530	(21,082,530)

The duration for each currency has presented variations according to portfolio management, with an increase during the last year in colones and local US dollars, and a decrease in international US dollars and euro. Starting November 2018 and April 2019, there are no investment securities in DU and euro, respectively.

<u>Duration</u>	<u>June 2019</u>	<u>June 2018</u>	<u>Variation</u>
Colones	0.67	0.97	(0.29)
US dollars - local issuers	0.81	0.78	0.03
US dollars - intl issuers	1.00	0.89	0.11
Euro	-	0.44	(0.44)
DU	-	0.99	(0.99)

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

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

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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Market risk management

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

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

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

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

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

Market risk exposure – trading portfolio:

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

(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

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

	June 2019	June 2018
VaR (99% confidence level)	0.43%	0.20%

### 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, 2019 and 2018, 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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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.

(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

Currently, the Pension Fund Manager's funds are comprised 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. Also, a VaR of investment funds is included to calculate the possible loss of the total investment portfolio over a holding period with a specific confidence level.

v. BN Corredora de Seguros, S.A.

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

- 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. There was a decrease during the last period, mainly caused by movement in yield curves.

<u>Type of risk</u>	<u>June 2019</u>	<u>June 2018</u>	<u>Variation</u>
Consolidated VaR	0.24%	0.14%	0.10%

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

<u>Currency</u>	<u>VaR by currency</u>		
	<u>June 2019</u>	<u>June 2018</u>	<u>Variation</u>
Colones	0.17%	0.16%	0.01%
US dollars - local issuers	0.89%	0.24%	0.65%
US dollars - intl issuers	0.25%	0.22%	0.03%
Euro	0.00%	0.00%	0.00%
DU	0.00%	1.03%	(1.03)%

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- 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:

<u>Type of risk</u>	<u>June 2019</u>	<u>June 2018</u>	<u>Variation</u>	<u>Level</u>
Interest rate risk in colones	0.03%	0.06%	(0.03)%	Normal
Interest rate risk in foreign currency	0.58%	0.82%	(0.24)%	Normal

For the Bank, both indicators closed considerably below the regulatory limits required by SUGEF.

The interest rate risk indicator in colones increased due to less volatility in the base deposit rate, which translates into a lower level of maximum expected variation in the deposit rate. In US dollars, the decrease corresponds to the combined effect of a decrease in the duration of equity and lower volatility in the 3-month LIBOR rate.

(Continued)



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of June 30, 2019, 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
<i>Local currency (LC)</i>								
Investments	¢	138,206,548,094	28,198,324,471	18,646,598,557	64,211,906,672	147,353,478,923	284,977,749,218	681,594,605,935
Loan portfolio		2,634,258,338,947	105,384,482,846	100,626,469,385	15,016,067,982	15,971,578,690	67,922,807,313	2,939,179,745,163
Recovery of rate-sensitive assets in LC (A)	¢	2,772,464,887,041	133,582,807,317	119,273,067,942	79,227,974,654	163,325,057,613	352,900,556,531	3,620,774,351,098
Obligations with the public	¢	310,032,367,546	278,007,671,379	326,090,893,899	620,899,976,206	202,806,358,509	95,292,042,570	1,833,129,310,109
Obligations with BCCR		-	-	-	-	-	125,644,412	125,644,412
Obligations with financial entities in LC		17,125,363,143	4,500,000,000	-	-	-	33,635,289,223	55,260,652,366
Maturity of rate-sensitive liabilities in LC (B)	¢	327,157,730,689	282,507,671,379	326,090,893,899	620,899,976,206	202,806,358,509	129,052,976,205	1,888,515,606,887
Difference in LC, recovery of assets less maturity of liabilities (A - B)	¢	2,445,307,156,352	(148,924,864,062)	(206,817,825,957)	(541,672,001,552)	(39,481,300,896)	223,847,580,326	1,732,258,744,211
<i>Foreign currency (FC)</i>								
Investments	¢	27,537,796,495	64,354,849,638	51,835,632,967	180,959,076,266	110,309,182,927	117,620,784,019	552,617,322,312
Loan portfolio		1,101,590,445,179	40,999,952,020	23,979,424,564	2,636,290,211	22,026,336,886	61,152,382,031	1,252,384,830,891
Recovery of rate-sensitive assets in FC (C)	¢	1,129,128,241,674	105,354,801,658	75,815,057,531	183,595,366,477	132,335,519,813	178,773,166,050	1,805,002,153,203
Obligations with the public	¢	92,484,037,076	145,036,048,576	178,609,831,886	163,453,676,802	278,444,082,562	350,641,218,763	1,208,668,895,665
Obligations with financial entities		10,438,632,000	5,796,856,857	362,772,896	1,277,239	3,784,725,000	85,939,584,768	106,323,848,760
Maturity of rate-sensitive liabilities in FC (D)	¢	102,922,669,076	150,832,905,433	178,972,604,782	163,454,954,041	282,228,807,562	436,580,803,531	1,314,992,744,425
Difference in FC, recovery of assets less maturity of liabilities (C - D)	¢	1,026,205,572,598	(45,478,103,775)	(103,157,547,251)	20,140,412,436	(149,893,287,749)	(257,807,637,481)	490,009,408,778
Recovery of rate-sensitive assets 1/ (A + C)	¢	3,901,593,128,715	238,937,608,975	195,088,125,473	262,823,341,131	295,660,577,426	531,673,722,581	5,425,776,504,301
Maturity of rate-sensitive liabilities 2/ (B + D)	¢	430,080,399,765	433,340,576,812	505,063,498,681	784,354,930,247	485,035,166,071	565,633,779,736	3,203,508,351,312
LC + FC difference, recovery of assets less maturity of liabilities (item 1 - item 2)	¢	3,471,512,728,950	(194,402,967,837)	(309,975,373,208)	(521,531,589,116)	(189,374,588,645)	(33,960,057,155)	2,222,268,152,989

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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
<i>Local currency (LC)</i>								
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
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
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
<i>Foreign currency (FC)</i>								
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
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 financial entities		5,634,400,000	45,122,653	354,419,407	300,985,253	-	94,280,246,168	100,615,173,481
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
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
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
LC + FC difference, 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

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 period (due to relatively low inflation).

The consolidated VaR of the Pension Fund Manager's own funds presented a maximum of 1.49% and a minimum of 0.04%, for an average of 0.59%, equivalent to ₡47 million. As of June 30, 2019, the indicator closed at 0.60% (2018: 0.24%). There is an increase in the indicator due to the proportion of the portfolio in fixed-rate instruments, given that this indicator shows volatility in the portfolio of investments with market 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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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.

The Bank calculates the SUGEF currency risk indicator on a monthly basis, which remained at an appetite level for both periods. The indicator presents a decrease due to a decrease in the foreign currency position.

<u>Type of risk</u>	<u>June 2019</u>	<u>June 2018</u>	<u>Variation</u>	<u>Level</u>
Currency risk	0.41%	0.68%	(0.28) %	Appetite

Assets and liabilities denominated in foreign currency are as follows:

		<u>US dollars</u>	
		<u>June 2019</u>	<u>June 2018</u>
<u>Assets:</u>			
Cash and due from banks	US\$	913,695,220	904,827,211
Investments in financial instruments		977,164,435	1,240,545,870
Loan portfolio		2,215,400,513	2,483,030,848
Accounts and accrued interest receivable		659,791	601,949
Investments in other companies		112,382,284	107,741,017
Other assets		2,488,665	6,298,414
	US\$	<u>4,221,790,908</u>	<u>4,743,045,309</u>
<u>Liabilities:</u>			
Obligations with the public	US\$	2,761,005,171	2,594,177,002
Obligations with entities		1,274,824,635	1,918,853,007
Accounts payable and provisions		133,189,665	132,923,330
Other liabilities		21,077,341	49,295,406
Subordinated obligations		33,384,970	34,976,131
	US\$	<u>4,223,481,782</u>	<u>4,730,224,876</u>
(Deficit) excess of assets over liabilities in US dollars	US\$	<u>(1,690,874)</u>	<u>12,820,433</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		Euro	
		June 2019	June 2018
<u>Assets:</u>			
Cash and due from banks	€	40,358,231	30,139,527
Investments in financial instruments		-	11,188,657
	€	40,358,231	41,328,184
<u>Liabilities:</u>			
Obligations with the public	€	38,354,118	39,398,776
Obligations with entities		823,981	724,097
Accounts payable and provisions		202,534	162,259
Other liabilities		25	240,786
	€	39,380,658	40,525,918
Excess of assets over liabilities in euro	€	977,573	802,266
		DU	
		June 2019	June 2018
<u>Assets:</u>			
Investments in financial instruments	UD	-	21,082,530
Loan portfolio		5,862,239	11,294,405
	UD	5,862,239	32,376,935
<u>Liabilities:</u>			
Accounts payable and provisions	UD	436,584	661,243
Other liabilities		1,293	7,300
	UD	437,877	668,543
Excess of assets over liabilities in DU	UD	5,424,362	31,708,392

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 2019	June 2018
Foreign exchange gain	¢ 150,444,313,182	40,383,023,447
Foreign exchange loss	(146,955,751,368)	(40,266,865,414)
Net gain	¢ 3,488,561,814	116,158,033

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Additionally, the valuation of other assets and other liabilities for the period 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 2019	June 2018
Gain on net valuation of other assets (Note 37)	¢ 790,272,330	148,406,340
Loss on net valuation of other liabilities (Note 40)	(283,764,509)	(104,478,420)
Net gain	¢ 506,507,821	43,927,920

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

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

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

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

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

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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, 2019, 4.77% 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 5.18% (¢433.95 million) compared to the close as of June 30, 2018 at 3.47% (¢266.73 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.

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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*.



## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- 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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

Fair value of financial instruments

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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 Area is in charge of reviewing in a systematic and comprehensive manner any departure from regulations.

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, 2019, 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 ¢7,624,108 million that covers the main lawsuits against the Pension Fund Manager out of seven pending lawsuits, most of which are in first instance.

v. BN Corredora de Seguros, S.A.

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

Capital management

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

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

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

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

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

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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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, 2019 and 2018, the Bank's risk rating is at a normal level since its capital adequacy ratio is above the required 10% ratio.

(47) Contingencies

As of June 30, Banco Nacional de Costa Rica (the Bank), BN Vital Operadora de Planes de Pensiones Complementarias, S.A. (the Pension Fund Manager), BN Valores Puesto de Bolsa, S.A. (the Brokerage Firm) and BN Sociedad Administradora de Fondos de Inversión, S.A. (the Investment Fund Manager) are defendants in ordinary, labor, and criminal lawsuits, as follows:

	Number of cases		Phase	Total estimated amount	
	2019	2018		2019	2018
Banco Nacional de Costa Rica	340	253	First instance	¢ 257,149,871,546	238,715,917,655
	16	18	Second instance	19,358,840,819	18,798,169,244
	9	6	Appeal	5,811,484,584	3,615,000,000
	-	1	Administrative proceedings (Note 48)	-	38,458,424,266
	<u>365</u>	<u>278</u>		<u>282,320,196,949</u>	<u>299,587,511,165</u>
BN Vital	<u>7</u>	<u>1</u>	First instance	<u>8,064,491</u>	<u>23,220,000</u>
BN Valores	<u>1</u>	<u>1</u>	First instance	<u>133,004,706</u>	<u>133,004,706</u>
BN SAFI	<u>1</u>	<u>-</u>	(Note 22)	<u>233,662</u>	<u>-</u>
	<u>374</u>	<u>280</u>	First instance	¢ <u>282,461,499,808</u>	<u>299,743,735,871</u>

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of June 30, 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		Phase	Total estimated amount	
2019	2018		2019	2018
291	156	First instance	¢ 109,171,317,697	783,472,849,098
1	-	Second instance	375,839,600	-
292	156		¢ 109,547,157,297	783,472,849,098

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 June 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, 2019, the Bank has a provision in the amount of ¢758,878,997 for lawsuit No. 15-008666-1027-CA. It has not booked a provision for the other two lawsuits, given that the legal counsel indicated that such proceedings do not need to be included in the calculation of the provision since the probability of a loss is low.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The following lawsuits are also worth noting:

- *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: The resolution of April 10, 2018, at 17:15, ordered the separation of the case into separate files for each of the group members. This resolution was unsuccessfully challenged by the plaintiff's representatives. A number of separate lawsuits were presented to the Bank, which is in the process of filing the corresponding responses, and some preliminary hearings have been summoned.
- *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: Vote No. 055-F-18 of January 31, 2018, at 11:55, denied the negative statute of limitations exception, in its commercial and decennial common modality. The judge of first instance must issue a ruling on the appeal concerning new facts and claims of the case, as applicable. Since the parties did not agree with the resolution, all parties filed appeals for review before the First Chamber. No activity to date.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- 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: The Bank appeared before the First Chamber in relation to the appeal for review filed by the plaintiff. A resolution by the First Chamber is pending.
  
- File No.: 08-001455-1027-CA
  - ✓ Court: Administrative Court and Civil Litigation 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 Bank won the trial. The execution of judgment to collect the legal costs from the plaintiffs was submitted. The execution was approved by the Administrative Court and was declared final by the Administrative Court of Appeals. Once the term for payment elapsed, a request for seizure was filed for those plaintiffs who did not deposit the corresponding amount. The Judge in charge of the execution will coordinate directly with the Treasurer of the law firm to issue a final determination of who have made the payment and who have not, so as to issue the corresponding requests for seizure.
  
- File No.: 11-001042-0612-PE
  - ✓ Court: Office of Economic, Tax, and Customs Crimes
  - ✓ Statement of facts: Irregularities were reported with respect to the company Zion and the process to grant credits to that company, misuse of resources, presentation of fake documents to the Bank to obtain credit approval, and the apparent participation of some of the employees of Bank.
  - ✓ Current status: The public prosecutor's office has a final document, in which the Bank was not included as victim. A motion for declaration of procedural defects was filed, so that the accusation can be brought to the Bank's attention. There is a civil lawsuit against the Bank, but it does not hold because the accused (bank employees) were summoned to a testimony. Until the legal status of those individuals is defined they cannot be part of a civil lawsuit.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- File No.: 18-003281-1027-CA
  - ✓ Court: Administrative Court and Civil Litigation Court of the Public Treasury
  - ✓ Statement of facts: The plaintiff Hidrotárcoles S.A. sues the Bank and ICE for the Capulín San Pablo Hydroelectric Project. It claims from ICE the resolution of the contract, and from the Bank the collection of debt and suspension of the money transfers to conclude the works.
  - ✓ Current status: Through resolution No. 420-2018-T of the Administrative Court and Civil Litigation Court of the Public Treasury dated July 18, 2018, the provisional measure requested by Hidrotárcoles S.A. was dismissed. Hidrotárcoles S.A. appealed the decision, and was summoned to a hearing on September 24, 2018 at 1400 hrs. The hearing was suspended until the plaintiff decides what to do with the other provisional measures filed. To date, Hidrotárcoles S.A. has not defined its position.
- File No.: 08-000350-0419-AG
  - ✓ Statement of facts: This proceeding seeks annulment of the judicial auction, award and registration of plots No. 79045-000, No. 79046-000, and No.134130-000.
  - ✓ Current status: The resolution issued by the Agrarian Court on August 16, 2018, at 1700 rejected the motion for annulment and confirmed the appealed resolution. Regarding the appeal for review by a higher court, the Bank appeared before the First Chamber in November 2018.

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(48) Significant events

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

On May 21, 2014, the Bank was informed that the Tax Authorities would perform a review in respect of the 2010, 2011, 2012, and 2013 periods. Through Notice No. 1-10-015-14-077-011-03 and Notice No. 1-10-015-14-078-111-03 issued by the Large Taxpayer Administration, the Bank received the “Notification of the Start of the Tax Audit and Initial Information Requirements.”

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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The Bank faces a new tax review process by the Tax Authorities for the 2014, 2015, and 2016 fiscal years. 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.”

On January 30, 2018, the National Large Taxpayer Audit Area issued Regularization Proposal No. DGCN-SF-PD-18-2017-1-341-03 with details on 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 pending declaration of ₡35,999,804,522, calculating the corresponding interest as of that date of ₡7,281,607,516, for a total of ₡43,281,406,038.

In conformity with the *Law to Strengthen Public Finance*, published in Official Gazette No. 225 of December 4, 2013, which grants a tax amnesty period for fiscal years 2010, 2011, 2012, 2013, 2014, 2015, 2016, and 2017 for the remission of interest related to determined amounts and the reduction of 80% of the fines if the payment is made in the first month after the law becomes effective, the General Board of Directors, in Article 19 of minutes of meeting No. 12,310, held on December 10, 2018, agreed to “...*adhere to the Tax Amnesty according to the term established in Transition Provision XXIV of the Law to Strengthen Public Finance...*” concerning the tax assessment for tax periods 2010 through 2016, paying the total amounts determined by the National Large Taxpayer Division on December 19, 2018, by means of a bank transfer in the amount of US\$119,235,289 (equivalent to ₡70,946,189,660).

On December 19, 2018, the Bank submitted to the Administrative Court a request to discontinue the proceedings under file No. 18-7810-1027-CA filed by the Bank against the State. The document was brought to the attention of the National Large Taxpayer Division through Official Letter No. GG-572-18 dated December 19, 2018, which requested the shelving of the legal collection process for periods 2010 through 2016.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

b) *Dividends paid to the Bank*

Dividends of the subsidiaries are as follows:

Subsidiary	Amount	
	June 2019	June 2018
BN Corredora de Seguros, S.A.	351,589,787	279,880,852
BN Sociedad Administradora de Fondos de Inversión, S.A.	1,200,000,000	1,000,000,000
BN Valores Puesto de Bolsa, S.A.	1,000,000,000	675,205,850
BN Vital Operadora de Planes de Pensiones Complementarias, S.A.	477,619,511	560,939,777
	<u>3,029,209,298</u>	<u>2,516,026,479</u>

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

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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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 IFRS 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 IFRS, 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, the 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.

On September 11, 2018, CONASSIF issued the *Regulation on Financial Information* (RFI), which seeks to regulate the application of IFRS and its interpretations (SIC and IFRIC) issued by the International Accounting Standards (IASB), considering prudential or regulatory accounting treatments, as well as the definition of a specific treatment or methodology when IFRS suggest two or more alternatives for application. Moreover, RFI establishes the content, preparation, referral, presentation, and publication of the financial statements of individual financial entities, groups and conglomerates regulated by the four superintendencies.

RFI is effective starting January 1, 2020, with some exceptions. A summary of some of the main differences between the accounting regulations issued by CONASSIF and IFRSs, as well as IFRSs or Interpretations of the International Financial Reporting Interpretations Committee (IFRICs) yet to be adopted, is presented below:

a) IAS 1: Presentation of Financial Statements

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:

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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 be 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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

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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).

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Notes to the Consolidated Financial Statements

- Under SUGEF regulations, in the event of issuance of a credit-related guarantee, deferred income and incremental costs pending deferral or amortization as of the issue date are not included in the instrument's amortized cost or the calculation of the foreclosed asset's carrying amount. As a result, upon issuance, fees and commissions pending deferral and costs pending amortization are booked in profit or loss for the period.

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.

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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.

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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 loan portfolio allowance.

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 consolidated income statement.

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

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

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

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

a) Pooled portfolios

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

b) Own investments of regulated entities

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

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

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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.

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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.



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

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

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

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v) IFRS 14: Regulatory Deferral Accounts

This Standard was approved in January 2014. It specifies the accounting policies for regulatory deferral account balances arising from a rate regulation. This Standard is effective for annual periods beginning on or after January 1, 2016. Early application is permitted. This Standard has not been adopted by CONASSIF.

w) IFRS 15: Revenue from Contracts with Customers

This Standard was approved in May 2014. It provides a global framework for the recognition of revenue from contracts with customers and establishes the principles to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. This Standard replaces IAS 11, IAS 18, IFRS 13, IFRIC 13, IFRIC 15, IFRIC 18, and SIC 31. This Standard is effective for annual periods beginning on or after January 1, 2018. Early application is permitted. This Standard has not been adopted by CONASSIF.

x) IFRS 16: Leases

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

y) 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.

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z) 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.

aa) 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.

bb) 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.

cc) 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.

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This interpretation has not been adopted by the CONASSIF. However, Article 10 of the *Regulations on Financial Information* provides that in the event of a dispute of a specific tax treatment by the Tax Authorities, which begins with a notice of deficiency, the entity must:

- a. Book against profit or loss for the period in the case that, in accordance with the assessment made by senior management, a conclusion is reached that the entity has an obligation of immediate enforceability with the Tax Administration.
- b. Book a provision for those treatments not considered in the items above; the amount must reflect the uncertainty of each tax treatment in dispute, according to the method that best predicts its resolution as established in IFRIC 23.

Upon initial application of IFRIC 23, entities must apply the transition established in item “b” above.

The amount of the provision for the tax treatments in dispute notified before December 31, 2018, corresponding to tax periods 2017 and previous periods, will be booked at the greater of the best estimate of the amount payable to the Tax Authorities regarding the notice of deficiency (principal, interest, and fines), according to IAS 12, and 50% of the principal from the correction of the self-assessment of the tax obligation.

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(50) Disclosure of economic impact of departure from IFRS

Since the basis of accounting used by the Bank's management described in Note 1-b differs from IFRS, discrepancies may arise related to certain account balances.

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