

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Financial Information Required by the
Superintendency General of Financial Entities

Consolidated Financial Statements

March 31, 2017

(With corresponding figures for 2016)

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

	Note	March 2017	December 2016	March 2016
ASSETS				
Cash and due from banks	4	1,227,548,669,423	937,810,182,994	994,390,384,566
Cash		70,379,191,829	56,192,345,858	64,443,468,659
Demand deposits in BCCR		773,608,834,347	689,309,617,609	710,003,158,372
Demand deposits in local financial entities		6,882,530,337	7,462,507,464	6,436,747,606
Demand deposits in foreign financial entities		365,120,923,623	178,157,371,306	202,483,439,045
Other cash and due from banks		11,557,090,188	6,688,245,083	11,023,562,162
Accrued interest receivable		99,099	95,674	8,722
Investments in financial instruments	5	1,003,480,366,789	956,600,207,359	1,167,980,256,359
Available-for-sale		958,791,974,805	912,646,019,784	1,105,693,374,972
Held-to-maturity		27,517,445,454	27,181,284,510	27,259,395,285
Derivative financial instruments	6	9,054,029,755	5,893,164,907	26,616,673,683
Accrued interest receivable		8,178,316,947	10,939,171,834	8,472,473,372
(Allowance for impairment of investments in financial instruments)		(61,400,172)	(59,433,676)	(61,660,953)
Loan portfolio	7	4,151,191,267,784	4,057,363,892,824	3,686,712,728,546
Current		4,000,913,373,513	3,922,221,361,522	3,494,162,325,361
Past due		121,636,181,423	105,532,644,255	141,854,443,947
Legal collection		85,366,652,215	87,853,245,295	90,913,037,984
Accrued interest receivable		28,394,872,419	27,221,501,072	26,551,202,626
(Allowance for loan impairment)		(85,119,811,786)	(85,464,859,320)	(66,768,281,372)
Accounts and fees and commissions receivable	8	3,068,256,111	3,095,011,679	2,501,761,821
Fees and commissions receivable		1,035,193,870	1,292,023,911	1,146,504,633
Accounts receivable for brokerage operations		41,186,198	3,828,079	11,529,100
Accounts receivable for transactions with related parties		49,852,768	20,707,083	121,424,257
Deferred tax and income tax receivable		1,087,998,698	1,234,343,862	3,555,307,997
Other receivables		4,250,881,723	3,993,335,555	3,617,274,568
Accrued interest receivable		1,640,063	1,800,923	2,181,229
(Allowance for impairment of accounts and fees and commissions receivable)		(3,398,497,209)	(3,451,027,734)	(5,952,459,963)
Foreclosed assets	9	16,811,311,256	17,751,098,959	16,721,690,383
Assets and securities acquired in lieu of payment		77,652,964,943	77,394,578,153	80,316,937,475
Other foreclosed assets		1,471,878	1,471,878	1,770,548
(Allowance for impairment of foreclosed assets and per legal requirements)		(60,843,125,565)	(59,644,951,072)	(63,597,017,640)
Investments in other companies	10	58,429,329,853	57,191,201,983	54,177,947,661
Property and equipment, net	11	175,802,142,338	177,105,051,446	176,631,385,070
Other assets	12	37,893,153,678	45,275,551,284	31,484,482,744
Deferred charges		11,070,045,849	11,899,941,334	12,186,589,574
Intangible assets		7,768,485,193	5,225,669,321	4,155,902,600
Other assets		19,054,622,636	28,149,940,629	15,141,990,570
TOTAL ASSETS		6,674,224,497,232	6,252,192,198,528	6,130,600,637,150

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

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

LIABILITIES AND EQUITY	Note	March 2017	December 2016	March 2016
LIABILITIES				
Obligations with the public	13	4,559,854,466,510	4,190,136,402,593	4,167,427,583,281
Demand obligations		2,603,399,361,025	2,606,807,068,581	2,552,606,882,865
Term obligations		1,904,828,166,512	1,534,747,038,588	1,556,359,123,567
Other obligations		26,395,633,007	26,448,255,041	37,261,590,883
Charges payable		25,231,305,966	22,134,040,383	21,199,985,966
Obligations with BCCR	14	125,644,412	125,644,412	125,644,412
Term obligations		125,644,412	125,644,412	125,644,412
Obligations with entities	15	1,268,158,816,560	1,224,853,283,638	1,205,444,807,993
Demand obligations		210,835,331,686	215,439,288,466	318,976,105,711
Term obligations		1,035,106,294,449	999,839,001,470	871,460,680,184
Charges payable		22,217,190,425	9,574,993,702	15,008,022,098
Accounts payable and provisions		104,635,288,062	128,526,344,473	94,998,728,160
Accounts payable for brokerage services		989,182,283	1,434,466,447	1,436,106,070
Deferred tax	16-b	11,363,444,236	11,611,227,013	13,636,905,669
Provisions	17	29,261,767,359	26,294,108,721	27,105,111,930
Other sundry accounts payable	18	63,020,894,184	89,186,542,292	52,820,604,491
Other liabilities	19	65,527,042,435	46,777,896,327	42,043,836,522
Deferred income		25,052,708,455	24,745,614,291	15,325,882,603
Allowance for stand-by credit losses		309,271,895	540,840,567	1,679,701,720
Other liabilities		40,165,062,085	21,491,441,469	25,038,252,199
Subordinated obligations	20	72,675,619,590	72,675,778,397	69,361,508,354
Subordinated obligations		72,075,900,000	71,263,400,000	68,846,700,000
Charges payable		599,719,590	1,412,378,397	514,808,354
TOTAL LIABILITIES		6,070,976,877,569	5,663,095,349,840	5,579,402,108,722
EQUITY				
Share capital		118,130,303,482	118,130,303,482	118,130,303,482
Paid-in capital	21-a	118,130,303,482	118,130,303,482	118,130,303,482
Equity adjustments		68,041,126,210	67,476,783,612	69,684,449,544
Surplus from revaluation of property	21-b	60,806,752,437	60,806,752,437	60,791,171,437
Adjustment for valuation of available-for-sale investments	21-c	125,541,141	159,197,995	3,070,309,903
Adjustment for valuation of restricted financial instruments	21-c	(1,599,425,149)	(1,617,218,764)	(914,296,808)
Surplus from revaluation of other assets		43,748,630	43,748,630	69,678,787
Adjustment for valuation of investments in other companies	1-d (iv) y 21-d	8,664,509,151	8,084,303,314	6,667,586,225
Equity reserves	21-e	309,943,224,289	274,614,308,392	271,700,185,914
Prior period retained earnings		66,434,579,293	54,106,726,619	57,020,849,097
Income for the year		13,586,428,376	53,018,907,264	12,912,921,071
Equity of the Development Financing Fund	21-f	27,111,958,013	21,749,819,320	21,749,819,320
TOTAL EQUITY		603,247,619,663	589,096,848,689	551,198,528,428
TOTAL LIABILITIES AND EQUITY		6,674,224,497,232	6,252,192,198,529	6,130,600,637,150
DEBIT MEMORANDA ACCOUNTS	22	638,148,579,539	607,278,057,097	572,946,679,950
TRUST ASSETS	23	1,221,773,070,809	1,395,438,209,356	985,502,089,379
TRUST LIABILITIES		51,812,515,322	51,558,918,092	45,671,901,545
TRUST EQUITY		1,169,960,555,487	1,343,879,291,264	939,830,187,834
TRUST MEMORANDA ACCOUNTS		30,791,194,293	27,200,220,639	23,111,535,142
OTHER DEBIT MEMORANDA ACCOUNTS	24	19,829,969,594,422	19,573,797,402,675	19,094,538,101,388
Own debit memoranda accounts		7,127,864,141,965	7,280,944,022,035	7,061,050,859,348
Third-party debit memoranda accounts		2,368,252,389,635	2,268,532,958,984	2,190,413,490,686
Own debit memoranda accounts for custodial activities		382,003,349,953	231,082,070,315	329,646,764,587
Third-party debit memoranda accounts for custodial activities		9,951,849,712,869	9,793,238,351,341	9,513,426,986,767

Juan Carlos Corrales Salas
General Manager

Gerardo Gómez Solís
General Accountant

Ricardo Araya Jiménez
General Auditor

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

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016
(In colones)

	Note	March 2017	March 2016
Finance income			
Cash and due from banks	28	299,884,711	123,481,485
Investments in financial instruments	28	11,809,677,013	11,601,362,617
Loan portfolio	29	93,872,202,046	84,848,880,201
Gain on foreign exchange differences and development units, net	46-c	-	696,501,833
Gain on available-for-sale financial instruments		826,995,688	490,083,639
Gain on derivative financial instruments, net	6	4,554,206,558	13,638,821,708
Other finance income	30	4,601,035,638	3,008,550,069
Total finance income		115,964,001,654	114,407,681,552
Finance expense			
Obligations with the public	31	30,937,791,892	26,874,693,266
Obligations with financial entities	32	15,571,818,837	11,593,874,000
Subordinated, convertible, and preferred obligations		1,073,267,764	935,683,454
Loss on foreign exchange differences and development units, net	46-c	44,382,737	-
Loss on available-for-sale financial instruments		38,674,009	14,084,456
Por pérdida en instrumentos derivados		-	-
Other finance expense	33	5,042,359,898	14,532,194,288
Total finance expense		52,708,295,137	53,950,529,464
Allowance for impairment of assets	34	4,720,803,907	8,131,187,240
Recovery of assets and decrease in allowances	35	3,509,531,469	2,060,422,041
FINANCE INCOME		62,044,434,079	54,386,386,889
Other operating income			
Service fees and commissions	36	31,483,504,552	29,858,998,721
Foreclosed assets		586,708,186	378,091,067
Gain on investments in other foreign companies	1-a y 3	512,288,898	877,328,628
Gain on investments in other local companies		7,563,715	-
Foreign currency exchange and arbitrage		6,413,981,933	5,973,466,440
Other operating income	37	1,873,891,536	1,378,316,416
Total other operating income		40,877,938,820	38,466,201,272

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016
(In colones)

		March 2017	March 2016
Other operating expenses			
Services fees and commissions		1,305,399,309	1,860,458,674
Foreclosed assets	38	5,022,970,829	5,240,273,487
Sundry assets		37,726,798	34,765,453
Provisions	39	4,404,446,914	4,311,134,555
Bonuses on fees and commissions of voluntary pension funds		21,759,108	21,042,075
Foreign currency exchange and arbitrage		222,255	428,980
Other operating expenses	40	16,626,355,669	13,574,416,703
Amortization of deferred direct costs related to credits		287,994,379	111,853,469
Total other operating expenses		<u>27,706,875,261</u>	<u>25,154,373,396</u>
GROSS OPERATING INCOME		<u>75,215,497,638</u>	<u>67,698,214,765</u>
Administrative expenses			
Personnel expenses	41	32,980,921,468	33,154,095,135
Other administrative expenses	42	16,454,313,150	15,388,323,461
Total administrative expenses		<u>49,435,234,618</u>	<u>48,542,418,596</u>
NET OPERATING INCOME BEFORE TAXES			
AND STATUTORY ALLOCATIONS		25,780,263,020	19,155,796,169
Current tax expense	16-a	5,970,845,071	3,489,374,670
Deferred tax expense	16-a	777,000	18,183,211
Decrease in current tax for the period	16-a	-	-
Decrease in prior period income tax	16-a	7,657,184	16,380,331
Increase in deferred income tax	16-a	61,862,942	1,269,647,637
Statutory allocations	43	6,385,987,871	4,021,345,185
Decrease in statutory allocations	43	94,255,172	-
INCOME FOR THE YEAR		<u>13,586,428,376</u>	<u>12,912,921,071</u>
OTHER COMPREHENSIVE INCOME, NET OF TAX			
Surplus from revaluation of property		-	522,185,102
Adjustment for valuation of available-for-sale investments, net of income tax		(33,656,854)	(232,914,966)
Adjustment for valuation of restricted financial instruments, net of income tax		17,793,615	(478,881,559)
Realization of surplus from revaluation of other assets		-	-
Adjustment for valuation of investments in other companies		580,205,837	(417,040,426)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		<u>564,342,598</u>	<u>(606,651,849)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>14,150,770,974</u>	<u>12,306,269,222</u>

Juan Carlos Corrales Salas
General Manager

Gerardo Gómez Solís
General Accountant

Ricardo Araya Jiménez
General Auditor

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2016
(In colones)

Note	Share capital	Equity adjustments				Total equity adjustments	Equity reserves	Retained earnings	Equity of the Development Financing Fund	Total
		Surplus from revaluation of property	Adjustment for valuation of available-for-sale investments and restricted financial instruments	Surplus from revaluation of other assets	Adjustment for valuation of investments in other companies					
Balances at January 1, 2016	118,130,303,482	63,572,929,305	2,867,809,620	69,678,787	7,084,626,651	73,595,044,363	247,784,553,250	81,237,495,076	18,144,863,035	538,892,259,206
Transactions with owners booked directly in equity:										
Legal reserves	-	-	-	-	-	-	23,819,338,268	(23,819,338,268)	-	-
Other statutory reserves	-	-	-	-	-	-	96,294,396	(96,294,396)	-	-
Equity of the Development Financing Fund	-	-	-	-	-	-	-	(3,604,956,285)	3,604,956,285	-
Total transactions with owners booked directly in equity	-	-	-	-	-	-	23,915,632,664	(27,520,588,949)	3,604,956,285	-
Comprehensive income for the year:										
Income for the year	-	-	-	-	-	-	-	12,912,921,071	-	12,912,921,071
Adjustment for valuation of available-for-sale investments, net of income tax	6	-	(232,914,966)	-	-	(232,914,966)	-	-	-	(232,914,966)
Adjustment for valuation of restricted financial instruments, net of income tax	6	-	(478,881,559)	-	-	(478,881,559)	-	-	-	(478,881,559)
Adjustment for valuation of investments in other companies	1-d (iv)	-	-	-	(417,040,426)	(417,040,426)	-	-	-	(417,040,426)
Surplus from revaluation of property	-	(2,781,757,868)	-	-	-	(2,781,757,868)	-	3,303,942,970	-	522,185,102
Total comprehensive income for the year	-	(2,781,757,868)	(711,796,525)	-	(417,040,426)	(3,910,594,819)	-	16,216,864,041	-	12,306,269,222
Balances at March 31, 2016	21	118,130,303,482	60,791,171,437	2,156,013,095	69,678,787	6,667,586,225	69,684,449,544	271,700,185,914	69,933,770,168	551,198,528,428

Juan Carlos Corrales Salas

Gerardo Gómez Solís
General Accountant

Ricardo Arce, Jr.
General Auditor

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2017
(In colones)

Note	Share capital	Equity adjustments				Total equity adjustments	Equity reserves	Retained earnings	Equity of the Development Financing Fund	Total
		Surplus from revaluation of property	Adjustment for valuation of available-for-sale investments and restricted financial instruments	Surplus from revaluation of other assets	Adjustment for valuation of investments in other companies					
Balances at January 1, 2017	118,130,303,482	60,806,752,437	(1,458,020,769)	43,748,630	8,084,303,314	67,476,783,612	274,614,308,392	107,125,633,883	21,749,819,320	589,096,848,689
Transactions with owners booked directly in equity:										
Legal reserves	-	-	-	-	-	-	33,746,907,230	(33,746,907,230)	-	-
Other statutory reserves	-	-	-	-	-	-	1,582,008,667	(1,582,008,667)	-	-
Equity of the Development Financing Fund	-	-	-	-	-	-	-	(5,362,138,693)	5,362,138,693	-
Total transactions with owners booked directly in equity	-	-	-	-	-	-	35,328,915,897	(40,691,054,590)	5,362,138,693	-
Comprehensive income for the year:										
Income for the year	-	-	-	-	-	-	-	13,586,428,376	-	13,586,428,376
Adjustment for valuation of available-for-sale investments, net of income tax	6	-	(33,656,854)	-	-	(33,656,854)	-	-	-	(33,656,854)
Adjustment for valuation of restricted financial instruments, net of income tax	6	-	17,793,615	-	-	17,793,615	-	-	-	17,793,615
Adjustment for valuation of investments in other companies	1-d (iv)	-	-	-	580,205,837	580,205,837	-	-	-	580,205,837
Total comprehensive income for the year	-	-	(15,863,239)	-	580,205,837	564,342,598	-	13,586,428,376	-	14,150,770,974
Balances at March 31, 2017	21	118,130,303,482	60,806,752,437	(1,473,884,008)	43,748,630	8,664,509,151	309,943,224,289	80,021,007,669	27,111,958,013	603,247,619,663

Juan Carlos Cortes Salas
General Manager

Gerardo Gómez Solís
General Accountant

Ricardo Herrera Jiménez
General Auditor

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016
(In colones)

	Note	2017	2016
Cash flows from operating activities			
Income for the year		13,586,428,376	12,912,921,071
Items not requiring cash			
Gain on foreign exchange and development units, net		7,172,369,760	(1,695,072,593)
Loss on allowance for loan impairment, net		975,750,709	5,932,693,842
Expense for allowance on impairment of investments, net		1,288,872	(72,724,921)
Loss on allowance for other receivables, net		234,232,858	210,796,278
Loss on allowance for foreclosed assets, net		1,198,174,493	2,435,994,724
Loss on sale of foreclosed assets		2,304,934,869	487,479,480
Expense for severance accrual, net of payments		(2,732,046,492)	3,759,412,120
Depreciation and amortization		4,634,968,654	3,878,254,512
Share in net profit of foreign associate		(512,288,898)	(877,328,628)
Statutory allocations, net		6,291,732,699	4,021,345,185
Deferred tax income, net	16-a	(61,085,942)	(1,251,464,426)
Current tax expense, net	16-a	5,963,187,887	3,472,994,339
Interest income on loan portfolio and investments		(105,681,879,059)	(96,450,242,818)
Interest expense on term obligations with the public and financial entities		37,566,327,312	29,966,001,530
		(29,057,903,902)	(33,268,940,305)
Net (increase) decrease in assets			
Credits and cash advances		(83,144,846,595)	(38,699,708,115)
Foreclosed assets		4,181,783,348	2,831,795,331
Accrued interest receivable on other receivables		160,860	(191,091)
Other assets		6,428,598,501	1,508,917,652
		(101,592,207,788)	(67,628,126,528)
Net increase (decrease) in liabilities			
Demand and term obligations		366,644,825,156	225,368,333,307
Other accounts payable and provisions		(29,132,024,795)	(27,682,658,933)
Other liabilities		17,737,803,562	(995,514,650)
		253,658,396,135	129,062,033,196
Interest received on loan portfolio and investments		107,269,362,599	96,922,047,120
Income tax paid		(3,489,374,670)	(3,368,601,712)
Interest paid on term obligations with the public and financial entities		(21,826,865,006)	(21,293,067,861)
Net cash from operating activities		335,611,519,058	201,322,410,743
Net cash flows from investing activities			
Increase in financial instruments		(325,661,581,931)	(4,919,061,578,525)
Decrease in financial instruments		295,629,218,958	4,946,391,305,156
Acquisition of property and equipment		(2,488,842,914)	(2,559,758,108)
Sale of property and equipment		41,363,240	33,737,806
Net cash (used in) from investing activities		(32,479,842,647)	24,803,706,329
Net cash flows from financing activities			
Other new financial obligations		2,049,921,037	15,958,200,000
Settlement of obligations		(1,291,070,552)	(47,296,987,567)
Net cash from (used in) financing activities		758,850,485	(31,338,787,567)
Net increase (decrease) in cash and cash equivalents		303,890,526,896	194,787,329,505
Cash and cash equivalents at beginning of year		1,019,158,980,617	1,001,004,712,154
Cash and cash equivalents at end of year	4	1,323,049,507,513	1,195,792,041,659

Juan Carlos Corrales Salas
General Manager

Gerardo Gómez Solís
General Accountant

Ricardo Araya Jiménez
General Auditor

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

March 31, 2017

(With corresponding figures for 2016)

(1) Summary of operations and significant accounting policies

(a) Operations

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

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

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

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

As of March 31, 2017, the Bank has 176 offices, 475 automated teller machines, and a total of 5,838 employees (2016: 170 offices, 467 automated teller machines, and 5,918 employees). Employees are distributed as follows: Banco Nacional de Costa Rica - 5,435 employees (2016: 5,474); BN Valores Puesto de Bolsa, S.A. - 70 employees (2016: 72); BN Vital Operadora de Planes de Pensiones Complementarias, S.A. - 162 employees (2016: 198); BN Sociedad Administradora de Fondos de Inversión, S.A. - 81 employees (2016: 85); and BN Corredora de Seguros, S.A. - 90 employees (2016: 89). The Bank's website is www.bncr.fi.cr.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The following subsidiaries are wholly owned by the Bank:

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

Banco Internacional de Costa Rica, S.A. and Subsidiary (BICSA), 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 March 31, 2017 and 2016, and December 31, 2016, the main components that comprise the financial statements of the entities in which the Bank holds ownership interest are detailed below:

March 2017					
	Brokerage Firm	Pension Fund Manager	Investment Fund Manager	Insurance Brokerage Firm	BICSA
Assets	¢ 57,552,471,240	8,729,085,062	7,006,963,119	2,556,485,419	467,342,258,989
Liabilities	¢ 39,724,136,347	1,280,189,316	694,648,542	424,191,108	408,963,552,436
Equity	¢ 17,828,334,893	7,448,895,746	6,312,314,577	2,132,294,311	58,378,706,553
Income for the year	¢ 383,347,454	182,594,773	368,379,337	312,522,842	512,288,898
Memoranda accounts	¢ 952,796,261,723	1,190,523,834,592	422,176,336,257	-	-
December 2016					
	Brokerage Firm	Pension Fund Manager	Investment Fund Manager	Insurance Brokerage Firm	BICSA
Assets	¢ 55,432,733,834	9,691,092,683	6,622,494,603	2,479,076,938	463,178,771,141
Liabilities	¢ 37,872,113,554	2,396,687,260	676,663,523	659,305,471	406,038,192,458
Equity	¢ 17,560,620,280	7,294,405,423	5,945,831,080	1,819,771,467	57,140,578,683
Income for the year	¢ 2,423,490,098	1,172,980,254	1,614,887,969	1,376,131,467	1,690,868,660
Memoranda accounts	¢ 939,715,141,870	1,156,846,965,515	358,238,446,450	-	-
March 2016					
	Brokerage Firm	Pension Fund Manager	Investment Fund Manager	Insurance Brokerage Firm	BICSA
Assets	¢ 66,870,207,117	9,439,899,309	6,675,261,345	1,847,869,294	483,218,786,866
Liabilities	¢ 47,920,168,865	2,441,003,533	841,293,858	370,109,696	429,091,462,505
Equity	¢ 18,950,038,252	6,998,895,776	5,833,967,487	1,477,759,598	54,127,324,361
Income for the year	¢ 710,366,025	293,038,326	451,846,202	208,091,936	877,328,628
Memoranda accounts	¢ 1,759,606,545,768	1,071,943,348,471	437,242,830,314	-	-

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(b) Basis of preparation of the consolidated financial statements

• Statement of compliance

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

• Basis of measurement applied to assets and liabilities

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

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

The accounting policies have been consistently applied.

(c) Functional and presentation currency

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

(d) Basis of consolidation

i. *Subsidiaries*

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

As of March 31, 2017 and 2016, the consolidated financial statements include the financial figures of the following subsidiaries:

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Subsidiaries were consolidated based on the following accounting principles:

- All subsidiaries which the Bank controls, whether directly or indirectly, are consolidated.
- For cases in which there are long-term financial or legal restrictions on the transfer of resources or for cases in which the Bank controls the subsidiary temporarily, the subsidiary is not consolidated.
- On consolidation:
 - The effect of the equity method shown in the parent company's unconsolidated financial statements has been eliminated.
 - Balances of accounts related to reciprocal intra-group transactions have been eliminated from the consolidated balance sheet and consolidated statement of comprehensive income.
 - Uniform accounting policies have been applied by group entities.
 - All significant intra-group balances and transactions have been eliminated. Profit or loss presented in the consolidated financial statements does not differ from profit or loss presented in the parent company's unconsolidated financial statements since the subsidiaries were measured by the equity method when preparing the parent company's unconsolidated financial statements.

ii. Associates

Associates are those entities in which the Bank has significant influence, but not control. The Bank updates the value of its associates using the equity method from the date that significant influence commences until the date significant influence ceases. As of March 31, 2017 and 2016, the Bank holds 49% ownership interest in BICSA.

(e) Foreign currency

i. Foreign currency transactions

Assets and liabilities held in foreign currency are translated into colones at the foreign exchange rate ruling at the consolidated balance sheet date, except for transactions that have a contractually agreed exchange rate. Transactions in foreign currency during the year are translated at the exchange rates ruling on the dates of the transactions. Foreign exchange gains and losses arising on translation are reflected in profit or loss for the year.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

ii. *Monetary unit and foreign exchange regulations*

The parity of the colon with the dollar of the United States of America is determined in a free exchange market, under the supervision of the Central Bank of Costa Rica (BCCR) through a managed float regime. Under the managed float regime, the exchange rate is determined by the market, but BCCR still reserves the right to intervene in the foreign currency market to moderate significant fluctuations in the exchange rate and prevent deviations from the behavior of the variables that explain its medium- and long-term trends.

In accordance with the Chart of Accounts, assets and liabilities denominated in foreign currency should be expressed in colones using the reference buy rate published by BCCR. As of March 31, 2017, the exchange rate was established at ₡554.43 and ₡567.34 (2016: ₡529.59 and ₡542.23) to US\$1.00 for the purchase and sale of U.S. dollars, respectively.

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

As of March 31, 2017, assets and liabilities denominated in U.S. dollars were valued at the exchange rate of ₡554.43 to US\$1.00 (2016: ₡529.59 to US\$1.00), which is the reference buy rate published by BCCR for that date.

As of March 31, 2017, assets and liabilities denominated in euros were valued at the exchange rate of ₡592.19 to €1.00 (2016: ₡603.57 to €1.00). This exchange rate was calculated by multiplying the international exchange rate published by Reuters by the reference buy rate for U.S. dollars published by BCCR on the last business day of the month.

As of March 31, 2017, assets and liabilities denominated in DU were valued at the exchange rate of ₡870.15 to DU1.00 (2016: ₡861.99 to DU1.00). This exchange rate is based on the DU value tables published by SUGEVAL.

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

The financial statements of BICSA are presented in U.S. dollars, which is the entity's functional currency. As of March 31, 2017 and 2016, the Bank holds 49% ownership interest in BICSA. Accordingly, the Bank should value its investment in that entity by the equity method rather than on a consolidated basis.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The financial statements of foreign operations are translated as follows:

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

For the year ended March 31, 2017, a foreign exchange gain in the amount of ₡580,205,837 (December and March 2016: foreign exchange gain of ₡999,676,663 and loss of ₡417,040,426, respectively) is presented in equity for the translation of the consolidated financial statements of foreign operations. As of March 31, 2017, the adjustment for valuation of investments in other companies amounts to ₡8,664,509,151 (December and March 2016: ₡8,084,303,314 and ₡6,667,586,225, respectively).

(f) Financial assets and financial liabilities

i. *Recognition*

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

ii. *Classification*

Cash and cash equivalents

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Investments in financial instruments

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

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

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

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

As of March 31, 2017, the Bank no longer classifies financial instruments as held-to-maturity, except for the securities denominated in DU received from the Central Government to capitalize the Bank. Those securities were authorized by the Executive Branch of the Government of Costa Rica as a capital contribution and are funded under the Amendment to Law No. 8627 on the Ordinary and Extraordinary Budget of the Republic for Tax Year 2008 (Law No. 8703).

Securities sold under repurchase agreements

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

Securities purchased under reverse repurchase agreements

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Derivative financial instruments

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

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

Originated loans and other receivables

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

Deposits and debt securities issued

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

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

iii. Derecognition

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

iv. Offsetting

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

v. *Amortized cost measurement*

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

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

vi. *Fair value measurement*

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

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

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

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

Investments in financial instruments

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Subsequent to initial recognition, all trading and available-for-sale investments are measured at fair value, except for any investment or instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured, which is stated at cost, including transaction costs, less impairment losses. As of March 31, 2017 and 2016, the market price valuation methodology established by VALMER Costa Rica, S.A. is used. This methodology has been duly approved by SUGEVAL.

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

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

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

Derivative financial instruments

The valuation methodology applied to derivative financial instruments varies depending on the type of product to be valued.

In the case of foreign exchange forward contracts (FX forwards), with short credit positions and maturities generally not exceeding one year, valuation involves comparing the present value of the negotiated forward exchange rate and the current foreign exchange rate. The present value of the negotiated forward exchange rate is calculated by using the difference of the zero coupon rates.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

In the case of swaps (FX swap or currency swap), valuation involves two steps. In the first step, future cash flows are estimated based on current market prices. The estimation of fixed-rate cash flows does not require assumptions but variable-rate cash flows are estimated based on the rates in effect. Calculating the present value of each type of cash flows requires a valuation rate for each cash flow, which is equivalent to the base rate plus a credit spread.

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

vii. Gains and losses on subsequent measurement

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

viii. Impairment of financial assets

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

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(g) Loan portfolio

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

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

(h) Allowance for loan losses

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

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

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

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

As of March 31, 2017 and 2016, increases in the allowance for loan losses are included in the accounting records in accordance with article 10 of IRNBS.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

(j) Other receivables

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

(k) Foreclosed assets

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

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

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

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

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

Investments in other companies are recorded using the equity method, which initially recognizes investments at acquisition cost. Subsequently, the carrying amounts of the investments are increased or decreased in order to recognize the Bank's proportional share in the profits or losses of the issuer of the capital assets (see note 1a).

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

As of March 31, 2017 and 2016, the Bank has no full or partial share or influence over the management of other companies, in accordance with article 73 of IRNBS and article 146 of the Internal Regulations of the Central Bank of Costa Rica.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(m) Property, furniture and equipment

i. *Own assets*

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

Pursuant to requirements established by regulatory authorities, the Bank must have its real property appraised by an independent appraiser at least once every five years, in order to determine its net realizable value. If the realizable value is less than the carrying amount, the carrying amount must be adjusted to the appraisal value. During 2013 and 2014, appraisals of the Bank's buildings and land were made by independent appraisers. Based on the valuation techniques used, those items are classified as Level 3 of the fair value hierarchy.

ii. *Leased assets*

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

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

iii. *Subsequent expenditure*

Expenditure incurred to replace a component of an item of property and equipment is capitalized and accounted for separately. Subsequent expenditure is capitalized only when it increases the future economic benefits. All other expenditure is recognized in the consolidated statement of comprehensive income when incurred.

(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	Based on appraisals
Vehicles	10 years
Furniture and equipment	10 years
Computer hardware	5 years
Portable computers	3 years
Leasehold improvements	To be determined or established in the lease terms

(n) Intangible assets

i. *Other intangible assets*

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

ii. *Subsequent expenditure*

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

iii. *Amortization*

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

(Continued)

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 or consolidated statement of changes in equity, as appropriate.

(p) Accounts payable and other liabilities

Accounts payable and other liabilities are carried at cost.

(q) Provisions

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

(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 1 year of service, up to a maximum of eight years.

In the specific case of the Bank, that limit is 17 years for employees with more than 25 years of service. The Bank follows the policy of booking a provision to cover future disbursements related therewith for employees with more than 20 years of service, in compliance with article 34 of the Collective Bargaining Agreement. As of March 31, 2017 and 2016, severance is included in the provisions account (see note 17), which meets the legal provisioning requirements in effect as of those dates.

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

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

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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Vacation

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

Back-to-school bonus

The Back-to-school bonus is a percentage of the employee's salary earned during the year and is paid in the second week of January of the following year. The Bank establishes a fixed percentage of 8.19% for every year. The Bank books a monthly accrual to cover future disbursements related therewith.

Incentives and Performance Assessment System (SEDI)

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

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

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

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

(Continued)

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

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

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

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

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

(s) Deferred income

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(t) Legal reserve

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

Other statutory reserves

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

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

(u) Revaluation surplus

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

(v) Income tax

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

i. *Current tax*

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

ii. *Deferred tax*

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

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

(w) Segment reporting

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

(x) Combination of financial statements of departments

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

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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(y) Use of estimates

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

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

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

(z) Recognition of income and costs

i. *Finance income and finance costs*

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

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

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

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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

iii. *Income from foreign currency exchange and arbitrage*

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

iv. *Operating lease expenses*

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

(aa) Statutory allocations

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

(bb) Development Financing Fund (FOFIDE)

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(cc) Development Credit Fund (FCD)

The Development Credit Fund (FCD) is comprised of the funds prescribed in article 59 of IRNBS (Law No. 1644). The FCD will be managed by State-owned banks. Accordingly, in compliance with Law No. 9094 "Repeal of Transition Provision VII of Law No. 8634", and article 35 of the "Development Banking System Act" (Law No. 8634), in meeting No. 119 of January 16, 2013, through agreement No. AG-1015-119-2013, Banco de Costa Rica and Banco Nacional de Costa Rica are appointed as managers for five years from the date of signing of the respective management agreements. Each bank is awarded the management of fifty percent (50%) of such fund.

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

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

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

(dd) Trust operations

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

(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	March 2017 Carrying amount	December 2016 Carrying amount	March 2016 Carrying amount
<i>Cash and due from banks:</i>				
Checking account – colones (note 4)	Minimum legal deposit	₡ 465,788,959,614	435,159,276,456	436,585,050,239
Checking account – U.S. dollars (note 4)	Minimum legal deposit	253,376,794,484	221,712,351,226	4,842,000,617
Checking account – euros (note 4)	Minimum legal deposit	4,137,727,032	4,350,556,378	198,829,470,013
Other cash and due from banks (note 4)	Contribution to FOGABONA	354,074,102	248,795,209	316,730,928
		<u>₡ 723,657,555,232</u>	<u>661,470,979,269</u>	<u>640,573,251,796</u>
<i>Investments in financial instruments:</i>				
Investments in financial instruments	Guarantee for repurchase agreements (tri-party)	27,167,105,155	26,849,711,867	39,739,308,359
Investments in financial instruments	Liquidity market operations	16,331,116,434	14,875,504,659	15,029,823,507
Securities issued by BCCR and the Government	Investments securing repurchase agreements	592,911,125	1,054,894,475	463,565,662
External debt bonds	Nomura Bank guarantee	58,672,779,674	71,767,100,042	29,738,806,251
External debt bonds	JP SWAPS guarantee	1,657,962,285	-	-
Central Bank bond (global bonds)	Citibank guarantee		-	114,654,311,141
External debt bonds	Barclays guarantee		-	68,802,284,711
External debt bonds	Merrill Lynch-SWAPS guarantee	3,316,271,087	-	-
External debt bonds	Credit Suisse guarantee	72,546,022,205	57,001,678,752	64,040,411,808
Central Bank bonds (global bonds)	SINPE guarantee	4,123,310,270	-	-
		<u>₡ 184,407,478,235</u>	<u>171,548,889,198</u>	<u>332,468,511,439</u>
<i>Other assets:</i>				
Other assets (note 12)	Guarantee deposits	₡ 503,775,556	529,333,103	619,893,487

As of March 31, 2017, the Brokerage Firm has restricted assets in the amount of ₡43,852,295,691 (December and March 2016: ₡41,974,011,735 and ₡55,085,862,794 respectively), corresponding to guarantees for tri-party repurchase agreements, operations in the liquidity market, and contributions to the liquidation and compensation risk management fund.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(3) Balances and transactions with related parties

Balances and transactions with related parties are as follows:

	March 2017	December 2016	March 2016
<u>Assets:</u>			
Checking accounts in foreign financial entities (1) (note 4)	¢ 10,543,640,790	9,738,754,875	11,131,875,480
Investments in financial instruments and accrued interest receivable (2)	-	5,481,827,848	-
Accounts receivable (3)	-	20,707,083	-
Allowance for impairment for operations with related parties (3)	(19,956,225)	(12,179,982)	(95,005,307)
Investments in other companies (4) (note 10)	58,429,329,853	57,191,201,983	54,127,324,352
	¢ 68,953,014,418	72,420,311,807	65,164,194,525
<u>Liabilities:</u>			
Demand obligations with entities (5)	¢ 24,978,182	36,789,117	130,087,793
	¢ 24,978,182	36,789,117	130,087,793
<u>Income:</u>			
Gain on investments in other foreign entities	512,288,898	1,690,868,660	877,328,628
Gain on investments in SUGEVAL regulated entities	7,563,715	-	-
	¢ 519,852,613	1,690,868,660	877,328,628

The aforementioned balances are related to:

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

Compensation to key personnel is as follows:

	March 2017	December 2016	March 2016
Short-term benefits	¢ 452,754,893	1,790,244,979	417,053,976
Long-term benefits	58,858,136	232,731,848	54,217,016
Per diem – Board of Directors	37,977,204	137,406,012	31,700,491
	¢ 549,590,233	2,160,382,839	502,971,483

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(4) Cash and cash equivalents

Cash and cash equivalents are as follows:

	March 2017	December 2016	March 2016
Cash on hand and in vaults	¢ 55,210,439,414	45,605,575,176	55,015,823,034
Cash in transit	15,168,752,415	10,586,770,682	9,427,645,625
Checking account in BCCR (1)	62,200,738,833	32,873,027,519	86,722,949,533
Minimum legal deposits in BCCR (1)	711,408,095,514	656,436,590,090	623,280,208,839
Checking accounts and demand deposits in State-owned commercial Banks and banks created under special laws	3,077,344,825	4,706,195,026	567,813,941
Checking accounts and other demand accounts in private financial entities	3,465,185,512	2,756,312,438	5,488,933,665
Overnight deposits in local financial entities	340,000,000	-	380,000,000
Checking accounts in foreign financial entities	348,608,987,790	162,549,650,880	169,289,830,018
Deposits and other demand accounts in foreign financial entities	81,156,057	20,654,470	157,812,487
Checking accounts and demand deposits with related entities	10,543,640,790	9,738,754,875	11,131,875,480
Overnight deposits in foreign financial entities	5,887,138,986	5,848,311,081	21,903,921,060
Transfers through the Interbank Electronic Payment System (SINPE)	7,839,864,549	3,477,754,224	7,704,194,383
Local notes receivable	2,546,849,971	2,154,613,317	2,163,399,027
Foreign notes receivable	816,301,566	807,082,333	839,237,825
Margin calls on tri-party repurchase agreements	30,208,800	-	5,922,394
Guarantee fund of National Stock Exchange	323,865,302	248,795,209	310,808,533
Accrued interest receivable	99,099	95,674	8,722
	¢ <u>1,227,548,669,423</u>	<u>937,810,182,994</u>	<u>994,390,384,566</u>

- (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 March 31, 2017 and 2016, the percentage for the minimum legal deposit is 15%. The corresponding amount must be deposited in cash in BCCR pursuant to current banking legislation. Such deposit is calculated as a percentage of third-party deposits, which varies based on the term and form of deposit-taking used by the Bank.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of December 31, for purposes of reconciliation with the consolidated statement of cash flows, cash and cash equivalents are as follows:

	March 2017	December 2016	March 2016
Cash and due from banks	¢ 1.227.548.669.423	937.810.182.994	994.390.384.566
Investments with maturities of less than two months	95.500.838.090	81.348.797.623	201.401.657.093
	¢ 1.323.049.507.513	1.019.158.980.617	1.195.792.041.659

(5) Investments in financial instruments

Investments in financial instruments are as follows:

	March 2017	December 2016	March 2016
<i>Available-for-sale:</i>			
<u>Local issuers:</u>			
Government of Costa Rica	¢ 522,091,063,238	421,249,348,757	507,415,427,061
BCCR	118,905,694,940	160,717,002,649	134,617,639,042
State-owned banks	29,381,046,442	85,495,879,525	57,306,545,467
Private banks	47,731,841,361	7,932,586,072	86,155,230,062
Private issuers	17,798,747,325	9,550,559,893	117,659,479,973
	735,908,393,306	684,945,376,896	903,154,321,605
<u>Foreign issuers:</u>			
Governments	39,630,224,363	37,716,583,192	34,871,437,798
Private issuers	66,888,952,425	124,832,201,140	73,150,649,853
Private banks	116,364,404,711	65,151,858,556	94,516,965,716
	222,883,581,499	227,700,642,888	202,539,053,367
	958,791,974,805	912,646,019,784	1,105,693,374,972
<i>Held-to-maturity:</i>			
Government of Costa Rica	27,517,445,454	27,181,284,510	27,259,395,285
	27,517,445,454	27,181,284,510	27,259,395,285
<i>Derivative financial instruments:</i>			
Interest rate futures - Hedges (note 6)	9,041,141,040	5,893,164,907	26,405,614,733
FX futures - Other than hedges (note 6)	12,888,715	-	211,058,950
	9,054,029,755	5,893,164,907	26,616,673,683
<i>Allowance for impairment:</i>			
Allowance for impairment of investments	(60,111,301)	(59,433,676)	(57,418,148)
Allowance for impairment of derivative instruments other than hedges	(1,288,872)	-	(4,242,805)
	(61,400,173)	(59,433,676)	(61,660,953)
Accrued interest receivable	8,178,316,947	10,939,171,834	8,472,473,372
	¢ 1,003,480,366,789	956,600,207,359	1,167,980,256,359

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

	March 2017	December 2016	March 2016
Opening balance	¢ 59,433,675	134,640,661	134,640,661
Allowance expense (note 31)	1,288,872	20,527,703	20,527,703
Decrease in allowance (note 32)	-	(97,495,429)	(93,252,624)
Foreign exchange differences	677,625	1,760,741	(254,787)
Closing balance	¢ 61,400,172	59,433,676	61,660,953

As of March 31, 2017, the allowance for impairment of investments in non-derivative financial instruments amounts to ¢61,400,172 (December and March 2016: ¢59,433,676 and ¢61,400,172 respectively) and is booked for investments in Z Bonds related to the Mortgage Securitization Trust (impairment of 26% for both years).

As of March 31, 2017, the Bank did recognize an allowance for impairment of derivative instruments other than hedges. As of March 31, 2016, the Bank recognized an allowance for impairment of derivative instruments other than hedges in the amount of ¢4,242,805 for FX futures sales other than hedges in accordance with SUGEF Directive 09-08.

Annual returns on investments in financial instruments are as follows:

Currency	March 2017	December 2016	March 2016
Colones	2.40% to 11.13%	0.75% to 11.13%	0.90% to 11.04%
U.S. dollars	0.63% to 6.55%	0.63% to 6.55%	0.25% to 7.63%
Euros	1.10% to 5.13%	1.10% to 5.50%	1.75 % to 5.50%
DU	0.00% to 0.74%	0.00% to 0.74%	0.00% to 0.74%

As of March 31, 2017, the valuation of available-for-sale investments and restricted financial instruments gave rise to an unrealized loss, net of deferred tax, in the amount of ¢15,863,239 (December and March 2016: unrealized loss of ¢4,325,830,389 and ¢711,796,525, respectively). Accordingly, as of that date, the cumulative balance of equity adjustments arising from valuation of these investments is an unrealized loss of ¢1,473,884,008 (December and March 2016: unrealized gain of ¢1,458,020,769 and ¢2,156,013,095, respectively).

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(6) Derivative financial instruments

As of March 31, 2017 and 2016, the Bank holds the following types of derivative financial instruments:

✓ Derivatives as risk hedging instruments:

Interest rate futures - hedges:

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

Derivative financial instruments are as follows:

		March 31, 2017		Purpose
Issuing bank		Notional amount	Valuation	
CitiBank	US\$	100,000,000	US\$ 3,260,657	Swaps to hedge 10-year issues (maturing in 2023)
JP Morgan		200,000,000	6,521,312	
Bank of America		200,000,000	6,521,312	
	US\$	500,000,000	US\$ 16,303,281	
Amount in colones	¢	277,215,000,000	¢ 9,039,027,929	
CitiBank		100,000,000	(184,315)	Swaps to hedge 5-year issues (maturing in 2018)
JP Morgan		150,000,000	(276,338)	
	US\$	250,000,000	US\$ (460,653)	
Amount in colones	¢	138,607,500,000	¢ (255,349,943)	
Bank of America		250,000,000	(6,313,431)	Swaps to hedge 5-year issues (maturing in 2021)
JP Morgan		250,000,000	(6,313,431)	
	US\$	500,000,000	US\$ (12,626,862)	
Amount in colones	¢	277,215,000,000	¢ (7,000,711,099)	
CitiBank	US\$	8,500,000	US\$ (6,442)	Standardized futures contracts (maturing in 2017)
Amount in colones	¢	4,712,655,000	¢ (3,571,638)	

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2016				
Issuing bank		Notional amount	Valuation	Purpose
CitiBank	US\$	100,000,000	US\$ 2,150,085	Swaps to hedge 10-year issues (maturing in 2023)
JP Morgan		200,000,000	4,300,167	
Bank of America		200,000,000	4,300,167	
	US\$	500,000,000	US\$ 10,750,419	
Amount in colones	¢	274,090,000,000	¢ 5,893,164,907	
CitiBank		100,000,000	(325,520)	Swaps to hedge 5-year issues (maturing in 2018)
JP Morgan		150,000,000	(488,281)	
	US\$	250,000,000	US\$ (813,801)	
Amount in colones	¢	137,045,000,000	¢ (446,109,432)	
Bank of America		250,000,000	(7,963,964)	Swaps to hedge 5-year issues (maturing in 2021)
JP Morgan		250,000,000	(7,963,964)	
	US\$	500,000,000	US\$ (15,927,928)	
Amount in colones	¢	274,090,000,000	¢ (8,731,371,571)	
Standardized futures contracts (maturing in 2017)				
CitiBank	US\$	5,964,211	US\$ (36,656)	
Amount in colones	¢	3,269,461,186	¢ (20,094,448)	
March 31, 2016				
Issuing bank		Notional amount	Valuation	Purpose
CitiBank	US\$	100,000,000	US\$ 9,236,037	Swaps to hedge 10-year issues(maturing in 2023)
JP Morgan		200,000,000	18,472,074	
Bank of America		200,000,000	18,472,074	
	US\$	500,000,000	46,180,185	
Amount in colones	¢	264,795,000,000	¢ 24,456,564,174	
CitiBank		100,000,000	1,472,120	Swaps to hedge 5-year issues(maturing in 2018)
JP Morgan		150,000,000	2,208,180	
	US\$	250,000,000	US\$ 3,680,300	
Amount in colones	¢	132,397,500,000	1,949,050,559	

As of March 31, 2017, total notional amounts of US\$1,258,500,000, equivalent to ¢697,750,155,000 (December and March 2016: US\$1,255,964,211, equivalent to ¢688,494,461,153 and US\$750 million, equivalent to ¢397,192,500,000, respectively) are booked under "Other debit memoranda accounts" (see note 24).

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of March 31, 2017, the Bank books an increase in the fair value of these hedges in the amount of US\$16,303,281, equivalent to ₡9,039,028,085 (see note 5) and a decrease in the fair value of these hedges in the amount of US\$13,087,515, equivalent to ₡7,256,061,042 (see note 5).

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

As of March 31, 2016, the Bank booked an increase in the fair value of these hedges in the amount of US\$49,860,485, equivalent to ₡26,405,614,733 (see note 5)

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

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

	Effective rate		
	March 2017	December 2016	March 2016
5-year issue (maturing in 2018)	104,48%	83,62%	107,40%
10-year issue (maturing in 2023)	99,52%	98,00%	103,16%
5-year issue (maturing 2021)	91,01%	93,97%	-

A valuation was performed as of March 31, 2017 and 2016, to calculate the change in the fair value of the primary and derivative instruments based on the following inputs:

- a 5- or 10-year LIBOR rate at the issue of the bond
- discount rates from Bloomberg
- zero rates corresponding to the swap curve as of March 31, 2017 and 2016
- only a portion of the bond cash flows is hedged (corresponding to the 5- and 10-year LIBOR rate in effect at the issue of the bond) rather than the total interest amount
- accrued and earned interest were segregated from the instruments to obtain variations in clean prices
- forward rate to calculate variable interest.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Futures Contracts:

In 2017, the Bank obtained futures contracts. These derivative financial were negotiated as part of the management of the financial derivative portfolio

As of March 31, 2017, total notional amounts of US\$8,300,000, equivalent to ₡4,452,072,900, are booked under "Other debit memoranda accounts" (see note 24).

As of March 31, 2017, the Bank books an increase in the fair value of these hedges in the amount of US\$3,811, equivalent to ₡2,113,110 (see note 5) and a decrease in the fair value of these hedges in the amount of US\$10,256, equivalent to ₡5,684,798 (see note 5).

✓ Derivatives for trading purposes:

Currency forwards:

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

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

As of March 31, 2017, total notional amounts of US\$7,731,547, equivalent to ₡4,286,601,775, (December and March 2016: the Bank has no currency forwards and US\$24,550,000, equivalent to ₡13,001,434,500, respectively), were booked under memoranda accounts (see note 22).

As of March 31, 2017, the Bank booked an increase in the fair value of these forwards in the amount of ₡12,888,716 (December and March 2016: the Bank has no currency forwards and ₡211,058,950, respectively), under an asset account (see note 5-a).

As of March 31, 2017, the Bank booked a decrease in the fair value of these forwards in the amount of ₡50,239,368 (December and March 2016: the Bank has no currency forwards), under "Other sundry accounts payable" (see note 17).

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

	March 2017	December 2016	March 2016
Gain on derivative financial instruments	¢ 6,898,322,535	32,487,947,468	15,403,777,165
Loss on derivative financial instruments	(2,344,115,977)	(41,961,019,227)	(1,764,955,457)
(Loss) gain, net	¢ 4,554,206,558	(9,473,071,759)	13,638,821,708

(7) Loan portfolio

(a) Loan portfolio by sector

The loan portfolio by sector is as follows:

	March 2017	December 2016	March 2016
Trade	¢ 377,628,142,211	383,913,120,090	379,588,113,434
Services	904,252,226,938	886,844,738,498	783,461,777,415
Financial services	138,293,601,906	143,227,870,068	125,248,405,730
Mining	1,034,455,503	1,078,059,706	859,605,217
Manufacturing and quarrying	179,793,985,671	164,439,989,019	153,438,486,799
Construction	104,640,648,880	102,337,598,821	87,760,051,598
Agriculture and forestry	117,897,302,736	119,200,690,631	107,368,012,029
Livestock, hunting, and fishing	78,812,519,824	75,554,660,408	68,323,696,901
Electricity, water, sanitation, and other related sectors	403,482,675,047	397,442,725,153	367,432,692,386
Transportation and telecommunications	46,336,455,448	41,876,391,133	27,402,154,089
Housing	1,223,958,467,525	1,192,797,400,089	1,118,775,355,518
Personal or consumer loans	469,874,741,961	445,416,562,419	371,260,465,680
Tourism	161,910,983,501	161,477,445,037	136,010,990,496
	4,207,916,207,151	4,115,607,251,072	3,726,929,807,292
Accrued interest receivable	28,394,872,419	27,221,501,072	26,551,202,626
Allowance for loan losses	(85,119,811,786)	(85,464,859,320)	(66,768,281,372)
	¢ 4,151,191,267,784	4,057,363,892,824	3,686,712,728,546

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Annual interest rates on loans receivable are as follows:

Currency	March 2017		December 2016		March 2016	
	Rates	Average	Rates	Average	Rates	Average
Colones	4.35% to 39.00%	13.20%	4.45% to 39.00%	13.23%	5.55% to 34.92%	14.28%
U.S. dollars	3.00% to 34.92%	9.09%	3.00% to 34.92%	8.93%	3.00% to 30.00%	8.45%
DU	3.85% to 11.00%	6.57%	3.85% to 11.00%	6.58%	3.85% to 11.00%	6.53%

(b) Loan portfolio by arrears

The loan portfolio by arrears is as follows:

	March 2017	December 2016	March 2016
Current	¢ 4,002,303,960,272	3,922,996,772,133	3,495,107,441,982
1 to 30 days	55,371,543,644	46,067,740,682	68,865,801,819
31 to 60 days	53,691,499,996	38,346,524,164	61,730,792,188
61 to 90 days	13,520,134,373	19,993,513,410	11,716,615,241
91 to 120 days	3,068,752,509	10,101,589,852	9,011,620,627
121 to 180 days	9,354,488,891	12,237,325,773	13,921,144,666
More than 180 days	70,605,827,466	65,863,785,058	66,576,390,769
Total direct loans	4,207,916,207,151	4,115,607,251,072	3,726,929,807,292
Accrued interest receivable	28,394,872,419	27,221,501,072	26,551,202,626
Allowance for loan losses	(85,119,811,786)	(85,464,859,320)	(66,768,281,372)
	¢ 4,151,191,267,784	4,057,363,892,824	3,686,712,728,546

(c) Allowance for loan losses

Movement in the allowance for loan losses is as follows:

	March 2017	December 2016	March 2016
Opening balance	¢ 85,464,859,320	62,968,882,979	62,968,882,979
Expense for the year (note 31)	4,236,602,244	37,490,816,079	7,600,619,142
Settlements	(4,213,625,928)	(15,733,523,078)	(3,713,709,102)
Decrease in allowance charged to profit or loss	(720,000,000)	-	-
	351,976,150	738,683,340	(87,511,647)
Foreign exchange differences	¢ 85,119,811,786	85,464,859,320	66,768,281,372

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(8) Accounts and fees and commissions receivable

Accounts and fees and commissions receivable are as follows:

	March 2017	December 2016	March 2017
Fees and commissions	¢ 1,035,193,870	1,292,023,911	1,146,504,633
Accounts receivable for brokerage operations	41,186,198	3,828,079	11,529,100
Accounts receivable from related parties (officers, employees)	49,852,768	20,707,083	121,424,257
Impuesto sobre la renta diferido (véase nota 15-c)	1,037,071,875	1,016,478,067	1,032,520,220
Income tax receivable (1)	50,926,823	217,865,795	2,522,787,777
Other sundry accounts receivable	4,250,881,723	3,993,335,555	3,617,274,568
Accrued interest receivable on other sundry accounts receivable	1,640,063	1,800,923	2,181,229
Allowance for impairment of other accounts receivable	(3,398,497,209)	(3,451,027,734)	(5,952,459,963)
	¢ <u>3,068,256,111</u>	<u>3,095,011,679</u>	<u>2,501,761,821</u>

(1) The breakdown of the income tax receivable, by entity, is as follows:

	March 2017	December 2016	March 2017
Banco Nacional de Costa Rica	¢ 30,614,318	140,319,872	2,509,585,430
BN Valores Puesto de Bolsa, S.A.	-	59,150,738	-
BN Vital Operadora de Planes de Pensiones Complementarias, S.A.	-	225,091	-
BN Corredora de Seguros, S.A.	20,312,505	-	13,202,347
	¢ <u>50,926,823</u>	<u>199,695,701</u>	<u>2,522,787,777</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

	March 2017	December 2016	March 2017
Opening balance	¢ 3,451,027,735	5,920,917,785	5,862,408,795
Allowance expense (note 33)	436,874,029	1,601,391,297	369,720,388
Decrease in allowance (note 35)	(202,567,933)	(3,229,204,400)	(158,924,108)
Items settled against allowance	(287,665,715)	(845,837,775)	(120,091,799)
Foreign exchange differences	829,093	3,760,827	(653,313)
Closing balance	¢ 3,398,497,209	3,451,027,734	5,952,459,963

(9) Foreclosed assets

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

	March 2017	December 2016	March 2017
Assets acquired in lieu of payment	¢ 77,652,964,943	77,394,578,153	80,316,937,475
Idle property and equipment	1,471,878	1,471,878	1,770,548
Allowance for impairment	(60,843,125,565)	(59,644,951,072)	(63,597,017,640)
	¢ 16,811,311,256	17,751,098,959	16,721,690,383

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

	March 2017	December 2016	March 2017
Opening balance	¢ 59,644,951,072	61,161,022,915	61,161,022,915
Allowance expense (note 35)	1,450,343,954	4,906,253,492	2,447,261,606
Decrease in allowance	(252,169,461)	(6,422,325,335)	(11,266,881)
Closing balance	¢ 60,843,125,565	59,644,951,072	63,597,017,640

(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:

	March 2017	December 2016	March 2017
Other financial and non-financial entities	¢ 50,623,300	50,623,300	50,623,300
Banco Internacional de Costa Rica, S.A. and Subsidiary (BICSA) (note 3)	58,378,706,553	57,140,578,683	54,127,324,361
	¢ 58,429,329,853	57,191,201,983	54,177,947,661

The Bank holds 49% ownership interest in BICSA, represented in 2017 and 2016 by 6,506,563 ordinary shares of US\$10 par value each.

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

	March 2017	December 2016	March 2017	Concept
National Stock Exchange	¢ 15,000,000	15,000,000	15,000,000	Investment to operate as custodian of electronic securities
Central de Valores de la Bolsa Nacional de Valores, S.A.	15,000,000	15,000,000	15,000,000	Investment to operate as custodian of electronic securities
Interclear Central de Valores, S.A.	15,000,000	15,000,000	15,000,000	Investment to operate as custodian of electronic securities
Depósito Libre Comercial Golfito (Golfito Duty Free Shopping Center) per article 24 of Law No. 7131	5,200,000	5,200,000	5,200,000	Investment in the Golfito Duty Free Shopping Center
Other financial entities	423,300	423,300	423,300	Investments in various cooperatives
	¢ 50,623,300	50,623,300	50,623,300	

(Continued)

BANCO NACIONAL DE COSTA RICA Y SUBSIDIARIAS

Notas a los Estados Financieros Consolidados

(11) Property and equipment

Property and equipment is as follows:

	March 2017				
	Land	Buildings	Furniture and equipment	Computer hardware	Vehicles
<u>Cost:</u>					
Opening balance	¢ 46,478,629,745	121,009,095,827	61,083,203,506	59,600,997,629	437,323,476
Additions	-	1,537,083,863	436,825,033	515,583,586	-
Disposals	-	-	(212,125,589)	(8,593,607,545)	-
Adjustments	-	-	6,706,506	155,257	-
Balance at end of year	¢ 46,478,629,745	122,546,179,690	61,314,609,456	51,523,128,927	437,323,476
<u>Accumulated depreciation:</u>					
Opening balance	-	33,183,853,177	33,869,123,760	44,114,779,021	336,442,779
Depreciation expense on historical cost	-	360,588,590	1,381,486,914	1,646,728,662	6,576,244
Depreciation expense on revaluation	-	354,952,795	-	-	-
Disposals	-	-	(190,799,548)	(8,573,570,346)	-
Adjustments	-	(1,969)	7,479,633	89,244	-
Closing balance	-	33,899,392,593	35,067,290,759	37,188,026,581	343,019,023
Net closing balance	¢ 46,478,629,745	88,646,787,097	26,247,318,697	14,335,102,346	94,304,453
					175,802,142,338

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

March 2016

	Land	Buildings	Furniture and equipment	Computer hardware	Vehicles	Total
<i>Cost:</i>						
Opening balance	¢ 46,614,089,726	119,784,198,972	59,048,581,832	57,942,113,324	451,048,332	283,840,032,186
Additions	-	306,062,340	816,085,780	950,986,544	-	2,073,134,664
Disposals	-	-	(129,358,657)	(1,921,087)	-	(131,279,744)
Adjustments	-	667,426,041	(7,544)	-	-	667,418,497
Closing balance	¢ 46,614,089,726	120,757,687,353	59,735,301,411	58,891,178,781	451,048,332	286,449,305,603
<i>Accumulated depreciation:</i>						
Opening balance	-	29,704,829,213	31,171,302,930	44,614,967,063	321,446,224	105,812,545,430
Depreciation expense on historical cost	-	353,096,710	1,287,228,037	1,297,606,457	7,495,957	2,945,427,161
Depreciation expense on revaluation	-	313,384,134	-	-	-	313,384,134
Disposals	-	-	(95,925,653)	(1,616,285)	-	(97,541,938)
Adjustments	-	843,263,715	819,489	22,542	-	844,105,746
Closing balance	-	31,214,573,772	32,363,424,803	45,910,979,777	328,942,181	109,817,920,533
Net closing balance	¢ 46,614,089,726	89,543,113,581	27,371,876,608	12,980,199,004	122,106,151	176,631,385,070

(Continued)

BANCO NACIONAL DE COSTA RICA Y SUBSIDIARIAS

Notas a los Estados Financieros Consolidados

(12) Other assets

Other assets are as follows:

	March 2017	December 2016	March 2016
<i><u>Deferred charges:</u></i>			
Leasehold improvements	¢ 1,145,345,495	1,230,240,341	1,254,935,041
Cost of issue of financial instruments, net (3)	1,779,106,140	1,888,423,058	1,117,795,892
Cost of subordinated debt project	455,678,346	474,798,764	529,422,817
Deferred direct costs related to loans	5,400,010,057	5,673,603,092	5,965,686,724
Other deferred charges	2,289,905,811	2,632,876,079	3,318,749,100
	<u>11,070,045,849</u>	<u>11,899,941,334</u>	<u>12,186,589,574</u>
<i><u>Intangible assets:</u></i>			
Software (2)	5,890,988,212	5,221,524,241	4,153,657,296
Other intangible assets (2)	1,877,496,981	4,145,080	2,245,304
	<u>7,768,485,193</u>	<u>5,225,669,321</u>	<u>4,155,902,600</u>
<i><u>Other assets:</u></i>			
Prepaid interest and fees and commissions	251,733,968	274,408,717	259,769,133
Prepaid taxes	94,286,248	6,468,712,634	16,833,473
Prepaid insurance policy	295,604,161	253,224,405	305,435,637
Other prepaid expenses	867,983,167	119,811,455	251,483,630
Stationery, office supplies, and other materials	921,802,492	624,937,164	814,708,792
Leased assets	100,477,406	100,810,170	101,819,903
Library and artwork	429,918,818	349,918,818	341,297,151
Construction work-in-progress	5,171,154,811	5,741,165,428	3,506,552,359
Software under development	366,336,554	343,328,418	299,577,354
Rights in welfare and trade associations	600,000	600,000	600,000
Other sundry assets	4,633,400,754	3,986,095,929	2,034,157,088
Cash shortage	-	3,000	-
Operations pending settlement	5,160,114,622	5,676,583,225	6,162,678,095
Other operations pending application	257,434,079	3,681,008,163	427,184,468
Guarantee deposits (1)	326,901,383	341,347,456	455,518,048
Legal and administrative deposits (1)	176,874,173	187,985,647	164,375,439
	<u>19,054,622,636</u>	<u>28,149,940,629</u>	<u>15,141,990,570</u>
¢	<u>37,893,153,678</u>	<u>45,275,551,284</u>	<u>31,484,482,744</u>

(1) As of March 31, 2017, guarantee deposits amount to ¢503,775,556 (December and March 2016: ¢529,333,103 and ¢619,893,487, respectively) (see note 2).

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(2) Intangible assets, net are as follows:

	March 2017		
	Software	Other intangible assets	Total
<u>Cost:</u>			
Opening balance	¢ 22,163,996,115	98,174,640	22,262,170,755
Additions	1,532,127,929	1,994,581,475	3,526,709,404
Disposals	(17,505,963)	-	(17,505,963)
Reclassifications	-	(4,145,080)	(4,145,080)
Adjustments	(189,604,372)	-	(189,604,372)
Closing balance	<u>23,489,013,709</u>	<u>2,088,611,035</u>	<u>25,577,624,744</u>
<u>Accumulated amortization:</u>			
Opening balance	16,942,471,872	94,029,559	17,036,501,431
Expense for the year	666,716,829	121,229,574	787,946,403
Disposals	(11,163,203)	(4,145,080)	(15,308,283)
Adjustments	<u>17,598,025,498</u>	<u>211,114,053</u>	<u>17,809,139,551</u>
Closing balance	¢ <u>5,890,988,211</u>	<u>1,877,496,982</u>	<u>7,768,485,193</u>
	December 2016		
	Software	Other intangible assets	Total
<u>Cost:</u>			
Opening balance	¢ 20,535,208,567	96,302,651	20,631,511,218
Additions	3,257,298,745	18,480,098	3,275,778,843
Disposals	(1,699,395,942)	-	(1,699,395,942)
Reclassifications	-	(16,608,110)	(16,608,110)
Adjustments	<u>70,884,743</u>	<u>-</u>	<u>70,884,743</u>
Closing balance	<u>22,163,996,113</u>	<u>98,174,639</u>	<u>22,262,170,752</u>
<u>Accumulated amortization:</u>			
Opening balance	16,546,267,398	94,029,559	16,640,296,957
Expense for the year	2,109,325,149	16,608,110	2,125,933,259
Disposals	(1,679,487,450)	(16,608,110)	(1,696,095,560)
Adjustments	<u>(33,633,225)</u>	<u>-</u>	<u>(33,633,225)</u>
Closing balance	<u>16,942,471,872</u>	<u>94,029,559</u>	<u>17,036,501,431</u>
Net closing balance	¢ <u>5,221,524,241</u>	<u>4,145,080</u>	<u>5,225,669,321</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	March 2016		
	Software	Other intangible assets	Total
<i>Cost:</i>			
Opening balance	¢ 20,535,208,567	96,302,651	20,631,511,218
Additions	14,764,112	2,245,304	17,009,416
Disposals	(1,038,245,935)	-	(1,038,245,935)
Reclassifications	-	(2,273,092)	(2,273,092)
Adjustments	657,383,120	-	657,383,120
Closing balance	20,169,109,864	96,274,863	20,265,384,727
<i>Accumulated amortization:</i>			
Opening balance	16,546,267,397	94,029,559	16,640,296,956
Expense for the year	502,146,978	2,273,092	504,420,070
Disposals	(1,032,961,807)	(2,273,092)	(1,035,234,899)
Reclassifications	16,015,452,568	94,029,559	16,109,482,127
Closing balance	¢ 4,153,657,296	2,245,304	4,155,902,600

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

	March 2017			
	5-year issue (maturing in 2018)	10-year issue (maturing in 2023)	5-year issue (maturing 2021)	Total
Commission - structuring banks	¢ 277,215,000	277,215,000	471,265,500	1,025,695,500
Commission - Moody's Investors Service	138,607,500	138,607,500	-	277,215,000
Commission - Société de la Bourse de Luxembourg, S.A.	6,775,689	6,775,689	-	13,551,378
RR Donelley	6,069,345	6,069,323	3,633,332	15,772,000
BNY Mellon	2,191,662	2,191,662	3,197,398	7,580,722
Moody's - issuer rating	18,351,633	18,351,633	138,607,500	175,310,766
Fitch Ratings	138,607,500	138,607,500	138,607,500	415,822,500
Milbank	81,589,919	81,589,919	109,234,137	272,413,975
Shearman & Sterling	81,695,815	81,695,815	121,527,786	284,919,416
External audit	105,341,700	105,341,700	128,627,760	339,311,160
Perkins Cole (Broker)	-	-	7,272,486	7,272,486
Printing of documents	-	-	8,768,222	8,768,222
	856,445,763	856,445,741	1,130,741,621	2,843,633,125
Amortization	(573,725,271)	(259,614,263)	(231,187,451)	(1,064,526,985)
	¢ 282,720,492	596,831,478	899,554,170	1,779,106,140

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

	March 2016		
	5-year issue - (maturing in 2018)	10-year issue - (maturing in 2023)	Total
Commission - structuring banks	¢ 264,795,000	264,795,000	529,590,000
Commission - Moody's Investors Service	132,397,500	132,397,500	264,795,000
Commission - Société de la Bourse de Luxembourg, S.A.	6,472,119	6,472,120	12,944,239
RR Donelley	5,797,422	5,797,401	11,594,823
BNY Mellon	2,093,469	2,093,469	4,186,938
Moody's - issuer rating	17,529,429	17,529,429	35,058,858
Fitch Ratings	132,397,500	132,397,500	264,795,000
Milbank	77,934,464	77,934,464	155,868,928
Shearman & Sterling	78,035,616	78,035,616	156,071,232
External audit	100,622,100	100,622,100	201,244,200
Subtotal	818,074,619	818,074,599	1,636,149,218
Deferral	(367,968,374)	(150,384,952)	(518,353,326)
	¢ 450,106,245	667,689,647	1,117,795,892

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(13) Obligations with the public

Obligations with the public by cumulative amount are as follows:

	March 2017	December 2016	March 2016
<i>Demand obligations:</i>			
Checking accounts	¢ 1,266,528,926,249	1,278,957,424,500	1,337,364,327,589
Certified checks	114,641,369	122,039,022	147,097,817
Savings deposits	1,306,085,364,560	1,296,486,039,607	1,177,405,233,050
Matured term deposits	14,714,916,271	17,819,303,823	22,865,252,036
Other demand deposits	566,935,794	611,720,829	1,996,147,301
Drafts and transfers	86,101,605	163,530,110	259,195,068
Cashier's checks	6,845,486,150	4,084,392,512	5,292,319,403
Advance collections from customers for credit cards	8,447,203,340	8,526,828,123	7,250,552,446
Trust fund obligations	9,785,687	35,790,055	26,758,155
	<u>2,603,399,361,025</u>	<u>2,606,807,068,581</u>	<u>2,552,606,882,865</u>
<i>Term obligations:</i>			
Deposits from the public	1,759,289,270,110	1,453,379,510,857	1,472,654,316,506
Other term deposits	145,538,896,402	81,367,527,731	83,704,807,061
	<u>1,904,828,166,512</u>	<u>1,534,747,038,588</u>	<u>1,556,359,123,567</u>
<i>Other obligations with the public:</i>			
Obligations for tri-party repurchase agreements	26,395,633,007	26,448,255,041	37,261,590,883
	<u>26,395,633,007</u>	<u>26,448,255,041</u>	<u>37,261,590,883</u>
Charges payable for obligations with the public	25,231,305,966	22,134,040,383	21,199,985,966
	<u>¢ 4,559,854,466,510</u>	<u>4,190,136,402,593</u>	<u>4,167,427,583,281</u>

As of March 31, 2017, deposits in checking accounts denominated in colones bear interest at a maximum rate of 1.50% per annum (December and March 2016: 1.50% and 0.90% per annum, respectively) on balances and at a minimum rate of 1.00% per annum (December and March 2016: 1.00% and 0.50% per annum, respectively) on balances greater than or equal to ¢500,001. Deposits in checking accounts denominated in U.S. dollars bear interest at a maximum rate of 0.40% per annum (December and March 2016: 0.40% and 0.10% per annum, respectively) on balances and at a minimum rate of 0.20% per annum (December and March 2016: 0.20% and 0.05% per annum, respectively) on balances greater than or equal to US\$1,000.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

Term certificates bear annual interest at the following rates:

<u>Currency</u>	<u>March 2017</u>	<u>December 2016</u>	<u>March 2016</u>
Colones	1.20% to 7.45%	1.15% to 7.40%	1.15% to 7.40%
U.S. dollars	0.45% to 5.85%	0.45% to 5.85%	0.20% to 5.80%
Euros	0.00% to 0.00%	0.00% to 0.00%	0.01% to 0.05%

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

As of March 31, 2017, the balance of those term certificates of deposit amounts to ₡32,812,478,667 (December and March 2016: ₡32,221,517,946 and ₡30,345,631,358, 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:

	<u>March 2017</u>	<u>December 2016</u>	<u>March 2016</u>
Financing for loans using external funds	<u>125,644,412</u>	<u>125,644,412</u>	<u>125,644,412</u>
₡	<u>125,644,412</u>	<u>125,644,412</u>	<u>125,644,412</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(15) Obligations with entities

Obligations with entities are as follows:

	March 2017	December 2016	March 2016
<i><u>Demand:</u></i>			
Checking accounts with local financial entities	¢ 60,141,955,379	67,079,202,786	170,746,355,944
Savings deposits with local financial entities	49,071,281	34,068,844	40,764,579
Development Credit Fund (FCD) management	142,824,871,966	145,344,840,301	139,450,826,819
Outstanding checks	7,487,687,909	1,947,218,401	7,926,445,649
Checking accounts and obligations with related parties	24,978,178	36,789,113	130,087,793
Other demand obligations with financial entities	306,766,974	997,169,021	681,624,927
	<u>210,835,331,687</u>	<u>215,439,288,466</u>	<u>318,976,105,711</u>
<i><u>Term:</u></i>			
Term deposits from local financial entities	17,092,815,386	2,702,114,143	13,514,504,397
Term deposits from foreign financial entities	5,544,300,000	5,481,800,000	-
Term obligations with foreign financial entities (2)	826,428,137,021	815,040,918,559	550,130,036,791
Liquidity market obligations	11,167,720,000	7,700,000,000	7,563,000,000
Loans from local financial entities	9,339,100,527	8,138,797,739	3,361,871,144
Loans from foreign financial entities (1)	161,534,221,514	160,775,371,029	296,891,267,852
Obligaciones por operaciones diferidas de liquidez	4,000,000,000	-	-
	<u>1,035,106,294,448</u>	<u>999,839,001,470</u>	<u>871,460,680,184</u>
Charges payable for other demand and term obligations with financial entities – foreign currency	74,201,779	38,405,886	1,706,842
Charges payable for other demand and term obligations with financial entities – local currency	206,908,347	123,680,533	207,116,921
Charges payable for loans with foreign financial entities (1)	2,064,039,372	1,413,597,675	2,513,981,455
Charges payable for loans with local financial entities	9,778,652	9,776,425	10,865,287
Charges payable for term deposits from foreign financial entities (2)	19,862,262,274	7,989,533,183	12,274,351,593
	<u>22,217,190,425</u>	<u>9,574,993,702</u>	<u>15,008,022,098</u>
¢	<u>1,268,158,816,560</u>	<u>1,224,853,283,638</u>	<u>1,205,444,807,993</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- (1) Loans due to foreign financial entities bear interest at rates ranging between 2.54% and 6.65% per annum (December and March 2016: between 2.54% and 6.65% per annum and between 2.02% and 6.65% per annum, respectively).
- (2) Loans from foreign financial entities are as follows:

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

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

	March 2017			
	5-year issue (maturing in 2018)	10-year issue (maturing in 2023)	5-year issue (maturing in 2021)	Total
Issue	¢ 274,597,824,390	280,363,970,578	267,383,847,063	822,345,642,031
Adjustment to fair value of hedged item measured at cost of international issues	(37,153,790)	1,130,611,791	923,059,097	2,016,517,098
Amortization of discount in traded amount of issues	1,216,390,972	703,776,870	145,810,050	2,065,977,892
Subtotal	275,777,061,572	282,198,359,239	268,452,716,210	826,428,137,021
Charges payable	5,630,929,671	7,219,140,645	7,012,191,958	19,862,262,274
	¢ 281,407,991,243	289,417,499,884	275,464,908,168	846,290,399,295

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

March 2016			
	5-year issue maturing in 2018)	10-year issue maturing in 2023)	Total
Issue	¢ 262,816,832,578	273,229,643,518	536,046,476,096
Adjustment to fair value of hedged item measured at cost of international issues	1,503,989,515	11,318,267,985	12,822,257,500
Amortization of discount in traded amount of issues	800,985,884	460,317,311	1,261,303,195
Subtotal	265,121,807,977	285,008,228,814	550,130,036,791
Charges payable	5,378,648,438	6,895,703,155	12,274,351,593
Issue	¢ 270,500,456,415	291,903,931,969	562,404,388,384

A valuation was performed as of March 31, 2017 and 2016 and December 2016 in order to calculate the change in the fair value of the primary instrument based on the following inputs:

- a 5- or 10-year LIBOR rate at the issue of the bond
- discount rates from Bloomberg
- zero rates corresponding to the swap curve as of March 31, 2017 and 2016 and December 31, 2016
- only a portion of the bond cash flows is hedged (corresponding to the 5- and 10-year LIBOR rate in effect at the issue of the bond) rather than the total interest amount
- accrued and earned interest were segregated from the instruments to obtain variations in clean prices
- forward rate to calculate variable interest.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Maturities of loans due to entities

Loans due to entities mature as follows:

		March 2017		
		Local	Foreign	Total
Less than 1 year	¢	4,251,200,385	63,595,594,030	67,846,794,415
Between 1 and 2 years		-	-	-
Between 3 and 5 years		125,644,412	8,358,699,390	8,484,343,802
More than 5 years		9,097,678,794	91,643,967,467	100,741,646,261
	¢	<u>13,474,523,591</u>	<u>163,598,260,887</u>	<u>177,072,784,478</u>
		December 2016		
		Local	Foreign	Total
Less than 1 year	¢	397,938,239	61,328,159,986	61,726,098,225
Between 1 and 2 years		-	2,745,006,304	2,745,006,304
Between 3 and 5 years		125,644,412	8,783,221,884	8,908,866,296
More than 5 years		7,750,635,925	89,332,580,530	97,083,216,455
	¢	<u>8,274,218,576</u>	<u>162,188,968,704</u>	<u>170,463,187,280</u>
		March 2016		
		Local	Foreign	Total
Less than 1 year	¢	209,874,497	153,965,806,013	154,175,680,510
Between 1 and 2 years		753,768,750	60,151,952,514	60,905,721,264
Between 3 and 5 years		125,644,412	-	125,644,412
More than 5 years		2,409,093,184	85,287,490,780	87,696,583,964
	¢	<u>3,498,380,843</u>	<u>299,405,249,307</u>	<u>302,903,630,150</u>

As of March 31, 2017 and 2016 and December 31, 2016, loans due to local entities correspond to obligations with Banco Crédito Agrícola de Cartago.

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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 annual income tax returns for the year ending March 31 of each year.

a) Current tax

Income tax expense is as follows:

	March 2017	March 2016
<u>Current tax:</u>		
Current tax expense	¢ 5,136,470,774	3,489,374,670
Decrease in current tax for the year	834,374,297	-
Decrease in prior-period current income tax	(7,657,184)	(16,380,331)
Total current tax expense, net	<u>5,963,187,887</u>	<u>3,472,994,339</u>
<u>Deferred tax:</u>		
Deferred tax expense	777,000	18,183,211
Increase in deferred tax	(61,862,942)	(1,269,647,637)
Total deferred tax, net	<u>(61,085,942)</u>	<u>(1,251,464,426)</u>
Total deferred tax expense, net	¢ <u>5,902,101,945</u>	<u>2,221,529,913</u>

For the years ended December 31, the difference between income tax expense and the amount that would result from applying the corresponding tax rate to pre-tax income (30%) is reconciled as follows:

	March 2017	March 2016
Profit before tax	¢ 25,780,263,020	20,819,138,675
Plus (less) tax effect of:		
Non-deductible expenses	9,477,609,364	8,849,075,309
Deductible expenses	(1,388,338,697)	(1,078,258,717)
Non-taxable income	(16,747,964,440)	(16,967,037,018)
Taxable income	-	8,330,651
Tax base	¢ 17,121,569,247	11,631,248,900
Tax rate	30%	30%
Total income tax expense, net	¢ <u>5,136,470,774</u>	<u>3,489,374,670</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

b) Deferred tax

Deferred tax assets and liabilities are as follows:

As of March 31, 2017			
	Assets	Liabilities	Net
Unrealized losses	¢ 641,272,614	-	641,272,614
Unrealized gains	395,609,428	-	395,609,428
Provisions	189,833	-	189,833
Difference in useful lives	-	(1,024,215,671)	(1,024,215,671)
Revaluation of assets	-	(10,339,228,565)	(10,339,228,565)
	¢ 1,037,071,875	(11,363,444,236)	(10,326,372,361)
As of December 31, 2016			
	Assets	Liabilities	Net
Unrealized losses	¢ 669,043,212	-	669,043,212
Unrealized gains	347,434,855	-	347,434,855
Provisions	-	(518,000)	(518,000)
Difference in useful lives	-	(1,271,480,448)	(1,271,480,448)
Revaluation of assets	-	(10,339,228,565)	(10,339,228,565)
	¢ 1,016,478,067	(11,611,227,013)	(10,594,748,946)
As of March 31, 2016			
	Assets	Liabilities	Net
Unrealized losses	¢ 638,791,370	-	638,791,370
Unrealized gains	393,728,568	-	393,728,568
Provisions	282	-	282
Difference in useful lives	-	(3,297,677,104)	(3,297,677,104)
Revaluation of assets	-	(10,339,228,565)	(10,339,228,565)
	¢ 1,032,520,220	(13,636,905,669)	(12,604,385,449)

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

	December 31, 2016	Included in the statement of comprehensive income	Included in equity	March 31, 2017
Unrealized losses	¢ 670,233,485	-	(28,960,870)	641,272,615
Provisions	346,244,582	49,364,844	-	395,609,426
Difference in useful lives	-	189,834	-	189,834
Unrealized gains	(1,271,998,447)	103,334,350	144,448,427	(1,024,215,670)
Revaluation of assets	(10,339,228,566)	-	-	(10,339,228,566)
	¢ (10,594,748,946)	152,889,028	115,487,557	(10,326,372,361)
	December 31, 2015	Included in the statement of comprehensive income	Included in equity	December 31, 2016
Unrealized losses	¢ 503,251,465	-	166,982,020	670,233,485
Provisions	328,772,903	17,471,679	-	346,244,582
Difference in useful lives	17,552,696	(17,552,696)	-	-
Unrealized gains	(3,787,978,234)	737,948,880	1,778,030,907	(1,271,998,447)
Revaluation of assets	(11,524,732,938)	-	1,185,504,372	(10,339,228,566)
	¢ (14,463,134,108)	737,867,863	3,130,517,299	(10,594,748,946)
	December 31, 2015	Included in the statement of comprehensive income	Included in equity	March 31, 2016
Unrealized losses	¢ 503,251,465	-	135,539,904	638,791,369
Provisions	328,772,903	64,955,948	-	393,728,851
Difference in useful lives	17,552,696	(17,552,696)	-	-
Unrealized gains	¢ (3,787,978,234)	118,698,713	371,602,417	(3,297,677,104)
Revaluation of assets	(11,524,732,938)	-	1,185,504,373	(10,339,228,565)
	¢ (14,463,134,108)	166,101,965	1,692,646,694	(12,604,385,449)

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(17) Provisions

Provisions are as follows:

	March 2017	December 2016	March 2016
Severance benefits	¢ 2,678,678,558	2,848,046,997	7,482,101,563
Litigation	5,123,734,462	5,114,477,995	4,856,458,751
Other	21,459,354,339	18,331,583,729	14,766,551,616
	<u>¢ 29,261,767,359</u>	<u>26,294,108,721</u>	<u>27,105,111,930</u>

Movement in provisions is as follows:

	Severance benefits	Litigation	Other	Total
Balance at December 31, 2015	¢ 19,351,170,766	4,759,970,548	11,810,578,826	35,921,720,140
Provisioned	663,418,052	134,132,691	3,513,583,813	4,311,134,556
Used	(12,351,479,843)	(11,083,717)	(557,441,641)	(12,920,005,201)
Decrease on provisions against profit	<u>(181,007,412)</u>	<u>(26,560,771)</u>	<u>(169,382)</u>	<u>(207,737,565)</u>
Balance at March 31, 2016	7,482,101,563	4,856,458,751	14,766,551,616	27,105,111,930
Balance at December 31, 2015	¢ 19,351,170,766	4,759,970,548	11,810,578,826	35,921,720,140
Provisioned	7,122,139,578	1,944,689,188	15,799,859,759	24,866,688,525
Used	(23,271,121,855)	(801,840,797)	(8,256,828,606)	(32,329,791,258)
Decrease on provisions against profit	<u>(354,141,492)</u>	<u>(788,340,944)</u>	<u>(1,022,026,250)</u>	<u>(2,164,508,686)</u>
Balance at December 31, 2016	<u>2,848,046,997</u>	<u>5,114,477,995</u>	<u>18,331,583,729</u>	<u>26,294,108,721</u>
Provisioned	200,440,300	175,769,700	4,028,236,914	4,404,446,914
Used	(369,808,739)	(166,513,233)	(751,518,802)	(1,287,840,774)
Decrease on provisions against profit	<u>-</u>	<u>-</u>	<u>(148,947,502)</u>	<u>(148,947,502)</u>
Balance at March 31, 2017	<u>¢ 2,678,678,558</u>	<u>5,123,734,462</u>	<u>21,459,354,339</u>	<u>29,261,767,359</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

Suit	Claimed amount			Provision		
	March 2017	December 2016	March 2016	March 2017	December 2016	March 2016
Ordinary - in colones	65,420,689,960	66,170,702,983	61,994,423,147	3,896,061,992	3,914,211,465	4,384,980,129
Ordinary - in U.S. dollars	200,745,312,123	190,575,986,833	324,687,303	464,248,204	423,919,453	-
Criminal - in colones	1,009,129,410	1,009,129,410	401,165,685	498,172,694	496,046,408	-
Criminal - in U.S. dollars	2,184,406	-	-	2,183,417	-	-
Labor	722,399,007	1,616,275,443	1,676,333,665	263,068,155	280,300,669	55,335,689
Phishing	-	-	416,142,933	-	-	416,142,933
	<u>267,899,714,906</u>	<u>259,372,094,669</u>	<u>64,812,752,733</u>	<u>5,123,734,462</u>	<u>5,114,477,995</u>	<u>4,856,458,751</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:

	March 2017	December 2016	March 2016
Professional fees	¢ 15,506,058	2,558,750	2,022,500
Creditors - goods and services	4,541,066,784	3,384,330,555	4,013,630,889
Current tax	5,136,470,774	10,524,614,198	3,489,374,670
Employer contributions	6,842,916,791	8,457,415,872	7,056,847,169
Court-ordered withholdings	3,415,741,732	3,161,186,737	3,150,628,644
Tax withholdings	3,243,850,351	3,851,464,157	1,892,058,972
Employee withholdings	676,911,830	681,405,584	557,683,393
Other third-party withholdings	188,695,467	9,455,319	116,429,552
Compensation	1,733,350,695	6,702,950,151	2,944,763,354
Statutory allocations	6,385,987,886	17,153,405,402	-
Obligations payable on loans with related parties	-	83,835	4,021,345,198
Clearing house operations	2,030,664,558	4,617,080,542	2,643,851,622
Accrued vacation	7,071,187,951	6,944,862,199	7,159,855,237
Accrued statutory Christmas bonus	3,482,252,418	1,651,621,193	3,280,894,661
Contributions to superintendencies	-	9,839,843	4,692,314
Foreclosed assets	421,122,865	354,942,685	143,579,966
Various creditors - Local currency (1)	6,146,683,199	6,327,166,650	7,336,423,229
Various creditors - Foreign currency	4,376,499,511	6,154,583,169	5,000,240,131
Interest rate futures - Hedges (note 6)	7,261,745,946	9,197,575,451	-
Futures contracts- Other than hedges (note 6)	50,239,368	-	-
FX futures - Other than hedges (note 6)	-	-	6,282,990
	¢ 63,020,894,184	89,186,542,292	52,820,604,491

- (1) As of March 31, 2017, the "Various creditors" account includes ¢1,793 million (December and March 2016: ¢2,746 and ¢2,126.08 million, respectively), for the operations of the Bank's Electronic Processing of Payments Office (VISA). The remaining amount corresponds to normal operations of other divisions,

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(19) Other liabilities

Other liabilities are as follows:

	<u>March 2017</u>	<u>December 2016</u>	<u>March 2016</u>
<i>Deferred income:</i>			
Deferred fees and commissions for loan portfolio	25,032,647,087	24,722,362,957	15,297,647,767
Deferred fees and commissions for trust management	20,061,368	23,251,334	14,057,718
Other	-	-	14,177,118
Subtotal	<u>25,052,708,455</u>	<u>24,745,614,291</u>	<u>15,325,882,603</u>
Allowance for stand-by credit losses (1)	<u>309,271,895</u>	<u>540,840,567</u>	<u>1,679,701,720</u>
<i>Operations pending application:</i>			
Operations pending settlement	10,868,373,684	19,153,979,611	9,323,308,312
Other	29,296,688,401	2,337,461,858	15,714,943,887
	<u>40,165,062,085</u>	<u>21,491,441,469</u>	<u>25,038,252,199</u>
¢	<u>65,527,042,435</u>	<u>46,777,896,327</u>	<u>42,043,836,522</u>

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

	<u>March 2017</u>	<u>December 2016</u>	<u>March 2016</u>
Opening balance	540,840,567	1,319,693,076	1,545,597,997
Allowance expense (note 31)	46,112,000	228,413,037	140,320,007
Decrease in allowance (note 32)	(280,000,000)	-	-
Adjustment for foreign exchange differences	2,319,328	(2,508,116)	(6,216,284)
Closing balance	<u>309,271,895</u>	<u>1,545,597,997</u>	<u>1,679,701,720</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(20) Subordinated obligations

The Bank's subordinated obligations are as follows:

Annual interest rate	Term	Maturity		March 2017	December 2016	March 2016
6-month LIBOR + 4,50% in the first 5 years and 6-month LIBOR + 5,00% thereafter	10 years	27/05/2024	US\$	100,000,000	100,000,000	100,000,000
6-month LIBOR + 5,25% in the first 5 years and 6-month LIBOR + 5,75% thereafter	15 years	23/10/2029		30,000,000	30,000,000	30,000,000
			US\$	130,000,000	130,000,000	130,000,000
	Total in colones		¢	72,075,900,000	71,263,400,000	68,846,700,000
	Finance charges payable			599,719,590	1,412,378,397	514,808,354
			¢	72,675,619,590	72,675,778,397	69,361,508,354

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:

		March 2017	December 2016	March 2016
Capital under Law No. 1644	¢	90,511,345,645	90,511,345,645	90,511,345,645
Bank capitalization bonds		27,618,957,837	27,618,957,837	27,618,957,837
	¢	<u>118,130,303,482</u>	<u>118,130,303,482</u>	<u>118,130,303,482</u>

On December 23, 2008, the Executive Branch of the Costa Rican Government authorized a capital contribution funded under the Amendment to Law No. 8627 on the Ordinary and Extraordinary Budget of the Republic for Tax Year 2008 (Law No. 8703). Such law grants funds to capitalize three State-owned banks, including the Bank, in order to stimulate productive sectors, particularly small and medium-sized enterprises. For such purposes, the Bank received four securities for a total of US\$50,000,000 (equivalent to ¢27,619,000,002), denominated in DU, and maturing in 2017, 2018, and 2019 (No. 4184, No. 4185, and No. 4190 for DU10, 541,265,09 each, at a reference exchange rate of ¢655,02 to DU1,00). As of March 31, 2017 and based on the exchange rate as of that date, the balance of those investments is ¢27,517,445,454 (December and March 2016: ¢27,181,284,510 and ¢27,259,395,285, respectively) (see note 5).

(b) Revaluation surplus

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

As of March 31, 2017, revaluation surplus amounts ¢60,806,752,437 (December and March 2016: ¢60,806,752,437 and ¢60,791,171,437, 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 March 31, 2017, the adjustment for valuation of available-for-sale investments and restricted financial instruments amounts to ¢1,473,884,008, unrealized loss (December and March 2016: unrealized loss of ¢1,458,020,769 and unrealized gain of ¢2,156,013,095, 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 March 31, 2017, the adjustment for valuation of investments in foreign associates using the equity method amounts to ₡8,664,509,151 (December and March 2016: ₡8,084,303,314 and ₡6,667,586,225, respectively). These investments correspond to the Bank's 49% ownership interest in BICSA,

(e) Equity reserves

Equity reserves are as follows:

	March 2017	December 2016	March 2016
Legal reserve	₡ 295,476,765,219	261,729,857,989	261,728,491,545
Statutory reserve for foreclosed assets	167,955,249	142,801,520	128,876,229
Excess of statutory reserve for loans	6,215,563,997	4,770,983,124	3,894,468,886
Statutory dynamic provision	8,082,939,824	7,970,665,759	5,948,349,254
	₡ <u>309,943,224,289</u>	<u>274,614,308,392</u>	<u>271,700,185,914</u>

(f) Equity of the Development Financing Fund

As of March 31, 2017, the allocation of the Bank's earnings for the creation of the Development Financing Fund (FOFIDE) amounts to ₡27,111,958,013 (December and March 2016: ₡21,749,819,320 and ₡21,749,819,320, respectively),

(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, and the notional amounts of foreign exchange derivatives, as follows:

	March 2017	March 2016
Performance bonds	¢ 32,242,746,546	65,103,469,239
Bid bonds	1,955,921,024	2,586,233,707
Other guarantees	4,923,047,603	1,812,257,907
Letters of credit	10,078,327,070	17,133,302,339
Credits pending disbursement	248,730,000	330,561,754
	<u>49,448,772,243</u>	<u>86,965,824,946</u>
Pre-approved lines of credit	277,237,041,841	236,160,442,490
Other contingencies not related to credits	818,024,507	636,737,855
Other contingencies - Pending litigation and lawsuits (note 47)	306,358,139,173	236,182,240,159
	<u>584,413,205,521</u>	<u>472,979,420,504</u>
FX futures - Other than hedges (note 6)	4,286,601,775	13,001,434,500
	<u>¢ 638,148,579,539</u>	<u>572,946,679,950</u>

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

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(23) Trust assets

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

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of March 31, 2017, trust capital is invested in the following assets:

Nature of trust	Cash or property management	Securitization	Portfolio management	Guaranty	Testamentary	Custody of stock with testamentary clause	Custody and management of funds	Cash guaranty and management	Pre-sales management	Guaranty and custody of stock	Total
<i>Trust assets</i>											
Cash and due from banks	253,449,219	3,410,382	8,286,407	-	-	-	8,573	-	-	-	265,154,581
Investment securities and term deposits	198,612,637,126	8,616,186,691	2,277,346,168	838,360,533,873	1,175,168,256	-	1,999,668	-	-	-	1,049,043,871,782
Loan portfolio	2,681,724,074	-	1,361,572,017	-	-	-	-	-	-	-	4,043,296,091
Accounts and accrued interest receivable	14,814,518,503	14,942,643,340	1,733,599,028	25,106,698	-	-	-	40,103,087	-	887,088	31,556,857,744
Foreclosed assets	7,726,114	-	-	-	-	-	-	-	-	-	7,726,114
Investments in other companies	290,274,820	-	-	-	2,320,000	2,096,000	-	-	-	887,088,000	1,181,778,820
Property and equipment	4,548,544,498	48,147,514,024	-	73,613,011,860	-	-	-	1,544,041,161	-	1,454,901,292	129,308,012,835
Other assets	3,171,623,138	-	-	1,513,481,372	1,172,011	-	-	-	5,591,595	1,674,504,726	6,366,372,842
	224,380,497,492	71,709,754,437	5,380,803,620	913,512,133,803	1,178,660,267	2,096,000	2,008,241	1,584,144,248	5,591,595	4,017,381,106	1,221,773,070,809

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of March 31, 2016, trust capital is invested in the following assets:

Nature of trust	Cash or property management	Securitization	Portfolio management	Guaranty	Testamentary	Custody of stock with testamentary clause	Custody and management of funds	Cash guaranty and management	Pre-sales management	Guaranty and custody of stock	Total
<i>Trust assets</i>											
Cash and due from banks	163,751,619	4,353,425	10,002,413	87,783,430	-	-	8,523	-	953,262	-	266,852,672
Investment securities and term deposits	175,652,180,682	3,498,921,041	1,025,661,057	649,825,027,424	1,212,947,108	-	1,918,601	-	417,575,502	-	831,634,231,415
Loan portfolio	2,495,141,338	-	1,177,103,627	-	-	-	-	-	-	-	3,672,244,965
Accounts and accrued interest	-	-	-	-	-	-	-	-	-	-	-
receivable	6,782,846,661	9,798,356,956	3,278,070,581	23,418,692	2,408	-	-	28,188,454	-	-	19,910,883,752
Foreclosed assets	28,516,312	-	1,667,447	-	-	-	-	-	-	-	30,183,759
Investments in other companies	926,681,268	-	-	-	2,320,000	2,246,000	-	-	-	847,344,000	1,778,591,268
Property and equipment	1,329,103,515	51,879,599,673	-	70,061,770,553	-	-	-	1,544,041,161	-	-	124,814,514,902
Other assets	1,586,083,460	-	22,428,776	1,779,039,870	1,442,945	-	-	-	5,591,595	-	3,394,586,646
Nature of trust	188,964,304,855	65,181,231,095	5,514,933,901	721,777,039,969	1,216,712,461	2,246,000	1,927,124	1,572,229,615	424,120,359	847,344,000	985,502,089,379

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

a) Housing mortgage

These trusts are exclusively dedicated to managing housing loan portfolios,

b) Cash or property management

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

c) Securitization

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

d) Portfolio management

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

e) Special accounts

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

f) Guaranty

These trusts hold trust property that is to be transferred as a guaranty for loan operations per the instructions of the trustor,

g) Testamentary

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

(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:

	March 2017	March 2016
Pension Fund Manager's own investments in custody – Face value of principal	¢ 6,540,929,000	6,039,300,000
Pension Fund Manager's own investments in custody – Coupons	1,445,171,323	1,544,950,400
Pension Fund Manager's own investments in custody – Number of shares	23	23
Guarantees received in the Bank's custody	1,872,561,962	1,857,376,842
Chattel mortgages	5,188,025,385,053	5,384,969,777,076
Other guarantees received in the Bank's custody	437,426,360,123	483,225,998,758
Loans settled	245,659,414,766	258,284,725,865
Loans pending settlement	233,259,316	123,278,618
Investments settled	169,017,318,354	159,621,938,959
Loans settled	12,217,173,961	10,976,044,098
Other accounts receivable settled	16,535,810,084	15,514,147,978
Accrued interest receivable settled	12,685,344,657	9,609,435,354
Interest income on non-accrual loans of loan portfolio	1,255	1,075
Supporting documentation received in the Bank's custody	9,293,421,560	9,047,704,280
Securities issued pending placement	5,544,300,002	5,295,899,997
Notified letters of credit	15,579,752,736	14,630,222,497
Notional value subject to interest rate futures	697,750,155,000	397,192,500,000
Nondeductible expenses	36,186,987,331	37,865,472,682
Nontaxable income	78,826,408,960	65,404,708,081
Other memoranda accounts	193,024,386,499	199,847,376,765
	<u>7,127,864,141,965</u>	<u>7,061,050,859,348</u>
Third-party debit memoranda accounts	2,368,252,389,635	2,190,413,490,686
Own debit memoranda accounts for custodial activities	382,003,349,953	329,646,764,587
Third-party debit memoranda accounts for custodial activities	9,951,849,712,869	9,513,426,986,767
	<u>12,702,105,452,457</u>	<u>12,033,487,242,040</u>
¢	<u>19,829,969,594,422</u>	<u>19,094,538,101,388</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Other memoranda accounts by entity are as follows:

	March 2017	March 2016
Bank	¢ 17,264,473,161,850	15,825,745,376,835
Brokerage Firm (note 25)	952,796,261,722	1,759,606,545,768
Investment Fund Manager (note 26)	422,176,336,258	437,242,830,314
Pension Fund Manager (note 27)	1,190,523,834,592	1,071,943,348,471
	¢ 19,829,969,594,422	19,094,538,101,388

Third-party debit memoranda accounts are as follows:

	March 2017	March 2016
Management of banking mandates	¢ 763,667,738,967	688,929,374,118
Assets in custody on behalf of third parties	-	392,901
"TUDES" securities received in custody from affiliates under article 75 of Law No. 7531	831,360,673	1,213,278,845
Pension funds (note 27)	1,181,635,260,366	1,063,096,044,720
Investment funds (note 26)	422,118,029,629	437,174,400,102
	¢ 2,368,252,389,635	2,190,413,490,686

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

Memoranda accounts for brokerage operations are summarized as follows:

	March 2017	March 2016
<i>Own</i>		
Trading securities in custody (note 25-a)	¢ 8,430,588,440	5,909,996,237
Trading securities pledged as guarantees	27,878,337,221	39,334,365,142
Trading securities pending receipt	507,303,452	-
Trading securities pending settlement	522,889,120	-
Repurchase agreements pending settlement (note 25-b)	26,549,497,950	37,479,301,185
Other own memoranda accounts	5,557,347,166	5,306,966,634
	69,445,963,349	88,030,629,198
<i>Third-party</i>		
Trading securities in custody (note 25-a)	627,851,827,976	1,409,222,774,286
Trading securities received as guarantees	65,646,001,020	62,104,034,893
Trading securities pledged as guarantees	72,344,478,679	76,796,937,831
Trading securities pending receipt	3,025,860,311	845,661,298
Trading securities pending settlement	3,060,010,948	1,182,497,270
Repurchase agreements pending settlement (note 25-b)	110,391,747,516	119,976,086,743
Cash and accounts receivable	1,030,371,923	1,447,924,249
	883,350,298,373	1,671,575,916,570
	¢ 952,796,261,722	1,759,606,545,768

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

a) Securities held in custody are as follows :

Location	Type of custody	March 2017	March 2016
<i>Own custodial activities</i>			
Local	At face value – available	¢ 8,236,550,000	5,736,303,030
Local	At purchase value of shares - available	15,000,002	15,000,002
Local	At purchase value of investments – available	68,208,506	60,719,365
Local	At face value – pledged	110,000,000	95,350,000
Local	Amount of physical coupons - pledged	829,932	2,623,840
		<u>8,430,588,440</u>	<u>5,909,996,237</u>
<i>Custodial activities on behalf of third parties</i>			
Local	At face value – available	590,701,198,374	1,034,963,461,561
Local	At purchase value of shares - available	22,234,477,062	46,233,080,275
Local	At purchase value of investments – available	12,451,549,121	325,339,510,369
Local	At face value – pledged	1,763,813,099	2,250,855,917
Local	At purchase value of shares - pledged	63,566,426	58,790,892
Local	At purchase value of investments – pledged	10,957,865	15,885,612
Local	At face value – pending delivery	621,516,029	361,189,660
Local	At purchase value of shares – pending delivery	4,750,000	-
		<u>627,851,827,976</u>	<u>1,409,222,774,286</u>
		¢ <u>636,282,416,416</u>	<u>1,415,132,770,523</u>

(Continued)

Notes to the Consolidated Financial Statements

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

[illegible]

As of March 31, 2017, term buyer and seller positions in tri-party repurchase agreements in U.S. dollars were valued at the exchange rate of ₪554.43 to US\$1.00 (2016: ₪529.59 to US\$1.00).

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:

March 2017				
	Term buyer		Term seller	
	Colones	U.S. dollars	Colones	U.S. dollars
<i>Own</i>				
1 to 30 days	¢ 2,054,035,085	1,893,763	-	-
31 to 60 days	13,300,589,995	12,324,402	-	-
61 to 90 days	511,440,540	5,051,053	-	-
	<u>15,866,065,620</u>	<u>19,269,218</u>	<u>-</u>	<u>-</u>
<i>Third parties</i>				
1 to 30 days	2,379,624,551	3,467,635	3,034,609,615	759,597
31 to 60 days	9,514,547,426	22,127,552	12,391,685,486	26,310,009
61 to 90 days	2,508,368,298	39,289,201	2,146,498,438	28,206,607
More than 91 days	-	10,637,747	-	10,637,747
	<u>14,402,540,275</u>	<u>75,522,135</u>	<u>17,572,793,539</u>	<u>65,913,960</u>
¢	<u>30,268,605,895</u>	<u>94,791,353</u>	<u>17,572,793,539</u>	<u>65,913,960</u>
March 2016				
	Term buyer		Term seller	
	Colones	U.S. dollars	Colones	U.S. dollars
<i>Own</i>				
1 to 30 days	¢ 3,802,827,122	2,524,086	-	-
31 to 60 days	12,300,580,171	6,006,974	-	-
61 to 90 days	14,533,619,546	2,801,615	-	-
More than 91 days	343,177,049	939,266	-	-
	<u>30,980,203,888</u>	<u>12,271,941</u>	<u>-</u>	<u>-</u>
<i>Third parties</i>				
1 to 30 days	1,235,864,529	765,017	1,369,797,820	50,474
31 to 60 days	13,554,808,051	21,864,699	15,911,015,392	6,915,845
61 to 90 days	25,918,478,058	14,766,011	21,810,421,746	13,040,284
More than 91 days	-	8,791,257	343,177,049	9,020,303
	<u>40,709,150,638</u>	<u>46,186,984</u>	<u>39,434,412,007</u>	<u>29,026,906</u>
¢	<u>71,689,354,526</u>	<u>58,458,925</u>	<u>39,434,412,007</u>	<u>29,026,906</u>

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(26) Investment fund management agreements

Investment Fund Manager's memoranda accounts are as follows:

		March 2017		
Fund		Net value	Shares	Value per share
<i>Funds in colones:</i>				
Súper Fondo - colones	¢	90,178,046,830	23,604,082,832	3.82
Fon Depósito - colones		65,808,008,327	46,755,692,728	1.40
Creci Fondo - colones		3,555,867,433	741,790,723	4.79
Redi Fondo - colones		14,073,487,828	4,129,297,699	3.40
Diner Fondo - colones		58,698,441,206	22,716,673,090	2.58
	¢	<u>232,313,851,624</u>	<u>97,947,537,072</u>	
<i>Funds in U.S. dollars:</i>				
Súper Fondo - U.S. dollars	US\$	22,446,712	15,406,334	1.45
Creci Fondo - U.S. dollars		3,191,678	1,848,790	1.72
Redi Fondo - U.S. dollars		17,058,487	11,711,831	1.45
Diner Fondo - U.S. dollars		105,356,879	82,628,044	1.27
Fon Depósito - U.S. dollars		75,904,254	70,344,229	1.07
Súper Fondo Plus - U.S. dollars		118,145,181	112,760,268	1.04
Fondo Hipotecario - U.S. dollars (mortgage fund)		237,914	236,532	268.22
	US\$	<u>342,341,105</u>	<u>294,936,028</u>	
	¢	<u>189,804,178,005</u>	<u>163,521,382,004</u>	
Total assets of managed funds (note 24)	¢	<u>422,118,029,629</u>	<u>261,468,919,076</u>	
<i>Guarantees:</i>				
Performance bonds		56,331,325		
Outstanding checks		1,975,304		
Total memoranda accounts	¢	<u>422,176,336,258</u>		

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

March 2016			
Fund	Net value	Shares	Value per share
<i>Funds in colones:</i>			
Súper Fondo - colones	¢ 103,689,030,443	27,844,539,552	3.72
Fon Depósito - colones	94,246,527,369	68,281,500,232	1.38
Creci Fondo - colones	3,664,334,977	798,267,835	4.59
Redi Fondo - colones	19,080,397,158	5,840,625,625	3.27
Diner Fondo - colones	53,798,423,995	20,746,761,969	2.59
	¢ 274,478,713,942	123,511,695,213	
<i>Funds in U.S. dollars::</i>			
Súper Fondo - U.S. dollars	US\$ 23,376,783	16,343,022	1.43
Creci Fondo - U.S. dollars	2,208,335	1,331,063	1.66
Redi Fondo - U.S. dollars	12,160,070	8,673,490	1.40
Diner Fondo - U.S. dollars	85,907,548	68,291,485	1.26
Fon Depósito - U.S. dollars	71,004,506	66,694,625	1.06
Súper Fondo Plus - U.S. dollars	112,174,922	109,005,606	1.03
Fondo Hipotecario - U.S. dollars (mortgage fund)	378,481	375,767	426.69
	US\$ 307,210,645	270,715,058	
	¢ 162,695,686,160	143,367,987,566	
Total assets of managed funds (note 24)	¢ 437,174,400,102	266,879,682,779	
<i>Guarantees:</i>			
Performance bonds	¢ 66,454,908		
Outstanding checks	1,975,304		
Total memoranda accounts	¢ 437,242,830,314		

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- BN DinerFondo - Dólares No Diversificado (non-diversified - U.S. dollars): This is an open-end (floating number of outstanding shares) money market fund with a fixed income portfolio, Returns on the investment portfolio are not distributed until the customer requests partial or full redemption of shares,
- BN FonDepósito - Dólares No Diversificado (non-diversified - U.S. dollars): This is an open-end (floating number of outstanding shares) money market fund with a fixed income portfolio, Returns on the investment portfolio are not distributed until the customer requests partial or full redemption of shares,
- BN Fondo de Inversión de Titularización Hipotecaria (FHIPO) - Dólares (mortgage securitization - U.S. dollars): This is mainly a closed-end mortgage investment fund, i.e. investor shares are listed and traded on a stock exchange,
- BN SuperFondo Dólares Plus No Diversificado - Dólares (non-diversified - U.S. dollars): This fund is aimed at conservative investors looking for short-term investments, It allows obtaining reimbursement of the shares one business day and up to a maximum of three business days from the date of receipt of the withdrawal request, Since it is a short-term fund, it allows the investor to manage resources to address its present or future liquidity needs, The goal of the fund is to offer an investment mechanism that seeks to obtain higher returns than other investment alternatives under similar liquidity, term, and risk parameters, taking advantage of the short-term part of the yield curve in the composition of its portfolio,
- BN Inmobiliario CR-2 - Dólares (real estate development – U.S. dollars): This is a long-term, closed-end fund, in U.S. dollars, which has the goal of investing in real estate for its exploitation through leasing and sale, It is aimed at investors interested in diversifying their investments portfolio by including real estate property located in national territory and mainly occupied by public institutions, As of March 31, 2017 and 2016, this fund does not have operations,
- Fondo de Inversión de Desarrollo Inmobiliario BN-1 - Dólares (real estate development - U.S. dollars): This fund invests in the construction of buildings to be occupied by entities of the Banco Nacional Conglomerate (BNCR Conglomerate), Once the works are completed, the buildings will be sold to an entity of the BNCR Conglomerate or a real estate fund managed by BN Fondos, and investors thus realize their potential gains, If the buildings are sold to a real estate fund, such fund will lease the buildings to an entity of the BNCR Conglomerate, As of March 31, 2017 and 2016, this fund does not have operations,

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- Fondo de Inversión de Desarrollo Inmobiliario de Infraestructura Pública - 1 - Dólares (real estate development - U.S. dollars): This fund will invest in the construction of buildings to be occupied by the Maximum Deconcentration Organizations and other entities of BCCR. Once the works are completed, the buildings will be leased with a purchase option to BCCR or sold to BCCR or to a real estate fund managed by BN Fondos, and investors thus realize their potential gains. If the buildings are sold to a real estate fund, such fund will lease the buildings to BCCR. As of March 31, 2017 and 2016, this fund does not have operations,

(27) Pension fund management agreements

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

	March 2017	March 2016
Mandatory Pension Fund (ROP) ¢	987,118,579,170	857,686,504,577
Mandatory Retirement Savings Account (FCL)	74,641,684,312	104,028,659,817
Pension Fund in Colones A (FPC A)	62,208,502,786	51,288,333,355
Pension Fund in Colones B (FPC B)	14,228,637,094	11,266,959,293
Notary Fund (NOT)	24,727,115,629	22,759,512,424
Pension Fund in U.S. dollars A (FPD A) (a)	11,249,383,353	10,067,308,998
Pension Fund in U.S. dollars B (FPD B) (b)	7,461,358,022	5,998,766,256
Total assets of managed funds (note 24)	1,181,635,260,366	1,063,096,044,720
Securities and assets in own custody	7,986,100,347	7,584,250,423
Bid and performance bonds – colones	18,574,605	12,590,137
Bid and performance bonds – U.S. dollars (c)	52,538,602	37,184,346
Securities in DU	831,360,673	1,213,278,845
Total memoranda accounts (note 24) ¢	1,190,523,834,593	1,071,943,348,471

- (a) As of March 31, 2017, this fund amounts to US\$20,289,998 and was valued at the exchange rate of ¢554.43 to US\$1.00 (2016: US\$19,009,628 valued at the exchange rate of ¢548.18 to US\$1.00).
- (b) As of March 31, 2017, this fund amounts to US\$13,457,710 and was valued at the exchange rate of ¢554.43 to US\$1.00 (2016: US\$11,327,189 valued at the exchange rate of ¢529.59 to US\$1.00).
- (c) As of March 31, 2017, this fund amounts to US\$94,761 and was valued at the exchange rate of ¢554.43 to US\$1.00 (2016: US\$70,213 valued at the exchange rate of ¢529.59 to US\$1.00).

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(28) Finance income on financial instruments

Finance income on cash and due from banks and financial instruments is as follows:

	March 2017	March 2016
<i><u>Cash and due from banks:</u></i>		
Interest on deposits in BCCR	1,168,727	1,284,267
Interest on checking accounts and demand deposits in local entities	16,364,207	26,156,937
Interest on checking accounts and demand deposits in foreign entities	282,351,777	96,040,281
	<u>299,884,711</u>	<u>123,481,485</u>
<i><u>Financial instruments:</u></i>		
Interest on investments in available-for-sale financial instruments	11,189,038,927	8,982,110,822
Interest on past due and restricted financial instruments	620,638,086	2,619,251,795
	<u>11,809,677,013</u>	<u>11,601,362,617</u>
¢	<u>12,109,561,724</u>	<u>11,724,844,102</u>

(29) Finance income on loan portfolio

Finance income on the loan portfolio is as follows:

	March 2017	March 2016
<i><u>Current loans:</u></i>		
Checking account overdrafts	¢ 13,737,749	25,506,620
Loans granted with funds from BCCR	262,817,125	300,175,016
Loans granted with other funds	76,976,866,723	68,625,409,997
Credit cards	5,776,506,129	4,911,980,017
Issued letters of credit	-	543
Other loans	1,081,027	1,115,830
	<u>83,031,008,753</u>	<u>73,864,188,023</u>
<i><u>Past due loans and loans in legal collection:</u></i>		
Checking account overdrafts	708,846	427,293
Loans granted with funds from BCCR	30,322,117	50,702,536
Loans granted with other funds	10,266,756,708	10,357,152,908
Credit cards	543,405,622	576,409,441
	<u>10,841,193,293</u>	<u>10,984,692,178</u>
¢	<u>93,872,202,046</u>	<u>84,848,880,201</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(30) Other finance income

Other finance income is as follows:

	March 2017	March 2016
Fees and commissions on letters of credit	¢ 8,998,979	16,078,486
Fees and commissions on guarantees granted	133,958,750	73,450,897
Fees and commissions on lines of credit	23,561,646	31,049,942
Gain on fair value hedge for item measured at cost (note 15)	3,122,362,216	1,465,189,807
Other sundry finance income	1,312,154,047	1,422,780,937
	¢ <u>4,601,035,638</u>	<u>3,008,550,069</u>

(31) Expenses for obligations with the public

For the years ended December 31, expenses for obligations with the public are as follows:

	March 2017	March 2016
Demand deposits	¢ 8,136,450,085	7,674,168,695
Term deposits	22,488,283,209	18,827,852,429
Tri-party repurchase agreements and securities lending	313,058,598	372,672,142
	¢ <u>30,937,791,892</u>	<u>26,874,693,266</u>

(32) Expenses for obligations with financial entities

Expenses for obligations with financial entities are as follows:

:

	March 2017	March 2016
Demand obligations	¢ 493,774,733	455,724,900
Term obligations	15,078,044,104	11,138,149,100
	¢ <u>15,571,818,837</u>	<u>11,593,874,000</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(33) Other finance costs

Other finance costs are as follows:

	March 2017	March 2016
Fees and commissions on letters of credit obtained	¢ 19,280,092	24,815,104
Loss on hedged item measured at cost from fair value hedge of interest rate risk	4,968,558,745	14,348,930,611
Other sundry interest expenses	54,521,061	158,448,573
	¢ <u>5,042,359,898</u>	<u>14,532,194,288</u>

(34) Expenses for allowance for impairment of assets

Expenses for allowance for impairment of assets are as follows:

	March 2017	March 2016
Allowance for loan losses (note 7)	¢ 317,990,016	6,528,115,877
General and counter-cyclical allowance for loan portfolio (note 7)	3,918,612,228	1,072,503,265
Allowance for impairment of other accounts receivable (note 8)	436,800,791	369,720,388
Allowance for stand-by credit losses (note 19)	-	105,000,001
General and counter-cyclical allowance for stand-by credit losses (note 19)	46,112,000	35,320,006
Allowance for impairment of derivative financial instruments (note 5)	1,288,872	20,527,703
	¢ <u>4,720,803,907</u>	<u>8,131,187,240</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

	March 2017	March 2016
Recovery of loan write-offs	¢ 2,306,319,704	1,808,147,889
Recovery of receivable write-offs	643,832	97,420
Decrease in allowance for loan losses	720,000,000	-
Decrease in allowance for impairment of other accounts receivable (note 8)	202,567,933	158,924,108
Decrease in allowance for stand.by credit (note 18)	280,000,000	-
Decrease in allowance for impairment of investments in financial instruments (note 5)	-	93,252,624
	¢ 3,509,531,469	2,060,422,041

(36) Operating income from service fees and commissions

Operating income from service fees and commissions is as follows:

	March 2017	March 2016
Drafts and transfers	¢ 2,073,545,324	1,887,287,962
Certified checks	1,363,051	1,174,990
Trusts	227,952,043	183,097,940
Custodial services	397,498,266	362,169,867
Banking mandates	73,864	40,221
Collections	69,869,849	8,996,858
Credit cards	13,162,190,789	11,261,937,363
Management services	830,626,085	925,667,411
Management of investment funds	1,177,657,702	1,396,509,041
Management of pension funds	1,760,604,449	2,236,436,594
Insurance underwriting	1,003,362,463	843,176,627
Brokerage operations (third parties in local market)	594,390,044	756,058,971
Brokerage operations (third parties in other markets)	30,055,759	57,625,501
Individual portfolio management	256,809	285,194
Other	10,154,058,055	9,938,534,181
	¢ 31,483,504,552	29,858,998,721

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(37) Other operating income

Other operating income is as follows:

	March 2017	March 2016
Leasing of assets	¢ 16,310,194	8,550,000
Recovery of expenses	586,535,613	256,799,516
Net valuation of other assets (note 46-c)	47,531,515	53,664,008
Other income from accounts receivable	314,014	337,324
Sundry operating income	1,074,252,698	851,228,003
Decrease in provisions	148,947,502	207,737,565
	¢ <u>1,873,891,536</u>	<u>1,378,316,416</u>

(38) Operating expenses for foreclosed assets

Operating expenses for foreclosed assets are as follows:

	March 2017	March 2016
Securities, property, and other assets acquired in lieu of payment	¢ 136,289,495	65,014,382
Loss on sale of assets awarded in judicial auctions	2,168,645,373	422,465,097
Management of assets awarded in judicial auctions	1,244,948,056	2,299,656,442
Loss on impairment of foreclosed assets (note 9)	16,466,497	17,756,179
Loss on allowance for impairment of foreclosed assets and per legal requirements (note 9)	1,433,877,457	2,429,505,427
Other expenses for foreclosed assets	22,743,951	5,875,960
	¢ <u>5,022,970,829</u>	<u>5,240,273,487</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(39) Expenses for provisions

Expenses for provisions are as follows:

	March 2017	March 2016
Severance benefits	¢ 200,440,300	663,418,052
Pending litigation	175,769,700	134,132,691
Other provisions	4,028,236,914	3,513,583,812
	¢ <u>4,404,446,914</u>	<u>4,311,134,555</u>

(40) Other operating expenses

Other operating expenses are as follows:

	March 2017	March 2016
Penalties for noncompliance with regulatory provisions	¢ 334,963,638	80,143
Net valuation of other liabilities (note 46-c)	228,820,638	8,341,025
Income tax on foreign remittances	71,441,302	118,354,664
Income tax (8%) on interest on investments in financial instruments	736,325,248	757,648,043
Property tax	79,317,487	80,592,432
Licenses	148,738,226	165,009,244
Other local taxes	877,821	10,637,094
Transfers to FINADE	1,172,329,364	732,745,370
Sundry operating expenses	13,853,541,945	11,701,008,688
	¢ <u>16,626,355,669</u>	<u>13,574,416,703</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(41) Personnel expenses

Personnel expenses are as follows

	March 2017	March 2016
Salaries and bonuses, permanent staff	¢ 16,573,079,777	16,495,716,401
Salaries and bonuses, contractors	418,693,309	431,095,274
Compensation for directors and statutory examiners	49,141,104	41,645,531
Overtime	214,137,986	231,270,451
Travel expenses	143,524,831	145,289,501
Statutory Christmas bonus	1,846,601,484	1,845,502,612
Vacation	1,813,851,152	2,243,931,548
Other compensation	1,045,975,860	938,192,590
Severance benefits	1,135,145,829	1,100,767,869
Employer social security taxes	7,005,065,217	7,038,817,997
Refreshments	101,432,144	108,926,697
Uniforms	41,149,604	657,606
Training	63,367,996	68,426,143
Employee insurance	59,637,211	67,095,840
Back-to-school bonus	1,646,781,473	1,574,928,145
Mandatory retirement savings account	674,030,786	680,610,820
Other personnel expenses	149,305,705	141,220,110
	¢ 32,980,921,468	33,154,095,135

(42) Other administrative expenses

Other administrative expenses are as follows:

	March 2017	March 2016
Outsourcing	¢ 3,064,339,211	3,284,117,267
Transportation and communications	1,161,087,288	1,036,559,301
Infrastructure	8,735,188,142	8,658,839,718
Overhead	3,493,698,509	2,408,807,175
	¢ 16,454,313,150	15,388,323,461

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(43) Statutory allocations

Statutory allocations are as follows:

	March 2017	March 2016
CONAPE (5%)	¢ 1,265,032,935	911,081,179
CNE (3%)	778,296,914	574,673,886
INFOCOOP (10%)	1,849,825,494	1,395,809,320
Public capital pension operators	182,594,772	293,038,326
RIVM 15% (March 2016:7%)	2,310,237,756	846,742,474
	¢ <u>6,385,987,871</u>	<u>4,021,345,185</u>

The decrease in statutory allocations is as follows:

	March 2017	March 2016
INFOCOOP 10%	¢ 63,669,806	-
RIVM 15% (March 2016:7%)	30,585,366	-
	¢ <u>94,255,172</u>	<u>-</u>

(44) Fair value of financial instruments

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

	March 2017	
	Carrying amount	Fair value
<i>Financial assets:</i>		
Cash and due from banks	¢ 1,227,548,669,423	1,227,548,669,423
Investments in financial instruments	1,003,480,366,789	1,003,480,366,789
Loan portfolio	4,236,311,079,570	3,942,860,066,067
	¢ <u>6,467,340,115,782</u>	<u>6,173,889,102,279</u>
<i>Financial liabilities:</i>		
Demand deposits from the public and financial entities	¢ 2,824,077,421,895	2,824,077,421,895
Other demand obligations with the public	15,388,576,782	15,388,576,782
Term deposits from the public and financial entities	3,012,735,724,963	3,038,369,249,693
Obligations for tri-party repurchase agreements	26,395,633,007	26,395,633,007
	¢ <u>5,878,597,356,647</u>	<u>5,904,230,881,377</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	March 2016	
	Carrying amount	Fair value
<i>Financial assets:</i>		
Cash and due from banks	¢ 994,390,384,566	994,390,384,566
Investments in financial instruments	1,167,980,256,359	1,167,980,256,359
Loan portfolio	3,753,481,009,918	3,506,425,566,700
	¢ 5,915,851,650,843	5,668,796,207,625
<i>Financial liabilities:</i>		
Demand deposits from the public and financial entities	¢ 2,879,954,149,470	2,879,954,149,470
Other demand obligations with the public	12,828,825,072	12,828,825,072
Term deposits from the public and financial entities	2,497,306,956,517	2,474,460,984,115
Obligations for tri-party repurchase agreements	37,261,590,883	37,261,590,883
	¢ 5,427,351,521,942	5,404,505,549,540

Fair value estimates

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

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

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

- (b) Loan portfolio

The fair value of loans is calculated by discounting future cash flows expected for principal and interest. Loan payments are assumed to be made on the contractually agreed payment dates. Future expected cash flows for loans are discounted at the interest rates offered for similar loans to new borrowers as of March 31, 2017 and 2016.

- (c) Term deposits

The fair value of term deposits is calculated by discounting cash flows at the interest rates in effect as of March 31, 2017 and 2016, offered for term deposits with similar maturities.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(d) Obligations with entities

The fair value of obligations with entities is calculated by discounting cash flows at the interest rates in effect as of March 31, 2017 and 2016.

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

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

		March 2017			
		Level 1	Level 2	Level 3	Total
Available for sale	¢	840,221,017,664	112,766,413,504	5,804,543,636	958,791,974,805
Held to maturity	¢	-	27,517,445,454	-	27,517,445,454
		March 2016			
		Level 1	Level 2	Level 3	Total
Available for sale	¢	855,142,019,893	171,670,144,319	5,543,857,645	1,032,356,021,857
Held to maturity	¢	-	27,259,395,285	-	27,259,395,285

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

March 31						
	2017			2016		
	Available for sale	Derivative financial instruments	Term obligations with foreign financial entities	Available for sale	Derivative financial instruments	Term obligations with foreign financial entities
Opening balance	¢ 5,629,455,571	5,893,164,907	815,040,918,559	5,594,435,115	12,835,716,456	539,553,389,165
Valuation	76,071,361	3,078,673,279	46,859,223,667	(30,153,202)	13,626,603,314	12,092,873,064
Amortizations	-	-	213,620,081	-	-	133,040,063
Exchange differences	53,109,900	67,189,899	(35,685,625,286)	(20,424,268)	(56,705,037)	(1,649,265,499)
Closing balance	¢ 5,758,636,832	9,039,028,085	826,428,137,021	5,543,857,645	26,405,614,733	550,130,036,793

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(45) Segments

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

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

As of March 31, 2017									
	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations	Consolidated	Brokerage Firm	
ASSETS									
Cash and due from banks	1,224,601,346,437	2,282,323,819	115,388,254	156,169,838	1,977,768,755	1,229,132,997,103	1,584,327,680	1,227,548,669,423	
Investments in financial instruments	937,330,218,694	54,501,372,055	6,117,818,874	7,078,017,015	-	1,005,027,426,638	1,547,059,849	1,003,480,366,789	
Loan portfolio, net	4,151,191,267,784	-	-	-	-	4,151,191,267,784	-	4,151,191,267,784	
Accounts and fees and commissions receivable, net	1,594,779,223	244,897,049	89,058,002	790,134,084	386,236,219	3,105,104,577	36,848,466	3,068,256,111	
Fees and commissions	110,274,082	27,410,248	15,362,010	589,263,981	326,812,812	1,069,123,133	33,929,263	1,035,193,870	
Brokerage services	-	41,186,198	-	-	-	41,186,198	-	41,186,198	
Transactions with related parties	48,457,271	-	2,850,096	930,028	534,571	52,771,966	2,919,198	49,852,768	
Deferred tax and income tax	638,249,746	157,898,773	69,759,743	163,214,854	58,875,582	1,087,998,698	-	1,087,998,698	
Other	4,135,905,661	18,401,830	1,086,153	95,474,830	13,254	4,250,881,728	5	4,250,881,723	
Accrued interest	1,640,063	-	-	-	-	1,640,063	-	1,640,063	
Allowance for impairment of accounts and fees and commissions	(3,339,747,600)	-	-	(58,749,609)	-	(3,398,497,209)	-	(3,398,497,209)	
Foreclosed assets, net	16,811,311,256	-	-	-	-	16,811,311,256	-	16,811,311,256	
Investments in other companies	92,121,169,381	30,000,000	-	-	-	92,151,169,381	33,721,839,528	58,429,329,853	
Property, furniture, and equipment, net	174,722,794,735	312,366,545	165,393,521	551,028,723	50,558,814	175,802,142,338	-	175,802,142,338	
Other assets	36,896,680,405	181,511,772	519,304,468	153,735,402	141,921,631	37,893,153,678	-	37,893,153,678	
TOTAL ASSETS	6,635,269,567,915	57,552,471,240	7,006,963,119	8,729,085,062	2,556,485,419	6,711,114,572,755	36,890,075,523	6,674,224,497,232	
LIABILITIES AND EQUITY									
LIABILITIES									
Obligations with the public	4,534,929,300,556	26,472,225,803	-	-	-	4,561,401,526,359	1,547,059,849	4,559,854,466,510	
Obligations with BCCR	1,258,562,387,659	-	-	-	-	125,644,412	-	125,644,412	
Obligations with entities	212,419,659,369	11,180,756,584	-	-	-	1,269,743,144,243	1,584,327,683	1,268,158,816,560	
Demand	1,023,938,574,449	-	-	-	-	212,419,659,369	1,584,327,683	210,835,331,686	
Term	22,204,153,841	11,167,720,000	-	-	-	1,035,106,294,449	-	1,035,106,294,449	
Finance charges payable	100,201,953,600	13,036,584	-	-	-	22,217,190,425	-	22,217,190,425	
Accounts payable and provisions	65,527,042,435	2,071,153,960	694,648,542	1,280,189,316	424,191,108	104,672,136,526	36,848,464	104,635,288,062	
Other liabilities	72,675,619,590	-	-	-	-	65,527,042,435	-	65,527,042,435	
Subordinated obligations	-	-	-	-	-	72,675,619,590	-	72,675,619,590	
TOTAL LIABILITIES	6,032,021,948,252	39,724,136,347	694,648,542	1,280,189,316	424,191,108	6,074,145,113,565	3,168,235,996	6,070,976,877,569	

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of March 31, 2017

	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations	Consolidated	Brokerage Firm
EQUITY								
Share capital	118,130,303,482	6,600,000,000	3,000,000,000	4,392,270,362	369,700,000	132,492,273,844	14,361,970,362	118,130,303,482
Non-capitalized capital contributions	-	-	-	602,654,647	-	602,654,647	602,654,647	-
Equity adjustments	68,041,126,210	83,965,231	39,798,833	66,956,698	-	68,231,846,972	190,720,762	68,041,126,210
Capital reserves	309,943,224,289	1,262,017,387	452,648,062	300,000,000	73,940,000	312,031,829,738	2,088,605,449	309,943,224,289
Prior period retained earnings	66,434,579,293	9,499,004,821	2,451,488,345	1,904,419,266	1,376,131,469	81,665,623,194	15,231,043,901	66,434,579,293
Income for the year	13,586,428,376	383,347,454	368,379,337	182,594,773	312,522,842	14,833,272,782	1,246,844,406	13,586,428,376
FOFIDE	27,111,958,013	-	-	-	-	27,111,958,013	-	27,111,958,013
TOTAL EQUITY	603,247,619,663	17,828,334,893	6,312,314,577	7,448,895,746	2,132,294,311	636,969,459,190	33,721,839,527	603,247,619,663
TOTAL LIABILITIES AND EQUITY	6,635,269,567,915	57,552,471,240	7,006,963,119	8,729,085,062	2,556,485,419	6,711,114,572,755	36,890,075,523	6,674,224,497,232
Debit memoranda accounts								
Trust assets	637,760,198,896	100,270,319	-	288,110,324	-	638,148,579,539	-	638,148,579,539
Trust liabilities	1,219,911,096,378	1,861,974,431	-	-	-	1,221,773,070,809	-	1,221,773,070,809
Trust equity	51,810,523,656	1,991,666	-	-	-	51,812,515,322	-	51,812,515,322
Other debit memoranda accounts	1,168,100,572,722	1,859,982,765	-	-	-	1,169,960,555,487	-	1,169,960,555,487
	17,264,473,161,850	952,796,261,723	422,176,336,257	1,190,523,834,592	-	19,829,969,594,422	-	19,829,969,594,422

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of March 31, 2017

	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations	Consolidated
Finance income	114,916,421,133	796,088,501	117,561,802	143,455,038	12,370,909	115,985,897,383	21,895,729	115,964,001,654
Finance costs	52,308,810,221	394,826,373	26,435,800	(439,930)	558,402	52,730,190,866	21,895,729	52,708,295,137
Allowance expense	3,509,531,469	-	-	-	-	3,509,531,469	-	3,509,531,469
Income from recovery of assets	4,720,803,907	-	-	-	-	4,720,803,907	-	4,720,803,907
FINANCE INCOME	61,396,338,474	401,262,128	91,126,002	143,894,968	11,812,507	62,044,434,079	-	62,044,434,079
Other operating income	37,499,813,978	938,572,155	1,178,701,269	1,802,621,595	973,862,056	42,393,571,053	1,515,632,233	40,877,938,820
Other operating expenses	27,351,424,052	126,780,043	146,468,183	272,601,354	39,669,560	27,936,943,192	230,067,931	27,706,875,261
GROSS OPERATING INCOME	71,544,728,400	1,213,054,240	1,123,359,088	1,673,915,209	946,005,003	76,501,061,940	1,285,564,302	75,215,497,638
Personnel expenses	30,622,979,862	649,925,055	471,238,936	834,643,156	402,134,459	32,980,921,468	-	32,980,921,468
Other administrative expenses	15,781,146,925	196,562,473	139,321,490	313,986,402	62,015,756	16,493,033,046	38,719,896	16,454,313,150
Total administrative expenses	46,404,126,787	846,487,528	610,560,426	1,148,629,558	464,150,215	49,473,954,514	38,719,896	49,435,234,618
NET OPERATING INCOME BEFORE STATUTORY ALLOCATIONS AND TAXES	25,140,601,613	366,566,712	512,798,662	525,285,651	481,854,788	27,027,107,426	1,246,844,406	25,780,263,020
Income tax	5,502,878,167	-	141,286,530	161,142,137	166,315,237	5,971,622,071	-	5,971,622,071
Decrease in income tax	-	27,777,743	12,227,855	16,804,600	12,709,928	69,520,126	-	69,520,126
Statutory allocations	6,145,550,242	10,997,001	15,360,650	198,353,341	15,726,637	6,385,987,871	-	6,385,987,871
Distribución de Participaciones	94,255,172	-	-	-	-	94,255,172	-	94,255,172
INCOME FOR THE YEAR	13,586,428,376	383,347,454	368,379,337	182,594,773	312,522,842	14,833,272,782	1,246,844,406	13,586,428,376

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	As of March 31, 2016					
	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Consolidated
ASSETS						
Cash and due from banks	990,967,724,687	2,539,067,104	118,035,032	1,227,513,687	1,315,318,574	994,390,384,565
Investments in financial instruments	1,093,636,545,072	63,614,079,568	5,765,723,543	6,574,328,376	-	1,167,980,256,359
Loan portfolio, net	3,686,712,728,546	-	-	-	-	3,686,712,728,546
Accounts and fees and commissions receivable, net	1,009,638,605	122,689,931	100,938,824	996,779,509	315,053,822	2,501,761,822
Fees and commissions	114,421,953	31,997,488	17,523,087	761,426,313	259,624,971	1,146,504,634
Brokerage services	-	11,529,100	-	-	-	11,529,100
Transactions with related parties	121,093,308	96,524	3,396,765	1,614,669	72,682	121,424,257
Deferred tax and income tax	3,118,186,428	72,339,443	79,163,737	230,262,220	55,356,169	3,555,307,997
Other	3,547,734,299	6,727,376	855,235	61,957,658	-	3,617,274,568
Accrued interest	2,181,229	-	-	-	-	2,181,229
Allowance for impairment of accounts and fees and commissions	(5,893,978,612)	-	-	(58,481,351)	-	(5,952,459,963)
Foreclosed assets, net	16,721,690,383	-	-	-	-	16,721,690,383
Investments in other companies	87,408,608,766	30,000,000	-	-	-	87,438,608,766
Property, furniture, and equipment, net	175,403,819,248	415,937,061	239,473,230	525,686,625	46,468,906	176,631,385,070
Other assets	30,598,339,465	148,433,453	451,090,716	115,591,118	171,027,992	31,484,482,744
TOTAL ASSETS	6,082,459,094,772	66,870,207,117	6,675,261,345	9,439,899,315	1,847,869,294	6,130,600,637,150
LIABILITIES AND EQUITY						
LIABILITIES						
Obligations with the public	4,131,663,311,915	37,374,691,565	-	-	-	4,167,427,583,280
Obligations with BCCR	125,644,412	-	-	-	-	125,644,412
Obligations with entities	1,199,647,125,502	7,574,957,000	-	-	-	1,205,444,807,992
Demand	320,753,380,220	-	-	-	-	318,976,105,710
Term	863,897,680,184	7,563,000,000	-	-	-	871,460,680,184
Finance charges payable	14,996,065,098	11,957,000	-	-	-	15,008,022,098
Accounts payable and provisions	88,419,139,639	2,970,520,300	841,293,858	2,441,003,539	370,109,696	94,998,728,162
Other liabilities	42,043,836,522	-	-	-	-	42,043,836,522
Subordinated obligations	69,361,508,354	-	-	-	-	69,361,508,354
TOTAL LIABILITIES	5,531,260,566,344	47,920,168,865	841,293,858	2,441,003,539	370,109,696	5,579,402,108,722

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of March 31, 2016

	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations	Consolidated
EQUITY								
Share capital	¢ 118,130,303,482	6,600,000,000	3,000,000,000	4,100,841,331	369,700,000	132,200,844,813	14,070,541,331	118,130,303,482
Non-capitalized capital contributions	-	-	-	894,083,678	-	894,083,678	894,083,678	-
Equity adjustments	69,684,449,544	897,216,646	92,872,849	129,261,603	-	70,803,800,642	1,119,351,098	69,684,449,544
Capital reserves	271,700,185,914	1,140,842,882	371,903,664	300,000,000	73,940,000	273,586,872,460	1,886,686,546	271,700,185,914
Prior period retained earnings	57,020,849,097	9,601,612,699	1,917,344,772	1,281,670,839	826,027,664	70,647,505,071	13,626,655,965	57,020,849,106
Income for the year	12,912,921,071	710,366,025	451,846,202	293,038,326	208,091,935	14,576,263,559	1,663,342,497	12,912,921,062
FOFIDE	21,749,819,320	-	-	-	-	21,749,819,320	-	21,749,819,320
TOTAL EQUITY	¢ 551,198,528,428	18,950,038,252	5,833,967,487	6,998,895,777	1,477,759,599	584,459,189,543	33,260,661,115	551,198,528,428
TOTAL LIABILITIES AND EQUITY	¢ 6,082,459,094,772	66,870,207,117	6,675,261,345	9,439,899,316	1,847,869,295	6,167,292,331,845	36,691,694,695	6,130,600,637,150
Debit memoranda accounts	¢ 572,813,485,846	133,194,104	-	-	-	572,946,679,950	-	572,946,679,950
Trust assets	¢ 984,881,969,917	620,119,462	-	-	-	985,502,089,379	-	985,502,089,379
Trust liabilities	¢ 45,635,250,762	36,650,783	-	-	-	45,671,901,545	-	45,671,901,545
Trust equity	¢ 939,246,719,156	583,468,678	-	-	-	939,830,187,834	-	939,830,187,834
Other debit memoranda accounts	¢ 15,825,745,376,835	1,759,606,545,768	437,242,830,314	1,071,943,348,471	-	19,094,538,101,388	-	19,094,538,101,388

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of March 31, 2016

	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations	Consolidated
Finance income	112,781,150,589	1,269,322,942	121,623,967	250,685,570	6,618,132	114,429,401,200	21,719,648	114,407,681,552
Finance costs	53,492,439,305	453,433,899	26,375,908	-	-	53,972,249,112	21,719,648	53,950,529,464
Income from recovery of assets	2,060,422,041	-	-	-	-	2,060,422,041	-	2,060,422,041
Gastos por estimación	8,131,187,240	-	-	-	-	8,131,187,240	-	8,131,187,240
FINANCE INCOME	53,217,946,085	815,889,043	95,248,059	250,685,570	6,618,132	54,386,386,889	-	54,386,386,889
Other operating income	34,920,436,018	1,071,617,211	1,397,520,051	2,241,525,049	760,841,064	40,391,939,393	1,925,738,121	38,466,201,272
Other operating expenses	24,664,057,287	167,306,103	183,013,583	347,820,699	29,849,938	25,392,047,610	237,674,214	25,154,373,396
GROSS OPERATING INCOME	63,474,324,816	1,720,200,151	1,309,754,527	2,144,389,920	737,609,258	69,386,278,672	1,688,063,907	67,698,214,765
Personnel expenses	30,598,194,424	742,907,930	492,543,639	935,813,666	384,635,476	33,154,095,135	-	33,154,095,135
Other administrative expenses	14,654,506,819	212,707,502	155,432,126	345,860,088	44,538,336	15,413,044,871	24,721,410	15,388,323,461
Total administrative expenses	45,252,701,243	955,615,432	647,975,765	1,281,673,754	429,173,812	48,567,140,006	24,721,410	48,542,418,596
NET OPERATING INCOME BEFORE STATUTORY ALLOCATIONS AND TAXES	18,221,623,573	764,584,719	661,778,762	862,716,166	308,435,446	20,819,138,666	1,663,342,497	19,155,796,169
Income tax	2,855,700,753	50,459,287	204,123,793	297,530,331	99,743,717	3,507,557,881	-	3,507,557,881
Decrease in income tax	1,197,379,657	19,178,135	14,044,605	46,772,302	8,653,269	1,286,027,968	-	1,286,027,968
Participación sobre la utilidad	3,650,381,406	22,937,542	19,853,363	318,919,811	9,253,063	4,021,345,185	-	4,021,345,185
INCOME FOR THE YEAR	12,912,921,071	710,366,025	451,846,211	293,038,326	208,091,935	14,576,263,568	1,663,342,497	12,912,921,071

(Continued)

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.

(Continued)

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.

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

	<u>Note</u>	<u>Direct</u>		<u>Note</u>	<u>Stand-by</u>	
		<u>March 2017</u>	<u>March 2016</u>		<u>March 2017</u>	<u>March 2016</u>
Loan portfolio						
Principal	7-a	¢ 4,207,916,207,151	3,726,929,807,292	20	326,685,814,084	323,126,267,436
Accounts and accrued interest receivable		28,394,872,419	26,551,202,626		-	-
Carrying amount, gross		4,236,311,079,570	3,753,481,009,918		326,685,814,084	323,126,267,436
Allowance for loan losses (accounting records)		(85,119,811,786)	(66,768,281,372)		(309,271,895)	(1,679,701,720)
Carrying amount, net		¢ <u>4,151,191,267,784</u>	<u>3,686,712,728,546</u>		<u>326,376,542,189</u>	<u>321,446,565,716</u>

(Continued)

Loan portfolio

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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:

:

March 2017		
Loans to customers		
	Gross	Net
0	¢ 6,693,259,163	6,667,127,799
A1	3,455,646,007,845	3,434,646,518,915
A2	34,917,802,843	34,784,779,361
B1	299,895,238,880	297,908,405,477
B2	11,423,597,485	11,311,933,934
C1	115,797,288,789	113,427,331,267
C2	3,844,877,692	3,656,485,043
D	125,461,904,534	118,427,357,095
E	182,631,102,339	130,361,328,893
	¢ 4,236,311,079,570	4,151,191,267,784

March 2016		
Loans to customers		
	Gross	Net
A1	¢ 3,047,355,913,038	3,037,246,295,924
A2	34,734,261,108	34,654,367,735
B1	315,623,289,063	314,072,986,191
B2	15,140,699,432	15,003,473,545
C1	80,411,487,089	77,664,648,726
C2	2,283,486,942	2,148,387,201
D	82,057,544,374	78,002,024,667
E	175,874,328,872	127,920,544,557
	¢ 3,753,481,009,918	3,686,712,728,546

As shown above, as of March 31, 2017, the gross portfolio amounts to ¢4,236 billion. Of that amount, 89.90% is classified in risk ratings “A + B” and 10.10% in risk ratings “C + D + E” (2016: ¢3,753 billion, of which 90.93% is classified in risk ratings “A + B” and 9.07% in risk ratings “C + D + E”).

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Individually assessed loans with allowance

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

Restructured loans

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

- a. Extended loan: Loan operation in which at least one full or partial payment of principal or interest due under the current contractual terms has been postponed.
- b. Modified loan: Loan operation in which at least one of the current contractual repayment terms has been modified, excluding extensions, additional payments not included in the loan repayment schedule, additional payments to reduce the amount of installments, and a change in the currency used while respecting the original loan maturity date.
- c. Refinanced loan: Loan operation in which at least one payment of principal or interest is made fully or partially with another loan operation extended to the borrower or to an individual from its economic interest group by the same financial intermediary or any other company of the same financial group or conglomerate. In the event of full settlement of the loan, the new loan operation is considered to be refinanced, In the event of partial settlement, both the new and existing loan operations are considered to be refinanced.

Loan charge-off policy

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

(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:

Borrower classification	Direct		Stand-by	
	March 2017	March 2016	March 2017	March 2016
Group 1	₡ 2,566,555,055,671	2,233,107,924,315	56,984,643,239	92,241,531,130
Group 2	1,669,756,023,899	1,520,373,085,603	269,701,170,845	230,884,736,306
	₡ 4,236,311,079,570	3,753,481,009,918	326,685,814,084	323,126,267,436

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.

Pursuant to SUGEF Directive 1-05 and methodology approved by the board of directors, borrowers in Group 1 and Group 2 are classified based on arrears, historical payment behavior and creditworthiness, as follows:

<u>Risk rating</u>	<u>Arrears</u>	<u>Comportamiento de pago histórico</u>	<u>Capacidad de pago</u>
A1	30 days or less	Level 1	Level 1
A2	30 days or less	Level 2	Level 1
B1	60 days or less	Level 1	Level 1 or Level 2
B2	60 days or less	Level 2	Level 1 or Level 2
C1	90 days or less	Level 1	Level 1, Level 2, or Level 3
C2	90 days or less	Level 1 or Level 2	Level 1, Level 2, or Level 3
D	120 days or less	Level 1 or Level 2	Level 1, Level 2, Level 3, or Level 4
E	More than 121 days	Level 1 or Level 2	Level 1, Level 2, Level 3, or Level 4

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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,
- 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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Analysis of historical payment behavior

The Bank must determine a borrower's historical payment behavior based on the level assigned to the borrower by SUGEF's 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.

Structural allowance for loan losses

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

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

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

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

Risk rating	Specific allowance percentage - Uncovered portion	Specific allowance percentage - Covered portion
A1	0%	0.00%
A2	0%	0.00%
B1	5%	0.50%
B2	10%	0.50%
C1	25%	0.50%
C2	50%	0.50%
D	75%	0.50%
E	100%	0.50%

(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 the covered portion of loan operations must consider the provisions of Transition Provision XII of such Directive. Accordingly, as of March 31, 2016, the Bank applied an allowance percentage of 0.35%, which will gradually increase on a quarterly basis to 0.5%, pursuant to the aforementioned Transition Provision.

Allowance percentages based on borrower risk rating are as follows:

<u>Risk rating</u>	<u>General allowance</u>	<u>Specific allowance percentage - Uncovered portion</u>	<u>Specific allowance percentage - Covered portion</u>
A1	0,5%	0%	0%
A2	0,5%	0%	0%
B1	No aplica	5%	0,50%
B2	No aplica	10%	0,50%
C1	No aplica	25%	0,50%
C2	No aplica	50%	0,50%
D	No aplica	75%	0,50%
E	No aplica	100%	0,50%

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

(Continued)

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</u>	<u>Specific allowance</u>	<u>Creditworthiness</u> (Group 1 borrowers)	<u>Creditworthiness</u> (Group 2 borrowers)
	<u>percentage - Uncovered portion</u>	<u>percentage - Uncovered portion</u>		
30 days or less	20%	0,50%	Level 1	Level 1
30 days or less	50%	0,50%	Level 2	Level 1
More than 60 days	100%	0,50%	Level 1, Level 2, Level 3, or Level 4	Level 1 or Level 2

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

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:

March 2017			
	Allowance booked	Structural allowance	Excess (insufficiency) of allowance
Direct	¢ 85,119,811,786	(78,648,130,723)	6,471,681,063
Stand-by	309,271,895	(131,483,142)	177,788,753
	¢ 85,429,083,681	(78,779,613,865)	6,649,469,816
March 2016			
	Allowance booked	Structural allowance	Excess (insufficiency) of allowance
Direct	¢ 66,768,281,372	(63,667,766,227)	3,100,515,145
Stand-by	1,679,701,720	(1,145,473,853)	534,227,867
	¢ 68,447,983,092	(64,813,240,080)	3,634,743,012

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of March 31, 2017, the balance of the Bank's allowance for loan losses (direct and stand-by), accrued interest receivable, and other receivables amounts to ₡88,768,831,281 (2016: ₡74,341,961,704).

Credit equivalent

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

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

Allowance for other assets

Allowances should be established for the following assets:

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

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

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

As of March 31, 2017, the carrying amount of the allowance for impairment of foreclosed assets and per legal requirements amounts to ₡60,843,125,565 (December and March 2016: ₡59,644,951,072 and ₡63,597,017,640, respectively).

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of March 31, the concentration of the loan portfolio by sector is as follows:

Sector	Direct		Stand-by	
	March 2017	March 2016	March 2017	March 2016
Trade	¢ 379,502,829,802	381,496,676,160	4,814,192	42,404,062
Services	907,438,495,559	786,079,581,303	49,210,842,719	86,659,483,530
Financial services	139,015,596,179	125,820,127,712	-	-
Mining	1,036,722,208	861,432,944	-	-
Manufacturing and quarrying	180,278,652,510	154,308,944,037	-	1,599,044
Construction	105,023,878,492	88,166,116,114	-	-
Agriculture and forestry	118,997,172,400	108,539,648,875	15,154,193	14,468,570
Livestock, hunting, and fishing	79,639,907,216	69,210,378,097	-	-
Electricity, water, sanitation, and other related sectors	406,868,638,075	370,485,202,218	-	-
Transportation and telecommunications	46,463,933,656	27,463,953,541	-	-
Housing	1,234,072,065,273	1,128,374,218,607	15,403,292	13,605,122
Personal or consumer	475,027,769,551	375,717,768,919	277,237,041,837	236,160,442,494
Tourism	162,945,418,649	136,956,961,391	202,557,851	234,264,614
	¢ <u>4,236,311,079,570</u>	<u>3,753,481,009,918</u>	<u>326,685,814,084</u>	<u>323,126,267,436</u>

As of March 31, the concentration of the loan portfolio by geographic area is as follows:

	Direct		Stand-by	
	March 2017	March 2016	March 2017	March 2016
Central America	¢ <u>4,236,311,079,570</u>	<u>3,753,481,009,918</u>	<u>326,685,814,084</u>	<u>323,126,267,436</u>

As of March 31, the loan portfolio by type of guarantee is as follows:

Guarantee	Direct		Stand-by	
	March 2017	March 2016	March 2017	March 2016
Back to back	¢ 41,505,747,765	10,878,119,393	1,648,642	6,434,846
Mortgage bond	449,971,993	9,634,335,153	-	-
Assignment of loans	464,286,285,411	406,170,024,434	152,779	92,077,006
Mortgage	1,744,821,687,025	1,632,731,725,658	196,417,640	342,474,516
Surety	784,478,271,246	707,522,757,826	23,221,204	26,696,406
Trust	375,193,645,313	337,887,042,993	78,528,279	83,134,397
Securities	919,322,628	1,064,700,138	-	-
Chattel mortgage	213,450,739,200	158,180,824,593	-	-
Other	611,205,408,989	489,411,479,730	326,385,845,540	322,575,450,265
	¢ <u>4,236,311,079,570</u>	<u>3,753,481,009,918</u>	<u>326,685,814,084</u>	<u>323,126,267,436</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Guarantees:

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

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

The Bank conducts strict credit analyses before granting loans and requires guarantees from its borrowers before disbursing loans. As of March 31, 2017 and 2016, 67.05% and 68.11% of the loan portfolio is secured by collateral guarantees.

As of March 31, the concentration of the loan portfolio by individual borrower is as follows:

Loan portfolio concentration	Direct		Stand-by	
	March 2017	March 2016	March 2017	March 2016
¢1 to ¢3,000,000	¢ 148,755,780,382	140,739,497,703	101,165,156,174	98,559,886,842
¢3,000,001 to ¢15,000,000	580,793,851,170	519,948,868,590	174,455,247,622	135,609,853,373
¢15,000,001 to ¢30,000,000	459,097,117,871	424,216,203,547	5,854,844,036	5,585,283,442
¢30,000,001 to ¢50,000,000	460,355,500,699	417,148,893,863	1,912,095,079	2,349,667,906
¢50,000,001 to ¢75,000,000	348,455,869,613	295,448,535,941	2,200,051,391	2,271,110,993
¢75,000,001 to ¢100,000,000	161,770,901,501	129,649,895,237	1,108,808,114	1,060,417,642
¢100,000,001 to ¢200,000,000	227,357,891,669	211,294,451,339	4,322,047,021	4,276,080,405
More than ¢200,000,000	1,849,724,166,665	1,615,034,663,698	35,667,564,598	73,413,966,833
	¢ 4,236,311,079,570	3,753,481,009,918	326,685,814,035	323,126,267,436

As of March 31, 2017 and 2016, the portion of the loan portfolio (direct and stand-by loans) corresponding to economic interest groups amounts to ¢471,741,546,037 and ¢455,899,681,263, respectively.

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

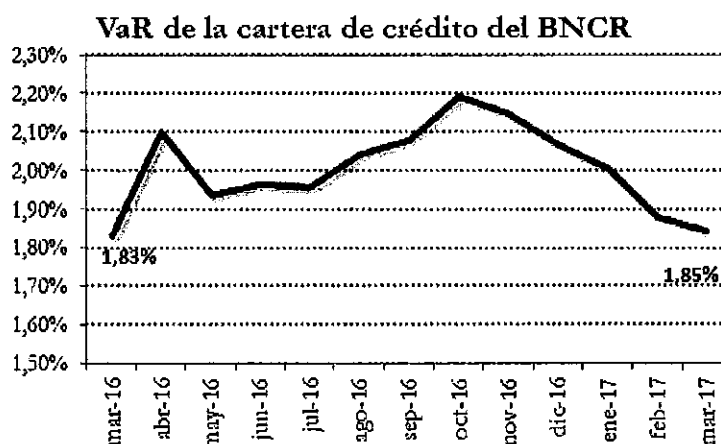
This approach is applied using a computational system developed in “Matlab” software. Also, the credit risk model takes into consideration the impact of changes in macroeconomic variables (endogenous and exogenous) on the loan portfolio when determining systemic factors. Results are compared with prior-month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

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

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

The monthly decrease in the VaR and EL is due to the decrease in legal collection and decrease in arrears more than 90 days in the total loan portfolio between February and March 2017. For that period, by currency, the VaR and EL of all of the portfolios decreased due to the decrease in legal collection and decrease in arrears more than 90 days for portfolios in colones and DU and due to the decrease in arrears more than 90 days for the portfolio in U.S. dollars.

On a year-on-year basis, the consolidated VaR of the loan portfolio shows a marginal increase between March 2016 and March 2017. By currency, the VaR of the portfolios in colones decreased while in DU and U.S. dollars it increased. The EL showed the same behavior as the consolidated VaR and the VaR by currency.



(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

By economic activity, on a year-on-year basis, Agriculture, Mineral Extraction, Energy, Housing, Commerce, Financial Service, Services and Tourism show increases in VaR. Cattle, Industry, Construction, Transport and Consumer present decreases in Var. In consolidated portfolio present increases in VaR passing from 1.83% on March, 2016 to 1.85% on March 2017.

VaR of the Bank's loan portfolio by economic activity:

Activity	March 31, 2017	March 31, 2016
Agriculture	3.38%	2.53%
Livestock	2.65%	3.20%
Mining	6.84%	4.95%
Industry	3.08%	3.63%
Energy	2.02%	1.94%
Housing	1.45%	1.42%
Construction	2.94%	3.28%
Trade	2.61%	2.42%
Transportation	1.02%	1.44%
Financial services	0.22%	0.19%
Consumer	4.10%	4.14%
Services	1.56%	1.43%
Tourism	5.05%	4.76%
	1.85%	1.83%

Source: Credit Risk Division

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

The Brokerage Firm may acquire the following instruments:

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

Local currency

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

As of March 2017, the accounting records showed investments in colones, investments in instruments issued by local issuers in U.S. dollars (\$CR), and investments in instruments issued by foreign issuers in U.S. dollars (\$USA). The Brokerage Firm holds no investments in DU. By currency, the majority (77.80%) of the Brokerage Firm's financial instruments is concentrated in the portfolio denominated in colones.

The consolidated portfolio is comprised of investments in instruments issued by the Government of Costa Rica (63.73%), BCCR (9.39%), BNCR (2.88%), MUCAP (1.56%), and Banco Popular y de Desarrollo Comunal (0.24%). These issuers represent (77.80%) of the consolidated portfolio. The portfolio in U.S. dollars represents (22.20%) comprised of investments in instruments issued by the Government of Costa Rica (22.08%), and other issuers (0.12%).

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

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

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

A As of March 31, 2017, the net assets managed by the Pension Fund Manager amount to ¢1,181,635 million (2016: ¢1,063,096 million), growing year-on-year by ¢118,539 million in nominal terms, equivalent to a growth rate of 11.15%. These data do not include the Pension Fund Manager's own assets.

The pension fund with the highest relative share is ROP, which represents 82.38%, growing year-on-year by ¢115,725 million, equivalent to a growth rate of 13.49%.

As of March 31, 2017 and 2016, the Pension Fund Manager portfolio of own funds is represented by available-for-sale investments for ¢6,371 million and ¢6,014 million, respectively. The portfolio was actively managed, performing sales for more than ¢2 billion with capital gains, which decreased volatility and risk of losses to the portfolio during 2016.

In March 2017, the VaR of credit in absolute terms is ¢26.76 million, equivalent to 0.42% (2015: ¢27.80 million, equivalent to 0.43%), the increases in this indicator in minimum; although the indicator decreased, available-for-sale investments increase in absolute term.

Consolidated VaR (one year)	As of March 31,		
Fund	2017	2016	Variation
FCL	2.09%	1.28%	0.81%
FPC A	0.16%	0.17%	-0.01%
FPC B	4.11%	4.68%	-0.57%
FPD A	27.89%	39.32%	-11.44%
FPD B	30.32%	40.92%	-10.60%
NOT	0.00%	0.00%	0.00%
ROP	5.97%	5.30%	0.67%
BN Vital (OPC)	0.42%	0.43%	-0.01%
FCL Erroneous	4.91%	0.00%	4.91%
ROP Erroneous	3.95%	0.00%	3.95%

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

v. BN Corredora de Seguros, S.A.

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

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

As of March 31, 2017 and 2016, exposure to credit risk is represented by the carrying amounts of cash and due from banks and available-for-sale investments. Cash and due from banks correspond to checking account deposits with a State-owned bank. As of March 31, 2016, investments in financial instruments correspond to the non-diversified investment fund in colones "Fondo de Inversión BN FonDepósito Colones, No Diversificado", which is secured by term certificates of deposit from BNCR,

b) Liquidity risk

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of March 31, 2017, the terms of the Bank's assets and liabilities denominated in local currency are matched as follows:

	Past due	Days							Total
	Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	More than 365		
Cash and due from banks	66,624,514,445	-	-	-	-	-	-	66,624,514,445	
Minimum legal deposit in BCCR	314,184,226,224	21,358,745,648	19,604,130,390	18,621,415,447	63,072,136,900	48,012,571,740	16,862,062,299	501,715,288,648	
Investments	-	16,712,455,053	3,877,160,871	13,806,842,767	70,612,171,113	126,149,107,057	302,960,675,740	534,118,412,601	
Loan portfolio	117,114,308,525	46,330,212,623	43,448,516,828	35,561,819,951	88,353,041,213	123,003,794,807	2,245,759,108,678	2,699,570,802,625	
Total recovery of assets	117,114,308,525	84,401,413,324	66,929,808,089	67,990,078,165	222,037,349,226	297,165,473,604	2,565,581,846,717	3,802,029,018,319	
Obligations with the public	-	1,728,908,434,157	143,463,884,889	114,562,621,618	430,562,543,621	413,380,918,444	109,266,968,746	3,075,426,836,022	
Obligations with BCCR	-	-	-	-	-	-	125,644,412	125,644,412	
Obligations with financial entities	-	88,566,719,271	14,319,310,222	1,625,306,774	5,700,317,295	6,423,699,741	8,578,059,176	126,293,378,319	
Charges payable	-	7,851,400,587	2,608,784,839	1,187,299,847	2,265,501,356	808,952,034	140,304,911	19,974,022,155	
Total maturity of liabilities	-	1,825,326,554,015	147,152,635,568	117,375,228,239	438,528,362,272	420,613,570,219	118,110,977,245	3,221,819,880,908	
Difference	117,114,308,525	(1,444,517,813,346)	(80,222,827,479)	(49,385,150,074)	(216,491,013,046)	(123,448,096,615)	2,447,470,869,472	580,209,137,411	

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of March 31, 2016, the terms of the Bank's assets and liabilities denominated in local currency are matched as follows:

	Past due	Days							Total
		Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	More than 365	
Cash and due from banks	¢	62,198,758,290	-	-	-	-	-	-	62,198,758,290
Minimum legal deposit in BCCR	-	329,027,380,326	22,585,636,678	20,409,593,154	12,722,238,550	58,968,676,445	44,386,452,972	8,554,327,542	496,654,305,667
Investments	-	-	93,362,691,924	1,466,683,541	55,651,828,150	97,884,137,574	237,706,490,917	195,505,969,842	681,577,801,948
Loan portfolio	129,528,233,414	-	34,312,026,302	34,974,371,806	37,945,786,446	93,659,933,113	93,158,003,923	1,884,046,461,203	2,307,624,816,207
Total recovery of assets	¢	129,528,233,414	391,226,138,616	56,850,648,501	106,319,853,146	250,512,747,132	375,250,947,812	2,088,106,758,587	3,548,055,682,112
Obligations with the public	¢	-	1,763,145,583,088	160,368,529,170	103,754,689,387	123,435,205,260	402,753,418,890	301,146,562,948	60,837,762,282
Obligations with BCCR	-	-	-	-	-	-	-	-	125,644,412
Obligations with financial entities	-	94,481,034,139	12,771,843,602	57,855,866	1,083,682,540	497,721,312	6,639,897,203	2,058,411,960	117,590,446,622
Charges payable	-	6,818,395,944	5,948,906,774	2,605,978,505	1,142,975,888	1,395,428,123	554,181,983	119,635,838	18,585,503,055
Total maturity of liabilities	¢	-	1,864,445,013,171	179,089,279,546	106,418,523,758	125,661,863,688	404,646,568,325	63,141,454,492	3,051,743,345,114
Difference	¢	129,528,233,414	(1,473,218,874,555)	(49,567,875,257)	(19,342,010,542)	(154,133,821,193)	66,910,305,678	2,024,965,304,095	496,312,336,998

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of March 31, 2017, the terms of the Bank's assets and liabilities denominated in foreign currency, expressed in local currency, are matched as follows:

	Days								
	Past due	Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	More than 365	Total
Cash and due from banks	¢	386,991,455,339	-	-	-	-	-	323,865,289	387,315,320,628
Minimum legal deposit in BCCR	-	157,030,933,267	7,407,554,973	13,075,487,163	8,216,190,110	29,499,278,795	7,298,458,576	49,365,642,815	271,893,545,699
Investments	-	-	11,745,839,131	63,165,383,039	6,639,347,529	74,144,537,238	112,119,356,889	201,608,890,534	469,423,354,360
Loan portfolio	71,504,696,681	-	39,542,820,565	32,235,408,204	26,721,031,199	63,999,559,925	70,855,873,950	1,231,880,886,421	1,536,740,276,945
Total recovery of assets	¢	544,022,388,606	58,696,214,669	108,476,278,406	41,576,568,838	167,643,375,958	190,273,689,415	1,483,179,285,059	2,665,372,497,632
Obligations with the public	¢	874,490,926,868	92,099,654,519	78,807,901,930	51,655,050,920	189,217,183,558	115,043,658,950	65,193,933,091	1,466,508,309,836
Obligations with financial entities	-	123,852,940,098	7,767,564,300	3,084,349,533	11,088,600	58,226,238,600	3,015,414,479	923,690,652,206	1,119,648,247,816
Charges payable	-	1,657,045,757	8,411,731,350	13,726,899,242	1,790,656,272	1,209,182,478	420,952,530	258,006,607	27,474,474,236
Total maturity of liabilities	¢	1,000,000,912,723	108,278,950,169	95,619,150,705	53,456,795,792	248,652,604,636	118,480,025,959	989,142,591,904	2,613,631,031,888
Difference	¢	(455,978,524,117)	(49,582,735,500)	12,857,127,701	(11,880,226,954)	(81,009,228,678)	71,793,663,456	494,036,693,155	51,741,465,744

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of March 31, 2016, the terms of the Bank's assets and liabilities denominated in foreign currency, expressed in local currency, are matched as follows:

	Past due	Demand	Days							More than 365	Total
			1 to 30	31 to 60	61 to 90	91 to 180	181 to 365				
Cash and due from banks	¢	222,030,653,421	-	-	-	-	-	-	157,812,493	222,188,467,914	
Minimum cash reserve in BCCR	-	150,685,824,926	7,081,717,343	8,803,812,011	7,545,571,193	27,638,134,465	11,573,792,766	-	-	213,348,852,704	
Investments	-	-	27,262,235,651	79,310,045,968	11,392,946,911	39,932,481,638	79,536,177,139	249,030,228,057	-	486,464,115,364	
Loan portfolio	59,286,935,999	-	38,058,201,093	35,933,729,886	34,551,369,281	53,850,696,716	60,917,100,079	1,163,258,160,657	-	1,445,856,193,711	
Total recovery of assets	¢	372,716,480,347	72,402,154,087	124,047,587,865	53,489,887,385	121,441,312,819	152,027,069,984	1,412,446,201,207	-	2,367,857,629,693	
Obligations with the public	¢	789,461,299,778	70,115,991,296	56,997,812,525	68,966,621,053	159,520,236,987	70,698,933,068	15,031,234,573	-	1,230,792,129,280	
Obligations with financial entities	-	226,272,346,081	1,588,770	7,414,260	52,969,591,800	60,119,851,185	40,445,847,480	693,029,699,697	-	1,072,846,339,273	
Charges payable	-	844,409,086	704,449,967	12,898,088,348	1,996,024,491	857,834,066	283,288,936	38,410,115	-	17,622,505,009	
Total maturity of liabilities	¢	1,016,578,054,945	70,822,030,033	69,903,315,133	123,932,237,344	220,497,922,238	111,428,069,484	708,099,344,385	-	2,321,260,973,562	
Difference	¢	(643,861,574,598)	1,580,124,054	54,144,272,732	(70,442,349,959)	(99,056,609,419)	40,599,000,500	704,346,856,822	-	46,596,656,131	

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

i. Banco Nacional de Costa Rica

To support liquidity risk management, the Market Risk Division monitors indicators such as liability structure, daily changes and trends in demand and term account balances, volatility of deposit-taking from the public (duration by liability and currency), VaR of liquidity, levels of concentration of the Bank's funding sources, liquidity coverage ratio (LCR), systemic liquidity indicators, and variables with the greatest impact on SUGEF's term matching indicators.

Below is the LCR indicator, which increases in both currencies with regard to March 2016, maintaining an appetite level. In colones, it is influenced by the measures to increase deposit-taking, rate adjustments and dynamism in the placement of standardized issues, and an adjustment to the measurement used to take the expected outflows of Micro and small companies. In U.S. dollars, it is influenced by the expectation and evolution of the exchange rate, which has decreased loan granting and increased deposit-taking.

Indicator	March 31, 2017	March 31, 2016	Variation	Level
LCR in colones	119.97%	90.32%	29.65%	Appetite
LCR in U.S. Dollar	256.46%	105.00%	151.46%	Appetite

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

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

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

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

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

The liquidity level of the Pension Fund Manager corresponds to the nature of its operations.

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

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

Set out below are the main results of the VaR of liquidity assessment, which uses a new methodology with a three-year historical data. This new methodology concludes that the results obtained by decreasing the amount of data to be used (historical data) and the historical VaR calculated with the original data (without filters by currency drops and without truncation) are similar. Additionally, the VaR by simulation, using three-year historical data parameters, is the risk measure that offers best results, It was implemented with calculations obtained for the month indicated below.

Historical VaR of liquidity	
Fund	As of March 31, 2017
ROP	0.04%
FCL	0.48%
NOT	0.07%
FPC A	0.33%
FPC B	0.63%
FPD A	1.08%
FPD B	0.89%
FCL Erroneous	0.49%
ROP Erroneous	0.04%

According to the results and show at the table below, as of March 31, 2017, the VaR of liquidity would not exceed 1% for most funds, except for the funds in U.S. dollars A, where the VaR at 99%, eliminating two standard deviations, would reach 1.08% for FPD A. ROP and ROP Erroneous shows the lowest VaR at 0.04%.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Liquidity risk management

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

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

The liquidity level of the Pension Fund Manager corresponds to the nature of its operations. The entity holds a portfolio of short-term assets as well as highly-liquid investments to ensure it has sufficient liquidity. As part of liquidity controls, cash flows are monitored on a daily basis, taking into consideration checking account balances and projected cash needs for up to 4 days after the calculation. Accordingly, the entity could sell financial assets or invest surpluses that will not be used in the short term, if necessary.

Exposure to liquidity risk:

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

v. BN Corredora de Seguros, S.A.

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

c) Market risk

i. Banco Nacional de Costa Rica,

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

Below is the variation of the portfolios in each currency for March 2017 and December 2016. The decrease in the face value in colones is due to the reallocation of funds to loans in that currency due to the high demand of loans in that currency and as part of the optimization of productive assets.

Face value by currency			
Currency	March 31, 2017	March 31, 2016	Variation
Colones	439,536,300,000	569,018,450,000	(129,482,150,000)
Local U.S. dollars	391,303,064	422,258,000	(30,954,936)
Intl. U.S. dollars	378,953,505	380,103,729	(1,150,225)
Euros	22,000,000	33,726,000	(11,726,000)
DU	34,823,795	34,823,795	-

Duration by currency varies according to portfolio management, with a decrease in the last year in U.S. dollars and DU.

Currency	March 31, 2017	March 31, 2016	Variation
Colones	0.84	0.68	0.16
Local U.S. dollars	0.71	0.77	(0.06)
Intl. U.S. dollars	1.26	1.27	(0.00)
Euros	1.08	0.84	0.24
DU	1.64	2.62	(0.98)

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

Market risk management

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

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

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

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

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

Market risk exposure – trading portfolio:

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

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

	March 2017	March 2016
VaR (99% confidence level)	0.51%	0.78%

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Fair values

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

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

As of March 31, 2017 and 2016, the carrying amount of the following financial instruments approximates fair value: cash, investments in financial instruments, interest receivable, obligations under repurchase agreements, interest payable, fees and commissions, and other accounts payable. Investments are carried at the fair value determined using the method described above.

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

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

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

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Price risk exposure:

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

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

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

The Pension Fund Manager manages market risk for each of its funds by applying a VaR model pursuant to Section 41 of IFRS 7. The calculation of market risk indicators are mainly performed using the RiMeR software, which estimates the VaR of the portfolios managed by the Bank, VaR is determined by adjusting the portfolio and calculating its duration and price. The total portfolio duration is the average amount-weighted durations. The RiMeR methodology applies daily parameters (modeling rising volatility curves) and efficiently captures market movements, Such parameters are denominated G2++ and are an extension of the Hull-White model.

As of March 31, 2017, net assets managed by the Pension Fund Manager amount to a total of ¢1,181,635 million (2016: ¢1,063,096 million), That amount is distributed among nine funds, i.e. ROP, FCL, FPC A, FPC B, FPD A, FPD B, NOT, and more recently as of June 2016, ROP erroneous and FCL erroneous (see note 24-f), ROP represents, 82.38% of the balance managed,

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

v. BN Corredora de Seguros, S.A.

For the 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 market value is at the risk appetite limit, showing a increase in the last year.

Type of risk	March 31, 2017	March 31, 2016	Variation	Level
Consolidated VaR	0,30%	0,26%	0,04%	Appetite

Also, included is the individual VaR for each currency and its variation from the last year.

VaR by currency			
Currency	March 31, 2017	March 31, 2016	Variation
Colones	0.41%	0.34%	0.07%
Local U.S. dollars	0.25%	0.24%	0.01%
Intl. U.S. dollars	0.40%	0.24%	0.16%
Euros	0.02%	0.04%	(0.02)%
DU	0.26%	0.94%	(0.69)%

• Interest rate risk

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

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

Tipo de Riesgo	March 31, 2017	March 31, 2016	Variation	Level
Interest rate risk in colones	2.18%	1.88%	0.30%	Normal
Interest rate risk in foreign currency	0.45%	0.81%	(0.36)%	Normal

Both indicators closed considerably below SUGEF's regulatory maximum limit,

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of March 31, 2017, the interest rate terms for the Bank's assets and liabilities are matched as follows (differences between the recovery of assets and the maturity of liabilities):

	1 to 30 days	31 to 90 days	91 to 180 days	181 to 360 days	361 to 720 days	More than 720 days	Total
<i>Local currency (LC)</i>							
Investments	16,698,957,650	17,367,885,065	70,543,938,766	108,188,848,520	120,673,413,048	174,312,221,427	507,785,264,476
Loan portfolio	140,668,676,228	73,969,151,288	73,091,935,133	114,271,470,575	187,501,454,805	2,006,602,569,075	2,596,105,257,104
Total recovery of rate-sensitive assets LC (A)	157,367,633,878	91,337,036,353	143,635,873,899	222,460,319,095	308,174,867,853	2,180,914,790,502	3,103,890,521,580
Obligations with the public	141,862,332,042	264,335,528,298	437,275,221,874	416,505,256,383	104,207,418,680	13,036,209,892	1,377,221,967,169
Obligations with BCCR	-	-	-	-	-	125,644,412	125,644,412
Obligations with financial entities	13,076,614,239	391,535,194	281,499,589	273,936,122	607,720,021	7,895,384,737	22,526,689,902
Total maturity of rate-sensitive liabilities LC (B)	154,938,946,281	264,727,063,492	437,556,721,463	416,779,192,505	104,815,138,701	21,057,239,041	1,399,874,301,483
LC difference, recovery of assets less maturity of liabilities (A - B)	2,428,687,597	(173,390,027,139)	(293,920,847,564)	(194,318,873,410)	203,359,729,152	2,159,857,551,461	1,704,016,220,097
<i>Foreign currency (FC)</i>							
Investments	11,745,840,764	69,688,266,664	74,142,423,874	108,655,600,066	100,369,891,318	95,331,007,243	459,933,029,929
Loan portfolio	56,640,583,287	46,412,285,964	54,236,406,194	65,249,103,596	101,602,793,553	1,163,148,204,343	1,487,289,376,737
Total recovery of rate-sensitive assets FC (C)	68,386,424,051	116,100,552,628	128,378,830,068	173,904,703,662	201,972,684,871	1,258,479,211,586	1,947,222,406,666
Obligations with the public	106,263,248,523	144,739,808,968	189,815,417,786	114,729,867,070	37,456,952,409	849,512,999,654	1,442,518,294,410
Obligations with entities	4,355,961,162	5,323,571,166	59,297,420,690	3,686,084,238	5,299,820,066	87,927,325,349	165,890,182,671
Total maturity of rate-sensitive liabilities FC (D)	110,619,209,685	150,063,380,134	249,112,838,476	118,415,951,308	42,756,772,475	937,440,325,003	1,608,408,477,081
FC difference, recovery of assets less maturity of liabilities (C - D)	(42,232,785,634)	(33,962,827,506)	(120,734,008,408)	55,488,752,354	159,215,912,196	321,038,886,583	338,813,929,585
Total recovery of rate-sensitive assets 1/ (A + C)	225,754,057,929	207,437,588,981	272,014,703,967	396,365,022,757	510,147,552,524	3,439,394,002,088	5,051,112,928,246
Total maturity of rate-sensitive liabilities 2/ (B + D)	265,558,155,966	414,790,443,626	686,669,559,939	535,195,143,813	147,571,911,176	958,497,564,044	3,008,282,778,564
	(39,804,098,037)	(207,352,854,645)	(414,654,855,972)	(138,830,121,056)	362,575,641,348	2,480,896,438,044	2,042,830,149,682

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of March 31, 2016, the interest rate terms for the Bank's assets and liabilities are matched as follows (differences between the recovery of assets and the maturity of liabilities):

	1 to 30 days	31 to 90 days	91 to 180 days	181 to 360 days	361 to 720 days	More than 720 days	Total
<i>Local currency (LC)</i>							
Investments	93,329,672,376	56,880,076,889	97,854,439,677	232,632,231,623	139,502,771,042	34,762,056,340	654,961,247,947
Loan portfolio	119,967,654,033	72,771,228,920	85,886,515,098	90,616,939,727	151,708,077,036	1,667,706,449,607	2,188,656,864,421
Total recovery of rate-sensitive assets LC (A)	213,297,326,409	129,651,305,809	183,740,954,775	323,249,171,350	291,210,848,078	1,702,468,505,947	2,843,618,112,368
Obligations with the public							
Obligations with BCCR	170,484,201,430	230,932,332,695	405,089,603,629	307,726,642,706	56,212,110,083	9,346,130,473	1,179,791,021,016
Obligations with financial entities	7,671,957,990	349,322,703	217,910,876	447,780,090	306,249,307	2,176,183,153	11,169,404,119
Total maturity of rate-sensitive liabilities LC (B)	178,156,159,420	231,281,655,398	405,307,514,505	308,174,422,796	56,518,359,390	11,647,958,038	1,191,086,069,547
LC difference, recovery of assets less maturity of liabilities (A - B)	35,141,166,989	(101,630,349,589)	(221,566,559,730)	15,074,748,554	234,692,488,688	1,690,820,547,909	1,652,532,042,821
<i>Foreign currency (FC)</i>							
Investments	27,262,235,714	90,365,452,496	39,932,482,006	77,532,713,810	158,727,266,948	66,084,961,540	459,905,112,514
Loan portfolio	53,918,145,003	63,262,187,579	45,763,731,222	57,128,113,473	106,700,169,112	1,070,713,296,125	1,397,485,642,514
Total recovery of rate-sensitive assets FC (C)	81,180,380,717	153,627,640,075	85,696,213,228	134,660,827,283	265,427,436,060	1,136,798,257,665	1,857,390,755,028
Obligations with the public							
Obligations with entities	70,944,732,006	138,703,212,702	160,032,010,860	70,828,066,436	11,419,086,003	554,317,302,258	1,006,244,410,265
Total maturity of rate-sensitive liabilities FC (D)	2,515,688,303	56,916,898,163	84,714,397,661	15,903,712,456	59,842,417,292	79,513,842,275	299,406,956,150
FC difference, recovery of assets less maturity of liabilities (C - D)	73,460,420,309	195,620,110,865	244,746,408,521	86,731,778,892	71,261,503,295	633,831,144,533	1,305,651,366,415
Total recovery of rate-sensitive assets 1/ (A + C)	7,719,960,408	(41,992,470,790)	(159,050,195,293)	47,929,048,391	194,165,932,765	502,967,113,132	551,739,388,613
Total maturity of rate-sensitive liabilities 2/ (B + D)	294,477,707,126	283,278,945,884	269,437,168,003	457,909,998,633	556,638,284,138	2,839,266,763,612	4,701,008,867,396
LC + FC difference, recovery of assets less maturity of liabilities (item 1 - item 2)	251,616,579,729	426,901,766,263	650,053,923,026	394,906,201,688	127,779,862,685	645,479,102,571	2,496,737,435,962
	42,861,127,397	(143,622,820,379)	(380,616,755,023)	63,003,796,945	428,858,421,453	2,193,787,661,041	2,204,271,431,434

(Continued)

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 with the lowest related risk.

The consolidated VaR of the Pension Fund Manager's own funds presents a downward trend with a maximum of 1.25% and a minimum of 0.07% for an average of 0.36%,

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

iv. BN Corredora de Seguros, S.A.

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

• Currency risk

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

Starting May 2009, the Bank's Asset and Liability Committee (ALCO) decided to take a neutral foreign currency position with the purpose of protecting the Bank from any changes in the exchange rate, which has been ratified annually by the Bank's Corporate Risk Committee. The Bank's foreign currency position is monitored daily by the Market Risk Division.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

Type of risk	March 31, 2016	March 31, 2017	Variation	Level
Currency risk	0.08%	0.06%	(0.02)%	Appetite

i. Banco Nacional de Costa Rica

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

Assets and liabilities denominated in foreign currency are as follows:

		U.S. dollars	
		March 2017	March 2016
<u>Assets:</u>			
Cash and due from banks	US\$	1,162,833,682	800,351,331
Investments in financial instruments		822,209,488	878,091,818
Loan portfolio		2,718,345,270	2,690,164,276
Accounts and accrued interest receivable		654,820	522,057
Investments in other companies		105,294,999	102,206,092
Other assets		2,777,314	6,456,899
	US\$	<u>4,812,115,573</u>	<u>4,477,792,473</u>
<u>Liabilities:</u>			
Obligations with the public	US\$	2,593,266,248	2,268,844,874
Obligations with entities		2,057,304,473	2,052,520,655
Accounts payable and provisions		26,521,906	11,838,154
Other liabilities		35,988,045	24,445,153
Subordinated obligations		131,081,687	130,972,089
	US\$	<u>4,844,162,359</u>	<u>4,488,620,925</u>
Excess (deficit) of assets over liabilities in U.S. dollars	US\$	<u>(32,046,786)</u>	<u>(10,828,452)</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		Euros	
		March 2017	March 2016
<u>Assets:</u>			
Cash and due from banks	€	24,483,686	19,350,298
Investments in financial instruments		22,806,256	35,419,341
Accounts and accrued interest receivable		(10)	25,649
Other assets	€	47,289,932	54,795,288
<u>Liabilities:</u>			
	€	45,484,817	53,128,945
Obligations with the public		1,718,548	1,063,614
Obligations with entities		102,911	343,262
Accounts payable and provisions	€	47,306,276	54,535,821
Other liabilities	€	(16,344)	259,467
		DU	
		March 2017	March 2016
<u>Assets:</u>			
Investments in financial instruments	UD	34,809,429	35,047,880
Loan portfolio		20,498,273	29,916,379
	UD	55,307,702	64,964,259
<u>Liabilities:</u>			
Accounts payable and provisions	UD	795,948	887,936
Other liabilities		4,173	5,452
	UD	800,121	893,388
Excess of assets over liabilities in DU	UD	54,507,581	64,070,871

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:

		March 2017	March 2016
Foreign exchange gain	¢	38,425,006,304	12,582,653,996
Foreign exchange loss		38,469,389,041	11,886,152,163
Net (loss) gain	¢	(44,382,737)	696,501,833

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Additionally, the valuation of other assets and other liabilities for the year ended December 31 gave rise to gains and losses, respectively, which are booked in “Other operating income” and “Other operating expenses”, respectively, as follows:

	March 2017	March 2016
Gain on net valuation of other assets	¢ 47,531,515	53,664,008
Loss on net valuation of other liabilities (note 40)	228,820,638	8,341,025
Net gain (loss)	¢ (181,289,123)	45,322,983

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

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.

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

As of March 31, 2017, 0.55% of the Pension Fund Manager's portfolio of own funds is represented by investments in U.S. dollars. By adding cash and due from banks denominated in foreign currency, the percentage increases to 1.03% which is a relatively low currency risk for the size of the managed portfolio.

v. BN Corredora de Seguros, S.A.

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

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

d) Operational risk

i. Banco Nacional de Costa Rica

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

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

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

All events should be identified, documented, and reported in order to allow the Bank to adequately measure risk events and carry out any necessary corrective, preventive, and mitigation measures in a timely manner, including insurance where this is effective.

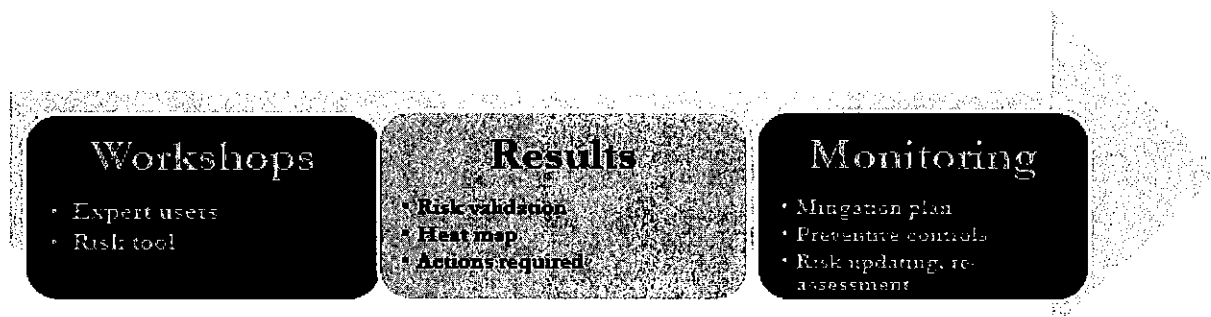
All potential events must be identified and assessed so as to establish preventive controls and mitigating actions.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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



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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

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

Fair value of financial instruments

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

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

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

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

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

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

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

(Continued)

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 Officer is in charge of reviewing in a systematic and comprehensive manner any departure from regulations. The UAIR analyzes and verifies the limits established by SUPEN in the Investment Regulations of the regulated entities.

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

As of March 31, 2017, the Bank's General Risk Division presented the results of the VaR by legal risk for the Pension Fund Manager, which indicate that the amount to be provisioned is the EL of ¢288 million. Furthermore, the Pension Fund Manager is a defendant in seven lawsuits, most of which are in first instance.

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Capital management

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

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

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

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

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

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

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

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

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

As of March 31, 2017 and 2016, the Group's risk rating is at a normal level since its capital adequacy ratio is above the required 10% ratio.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(47) Contingencies

As of March 31, 2017 and 2016, the Bank, Pension Fund Manager, and Investment Fund Manager are defendants in ordinary, labor, and criminal lawsuits, as follows:

	Number of cases		Phase	Total estimated amount	
	2017	2016		2017	2016
Bank	245	213	First instance	¢ 244,219,482,235	213,754,684,060
	19	22	Second instance	19,691,852,029	17,205,314,780
	3	4	Appeal	3,600,000,000	5,089,047,215
			Administrative proceedings (see note 48)	38,458,424,266	-
	<u>268</u>	<u>239</u>		<u>305,969,758,530</u>	<u>236,049,046,055</u>
Pension Fund Manager	1	-	First instance	288,110,324	-
	<u>1</u>	<u>-</u>		<u>288,110,324</u>	<u>-</u>
Investment Fund Manager	1	1	First instance	100,270,319	133,194,104
	1	1		100,270,319	133,194,104
	<u>270</u>	<u>240</u>	(see note 22)	<u>¢ 306,358,139,173</u>	<u>236,182,240,159</u>

As of March 31, 2017 and 2016, the legal actions filed against the Bank are booked in memoranda accounts under "Other contingencies - pending litigation and lawsuits".

As of March 31, 2017 and 2016, the Bank is a claimant in ordinary, labor, and criminal lawsuits, which outcome is uncertain and are not booked in the accounting records, as follows:

Number of cases		Phase	Total estimated amount	
2017	2016		2017	2016
126	131	First instance	¢ 720,711,862,902	712,477,609,721
1	1	Second instance	375,839,600	375,839,600
<u>127</u>	<u>132</u>		<u>¢ 721,087,702,502</u>	<u>712,853,449,321</u>

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of March 31, 2017, the Bank does not book a provision for litigation because a reliable estimate for the proceedings has not been determined by the legal counsel and the probability of a loss is low.

The following lawsuits can also be mentioned:

- File No. 11-001042-0612-PE
 - Court: Office of Economic, Tax, and Customs Crimes, Public Prosecutor's Office, First Judicial Circuit of San José.
 - Statement of facts: The plaintiffs argue that the Bank's officers and employees and representatives of the developer companies defrauded them by purchasing land that does not have the value stated in the appraisal, that the project is abandoned, and that they used fake documents.
 - Current status: The investigation by the Office of Economic and Tax Crimes continues, and the Economic and Financial Crimes Section of the Judicial Investigation Agency (OIJ) has not issued a financial accounting report prepared by an expert.
- File No. 08-000388-0419-AG
 - Court: Agrarian Court of Corredores.
 - Statement of facts: The proceedings seek to declare the liability of CORBANA, as Trustee of a banana plantation Management Trust, in which the Bank was the Trust Beneficiary.
 - Current status: An appeal was filed and is being discussed by the Agrarian Court of the Second Judicial Circuit of San José, Goicoechea. No judicial records exist for this case. It seems clear that, since the case relates to a contractual commercial liability, it has lapsed.
- File No. 08-000232-0419-AG
 - Court: Agrarian Court of Corredores.
 - Statement of facts: This process was filed by the Bank against Surcoop R.L. It seeks to nullify the auction, awarding, and registration of lots of the Agrarian Court of Corredores processed through file No. 97-010656-1701 AG.
 - Current status: First instance ruling 56-2014 in favor of the Bank upheld the objection due to lack of legal grounds given that no damages caused by the defendants were demonstrated since there is no direct relationship between the factual substance of the complaint and the legal claims. The motion for appeal is under consideration of the Agrarian Court.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- File No. 01-160127-0638-AG
 - Court: Agrarian Court of San Ramón.
 - Statement of facts: Claim for breach of contract.
 - Current status: This process was filed before the First Chamber of the Supreme Court of Justice since June 9, 2015. Due to the delay of the justice administration, there is certainty that no payment will be required.
- File No. 14-008626-1027-CA
 - Statement of the facts: The plaintiffs seek that the Bank be ordered to pay damages caused to all of the investors of the Trust for Management of the Real Estate Development and Private Issue of Securities of the Coyote Beach Project, due to noncompliance with the due diligence as Trustee.
 - Current status: The response to petition was filed and the preliminary hearing held. The oral and public proceedings are pending before the Finance Administrative Law and Civil Court.

(48) Significant events

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

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

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

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

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

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

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

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

On October 31, 2016, tax adjustments are calculated for a tax contribution to be declared in the amount of ₡29,089,100,723, corresponding to principal, and ₡9,369,323,543, corresponding to related interest calculated as of that date, for a total of ₡38,458,424,266.

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a) Dividends paid to the Bank

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

In article No. 4 of meeting No. 12,127 held on December 5, 2016, the board of directors authorized the distribution of dividends from retained earnings in the amount of ₡826,027,662.

In article No. 2 of meeting No. 12,007 held on July 13, 2015, the Board of Directors authorized the distribution of dividends from retained earnings in the amount of ₡800,000,000.

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

In article No. 3 of meeting No. 12,120 held on November 21, 2016, the Board of Directors authorized the distribution of dividends from retained earnings in the amount of ₡1,000,000,000.

In article No. 3 of meeting No. 11,989 held on May 25, 2015, the Board of Directors authorized the distribution of dividends from retained earnings in the amount of ₡600,000,000.

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

In article No. 2 of meeting No. 12,119 held on November 21, 2016, the Board of Directors authorized the distribution of dividends from retained earnings in accordance with Official letter SGRF-047-2014 dated February 6, 2014 in the amount of ₡2,404,923,470.

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

In article No. 2 of meeting No. 12,121 held on November 21, 2016, the Board of Directors authorized the distribution of dividends from retained earnings in the amount of ₡550,231,826.

In article No. 3 of meeting No. 11,996 held on June 15, 2015, the Board of Directors authorized the distribution of dividends from retained earnings in accordance with Official letter SGRF-212-2015 in the amount of ₡21,465,798.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

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

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

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

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

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

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

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

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Notes to the Consolidated Financial Statements

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

a) IAS 1: Presentation of Financial Statements

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

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

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

b) IAS 7: Statement of Cash Flows

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

c) IAS 12: Income Taxes

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

d) IAS 16: Property, Plant and Equipment

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

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

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

e) IAS 18: Revenue

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

Until December 31, 2013, the Board allowed deferral of the net excess of loan fee and commission income minus expenses incurred for activities such as assessment of the borrower's financial position, evaluation and recognition of guarantees, sureties, or other collateral instruments, negotiation of the terms of the instrument, preparation and processing of documents, and settlement of the operation. This Standard does not allow deferral on a net basis of such income. Instead, it prescribes deferral of 100% of loan fee and commission income and permits the deferral of only certain incremental transaction costs, rather than all direct costs.

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Accordingly, loan fee and commission income originating prior to December 31, 2013 may not be deferred in full. This treatment does not conform to IAS 18 and IAS 39. With the amendments to SUGEF Directive 31-04 and SUGEF Directive 34-02, the Board adopted the accounting treatment prescribed by IAS 18 and IAS 39 for fees and commissions and transaction costs as of January 1, 2014. However, the following differences remain between the accounting standards issued by the Board and IAS 18 and IAS 39, as follows:

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

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

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

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g) IAS 27: Consolidated and Separate Financial Statements

The Board requires that the financial statements of a parent be presented separately, measuring its investments by the equity method. Under IAS 27, effective as of 2011 (replaced by IFRS 10, effective as of 2012), a parent is required to present consolidated financial statements. A parent need not present consolidated financial statements when the ultimate or any intermediate parent of the parent produces consolidated financial statements available for public use, provided certain other requirements are also met. However, IAS 27, effective as of 2011, requires that investments be accounted for at cost. With the amendments to IAS 27 effective starting 2014, in the preparation of separate financial statements investments in subsidiaries and associates can be measured at cost according to IFRS 9, or using the equity method described in IAS 28. However, the amendments to IAS 27 have not been adopted by the Board.

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

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

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

h) IAS 28: Investments in Associates

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

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Notes to the Consolidated Financial Statements

i) Revised IAS 32: Financial Instruments - Presentation

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

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

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

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

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

l) IAS 38: Intangible Assets

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

m) IAS 39: Financial Instruments: Recognition and Measurement

The Board requires that the loan portfolio be classified pursuant to SUGEFE Directive 1-05 and that the allowance for loan losses be determined based on that classification. It also allows excess allowances to be booked. Furthermore, on June 17, 2016, by means of Official Letter SGF-1729-2016, the Board approved SUGEFE Directive 19-16, "Regulations to Determine and Book Counter-cyclical Allowances", which requires entities supervised by SUGEFE to book a general allowance for the loan portfolio with no current indicators of impairment, in order to mitigate the effects of the economic cycle on the profit or loss derived from the allowance for loan losses.

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Notes to the Consolidated Financial Statements

This Standard requires that the allowance for loan losses be determined based on a financial analysis of actual losses. This Standard also prohibits the booking of provisions for contingent accounts. Any excess allowance must be reversed in the income statement.

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

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

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

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

a) Pooled portfolios

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

b) Own investments of regulated entities

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

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

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

Banks regulated by SUGEF may not classify investments in financial instruments as held to maturity.

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The above classifications do not necessarily adhere to IAS 39.

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

n) IAS 40: Investment Property

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

o) Revised IFRS 3: Business Combinations

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

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

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

q) IFRS 9: Financial Instruments

IFRS 9 replaces IAS 39, "*Financial Instruments: Recognition and Measurement*". IFRS 9 amends the classification and measurement requirements for financial instruments, including a new financial instrument impairment model based on the premise of providing for expected credit losses and the new guidelines on hedge accounting. IFRS 9 does not change the principles for financial instrument recognition and derecognition provided for under IAS 39. The Standard is effective for annual periods beginning on or after January 1, 2018. Early application is permitted. This Standard has not been adopted by the Board.

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r) IFRS 10: Consolidated Financial Statements

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

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

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

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

s) IFRS 11: Joint Arrangements

This Standard was issued in May 2011 with an effective date of January 1, 2013. The Standard addresses the inconsistencies in the accounting for joint arrangements and requires a single accounting treatment for interests in jointly controlled entities. This Standard has not been adopted by the Board.

t) IFRS 12: Disclosure of Interests in Other Entities

This Standard was issued in May 2011 with an effective date of January 1, 2013. This Standard requires an entity to disclose information that enables users of financial statements to evaluate the nature and financial effects of its ownership interests in other entities, including joint arrangements, associates, structured entities, and "off-balance-sheet" activities. This Standard has not been adopted by the Board.

u) IFRS 13: Fair Value Measurement

This Standard establishes a single procedure for measuring fair value and defines the measurements and applications required or permitted in IFRSs. This Standard is effective for annual periods beginning on or after January 1, 2013. Early application is permitted. This Standard has not been adopted by the Board.

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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 the Board.

w) IFRS 15: Revenue from Contracts with Customers

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

x) IFRS 16: Leases

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

y) IFRIC 10: Interim Financial Reporting and Impairment

This Interpretation prohibits the reversal of an impairment loss recognized in a previous interim period in respect of goodwill. The Board permits the reversal thereof.

z) IFRIC 21: Levies

This Interpretation addresses the accounting of liabilities related to the payment of levies imposed by governments. This Interpretation is effective for annual periods beginning on or after January 1, 2014. Early application is permitted. This Interpretation has not been adopted by the Board.

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(50) Disclosure of economic impact of departure from IFRSs

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

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