

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Financial information required by the
Superintendency General of Financial Entities

Consolidated Financial Statements

March 31, 2018

(With corresponding figures for 2017)

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

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

ASSETS	Note	Mar 2018	Dec 2017	Mar 2017
Cash and due from banks				
Cash	4	1,269,157,612.373	1,282,770,297.704	1,227,548,669.423
BCCR		87,929,096.139	67,739,161.550	70,379,191.829
Local financial entities		853,526,670.526	857,735,999.161	773,608,834.347
Foreign financial entities		19,316,584.082	16,722,017.718	6,882,530.337
Other cash and due from banks		300,665,263.337	321,425,149.449	365,120,923.623
Accrued interest receivable		7,719,998.289	19,147,247.731	11,557,090.188
		-	722.095	99.099
Investments in financial instruments	5	1,153,191,624.239	1,097,332,342.386	1,003,480,366.789
Available for sale		1,126,666,254.129	1,061,043,947.907	958,791,974.805
Held to maturity		18,758,392.053	18,562,535.348	27,517,445.454
Derivative financial instruments		180,092.433	6,321,903.607	9,054,029.755
Accrued interest receivable		7,602,556.350	11,477,429.720	8,178,316.947
(Allowance for impairment of investments in financial instruments)		(15,670.726)	(73,474.196)	(61,400.172)
Loan portfolio	7	4,336,342,153.237	4,384,681,312.469	4,151,191,267.784
Current		4,098,801,028.486	4,261,225,313.188	4,000,913,373.513
Past due		245,334,464.761	131,836,522.732	121,636,181.423
In legal collection		113,886,476.986	100,044,384.206	85,366,652.215
Accrued interest receivable		35,652,951.204	31,743,485.704	28,394,872.419
(Allowance for loan losses)		(157,332,768.200)	(140,168,393.361)	(85,119,811.786)
Accounts and fees and commissions receivable	8	3,527,843,086	3,085,084,712	3,068,256,111
Fees and commissions receivable		1,260,226.537	1,261,195.967	1,035,193.870
Accounts receivable for brokerage operations		3,203,141	-	41,186.198
Accounts receivable for transactions with related parties		31,777.121	26,675.994	49,852.768
Deferred tax and income tax receivable		1,544,580.892	1,508,835.870	1,087,998.698
Other receivables		4,460,792.325	3,879,229.636	4,250,881.723
Accrued interest receivable		1,863.847	1,724.156	1,640.063
(Allowance for impairment of accounts and fees and commissions receivable)		(3,774,600.777)	(3,592,576.911)	(3,398,497.209)
Foreclosed assets	9	18,111,643,632	18,784,905,854	16,811,311,256
Assets and securities acquired in lieu of payment		80,807,703.794	81,249,127.569	77,652,964.943
Other foreclosed assets		1,840.190	1,832.418	1,471.878
(Allowance for impairment of foreclosed assets and per legal requirements)		(62,697,900.352)	(62,466,054.133)	(60,843,125.565)
Investments in other companies	10	62,237,257,234	61,782,698,467	58,429,329,853
Property and equipment, net	11	176,636,976,506	180,045,509,253	175,802,142,338
Other assets	12	47,135,156,639	51,681,058,910	37,893,153,678
Deferred charges		8,235,086.241	8,915,121.031	11,070,045.849
Intangible assets		5,814,631.261	7,343,386.585	7,768,485.193
Other assets		33,085,439.137	35,422,551.294	19,054,622.636
TOTAL ASSETS		7,066,340,266,946	7,080,163,209,755	6,674,224,497,232

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

Continued...

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

LIABILITIES AND EQUITY

LIABILITIES

	Note	Mar 2018	Dec 2017	Mar 2017
Obligations with the public	13	4,897,798,923.673	4,854,295,679.256	4,559,854,466.510
Demand obligations		2,732,759,431.647	2,723,524,433.301	2,603,399,361.025
Term obligations		2,099,343,107.497	2,071,892,923.304	1,904,828,166.512
Other obligations		29,007,858.288	22,916,380.358	26,395,633.007
Finance charges payable		36,688,526.241	35,961,942.293	25,231,305.966
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	1,325,493,912.107	1,325,520,882.251	1,268,158,816.560
Demand obligations		204,242,278.793	206,588,859.907	210,835,331.686
Term obligations		1,098,084,053.540	1,109,107,522.604	1,035,106,294.449
Finance charges payable		23,167,579.774	9,824,499.740	22,217,190.425
Accounts payable and provisions		84,237,992.945	102,307,155.957	104,635,288.062
Accounts payable for brokerage services		582,097.757	1,257,574.677	989,182.283
Deferred tax	16-b	10,190,684.508	10,400,144.758	11,363,444.236
Provisions	17	19,054,140.336	20,863,416.068	29,261,767.359
Other sundry accounts payable	18	54,411,070.344	69,786,020.454	63,020,894.184
Other liabilities	19	56,631,057.671	98,542,307.102	65,527,042.435
Deferred income		31,468,466.829	32,055,196.858	25,052,708.455
Allowance for stand-by credit losses		272,067.378	265,681.489	309,271.895
Other liabilities		24,890,523.464	66,221,428.755	40,165,062.085
Subordinated obligations	20	73,792,554.481	75,136,063.242	72,675,619.590
Subordinated obligations		73,112,000.000	73,634,600.000	72,075,900.000
Finance charges payable		680,554.481	1,501,463.242	599,719.590
TOTAL LIABILITIES		6,438,080,085.289	6,455,927,732.220	6,070,976,877.569

EQUITY

Share capital		172,237,030.102	172,237,030.102	118,130,303.482
Paid-in capital	21-a	172,237,030.102	172,237,030.102	118,130,303.482
Equity adjustments		65,088,951.046	68,259,558.421	68,041,126.210
Surplus from revaluation of property	21-b	60,863,838.830	61,425,174.760	60,806,752.437
Adjustment for valuation of available-for-sale investments	21-c	(3,875,850.801)	(1,998,318.958)	125,541.141
Adjustment for valuation of restricted financial instruments	21-c	(430,143.041)	(306,670.697)	(1,599,425.149)
Surplus from revaluation of other assets		43,748.630	43,748.630	43,748.630
Adjustment for valuation of investments in other companies	1-e (iv), 21-d	8,487,357.428	9,095,624.686	8,664,509.151
Capital reserves	21-e	333,885,279.519	311,121,806.369	309,943,224.289
Prior period retained earnings		19,485,048.837	12,741,841.466	66,434,579.293
Income for the period		6,591,877.706	32,763,283.164	13,586,428.376
Equity of the Development Financing Fund	21-f	30,971,994.447	27,111,958.013	27,111,958.013
TOTAL EQUITY		628,260,181.657	624,235,477.535	603,247,619.663
TOTAL LIABILITIES AND EQUITY		7,066,340,266.946	7,080,163,209.755	6,674,224,497.232

DEBIT MEMORANDA ACCOUNTS

TRUST ASSETS	22	654,979,676.981	657,366,663.011	638,148,579.539
TRUST LIABILITIES	23	1,578,702,041.853	1,640,112,224.019	1,221,773,070.809
TRUST EQUITY		120,630,112.166	122,035,907.919	51,812,515.322
TRUST MEMORANDA ACCOUNTS		1,458,071,929.687	1,518,076,316.100	1,169,960,555.487
OTHER DEBIT MEMORANDA ACCOUNTS	24	61,021,874.035	50,624,717.665	30,791,194.293
Own debit memoranda accounts		20,872,834,174.944	20,651,794,446.437	19,829,969,594.422
Third-party debit memoranda accounts		6,972,029,697.518	7,064,476,982.966	7,127,864,141.965
Own debit memoranda accounts for custodial activities		2,659,239,520.675	2,542,913,153.061	2,368,252,389.635
Third-party debit memoranda accounts for custodial activities		369,641,969.963	371,296,353.570	382,003,349.953
		10,871,922,986.788	10,673,107,956.840	9,951,849,712.869

Juan Carlos Corrales Salas
General Manager

Gerardo Gómez Soris
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
THREE MONTHS ENDED MARCH 31, 2018 AND 2017
(In colones)

	Note	Mar 2018	Mar 2017
Finance income			
Cash and due from banks	28	1.680.364.949	299.884.711
Investments in financial instruments	28	14.866.104.850	11.809.677.013
Loan portfolio	29	108.281.650.636	93.872.202.046
Gain on foreign exchange differences and development units, net	46-c	549.175.265	-
Gain on available-for-sale financial instruments		3.675.390	826.995.688
Gain on derivative financial instruments, net	6	-	4.554.206.558
Other finance income	30	12.467.918.605	4.601.035.638
Total finance income		137.848.889.695	115.964.001.654
Finance costs			
Obligations with the public	31	45.293.568.348	30.937.791.892
Obligations with BCCR		-	-
Obligations with financial entities	32	17.959.025.558	15.571.818.837
Subordinated, convertible, and preferred obligations		1.224.532.040	1.073.267.764
Loss on foreign exchange differences and development units, net	46-c	-	44.382.737
Loss on available-for-sale financial instruments		120.796.698	38.674.009
Loss on derivative instruments	6	9.328.505.327	-
Other finance costs	33	1.599.156.104	5.042.359.898
Total finance costs		75.525.584.075	52.708.295.137
Allowance for impairment of assets	34	22.461.832.475	4.720.803.907
Recovery of assets and decrease in allowances	35	1.840.749.636	3.509.531.469
FINANCE INCOME		41.702.222.781	62.044.434.079
Other operating income			
Service fees and commissions	36	33.953.480.349	31.483.504.552
Foreclosed assets		1.057.725.263	586.708.186
Gain on investments in other foreign companies	1-a, 3	841.591.734	512.288.898
Gain on investments in other local companies		2.764.988	7.563.715
Foreign currency exchange and arbitrage		5.674.213.029	6.413.981.933
Other operating income	37	2.683.055.928	1.873.891.536
Total other operating income		44.212.831.291	40.877.938.820

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

Continued...

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
THREE MONTHS ENDED MARCH 31, 2018 AND 2017
(In colones)

		Mar 2018	Mar 2017
Other operating expenses			
Service fees and commissions		1,150,257,480	1,305,399,309
Foreclosed assets	38	5,174,778,587	5,022,970,829
Sundry assets		36,181,051	37,726,798
Provisions	39	2,817,991,585	4,404,446,914
Bonuses on fees and commissions of voluntary pension funds		25,459,403	21,759,108
Foreign currency exchange and arbitrage		3,241,114	222,255
Other operating expenses	40	16,823,807,859	16,626,355,669
Amortization of deferred direct costs related to credits		107,248,736	287,994,379
Total other operating expenses		26,138,965,815	27,706,875,261
GROSS OPERATING INCOME		59,776,088,257	75,215,497,638
Administrative expenses			
Personnel expenses	41	33,164,560,046	32,980,921,468
Other administrative expenses	42	16,791,600,033	16,454,313,150
Total administrative expenses		49,956,160,079	49,435,234,618
NET OPERATING INCOME BEFORE TAXES AND STATUTORY ALLOCATIONS		9,819,928,178	25,780,263,020
Current tax expense	16-a	597,247,827	5,970,845,071
Deferred tax expense	16-a	8,087,752	777,000
Decrease in current tax for the period	16-a	-	-
Decrease in prior period income tax	16-a	-	7,657,184
Deferred tax income	16-a	145,825,285	61,862,942
Statutory allocations	43	2,768,540,178	6,385,987,871
Decrease in statutory allocations	43	-	94,255,172
INCOME FOR THE PERIOD		6,591,877,706	13,586,428,376
OTHER COMPREHENSIVE INCOME, NET OF TAX			
Surplus from revaluation of property		42,097,860	-
Adjustment for valuation of available-for-sale investments, net of income tax		(1,877,531,845)	(33,656,854)
Adjustment for valuation of restricted financial instruments, net of income tax		(123,472,343)	17,793,615
Surplus from revaluation of other assets		-	-
Adjustment for valuation of investments in other companies		(608,267,257)	580,205,837
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX		(2,567,173,585)	564,342,598
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		4,024,704,121	14,150,770,974

Juan Carlos Corrales Salas
General Manager

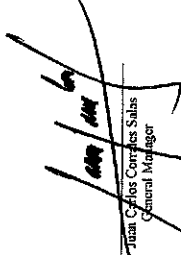
Gerardo Gómez Solís
General Accountant

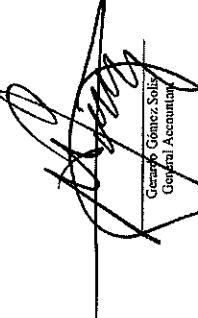
Ricardo Araya Jiménez
General Auditor

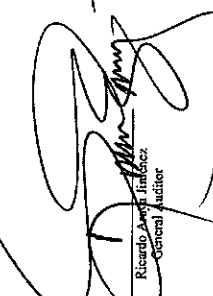
The notes are an integral part of these consolidated financial statements.

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
THREE MONTHS ENDED MARCH 31, 2018 AND 2017
(In colones)

Note	Share capital	Equity adjustments					Total equity adjustments	Capital reserves	Retained earnings	Equity of the Development Financing Fund	Total
		Surplus from revaluation of property	Surplus from revaluation of investments and restricted financial instruments	Surplus from revaluation of other assets	Adjustment for valuation of investments in other companies	Adjustment for valuation of available-for-sale investments and restricted financial instruments					
Balance at January 1, 2017	118,130,303,482	60,806,752,437	(1,458,020,769)	43,748,630	8,084,303,314		67,476,783,612	274,614,308,392	107,125,633,883	21,749,819,120	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	-	-	-	-	-	-	-	-	(40,691,051,590)	5,362,138,693	-
Comprehensive income for the period:											
Income for the period	-	-	-	-	-	-	-	35,328,915,897			-
Adjustment for valuation of available-for-sale investments, net of income tax	5	-	(33,656,854)	-	-	-	(33,656,854)	-	13,586,428,376	-	13,586,428,376
Adjustment for valuation of restricted financial instruments, net of income tax	5	-	17,793,615	-	-	-	17,793,615	-	-	-	(33,656,854)
Adjustment for valuation of investments in other companies	1-c (iv)	-	-	-	580,205,837	-	580,205,837	-	-	-	17,793,615
Surplus from revaluation of property	-	-	-	-	-	-	580,205,837	-	-	-	580,205,837
Total comprehensive income for the period	-	-	(15,863,239)	-	-	-	564,342,598	-	13,586,428,376	-	-
Balance at March 31, 2017	118,130,303,482	60,806,752,437	(1,473,884,008)	43,748,630	8,664,509,151		68,041,126,210	309,943,224,289	80,021,087,689	27,111,958,813	603,247,619,663


Juan Carlos Corrales Salas
General Manager

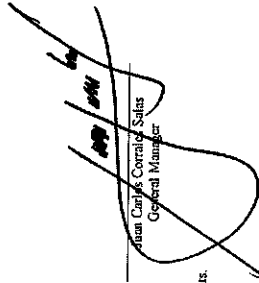

Gerardo Gomez Solis
General Accounting

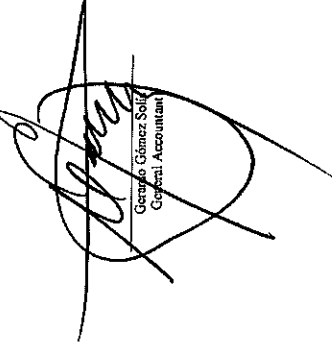

Ricardo Jover Halczer
General Auditor

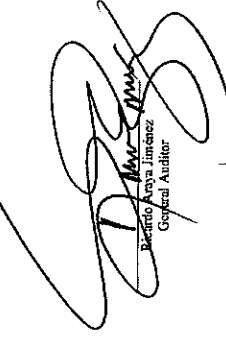
The notes are an integral part of these consolidated financial statements.

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
THREE MONTHS ENDED MARCH 31, 2018 AND 2017
(In colones)

Note	Share capital	Equity adjustments					Total equity adjustments	Capital reserves	Retained earnings	Equity of the Development Financing Fund	Total
		Surplus from revaluation of property	Adjustment for valuation of available-for-sale investments and restricted financial instruments	Surplus from revaluation of other assets	Adjustment for valuation of investments in other companies						
Balance at January 1, 2018	172,237,030,102	61,425,174,760	(2,304,989,655)	41,748,630	9,095,624,686		68,259,558,421	311,121,806,369	45,505,124,630	27,111,958,813	624,235,477,535
Transactions with owners booked directly in equity:											
Legal reserves	-	-	-	-	-	-	-	-	-	-	-
Other statutory reserves	-	-	-	-	-	-	-	-	-	-	-
Capitalization of retained earnings for capital increases	-	-	-	-	-	-	-	-	-	-	-
Equity of the Development Financing Fund	-	-	-	-	-	-	-	-	-	-	-
Total transactions with owners booked directly in equity	-	-	-	-	-	-	-	-	-	-	-
Comprehensive income for the period:											
Income for the period	-	-	-	-	-	-	-	-	-	-	-
Adjustment for valuation of available-for-sale investments, net of income tax	5	-	(1,877,531,845)	-	-	-	(1,877,531,845)	-	-	-	(1,877,531,845)
Adjustment for valuation of restricted financial instruments, net of income tax	5	-	(123,472,342)	-	-	-	(123,472,342)	-	-	-	(123,472,342)
Surplus from revaluation of property	1-c (iv)	-	-	-	(608,267,238)	-	(608,267,238)	-	-	-	(608,267,238)
Realization of surplus from revaluation of property	-	42,097,860	-	-	-	-	42,097,860	-	-	-	42,097,860
Total comprehensive income for the period	-	(561,385,930)	(2,001,004,187)	-	(608,267,238)	-	(608,267,238)	-	603,433,790	-	-
Balance at March 31, 2018	21	172,237,030,102	60,863,838,830	(4,305,993,842)	43,748,630	8,487,257,428	65,089,951,046	333,885,279,519	7,195,311,497	30,971,994,447	628,360,181,657


Juan Carlos Corrales Salas
General Manager


Gerardo Gómez Solís
General Accountant


Ricardo Araya Jiménez
General Auditor

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

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2018 AND 2017
(In colones)

	Note	Mar 2018	Mar 2017
Cash flows from operating activities			
Income for the period		6,591,877.706	13,586,428.376
Items not requiring cash			
Gain on sale of idle property and equipment		(259,411)	-
(Gain) loss on foreign exchange differences and development units, net		(4,483,905.910)	7,172,369.760
Loss on allowance for loan losses, net		20,424,948.173	975,750.709
(Gain) loss on allowance for impairment of investments, net		(57,803.470)	1,288.872
Loss on allowance for other receivables, net		253,938.135	234,232.858
Loss on allowance for impairment of foreclosed assets, net		716,352.088	1,198,174.493
Loss on sale of foreclosed assets		2,471,807.662	2,304,934.869
Provision expense, net of payments		1,910,790.216	(2,732,046.492)
Depreciation and amortization		5,441,877.413	4,634,968.654
Share in net profit of foreign associate		(841,591.734)	(512,288.898)
Statutory allocations, net		2,768,540.178	6,291,732.699
Income tax expense, net	16-a	459,510.294	5,902,101.945
Finance income on loan portfolio and investments		(123,147,755.486)	(105,681,879.059)
Finance costs on term obligations with the public and financial entities		50,557,855.895	37,566,327.312
		(36,933,818.251)	(29,057,903.902)
(Increase) decrease in assets			
Credits and cash advances		15,936,147.354	(83,144,846.595)
Foreclosed assets		3,451,756.224	4,181,783.348
Accrued interest receivable on other receivables		(139,691)	160,860
Other assets		659,211.634	6,428,598.501
		(16,886,842.730)	(101,592,207.788)
Net increase (decrease) in liabilities			
Demand and term obligations		51,413,249.231	366,644,825.156
Other accounts payable and provisions		(24,438,505.965)	(29,132,024.795)
Other liabilities		(42,639,757.617)	17,737,803.562
		(32,551,857.081)	253,658,396.135
Interest received on loan portfolio and investments		123,113,163.356	107,269,362.599
Income tax paid		(9,352,106.060)	(3,489,374.670)
Interest paid on term obligations with the public and financial entities		(36,488,191.913)	(21,826,865.006)
Net cash from operating activities		44,721,008.302	335,611,519.058
Cash flows from investing activities			
Increase in financial instruments		(529,533,525.950)	(325,661,581.931)
Decrease in financial instruments		410,573,272.263	295,629,218.958
Acquisition of property and equipment		8,582,929.108	(2,488,842.914)
Sale of property and equipment		1,015,125.297	41,363.240
Cash investments in other companies		(8,953.826)	-
Net cash used in investing activities		(109,371,153.108)	(32,479,842.647)
Cash flows from financing activities			
Other new financial obligations		121,331.445	2,049,921.037
Settlement of obligations		(3,594,459.093)	(1,291,070.552)
Net cash (used in) from financing activities		(3,473,127.648)	758,850.485
Net (decrease) increase in cash and cash equivalents		(68,123,272.454)	303,890,526.896
Cash and cash equivalents at beginning of year		1,501,089,253.239	1,019,158,980.617
Cash and cash equivalents at end of year	4	1,432,965,980.785	1,323,049,507.513

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

Notes to the Consolidated Financial Statements

March 31, 2018

(With corresponding figures for 2017)

(1) Summary of operations and significant accounting policies

(a) Operations

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

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

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

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

As of March 31, 2018, the Bank has 169 offices, 470 automated teller machines, and a total of 5,840 employees (2017: 176 offices, 475 automated teller machines, and 5,838 employees). Employees are distributed as follows: Banco Nacional de Costa Rica - 5,440 employees (2017: 5,435); BN Valores Puesto de Bolsa, S.A. - 70 employees (2017: 70); BN Vital Operadora de Planes de Pensiones Complementarias, S.A. - 164 employees (2017: 162); BN Sociedad Administradora de Fondos de Inversión, S.A. - 77 employees (2017: 81); and BN Corredora de Seguros, S.A. - 89 employees (2017: 90). The Bank's website is www.bncr.fi.cr.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The following subsidiaries are wholly owned by the Bank:

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

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

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

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

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

March 2018					
	Brokerage Firm	Pension Fund Manager	Investment Fund Manager	Insurance Brokerage Firm	BICSA
Assets	¢ 57,101,025,317	8,613,674,425	7,513,085,462	3,616,901,363	479,291,641,238
Liabilities	42,319,949,538	1,567,978,245	1,350,376,533	709,781,964	417,105,007,304
Equity	14,781,075,779	7,045,696,180	6,162,708,929	2,907,119,399	62,186,633,934
Income for the year	141,968,575	266,724,956	455,655,855	482,463,430	841,591,734
Memoranda accounts	954,549,056,042	1,322,943,656,585	444,540,428,515	-	-
December 2017					
	Brokerage Firm	Pension Fund Manager	Investment Fund Manager	Insurance Brokerage Firm	BICSA
Assets	¢ 56,683,024,910	9,191,299,287	7,431,925,822	3,869,500,100	499,021,964,567
Liabilities	41,150,960,632	1,843,306,812	815,002,349	1,164,963,271	437,289,889,400
Equity	15,532,064,278	7,347,992,475	6,616,923,473	2,704,536,829	61,732,075,167
Income for the year	1,776,740,964	726,185,040	1,741,738,330	2,260,896,827	2,615,822,520
Memoranda accounts	947,725,437,545	1,293,980,298,067	426,243,485,231	-	-

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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	-	-

(b) Basis of preparation of the consolidated financial statements

• Statement of compliance

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

• Basis of measurement applied to assets and liabilities

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

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

The accounting policies have been consistently applied.

(c) Functional and presentation currency

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(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, 2018 and 2017, the consolidated financial statements include the financial figures of the following subsidiaries:

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

Subsidiaries were consolidated based on the following accounting principles:

- All subsidiaries which the Bank controls, whether directly or indirectly, are consolidated.
- In case there are long-term financial or legal restrictions on the transfer of resources or in case 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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated 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, 2018 and 2017, 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 period.

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, 2018, the exchange rate is established at ¢562.40 and ¢569.31 to US\$1.00 (2017: ¢554.43 and ¢567.34 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, 2018, assets and liabilities denominated in U.S. dollars are valued at the exchange rate of ¢562.40 to US\$1.00 (2017: ¢554.43 to US\$1.00), which is the reference buy rate published by BCCR for that date.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of March 31, 2018, assets and liabilities denominated in euros are valued at the exchange rate of ¢694.23 to €1.00 (2017: ¢592.19 to €1.00). This exchange rate is 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, 2018, assets and liabilities denominated in Development Units (DU) are valued at the exchange rate of ¢889.76 to DU1.00 (2017: ¢870.15 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, 2018 and 2017, 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.

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 in effect for the year, except depreciation expense, which has been translated at historical rates.

For the three months ended March 31, 2018, a foreign exchange loss in the amount of ¢608,267,258 (December and March 2017: foreign exchange gain of ¢1,011,321,372 and ¢580,205,837, respectively) is presented in equity for the translation of the consolidated financial statements of foreign operations. As of March 31, 2018, the adjustment for valuation of investments in other companies amounts to ¢8,487,357,428 (December and March 2017: ¢9,095,624,686 and ¢8,664,509,151, respectively).

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(f) Financial assets and financial liabilities

i. *Recognition*

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

ii. *Classification*

Cash and cash equivalents

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

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

Investments in financial instruments

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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, 2018, the Bank no longer classifies financial instruments as held-to-maturity, except for the securities denominated in DU received from the Central Government to capitalize the Bank. Those securities were authorized by the Executive Branch of the Government of Costa Rica as a capital contribution and are funded under the *Amendment to Law No. 8627 on the Ordinary and Extraordinary Budget of the Republic for Tax Year 2008* (Law No. 8703).

Securities sold under repurchase agreements

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

Securities purchased under reverse repurchase agreements

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

Derivative financial instruments

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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.

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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

vi. *Fair value measurement*

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

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

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, 2018 and 2017, the market price valuation methodology established by VALMER Costa Rica, S.A. is used. This methodology has been duly approved by SUGEVAL.

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

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

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

Derivative financial instruments

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

vii. Gains and losses on subsequent measurement

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

viii. Impairment of financial assets

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(g) Loan portfolio

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

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

(h) Allowance for loan losses

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

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

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

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

As of March 31, 2018 and 2017, increases in the allowance for loan losses are included in the accounting records in accordance with Article 10 of IRNBS.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

(j) Other receivables

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

(k) Foreclosed assets

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The net realizable value of an asset should be used as its market value. Net realizable value is determined by applying strictly conservative criteria and is calculated by subtracting expenses to be incurred in the sale of the asset from its estimated selling price. The estimated selling price of the asset is determined by an appraiser based on current market conditions. Future expectations 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 performed the appraisals, and those reports must be updated at least annually.

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

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

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

(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%

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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, 2018 and 2017, the Bank has no full or partial share or influence over the management of other companies, in accordance with Article 73 of IRNBS and Article 146 of the *Internal Regulations of the Central Bank of Costa Rica*.

(m) Property, furniture and equipment

i. Own assets

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

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

ii. Leased assets

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

iii. *Subsequent expenditure*

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

iv. *Depreciation and amortization*

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

<u>Type of asset</u>	<u>Estimated useful life</u>
Buildings	25 to 120 years (1)
Vehicles	10 years
Furniture and equipment	10 years
Computer hardware	5 years
Portable computers	3 years
Leasehold improvements	To be determined or established in the lease terms

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

(n) Intangible assets

i. *Other intangible assets*

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

ii. Subsequent expenditure

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

iii. Amortization

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

(o) Impairment of non-financial assets

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

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

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

(p) Accounts payable and other liabilities

Accounts payable and other liabilities are carried at cost.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(q) Provisions

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

(r) Employee benefits

i. *Severance benefits*

Costa Rican legislation requires the payment of severance benefits to employees in the event of retirement, death, or dismissal without just cause, equivalent to seven days' salary for employees with between three and six months of service, 14 days' salary for employees with between six months and one year of service, and an amount prescribed by the *Employee Protection Law* for employees with more than 1 year of service, up to a maximum of eight years.

In the specific case of the Bank, that limit is 17 years for employees with more than 25 years of service. The Bank follows the policy of booking a provision to cover future disbursements related thereto for employees with more than 20 years of service, in compliance with Article 34 of the *Collective Bargaining Agreement*. As of March 31, 2018 and 2017, severance is included in the provisions account (see note 17), which meets the legal provisioning requirements in effect as of those dates.

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

ii. *Short-term employee benefits*

Statutory Christmas bonus

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

Vacation

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

Back-to-school bonus

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

Incentives and Performance Assessment System (SEDI)

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

iii. Employee Protection and Retirement Fund

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

(s) Deferred income

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

(t) Legal reserve

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

Other statutory reserves

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(u) Revaluation surplus

Revaluation surplus included in the consolidated statement of changes in equity may be transferred directly to prior period retained earnings when the surplus is realized. Total surplus is realized on the retirement, disposal, or use of the asset. The transfer of revaluation surplus to prior period retained earnings is not made through the consolidated statement of comprehensive income. The Bank follows the policy of transferring the revaluation surplus to prior period retained earnings, for its subsequent capitalization, in accordance with Article No. 8 of IRNBS (Law No. 1644) and SUGEF Directive 33-07.

(v) Income tax

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

i. Current tax

Current tax is the expected tax payable on taxable income for the 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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

(w) Segment reporting

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

(x) Combination of financial statements of departments

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

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

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

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

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

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

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

(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 the end of the period based on the annual earnings reflected in the audited financial statements. The recognition of such allocation became effective as of January 1, 2015; therefore, financial statements for 2014 do not reflect this expense.

(bb) Development Financing Fund (FOFIDE)

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

(cc) Development Credit Fund (FCD)

The Development Credit Fund (FCD) is 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 managers for five years from the date of signing of the respective management agreements. Each bank is awarded the management of fifty percent (50%) of such a fund.

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

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

- a. Pursuant to Article 6 of Law No. 8634, the Managing Banks may offer first-tier banking services to the beneficiaries of the Development Banking System.
- b. Pursuant to Article 35 of Law No. 8634, the Managing Banks may offer second-tier banking services with FCD funds for financial entities other than private banks, provided that the purposes and obligations established in Law No. 8634 are met and such entities are duly authorized by the Governing Board.

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- c. Pursuant to Article 35 of Law No. 8634, the Managing Banks may channel 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 2018 Carrying amount	December 2017 Carrying amount	March 2017 Carrying amount
<i>Cash and due from banks:</i>					
Checking account – colones (note 4)	Minimum legal deposit	¢	515,483,581,132	506,614,839,613	465,788,959,614
Checking account – U.S. dollars (note 4)	Minimum legal deposit		274,981,568,559	277,771,308,370	253,376,794,484
Checking account – euros (note 4)	Minimum legal deposit		4,658,414,273	4,005,701,580	4,137,727,032
Other cash and due from banks (note 4)	Custody of liabilities of Banco Crédito Agrícola de Cartago		2,833,983,269	8,900,457,858	-
Other cash and due from banks (note 4)	Margin calls for tri-party repurchase agreements		-	112,717,628	-
Other cash and due from banks (note 4)	Contribution to FOGABONA		-	187,856,613	354,074,102
		¢	<u>797,957,547,233</u>	<u>797,592,881,662</u>	<u>723,657,555,232</u>
<i>Investments in financial instruments:</i>					
	Guarantee for tri-party repurchase agreements		33,170,409,522	25,698,653,608	27,167,105,155
Investments in financial instruments	Liquidity market operations		15,560,345,450	22,382,659,573	16,331,116,434
Securities issued by BCCR and the Government	Investments securing repurchase agreements		202,417,914	203,162,716	592,911,125
External debt bonds	Nomura Bank guarantee		91,606,659,162	82,461,472,891	58,672,779,674
External debt bonds	Merrill Lynch guarantee (SWAPS)		-	-	3,316,271,087
External debt bonds	Credit Suisse guarantee		-	-	72,546,022,205
External debt bonds	JP-SWAPS guarantee		-	-	1,657,962,285
	Interbank Electronic Payment System (SINPE) guarantee		-	-	4,123,310,270
Central Bank bonds (global bond)		¢	<u>140,539,832,048</u>	<u>130,745,948,788</u>	<u>184,407,478,235</u>
<i>Other assets:</i>					
Other assets (note 12)	Security deposits	¢	<u>650,827,347</u>	<u>573,576,820</u>	<u>503,775,556</u>

As of March 31, 2018, the Brokerage Firm has restricted assets in the amount of ¢48,730,754,972 (December and March 2017: ¢48,381,887,422 and ¢43,852,295,691, 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

	March 2018	December 2017	March 2017
<u>Assets:</u>			
Checking accounts in foreign financial entities (1) (note 4)	¢ 29,126,869,697	17,091,195,563	10,543,640,790
Investments in financial instruments and accrued interest receivable (2)	11,248,000,000	-	-
Accounts receivable (3)	-	-	-
Allowance for impairment for transactions with related parties (3)	(69,360,848)	(18,809,848)	(19,956,225)
Investments in other companies (4) (note 10)	62,237,257,234	61,782,698,467	58,429,329,853
	¢ <u>102,542,766,083</u>	<u>78,855,084,182</u>	<u>68,953,014,418</u>
<u>Liabilities:</u>			
Demand obligations with entities (5)	18,381,239	15,795,754	24,978,182
Term obligations with entities (5)	29,500,000	-	-
	¢ <u>47,881,239</u>	<u>15,795,754</u>	<u>24,978,182</u>
<u>Income:</u>			
Gain on investments in foreign companies	841,591,734	2,615,822,520	512,288,898
	¢ <u>841,591,734</u>	<u>2,615,822,520</u>	<u>512,288,898</u>

Balances and transactions with related parties are as follows:

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the three months ended March 31, compensation to key personnel is as follows:

		March 2018	December 2017	March 2017
Short-term benefits	¢	472,582,012	1,977,961,998	452,754,893
Long-term benefits		61,435,659	257,135,059	58,858,136
Per diem – Board of directors		42,462,521	141,469,264	37,977,204
	¢	<u>576,480,192</u>	<u>2,376,566,321</u>	<u>549,590,233</u>

(4) Cash and cash equivalents

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

		March 2018	December 2017	March 2017
Cash and due from banks	¢	1,269,157,612,373	1,282,770,297,704	1,227,548,669,423
Investments with maturities of two months or less		163,808,368,412	218,318,955,535	95,500,838,090
	¢	<u>1,432,965,980,785</u>	<u>1,501,089,253,239</u>	<u>1,323,049,507,513</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Cash and due from banks is as follows:

	March 2018	December 2017	March 2017
Cash on hand and in vaults	¢ 63,108,270,235	49,786,135,980	55,210,439,414
Cash in transit	24,820,825,904	17,953,025,570	15,168,752,415
Checking account in BCCR (1)	52,855,444,939	79,815,528,179	62,200,738,833
Minimum legal deposits in BCCR (1)	800,671,225,587	777,920,470,982	711,408,095,514
Checking accounts and demand deposits in State-owned commercial banks and banks created under special laws	81,380,296	71,384,980	3,077,344,825
Checking accounts and other demand accounts in private financial entities	18,735,203,786	15,710,632,738	3,465,185,512
Overnight deposits in local financial entities	500,000,000	940,000,000	340,000,000
Checking accounts in foreign financial entities	266,460,737,890	299,621,722,806	348,608,987,790
Deposits and other demand accounts in foreign financial entities	99,191,709	25,876,591	81,156,057
Checking accounts and demand deposits in related entities (note 3)	29,126,869,697	17,091,195,563	10,543,640,790
Overnight deposits in foreign financial entities	4,978,464,041	4,686,354,489	5,887,138,986
Transfers through the Interbank Electronic Payment System (SINPE)	1,627,019,893	4,178,591,648	7,839,864,549
Local notes receivable	2,529,118,622	4,357,069,947	2,546,849,971
Foreign notes receivable	729,876,505	1,410,554,037	816,301,566
Margin calls for tri-party repurchase agreements	57,164,355	112,717,628	30,208,800
Fondo de Garantía de la Bolsa Nacional de Valores (FOGABONA)	200,735,654	187,856,613	323,865,302
Other restricted cash and due from banks (2)	2,576,083,260	8,900,457,858	-
Accrued interest receivable	-	722,095	99,099
	¢ <u>1,269,157,612,373</u>	<u>1,282,770,297,704</u>	<u>1,227,548,669,423</u>

- (1) Checking accounts and demand deposits in BCCR include the balances of the minimum legal deposits required for each year (see note 2).
- (2) “Other restricted cash and due from banks” includes the banking mandate for custody of liabilities, checking accounts, savings accounts, and term certificates of deposit of Banco Crédito Agrícola de Cartago.

As of March 31, 2018 and 2017, the percentage for the minimum legal deposit is 15%. The corresponding amount must be deposited in cash in BCCR pursuant to current banking legislation. Such a deposit is calculated as a percentage of third-party deposits, which varies based on the term and form of deposit-taking used by the Bank.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(5) Investments in financial instruments

Investments in financial instruments are as follows:

	March 2018	December 2017	March 2017
<i>Available for sale:</i>			
<u>Local issuers:</u>			
Government of Costa Rica	¢ 539,276,336,934	585,738,378,031	522,091,063,238
BCCR	122,405,266,314	99,282,603,047	118,905,694,940
State-owned banks	31,526,789,248	44,620,801,705	29,381,046,442
Private banks	-	-	47,731,841,361
Private issuers	27,261,162,544	7,859,915,398	17,798,747,325
	<u>720,469,555,040</u>	<u>737,501,698,181</u>	<u>735,908,393,306</u>
<u>Foreign issuers:</u>			
Governments	86,140,491,395	74,980,395,191	39,630,224,363
Private issuers	229,822,024,376	88,709,226,103	66,888,952,425
Private banks	90,234,183,318	159,852,628,432	116,364,404,711
	<u>406,196,699,089</u>	<u>323,542,249,726</u>	<u>222,883,581,499</u>
	<u>1,126,666,254,129</u>	<u>1,061,043,947,907</u>	<u>958,791,974,805</u>
<i>Held to maturity:</i>			
Government of Costa Rica	18,758,392,053	18,562,535,348	27,517,445,454
	<u>18,758,392,053</u>	<u>18,562,535,348</u>	<u>27,517,445,454</u>
<i>Derivative financial instruments:</i>			
Interest rate futures - Hedges (note 6)	18,505,024	6,179,274,814	9,041,141,040
Purchase of FX futures – Other than hedges (note 6)	30,165	22,730,053	-
Sale of FX futures – Other than hedges (note 6)	161,557,244	119,898,739	12,888,715
	<u>180,092,433</u>	<u>6,321,903,607</u>	<u>9,054,029,755</u>
<i>Allowance for impairment:</i>			
Allowance for impairment of investments	-	(58,720,473)	(60,111,301)
Allowance for impairment of derivative instruments other than hedges	(15,670,726)	(14,753,724)	(1,288,871)
	<u>(15,670,726)</u>	<u>(73,474,196)</u>	<u>(61,400,172)</u>
Accrued interest receivable on investments	7,602,556,350	11,477,429,720	8,178,316,947
¢	<u>1,153,191,624,239</u>	<u>1,097,332,342,386</u>	<u>1,003,480,366,789</u>

(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 2018	December 2017	March 2017
Opening balance	¢ 73,474,196	59,433,676	59,433,675
Allowance expense (note 34)	12,680,679	29,794,522	1,288,872
Decrease in allowance (note 35)	(11,763,677)	(17,716,855)	-
Foreign exchange differences	(58,720,472)	1,962,854	677,625
Closing balance	¢ 15,670,726	73,474,197	61,400,172

As of March 31, 2018, there is no allowance for impairment of investments in non-derivative financial instruments (December and March 2017: an allowance is booked in the amount of ¢58,720,473 and ¢60,111,301, respectively, for investments in Z Bonds related to the Mortgage Securitization Trust (impairment of 26% for both years).

As of March 31, 2018, the Bank recognizes an allowance for impairment of derivative instruments other than hedges in the amount of ¢15,670,726, for sales of FX futures other than hedges in accordance with SUGEF Directive 09-08 (December and March 2017: ¢14,753,724 and ¢1,288,871, respectively).

Annual returns on investments in financial instruments are as follows:

Currency	March 2018	December 2017	March 2017
Colones	2.40% to 11.13%	4.00% to 11.13%	2.40% to 11.13%
U.S. dollars	0.63% to 6.55%	0.50% to 6.85%	0.63% to 6.55%
Euros	1.10% to 5.13%	1.10% to 2.00%	1.10% to 5.13%
DU	0.00% to 0.74%	0.00% to 0.74%	0.00% to 0.74%

As of March 31, 2018, 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 ¢2,001,004,187 (December and March 2017: unrealized loss of ¢846,968,886 and ¢15,863,239, respectively). Accordingly, as of March 31, 2018, the cumulative balance of equity adjustments arising from valuation of these investments is an unrealized loss of ¢4,305,993,842 (December and March 2017: unrealized loss of ¢2,304,989,655 and ¢1,473,884,008, respectively).

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(6) Derivative financial instruments

The Bank holds the following types of derivative financial instruments:

✓ Derivatives as risk hedging instruments:

Interest rate futures - hedges:

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

Derivative financial instruments are as follows:

Issuing bank	As of March 31, 2018				Purpose
		Notional amount		Valuation	
CitiBank	US\$	100,000,000	US\$	(85,049)	Swaps to hedge 10-year term obligations in issue (maturing in 2023)
JP Morgan		200,000,000		(172,232)	
Bank of America		200,000,000		(170,099)	
	US\$	500,000,000	US\$	(427,380)	
Amount in colones	¢	281,200,000,000	¢	(240,358,733)	
Bank of America		250,000,000		(10,032,877)	Swaps to hedge 5-year term obligations in issue (maturing in 2021)
JP Morgan		250,000,000		(10,032,877)	
	US\$	500,000,000	US\$	(20,065,755)	
Amount in colones	¢	281,200,000,000	¢	(11,284,980,368)	
Chicago Board of Trade	US\$	34,600,000	US\$	(75,278)	Standardized futures contracts (maturing in 2018)
Amount in colones	¢	19,459,040,000	¢	(42,336,201)	

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2017				Purpose
Issuing bank		Notional amount	Valuation	
Citibank	US\$	100,000,000	US\$ 2,175,372	Swaps to hedge 10-year term obligations in issue (maturing in 2023)
JP Morgan		200,000,000	4,349,026	
Bank of America		200,000,000	4,350,745	
	US\$	500,000,000	US\$ 10,875,143	
Amount in colones	¢	<u>283,210,000,000</u>	¢ <u>6,159,898,719</u>	
Bank of America		250,000,000	(6,845,495)	Swaps to hedge 5-year term obligations in issue (maturing in 2021)
JP Morgan		250,000,000	(6,845,495)	
	US\$	500,000,000	US\$ (13,690,990)	
Amount in colones	¢	<u>283,210,000,000</u>	¢ <u>(7,754,850,556)</u>	
Chicago Board of Trade	US\$	18,000,000	US\$ (2,871)	Standardized futures contracts (maturing in 2018)
Amount in colones	¢	<u>10,195,560,000</u>	¢ <u>(1,626,192)</u>	
March 31, 2017				Purpose
Issuing bank		Notional amount	Valuation	
CitiBank	US\$	100,000,000	US\$ 3,260,657	Swaps to hedge 10-year term obligations in issue (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	¢	<u>277,215,000,000</u>	¢ <u>9,039,027,927</u>	
CitiBank		100,000,000	(184,315)	Swaps to hedge 5-year term obligations in issue (maturing in 2018)
JP Morgan		150,000,000	(276,338)	
	US\$	250,000,000	US\$ (460,653)	
Amount in colones	¢	<u>138,607,500,000</u>	¢ <u>(255,399,843)</u>	
Bank of America		250,000,000	(6,313,431)	Swaps to hedge 5-year term obligations in issue (maturing in 2021)
JP Morgan		250,000,000	(6,313,431)	
	US\$	500,000,000	US\$ (12,626,862)	
Amount in colones	¢	<u>277,215,000,000</u>	¢ <u>(7,000,711,099)</u>	
Chicago Board of Trade	US\$	8,500,000	US\$ (6,442)	Standardized futures contracts (maturing in 2017)
Amount in colones	¢	<u>4,712,655,000</u>	¢ <u>(3,571,638)</u>	

As of March 31, 2018, total notional amounts of US\$1,034,600,000, equivalent to ¢581,859,040,000 (December and March 2017: US\$1,018,000,000, equivalent to ¢576,615,560,000, and US\$1,258,500,000, equivalent to ¢697,750,155,000, respectively) are booked under “Other debit memoranda accounts” (see note 24).

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

As of March 31, 2018, the Bank does not book an increase in the fair value of these hedges and books a decrease in the fair value of these hedges in the amount of US\$20,493,135 equivalent to ¢11,525,339,101 (see note 5).

As of December 31, 2017, the Bank books an increase in the fair value of these hedges in the amount of US\$10,875,143, equivalent to ¢6,159,898,719 (see note 5) and a decrease in the fair value of these hedges in the amount of US\$13,690,990, equivalent to ¢7,754,850,556 (see note 5).

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 ¢9,039,027,927 (see note 5) and a decrease in the fair value of these hedges in the amount of US\$13,087,515, equivalent to ¢7,256,061,148 (see note 5).

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

Effectiveness of the valuation of derivative financial instruments is as follows:

	Effective rate		
	March 2018	December 2017	March 2017
5-year issue (maturing in 2018)	-	-	104.48%
10-year issue (maturing in 2023)	114.70%	105.40%	99.52%
5-year issue (maturing in 2021)	90.40%	84.60%	91.01%

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

A valuation was performed as of March 31, 2018 and 2017 to calculate the change in the fair value of the primary and derivative instruments based on the following inputs:

- a 5- or 10-year LIBOR rate at the issue of the bond
- discount rates from Bloomberg
- zero rates corresponding to the swap curve as of March 28, 2018 and 2017
- only a portion of the bond cash flows is hedged (corresponding to the 5- and 10-year LIBOR rate in effect at the issue of the bond) rather than the total interest amount
- accrued and earned interest were segregated from the instruments to obtain variations in clean prices
- forward rate to calculate variable interest.

As of March 31, 2018, standardized futures contracts were negotiated as part of the financial derivatives portfolio. The Bank booked a notional amount for the sale and purchase of these futures contracts in the amount of US\$34,600,000, equivalent to ¢19,459,040,000.

As of March 31, 2018, the Bank books an increase in fair value due to the negotiation of these futures contracts in the amount of US\$32,904, equivalent to ¢18,505,024, and a decrease in the fair value of these hedges in the amount of US\$108,181, equivalent to ¢60,841,225, which is booked in "Other sundry accounts payable" (see note 18), establishing the net position of these instruments in the amount of US\$75,278, equivalent to ¢42,336,201.

As of December 31, 2017, the Bank booked an increase in fair value due to the negotiation of these futures contracts in the amount of US\$34,208, equivalent to ¢19,376,095, and a decrease in the fair value of these hedges in the amount of US\$37,079, equivalent to ¢21,002,287, which is booked in "Other sundry accounts payable" (see note 18), establishing the net position of these instruments in the amount of US\$2,871, equivalent to ¢1,626,192.

As of March 31, 2017, the Bank booked an increase in fair value due to the negotiation of these futures contracts in the amount of US\$3,811, equivalent to ¢2,113,113, and a decrease in the fair value of these hedges in the amount of US\$10,253, equivalent to ¢5,684,751, which is booked in "Other sundry accounts payable" (see note 18), establishing the net position of these instruments in the amount of US\$6,442, equivalent to ¢3,571,638.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

✓ Derivatives for trading purposes:

Currency forwards:

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

These types of instruments are products which the Bank can offer to its clients pursuant to the authorization provided by BCCR to operate exchange rate derivatives.

As of March 31, 2018, the total notional amount is US\$9,014,199, equivalent to ¢5,069,585,630 (December and March 2017: US\$27,906,944, equivalent to ¢15,807,051,435, and US\$7,731,547, equivalent to ¢4,286,601,775, respectively) (see note 22).

As of March 31, 2018, the Bank books an increase in the fair value of these forwards in the amount of ¢161,587,409 under an asset account and does not book a decrease in the liability account (December and March 2017: increase in the amount of ¢142,628,793 and ¢12,888,715, respectively, and decrease in the amount of ¢46,913,807 and ¢50,239,368, respectively) (see note 5).

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:

		<u>March 2018</u>	<u>December 2017</u>	<u>March 2017</u>
Gain on derivative financial instruments	¢	2,258,466,062	24,217,078,104	6,898,322,535
Loss on derivative financial instruments		<u>(11,586,971,389)</u>	<u>(18,859,030,471)</u>	<u>(2,344,115,977)</u>
Net gain	¢	<u>(9,328,505,327)</u>	<u>5,358,047,633</u>	<u>4,554,206,558</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(7) Loan portfolio

(a) Loan portfolio by sector

The loan portfolio by sector is as follows:

	March 2018	December 2017	March 2017
Trade	¢ 410,270,516,726	410,062,171,620	377,628,142,211
Services	910,029,109,003	925,588,456,250	904,252,226,938
Financial services	132,181,240,553	136,448,769,907	138,293,601,906
Mining	895,123,301	911,515,744	1,034,455,503
Manufacturing and quarrying	185,163,263,379	179,083,732,196	179,793,985,671
Construction	110,208,946,734	106,205,953,983	104,640,648,880
Agriculture and forestry	119,821,639,109	125,660,078,600	117,897,302,736
Livestock, hunting, and fishing	83,673,380,013	83,621,737,863	78,812,519,824
Electricity, water, sanitation, and other related sectors	433,382,578,005	438,885,802,997	403,482,675,047
Transportation and telecommunications	44,947,529,130	46,069,196,429	46,336,455,448
Housing	1,292,338,107,941	1,304,758,486,194	1,223,958,467,525
Personal or consumer loans	553,396,653,587	554,958,089,721	469,874,741,961
Tourism	181,713,882,752	180,852,228,622	161,910,983,501
	4,458,021,970,233	4,493,106,220,126	4,207,916,207,151
Accrued interest receivable	35,652,951,204	31,743,485,704	28,394,872,419
Allowance for loan losses	(157,332,768,200)	(140,168,393,361)	(85,119,811,786)
¢	4,336,342,153,237	4,384,681,312,469	4,151,191,267,784

Annual interest rates on loans receivable are as follows:

Currency	March 2018		December 2017		March 2017	
	Rates	Average (1)	Rates	Average (1)	Rates	Average (1)
Colones	4.50% to 40.56%	15.27%	4.40% to 40.56%	14.96%	4.35% to 39.00%	13.20%
U.S. dollars	3.00% to 35.00%	10.03%	3.00% to 34.92%	9.44%	3.00% to 34.92%	9.09%
DU	3.85% to 11.00%	6.67%	3.85% to 11.00%	6.57%	3.85% to 11.00%	6.57%

(1) Corresponds to the average of the minimum and maximum values of the portfolio as of March 31, 2018 and 2017.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(b) Loan portfolio by arrears

The loan portfolio by arrears is as follows:

	March 2018	December 2017	March 2017
Current	¢ 4,099,336,341,945	4,261,582,917,145	4,002,303,960,272
1 to 30 days	91,968,023,309	56,313,279,440	55,371,543,644
31 to 60 days	132,341,201,819	44,153,684,890	53,691,499,996
61 to 90 days	20,963,214,380	23,102,210,055	13,520,134,373
91 to 120 days	5,226,342,686	15,367,490,160	3,068,752,509
121 to 180 days	19,249,694,250	10,774,616,091	9,354,488,891
More than 180 days	88,937,151,844	81,812,022,345	70,605,827,466
Total gross loan portfolio	4,458,021,970,233	4,493,106,220,126	4,207,916,207,151
Accrued interest receivable	35,652,951,204	31,743,485,704	28,394,872,419
Allowance for loan losses	(157,332,768,200)	(140,168,393,361)	(85,119,811,786)
	¢ <u>4,336,342,153,237</u>	<u>4,384,681,312,469</u>	<u>4,151,191,267,784</u>

(c) Allowance for loan losses

Movement in the allowance for loan losses is as follows:

	March 2018	December 2017	March 2017
Opening balance	¢ 140,168,393,361	85,464,859,320	85,464,859,320
Expense for the year (note 34)	22,025,756,749	69,399,079,403	4,236,602,244
Write-offs	(4,303,344,853)	(14,982,163,099)	(4,213,625,928)
Decrease in allowance charged to profit or loss	-	(720,000,000)	(720,000,000)
Foreign exchange differences	(558,037,057)	1,006,617,737	351,976,150
Closing balance	¢ <u>157,332,768,200</u>	<u>140,168,393,361</u>	<u>85,119,811,786</u>

Management considers the allowance for loan losses to be sufficient based on its assessment of the recoverability of the portfolio and the 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 2018	December 2017	March 2017
Fees and commissions	¢ 1,260,226,537	1,261,195,967	1,035,193,870
Accounts receivable for brokerage operations	3,203,141	-	41,186,198
Accounts receivable for transactions with related parties (officers and employees)	31,777,121	26,675,994	49,852,768
Deferred tax (note 16-b)	1,446,350,266	1,268,629,877	1,037,071,875
Income tax receivable (1)	98,230,626	240,205,993	50,926,823
Other sundry accounts receivable	4,460,792,325	3,879,229,636	4,250,881,723
Accrued interest receivable on other sundry accounts receivable	1,863,847	1,724,156	1,640,063
Allowance for impairment of accounts receivable	(3,774,600,777)	(3,592,576,911)	(3,398,497,209)
	¢ <u>3,527,843,086</u>	<u>3,085,084,712</u>	<u>3,068,256,111</u>

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

	March 2018	December 2017	March 2017
Banco Nacional de Costa Rica	¢ 31,804,278	134,516,249	30,614,318
BN Vital Operadora de Planes de Pensiones Complementarias, S.A.	40,438,461	-	-
BN Corredora de Seguros, S.A.	25,987,887	105,689,744	20,312,505
	¢ <u>98,230,626</u>	<u>240,205,993</u>	<u>50,926,823</u>

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

	March 2018	December 2017	March 2017
Opening balance	¢ 3,592,576,911	3,451,027,735	3,451,027,735
Allowance expense (note 34)	415,655,047	2,026,114,296	436,874,029
Decrease in allowance (note 35)	(161,716,912)	(767,042,270)	(202,567,933)
Items settled against allowance	(71,104,963)	(1,120,015,549)	(287,665,715)
Foreign exchange differences	(809,306)	2,492,699	829,093
Closing balance	¢ <u>3,774,600,777</u>	<u>3,592,576,911</u>	<u>3,398,497,209</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(9) Foreclosed assets

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

		March 2018	December 2017	March 2017
Assets received in lieu of payment	¢	80,807,703,794	81,249,127,569	77,652,964,943
Idle property and equipment		1,840,190	1,832,418	1,471,878
Allowance for impairment		(62,697,900,352)	(62,466,054,133)	(60,843,125,565)
	¢	<u>18,111,643,632</u>	<u>18,784,905,854</u>	<u>16,811,311,256</u>

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

		March 2018	December 2017	March 2017
Opening balance	¢	62,466,054,133	59,644,951,072	59,644,951,072
Allowance expense (note 38)		1,488,983,915	6,059,997,296	1,450,343,954
Liquidation of foreclosed assets		(484,505,868)	-	-
Decrease in allowance		(772,631,828)	(3,238,894,235)	(252,169,461)
Closing balance	¢	<u>62,697,900,352</u>	<u>62,466,054,133</u>	<u>60,843,125,565</u>

(10) Investments in other companies

Investments in other companies are as follows:

		March 2018	December 2017	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)		62,186,633,934	61,732,075,167	58,378,706,553
	¢	<u>62,237,257,234</u>	<u>61,782,698,467</u>	<u>58,429,329,853</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

		<u>March 2018</u>	<u>December 2017</u>	<u>March 2017</u>	<u>Concept</u>
National Stock Exchange	¢	15,000,000	15,000,000	15,000,000	Investment to operate as custodian of electronic securities
Central de Valores de la Bolsa Nacional de Valores, S.A.		15,000,000	15,000,000	15,000,000	Investment to operate as custodian of electronic securities
Interclear Central de Valores Depósito Libre Comercial Golfito (Golfito Duty Free Shopping Center) per Art. 24 of Law No. 7131		15,000,000	15,000,000	15,000,000	Investment to operate as custodian of electronic securities
					Investment in the Golfito Duty Free Shopping Center
Other financial entities		423,300	423,300	423,300	Investments in various cooperatives
	¢	<u>50,623,300</u>	<u>50,623,300</u>	<u>50,623,300</u>	

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(11) Property and equipment

Property and equipment is as follows:

		March 2018					
		Land	Buildings	Furniture and equipment	Computer hardware	Vehicles	Total
<u>Cost:</u>							
Historical cost balance at beginning of period	¢	4,421,981,504	65,365,769,140	62,756,449,218	52,272,157,864	264,401,853	185,080,759,579
Revalued cost balance at beginning of period		43,400,145,058	61,920,804,416	(8,658,186)	(33,536,634)	-	105,278,754,654
Additions		-	-	1,102,841,246	290,315,927	-	1,393,157,173
Disposals		-	(39,919,164)	(1,901,984,396)	(1,598,331,243)	-	(3,540,234,803)
Sales		(280,902,097)	(273,406,218)	-	-	-	(554,308,315)
Adjustments		-	-	1,374,547	(18,001,864)	-	(16,627,317)
Reclassifications		-	-	105,263	(105,263)	-	-
Balance at end of period		47,541,224,465	126,973,248,174	61,950,127,692	50,912,498,787	264,401,853	287,641,500,971
<u>Accumulated depreciation:</u>							
Balance at beginning of period		-	38,921,431,767	35,786,150,473	35,403,025,098	203,397,643	110,314,004,981
Depreciation expense on historical cost		-	363,315,529	1,476,156,777	1,605,267,322	4,466,882	3,449,206,510
Depreciation expense on revaluation		-	343,678,040	-	-	-	343,678,040
Disposals		-	(20,459,937)	(1,393,895,857)	(1,585,280,752)	-	(2,999,636,546)
Sales		-	(80,040,686)	-	-	-	(80,040,686)
Adjustments		-	-	(4,000,461)	(18,687,373)	-	(22,687,834)
Balance at end of period		-	39,527,924,713	35,864,410,932	35,404,324,295	207,864,525	111,004,524,465
Net balance at end of period	¢	47,541,224,465	87,445,323,461	26,085,716,760	15,508,174,492	56,537,328	176,636,976,506

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		December 2017					
		Land	Buildings	Furniture and equipment	Computer hardware	Vehicles	Total
<u>Cost:</u>							
Historical cost balance at beginning of year	¢	4,207,876,870	63,103,140,736	61,092,968,044	59,634,596,667	437,323,476	188,475,905,793
Revalued cost balance at beginning of year		42,270,752,875	57,905,955,091	(9,764,538)	(33,599,038)	-	100,133,344,390
Additions		331,825,827	2,352,349,672	5,565,273,956	7,889,562,502	-	16,139,011,957
Revaluation of assets		1,011,670,989	3,851,382,933	-	-	-	4,863,053,922
Disposals		-	-	(4,111,179,980)	(15,387,620,688)	(20,576,060)	(19,519,376,728)
Sales		-	-	(6,125,849)	-	(152,345,563)	(158,471,412)
Adjustments		-	73,745,123	216,619,400	135,681,787	-	426,046,310
Balance at end of year		47,822,126,561	127,286,573,555	62,747,791,033	52,238,621,230	264,401,853	290,359,514,232
<u>Accumulated depreciation:</u>							
Balance at beginning of the year		-	33,183,853,177	33,869,123,760	44,114,779,021	336,442,779	111,504,198,737
Depreciation expense on historical cost		-	1,583,624,839	5,760,711,545	6,510,362,273	24,878,540	13,879,577,197
Depreciation expense on revaluation		-	1,406,062,470	-	-	-	1,406,062,470
Disposals		-	-	(4,026,036,958)	(15,324,376,143)	(20,576,059)	(19,370,989,160)
Sales		-	-	(4,520,023)	-	(137,405,629)	(141,925,652)
Adjustments		-	2,747,891,281	186,872,150	102,259,945	58,011	3,037,081,387
Balance at end of year		-	38,921,431,767	35,786,150,474	35,403,025,096	203,397,642	110,314,004,979
Net balance at end of year	¢	47,822,126,561	88,365,141,788	26,961,640,559	16,835,596,134	61,004,211	180,045,509,253

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		March 2017					
		Land	Buildings	Furniture and equipment	Computer hardware	Vehicles	Total
<u>Cost:</u>							
Balance at beginning of period	¢	46,478,629,745	121,009,095,827	61,083,203,506	59,600,997,629	437,323,476	288,609,250,183
Additions		-	1,537,083,863	436,825,033	515,583,586	-	2,489,492,482
Disposals		-	-	(212,125,589)	(8,593,607,545)	-	(8,805,733,134)
Adjustments		-	-	6,706,506	155,257	-	6,861,763
Balance at end of period		46,478,629,745	122,546,179,690	61,314,609,456	51,523,128,927	437,323,476	282,299,871,294
<u>Accumulated depreciation:</u>							
Balance at beginning of period		-	33,183,853,177	33,869,123,760	44,114,779,021	336,442,779	111,504,198,737
Depreciation expense on historical cost		-	360,588,590	1,381,486,914	1,646,728,662	6,576,244	3,395,380,410
Depreciation expense on revaluation		-	354,952,795	-	-	-	354,952,795
Disposals		-	-	(190,799,548)	(8,573,570,346)	-	(8,764,369,894)
Adjustments		-	(1,969)	7,479,633	89,244	-	7,566,908
Balance at end of period		-	33,899,392,593	35,067,290,759	37,188,026,581	343,019,023	106,497,728,956
Net balance at end of period	¢	46,478,629,745	88,646,787,097	26,247,318,697	14,335,102,346	94,304,453	175,802,142,338

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of the December close, appraisals of the Bank's land and buildings were performed by an independent appraiser, obtaining the NRV, which was compared to the carrying amount to determine the equity increase, affecting the related accounts for accumulated depreciation and revaluation.

As of December 31, 2017, for buildings, the total equity increase amounts to ¢991,879,746: retained earnings ¢768,103,339, revaluation surplus ¢319,680,581, and deferred tax (¢95,904,174). For land, the increase due to revaluation surplus amounts to ¢1,011,670,989. This process was performed with the balances as of August 4, 2017.

(12) Other assets

Other assets are as follows:

	March 2018	December 2017	March 2017
<i><u>Deferred charges:</u></i>			
Leasehold improvements	¢ 769,782,564	859,770,993	1,145,345,495
Cost of issue of financial instruments, net (3)	1,324,956,773	1,440,638,368	1,779,106,140
Cost of subordinated debt project	376,105,200	396,529,566	455,678,346
Deferred direct costs related to loans	4,845,866,985	4,957,012,106	5,400,010,057
Other deferred charges	918,374,719	1,261,169,998	2,289,905,811
	<u>8,235,086,241</u>	<u>8,915,121,031</u>	<u>11,070,045,849</u>
<i><u>Intangible assets:</u></i>			
Software (2)	5,343,156,588	6,520,658,430	5,890,988,212
Other intangible assets (2)	471,474,673	822,728,155	1,877,496,981
	<u>5,814,631,261</u>	<u>7,343,386,585</u>	<u>7,768,485,193</u>
<i><u>Other assets:</u></i>			
Prepaid interest and fees and commissions	310,632,382	178,093,731	251,733,968
Prepaid taxes	5,393,747,935	8,785,924,358	94,286,248
Prepaid insurance policy	275,917,670	196,153,628	295,604,161
Other prepaid expenses	523,863,669	593,292,402	867,983,167
Stationery, office supplies, and other materials	537,690,669	631,381,590	921,802,492
Leased assets	99,115,958	99,453,445	100,477,406
Library and artwork	429,918,818	429,918,818	429,918,818
Construction work-in-progress	7,109,010,108	6,121,061,364	5,171,154,811
Software under development	-	6,694,166	366,336,554
Rights in social welfare and trade associations	600,000	600,000	600,000
Other sundry assets	7,724,097,788	7,107,623,251	4,633,400,754
Operations pending settlement	9,440,099,684	8,727,470,265	5,160,114,622
Other operations pending application	589,917,109	1,971,307,456	257,434,079
Guarantee deposits (1)	470,325,011	390,534,759	326,901,383
Legal and administrative deposits (1)	180,502,336	183,042,061	176,874,173
	<u>33,085,439,137</u>	<u>35,422,551,294</u>	<u>19,054,622,636</u>
¢	<u>47,135,156,639</u>	<u>51,681,058,910</u>	<u>37,893,153,678</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(1) As of March 31, 2018, guarantee deposits amount to ¢650,827,347 (December and March 2017: ¢573,576,820 and ¢503,775,556, respectively) (see note 2).

(2) Net intangible assets are as follows:

		March 2018		
		Software	Other intangible assets	Total
<u>Cost:</u>				
Opening balance	¢	26,625,257,162	2,087,602,654	28,712,859,816
Additions		121,693,954	3,136,700	124,830,654
Disposals		(5,447,539)	-	(5,447,539)
Reclassifications		-	(3,136,700)	(3,136,700)
Adjustments		(433,439,953)	-	(433,439,953)
Closing balance		26,308,063,624	2,087,602,654	28,395,666,278
<u>Accumulated amortization:</u>				
Opening balance		20,104,598,731	1,264,874,499	21,369,473,230
Expense for the year		865,242,111	354,390,182	1,219,632,293
Disposals		(4,933,806)	(3,136,700)	(8,070,506)
Closing balance		20,964,907,036	1,616,127,981	22,581,035,017
Net closing balance	¢	5,343,156,588	471,474,673	5,814,631,261

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		March 2017		
		Software	Other intangible assets	Total
<i>Cost:</i>				
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		23,489,013,709	2,088,611,035	25,577,624,744
<i>Accumulated amortization:</i>				
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)
Closing balance		17,598,025,498	211,114,053	17,809,139,551
Net closing balance	¢	5,890,988,211	1,877,496,982	7,768,485,193

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

		March 2018			
		5-year issue (maturing in 2018)	10-year issue (maturing in 2023)	5-year issue (maturing in 2021)	Total
Commission - structuring banks	¢	281,200,000	281,200,000	478,040,000	1,040,440,000
Commission - Moody's Investors Service		140,600,000	140,600,000	-	281,200,000
Commission - Société de la Bourse de Luxembourg, S.A.		6,873,090	6,873,090	-	13,746,180
RR Donelley		6,156,593	6,156,570	3,685,562	15,998,725
BNY Mellon		2,223,167	2,223,167	3,243,361	7,689,695
Moody's - issuer rating		18,615,440	18,615,440	140,600,000	177,830,880
Fitch Ratings		140,600,000	140,600,000	140,600,000	421,800,000
Milbank		82,762,784	82,762,784	110,804,391	276,329,959
Shearman & Sterling		82,870,202	82,870,202	123,274,762	289,015,166
External audit		106,856,000	106,856,000	130,476,800	344,188,800
Perkins Cole (Broker)		-	-	7,377,029	7,377,029
Printing of documents		-	-	8,894,266	8,894,266
		868,757,276	868,757,253	1,146,996,171	2,884,510,700
Amortization		(762,066,422)	(347,405,702)	(450,081,803)	(1,559,553,927)
	¢	106,690,854	521,351,551	696,914,368	1,324,956,773

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

March 2017				
	5-year issue (maturing in 2018)	10-year issue (maturing in 2023)	5-year issue (maturing in 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

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 2018	December 2017	March 2017
<i>Demand deposits:</i>			
Checking accounts	¢ 1,337,925,789,959	1,315,990,860,053	1,266,528,926,249
Certified checks	112,817,511	129,984,033	114,641,369
Savings deposits	1,358,682,986,986	1,356,884,997,468	1,306,085,364,560
Matured term deposits	19,552,244,449	23,250,148,019	14,714,916,271
Other demand deposits	474,977,335	504,652,034	566,935,794
Drafts and transfers payable	141,243,481	60,778,419	86,101,605
Cashier's checks	3,966,541,039	5,351,772,739	6,845,486,150
Advance collections from customers for credit cards	9,281,495,013	12,442,854,649	8,447,203,340
Banking mandates	2,576,083,260	8,900,457,858	-
Trust fund obligations	45,252,614	7,928,029	9,785,687
	<u>2,732,759,431,647</u>	<u>2,723,524,433,301</u>	<u>2,603,399,361,025</u>
<i>Term deposits:</i>			
Deposits from the public	1,954,168,059,217	1,918,015,501,978	1,759,289,270,110
Other term deposits	145,175,048,280	153,877,421,326	145,538,896,402
	<u>2,099,343,107,497</u>	<u>2,071,892,923,304</u>	<u>1,904,828,166,512</u>
<i>Other obligations with the public:</i>			
Obligations with third parties for third-party repurchase agreements	29,007,858,288	22,916,380,358	26,395,633,007
	<u>29,007,858,288</u>	<u>22,916,380,358</u>	<u>26,395,633,007</u>
Interest payable for obligations with the public	36,688,526,241	35,961,942,293	25,231,305,966
	<u>¢ 4,897,798,923,673</u>	<u>4,854,295,679,256</u>	<u>4,559,854,466,510</u>

As of March 31, 2018, deposits in checking accounts denominated in colones bear interest at a maximum rate of 2.55% per annum (December and March 2017: 2.55% and 1.50% per annum, respectively) on balances and at a minimum rate of 0.00% per annum (December and March 2017: 0.00% and 0.00% per annum, respectively) on balances greater than or equal to ¢500,001. Deposits in checking accounts denominated in U.S. dollars bear interest at a maximum rate of 0.45% per annum (December and March 2017: 0.45% and 0.40% per annum, respectively) on balances and at a minimum rate of 0.00% per annum (December and March 2017: 0.00% and 0.00% 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 and U.S. dollars. As of March 31, term certificates bear annual interest at the following rates:

Currency	March 2018	December 2017	March 2017
Colones	4.00% to 8.20%	4.00% to 8.20%	1.20% to 7.45%
U.S. dollars	0.50% to 5.10%	0.50% to 5.10%	0.45% to 5.85%

The Bank has term certificates of deposit that are restricted to secure certain loan operations. As of March 31, 2018, the balance of those term certificates of deposit is ¢40,511,782,713 (December and March 2017: ¢40,267,805,245 and ¢32,812,478,667, 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:

	March 2018	December 2017	March 2017
Financing for loans using external funds	125,644,412	125,644,412	125,644,412
¢	<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 2018	December 2017	March 2017
<i><u>Demand:</u></i>			
Checking accounts with local financial entities	¢ 63,286,791,032	60,409,743,139	60,141,955,378
Savings deposits with local financial entities	86,889,894	67,571,081	49,071,281
Development Credit Fund (FCD) management	138,848,214,687	144,413,540,280	142,824,871,966
Outstanding checks	2,002,001,941	1,682,209,656	7,487,687,909
Checking accounts and obligations with related parties	18,381,239	15,795,751	24,978,178
Other demand obligations with financial entities	-	-	306,766,974
	<u>204,242,278,793</u>	<u>206,588,859,907</u>	<u>210,835,331,686</u>
<i><u>Term:</u></i>			
Term deposits with local financial entities	124,132,613,195	117,218,311,393	17,092,815,387
Term deposits with foreign financial entities	5,624,000,000	5,664,200,000	5,544,300,000
Term obligations with foreign financial entities (2)	825,677,739,214	841,601,971,462	826,428,137,021
Liquidity market obligations	11,674,000,001	16,022,595,002	11,167,720,000
Loans with local financial entities	36,313,461,709	30,494,577,677	9,339,100,527
Loans with foreign financial entities (1)	94,632,739,421	98,105,867,070	161,534,221,514
Obligations with related financial entities	29,500,000	-	-
Obligations for liquidity market operations	-	-	4,000,000,000
	<u>1,098,084,053,540</u>	<u>1,109,107,522,604</u>	<u>1,035,106,294,449</u>
Interest payable on other demand and term obligations with financial entities – foreign currency	282,335,367	180,661,307	74,201,780
Interest payable on other demand and term obligations with financial entities – local currency	1,199,808,687	1,089,818,278	206,908,347
Interest payable on loans with foreign financial entities (1)	1,676,323,865	438,383,591	2,064,039,372
Interest payable on loans with local financial entities	90,778,407	91,353,129	9,778,652
Interest payable on term deposits with foreign financial entities (2)	19,918,333,448	8,024,283,435	19,862,262,274
	<u>23,167,579,774</u>	<u>9,824,499,740</u>	<u>22,217,190,425</u>
¢	<u>1,325,493,912,107</u>	<u>1,325,520,882,251</u>	<u>1,268,158,816,560</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- (1) As of March 31, loans due to foreign financial entities bear interest at rates ranging between 3.32% and 6.65% per annum (December and March 2017: between 2.76% and 6.65% and between 2.54% and 6.65% per annum, respectively).
- (2) Obligations with foreign financial entities are as follows:

Date of issue	Face value	Characteristics
01/11/2013	US\$500 million	<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

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

	March 2018			
	5-year issue (maturing in 2018)	10-year issue (maturing in 2023)	5-year issue (maturing in 2021)	Total
Issue	¢ 279,318,772,000	278,590,464,000	280,018,950,439	837,928,186,439
Adjustment to fair value of hedged item measured at cost of international issues	(643,608,496)	(2,497,671,142)	(12,181,791,666)	(15,323,071,304)
Amortization of discount in traded amount of issues	1,808,220,016	950,459,307	313,944,756	3,072,624,079
	280,483,383,520	277,043,252,165	268,151,103,529	825,677,739,214
Finance charges payable	5,711,874,972	7,322,916,687	6,883,541,789	19,918,333,448
	¢ 286,195,258,492	284,366,168,852	275,034,645,318	845,596,072,662

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 2017				
	5-year issue (maturing in 2018)	10-year issue (maturing in 2023)	5-year issue (maturing in 2021)	Total
Issue	¢ 281,315,325,100	280,581,811,200	282,020,508,371	843,917,644,671
Adjustment to fair value of hedged item measured at cost of international issues	(648,209,761)	4,515,695,088	(8,898,709,124)	(5,031,223,797)
Amortization of discount in traded amount of issues	1,543,736,361	897,534,405	274,279,822	2,715,550,588
	282,210,851,700	285,995,040,693	273,396,079,069	841,601,971,462
Finance charges payable	2,301,081,250	2,950,103,978	2,773,098,207	8,024,283,435
	¢ 284,511,932,950	288,945,144,671	276,169,177,276	849,626,254,897
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
	275,777,061,572	282,198,359,239	268,452,716,210	826,428,137,021
Finance 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

Maturities of loans due to entities

Loans due to entities mature as follows:

March 2018			
	Local	Foreign	Total
Between 1 and 2 years	125,644,412	-	125,644,412
Between 3 and 5 years	-	6,371,228,497	6,371,228,497
More than 5 years	36,404,240,116	89,937,834,789	126,342,074,905
	¢ 36,529,884,528	96,309,063,286	132,838,947,814

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

As of March 31, 2018 and 2017, loans due to local entities correspond to obligations with Banco Crédito Agrícola de Cartago.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(16) Income tax

Pursuant to the *Costa Rican Income Tax Law*, the Bank is required to file income tax returns each year. As of March 31, income tax is as follows:

a) Current tax

For the three months ended March 31, the income tax expense is as follows:

		March 2018	March 2017
<u>Current tax:</u>			
Income tax expense for the period	¢	596,378,426	5,136,470,774
Income tax expense from prior periods		869,401	834,374,297
		<u>597,247,827</u>	<u>5,970,845,071</u>
 Income tax expense for the period	¢	596,378,426	5,136,470,774
Decrease in income tax from prior periods		-	(7,657,184)
Total current tax expense, net		<u>596,378,426</u>	<u>5,128,813,590</u>
<u>Deferred tax:</u>			
Deferred tax expense		8,087,752	777,000
Deferred tax income		(145,825,285)	(61,862,942)
Total deferred tax expense, net		<u>(137,737,533)</u>	<u>(61,085,942)</u>
Total income tax expense, net	¢	<u><u>458,640,893</u></u>	<u><u>5,067,727,648</u></u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

	March 2018	March 2017
Profit before tax	¢ 9,819,928,178	25,780,263,020
<i>Plus (less) tax effect of:</i>		
Non-deductible expenses	11,767,061,738	9,477,609,367
Deductible expenses	(656,772,223)	(1,388,338,697)
Non-taxable income	(21,095,928,182)	(16,747,964,442)
Taxable income	(165,710,489)	17,121,569,248
Tax base	30%	30%
Subtotal - income tax expense	596,378,426	5,136,470,774
Decrease in income tax from prior periods	-	(7,657,184)
Total current income tax expense	596,378,426	5,128,813,590
Deferred income tax expense	8,087,752	777,000
Income from deferred income tax	(145,825,285)	(61,862,942)
Total income tax expense, net	¢ 458,640,893	5,067,727,648

b) Deferred tax

Deferred tax assets and liabilities are as follows:

As of March 31, 2018			
	Assets	Liabilities	Net
Unrealized losses	¢ 1,338,235,919	-	1,338,235,919
Provisions	108,114,347	-	108,114,347
Unrealized gains	-	(250,640,447)	(250,640,447)
Revaluation of assets	-	(9,940,044,061)	(9,940,044,061)
	¢ 1,446,350,266	(10,190,684,508)	(8,744,334,242)

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		As of March 31, 2017		
		Assets	Liabilities	Net
Unrealized losses	¢	641,272,614	-	641,272,614
Provisions		395,609,428	-	395,609,428
Tax base of furniture and equipment		189,833	-	189,833
Unrealized gains		-	(1,024,215,671)	(1,024,215,671)
Revaluation of assets		-	(10,339,228,565)	(10,339,228,565)
	¢	<u>1,037,071,875</u>	<u>(11,363,444,236)</u>	<u>(10,326,372,361)</u>

Deferred tax assets and liabilities are as follows:

		December 31, 2017	Included in the income statement	Included in equity	March 31, 2018
Unrealized losses	¢	986,501,498	-	351,734,421	1,338,235,919
Provisions		281,420,008	(173,305,661)	-	108,114,347
Tax base of furniture and equipment		708,372	(708,372)	-	-
Unrealized gains		(318,355,244)	(8,129,649)	75,844,445	(250,640,448)
Revaluation of assets		(10,081,789,514)	-	141,745,454	(9,940,044,060)
	¢	<u>(9,131,514,880)</u>	<u>(182,143,682)</u>	<u>569,324,320</u>	<u>(8,744,334,242)</u>

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

		December 31, 2016	Included in the income statement	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
Tax base of furniture and equipment		-	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)
	¢	<u>(10,594,748,946)</u>	<u>152,889,028</u>	<u>115,487,557</u>	<u>(10,326,372,361)</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

(17) Provisions

Provisions are as follows:

	March 2018	December 2017	March 2017
Severance benefits	¢ 671,408,246	1,208,537,980	2,678,678,558
Litigation	4,817,658,127	4,716,284,942	5,123,734,462
Other	13,565,073,963	14,938,593,146	21,459,354,339
	¢ 19,054,140,336	20,863,416,068	29,261,767,359

Movement in provisions is as follows:

	Severance benefits	Litigation	Other (1)	Total
Balance as of December 31, 2016	2,848,046,997	5,114,477,995	18,331,583,729	26,294,108,721
Increase in provision	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 in provision	-	-	(148,947,502)	(148,947,502)
Balance as of March 31, 2017	¢ 2,678,678,558	5,123,734,462	21,459,354,339	29,261,767,359
Balance as of December 31, 2016	2,848,046,997	5,114,477,995	18,331,583,729	26,294,108,721
Increase in provision	1,338,573,809	537,644,287	7,827,589,882	9,703,807,978
Used	(1,510,122,975)	(919,224,585)	(10,404,304,705)	(12,833,652,265)
Decrease in provision	(1,467,959,851)	(16,612,755)	(816,275,760)	(2,300,848,366)
Balance as of December 31, 2017	¢ 1,208,537,980	4,716,284,942	14,938,593,146	20,863,416,068
Increase in provision	368,888,294	110,512,754	2,338,590,536	2,817,991,584
Used	(900,313,517)	(9,139,569)	(3,711,906,355)	(4,621,359,441)
Decrease in provision	(5,704,512)	-	(203,363)	(5,907,875)
Balance as of March 31, 2018	¢ 671,408,246	4,817,658,127	13,565,073,963	19,054,140,336

(1) As of March 31, the “Other provisions” account includes an amount of ¢440,643,296 due to the variation in the methodology to calculate contributions to CCSS and RIVM (December and March 2017: ¢2,914,325,415 and ¢3,771,623,544).

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

Type	Claimed amount			Provision		
	March 2018	December 2017	March 2017	March 2018	December 2017	March 2017
Ordinary - in colones	65,327,185,902	64,839,814,231	65,420,689,960	3,566,509,968	3,430,405,879	3,896,061,992
Ordinary - in U.S. dollars	195,357,007,802	194,802,842,755	200,745,312,123	435,987,345	452,922,717	464,248,204
Criminal - in colones	1,020,877,223	1,020,877,223	1,009,129,410	503,139,943	487,964,155	498,172,694
Criminal - in U.S. dollars	-	856,520,335	2,184,406	-	344,992,191	2,183,417
Labor	929,484,355	-	722,399,007	312,020,871	-	263,068,155
	<u>262,634,555,282</u>	<u>261,520,054,544</u>	<u>267,899,714,906</u>	<u>4,817,658,127</u>	<u>4,716,284,942</u>	<u>5,123,734,462</u>

(18) Other sundry accounts payable

Other sundry accounts payable are as follows:

	March 2018	December 2017	March 2017
Professional fees	¢ 2,350,375	2,675,117	15,506,058
Creditors - goods and services	3,567,096,459	3,592,576,341	4,541,066,784
Current tax	596,378,426	4,118,343,568	5,136,470,774
Employer contributions	4,110,810,940	5,734,415,243	6,842,916,791
Court-ordered withholdings	3,485,028,251	3,541,023,002	3,415,741,732
Tax withholdings	3,797,644,535	4,010,652,312	3,243,850,351
Employee withholdings	761,956,072	708,613,111	676,911,830
Other third-party withholdings	206,150,728	3,632,240	188,695,467
Compensation	1,094,623,052	5,854,098,303	1,733,350,695
Statutory allocations	2,768,540,193	13,669,031,627	6,385,987,886
Obligations on loans with related parties	525,279	27,784	-
Clearing house operations	555,464,540	487,367,695	2,030,664,558
Accrued vacation	6,950,111,280	6,491,300,766	7,071,187,951
Accrued statutory Christmas bonus	2,924,016,863	1,156,780,715	3,482,252,418
Contributions to the Superintendencies' budget	13,476,657	3,356,740	-
Foreclosed assets	238,293,888	398,477,384	421,122,865
Various creditors - Local currency	6,172,100,058	5,518,664,360	6,146,683,199
Various creditors - Foreign currency	5,580,322,422	6,672,217,496	4,376,499,511
Interest rate futures - Hedges (note 6)	11,586,180,326	7,775,852,843	7,261,745,946
Purchase of FX futures (Other than hedges)	-	46,913,807	50,239,368
	<u>¢ 54,411,070,344</u>	<u>69,786,020,454</u>	<u>63,020,894,184</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of March 31, 2018, the “Various creditors” account includes ¢4,185 million (December and March 2017: ¢4,185 million and ¢1,793 million, respectively) corresponding to the operations of the Bank’s Electronic Processing of Payments Office (VISA). The remaining amount corresponds to the normal operations of other divisions.

(19) Other liabilities

Other liabilities are as follows:

	March 2018	December 2017	March 2017
<i>Deferred income:</i>			
Deferred finance income	¢ 31,436,143,516	32,021,086,861	25,032,647,087
Deferred fees and commissions for trust management	32,323,313	34,109,997	20,061,368
	<u>31,468,466,829</u>	<u>32,055,196,858</u>	<u>25,052,708,455</u>
Allowance for stand-by credit losses (1)	<u>272,067,378</u>	<u>265,681,489</u>	<u>309,271,895</u>
<i>Operations pending application:</i>			
Operations pending settlement	6,504,247,019	56,259,287,267	10,868,373,684
Other operations pending application	18,386,276,445	9,962,141,488	29,296,688,401
	<u>24,890,523,464</u>	<u>66,221,428,755</u>	<u>40,165,062,085</u>
	<u>¢ 56,631,057,671</u>	<u>98,542,307,102</u>	<u>65,527,042,435</u>

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

	March 2018	December 2017	March 2017
Opening balance	¢ 265,681,489	540,840,567	540,840,567
Allowance expense (note 31)	7,740,000	76,257,000	46,112,000
Decrease in allowance (note 32)	-	(360,000,141)	(280,000,000)
Adjustment for foreign exchange differences	(1,354,111)	8,584,063	2,319,328
Closing balance	<u>¢ 272,067,378</u>	<u>265,681,489</u>	<u>309,271,895</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(20) Subordinated obligations

The Bank's subordinated obligations are as follows:

Annual interest rate	Term	Maturity		March 2018	December 2017	March 2017
6-month LIBOR + 4.50% in the first 5 years and 6- month LIBOR + 5.00% thereafter	10 years	27/05/2024	US\$	100,000,000	100,000,000	100,000,000
6-month LIBOR + 5.25% in the first 5 years and 6- month LIBOR + 5.75% thereafter	15 years	23/10/2029		30,000,000	30,000,000	30,000,000
			US\$	130,000,000	130,000,000	130,000,000
	Total in colones		¢	73.112.000.000	73.634.600.000	68,846,700,000
	Finance charges payable			680.554.481	1.501.463.242	514,808,354
			¢	73,792,554,481	75,136,063,242	72,675,619,590

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 2018	December 2017	March 2017
Capital under Law No. 1644	¢	144,618,072,265	144,618,072,265	90,511,345,645
Bank capitalization bonds		27,618,957,837	27,618,957,837	27,618,957,837
	¢	<u>172,237,030,102</u>	<u>172,237,030,102</u>	<u>118,130,303,482</u>

On December 23, 2008, the Executive Branch of the Costa Rican Government authorized a capital contribution with funds from the *Amendment to Law No. 8627 on the Ordinary and Extraordinary Budget of the Republic for Tax Year 2008* (Law No. 8703). This law grants funds to capitalize three State-owned banks, including the Bank, in order to stimulate productive sectors, particularly small and medium-sized enterprises. For such purposes, the Bank received a total of US\$50,000,000 (equivalent to ¢27,619,000,002), by means of four securities denominated in DU, and maturing in 2013, 2017, 2018, and 2019 (No. 4183, No. 4184, No. 4185, and No. 4190 for DU10,541,265.09 each, at a reference exchange rate of ¢655.02 to DU1.00). As of March 31, 2018, based on the exchange rate as of that date, the balance of those investments amounts to ¢18,758,392,053 (December and March 2017: ¢18,562,535,348 and ¢27,517,445,454, respectively) (see note 5).

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

(b) Revaluation surplus

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

As of March 31, 2018, the revaluation surplus amounts to ¢60,863,838,830 (December and March 2017: ¢61,425,174,760 and ¢60,806,752,437, respectively).

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(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, 2018, the adjustment for the valuation of available-for-sale investments and restricted financial instruments results in an unrealized loss of ¢4,305,993,842 (December and March 2017: unrealized loss of ¢2,304,989,655 and ¢1,473,884,008, respectively).

(d) Adjustment for valuation of investments in other companies

As of March 31, 2018, the adjustment for valuation of investments in foreign associates by the equity method amounts to ¢8,487,357,428 (December and March 2017: ¢9,095,624,686 and ¢8,664,509,151). These investments correspond to the Bank's 49% ownership interest in BICSA and Subsidiary.

(e) Capital reserves

Capital reserves are as follows:

	March 2018	December 2017	March 2017
Legal reserve	¢ 318,379,529,052	295,477,646,483	295,476,765,219
Statutory reserve for foreclosed assets	169,899,218	154,543,607	167,955,249
Excess of statutory reserve for loans	7,132,568,262	7,219,571,030	6,215,563,997
Statutory dynamic provision	8,203,282,987	8,270,045,249	8,082,939,824
	<u>¢ 333,885,279,519</u>	<u>311,121,806,369</u>	<u>309,943,224,289</u>

(f) Equity of the Development Financing Fund

As of March 31, 2018, the allocation of the Bank's earnings for the creation of the Development Financing Fund (FOFIDE) amounts to ¢30,971,994,447 (December and March 2017: ¢27,111,958,013 and ¢27,111,958,013, 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. As of March 31, the notional amounts of foreign exchange derivatives are as follows:

	March 2018	March 2017
Performance bonds	¢ 34,837,677,951	32,242,746,546
Bid bonds	2,799,831,126	1,955,921,024
Other guarantees	3,530,303,285	4,923,047,603
Letters of credit	24,911,083,833	10,078,327,070
Credits pending disbursement	227,380,423	248,730,000
	<u>66,306,276,618</u>	<u>49,448,772,243</u>
Pre-approved lines of credit	282,483,437,124	277,237,041,841
Other contingencies not related to credits	27,398,061	818,024,507
Other contingencies - Pending litigation and lawsuits (note 47)	301,092,979,548	306,358,139,173
	<u>583,603,814,733</u>	<u>584,413,205,521</u>
FX futures - Other than hedges (note 6)	5,069,585,630	4,286,601,775
	<u>¢ 654,979,676,981</u>	<u>638,148,579,539</u>

Letters of credit, guarantees, and sureties granted expose the Bank to credit loss in the event of non-compliance by the customer. The Bank's policies and procedures for approving credit commitments and financial guarantees are the same as those for granting loans booked. Guarantees and sureties granted have fixed maturity dates and, in most cases, mature without requiring disbursement. Therefore, they do not represent a significant liquidity risk. Most letters of credit are used; however, those used are generally on demand, issued, and confirmed by correspondent banks, and are payable immediately.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

(23) Trust assets

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

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

- management and investment trusts
- management trusts with a testamentary clause
- guaranty trusts
- housing trusts
- management and investment public trusts.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of March 31, 2018, trust capital is invested in the following assets:

Nature of trust	Cash or property management	Securitization	Portfolio management	Guaranty	Testamentary	Custody of stock with testamentary clauses	Custody of stock and management of funds	Cash guaranty and management	Custody of stock	Guaranty and custody of stock	Total
<i>Trust assets</i>											
Cash and due from banks	¢ 112,253,466	2,743,258	5,179,476	30,202,187	156,281	-	8,573	-	-	-	150,543,241
Investments in financial instruments	291,636,079,512	13,849,990,826	395,385,264	1,078,736,329,439	1,248,566,225	-	2,093,460	-	-	-	1,385,868,444,726
Loan portfolio	2,495,547,269	-	1,492,416,027	-	-	-	-	-	-	-	3,987,963,296
Accounts and accrued interest receivable	19,616,588,143	19,407,734,031	1,652,127,363	26,074,130	395,512	-	-	44,536,223	-	2,249,600	40,749,705,002
Foreclosed assets	72,346,519	-	-	-	-	-	-	-	-	-	72,346,519
Investments in other companies	-	-	-	-	2,376,240	2,120,000	-	-	607,864,416	899,840,000	1,512,200,656
Property and equipment	4,586,311,521	52,938,861,635	-	73,378,657,257	-	-	-	1,544,041,161	-	1,454,901,293	133,902,772,867
Other assets	9,125,681,199	257,256,211	-	1,399,214,044	1,409,366	-	-	-	-	1,674,504,726	12,458,065,546
¢	327,644,807,629	86,456,585,961	3,545,108,130	1,153,570,477,057	1,252,903,624	2,120,000	2,102,033	1,588,577,384	607,864,416	4,031,495,619	1,578,702,041,853

(Continued)

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 clauses	Custody of stock and management of funds	Cash guaranty and management	Pre-sales management	Guaranty and custody of stock	Total
<i>Trust assets</i>											
Cash and due from banks	¢ 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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

a) Housing mortgage

These trusts are exclusively dedicated to managing housing loan portfolios.

b) Cash or property management

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

c) Securitization

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

d) Portfolio management

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

e) Special accounts

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

f) Guaranty

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

g) Testamentary

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

h) Custody of stock with testamentary clause

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

(24) Other debit memoranda accounts

Other debit memoranda accounts are as follows:

	March 2018	March 2017
Pension Fund Manager's own investments in custody –		
Face value of principal	¢ 6,792,620,000	6,540,929,000
Pension Fund Manager's own investments in custody –		
Coupons	1,201,001,882	1,445,171,324
Pension Fund Manager's own investments in custody –		
Number of shares	23	23
Guarantees received in the Bank's custody	1,336,850,436	1,872,561,962
Other guarantees received in the Bank's custody	5,192,381,065,064	5,188,025,385,053
Lines of credit granted but unused	374,430,610,657	437,426,360,123
Loans pending disbursement	235,218,377,271	245,659,414,766
Unused overdrafts	7,098,548	233,259,316
Loans settled	177,013,585,526	169,017,318,354
Other accounts receivable settled	9,919,017,809	12,217,173,961
Accrued interest receivable settled	17,107,512,741	16,535,810,084
Interest income on non-accrual loans of loan portfolio	17,231,665,607	12,685,344,657
Supporting documentation received in the Bank's		
custody	1,255	1,255
Securities issued pending placement	19,848,000,000	14,837,721,561
Notified letters of credit	14,584,811,895	15,579,752,736
Notional value subject to interest rate futures (note 6)	581,859,040,000	697,750,155,000
Reversals made to income accounts for the period	5,560,821,062	-
Reversals made to expense accounts for the period	14,034,058,141	-
Non-deductible expenses	36,298,578,684	36,186,987,331
Non-taxable income	74,813,855,403	78,826,408,960
Other memoranda accounts	192,391,125,514	193,024,386,499
	<u>6,972,029,697,518</u>	<u>7,127,864,141,965</u>
Third-party debit memoranda accounts	2,659,239,520,675	2,368,252,389,635
Own debit memoranda accounts for custodial activities	369,641,969,963	382,003,349,953
Third-party debit memoranda accounts for custodial		
activities	10,871,922,986,788	9,951,849,712,869
	<u>13,900,804,477,426</u>	<u>12,702,105,452,457</u>
¢	<u>20,872,834,174,944</u>	<u>19,829,969,594,422</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Other memoranda accounts by entity are as follows:

	March 2018	March 2017
Banco Nacional de Costa Rica	¢ 18,150,801,033,801	17,264,473,161,850
BN Valores Puesto de Bolsa, S.A. (note 25)	954,549,056,042	952,796,261,722
BN Sociedad Administradora de Fondos de Inversión, S.A. (note 26)	444,540,428,515	422,176,336,258
BN Vital Operadora de Planes de Pensiones Complementarias (note 27)	1,322,943,656,586	1,190,523,834,592
	¢ <u>20,872,834,174,944</u>	<u>19,829,969,594,422</u>

Third-party debit memoranda accounts are as follows:

	March 2018	March 2017
Management of banking mandates	¢ 899,901,672,170	763,667,738,967
“TUDES” securities received in custody from affiliates under Article 75 of Law No. 7531	596,619,837	831,360,673
Pension funds (note 27)	1,314,260,643,808	1,181,635,260,366
Investment funds (note 26)	444,480,584,860	422,118,029,629
	¢ <u>2,659,239,520,675</u>	<u>2,368,252,389,635</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

Memoranda accounts for brokerage operations are summarized as follows:

		<u>March 2018</u>	<u>March 2017</u>
<i>Own</i>			
Trading securities in custody (note 25-a)	¢	5,019,166,765	8,430,588,440
Trading securities received as guarantees		33,282,613,201	27,878,337,221
Trading securities pending delivery		-	507,303,452
Confirmed cash agreements pending settlement		-	522,889,120
Repurchase agreements pending settlement (note 25-b)		29,228,354,661	26,549,497,950
Other own memoranda accounts		5,639,379,732	5,557,347,166
		<u>73,169,514,359</u>	<u>69,445,963,349</u>
<i>Third-party</i>			
Trading securities in custody (note 25-a)		623,913,892,081	627,851,827,976
Trading securities received as guarantees		58,613,056,934	65,646,001,020
Trading securities pledged as guarantees		86,673,678,962	72,344,478,679
Trading securities pending receipt		-	3,025,860,311
Signed agreements pending settlement		2,812,000	3,060,010,948
Repurchase agreements pending settlement (note 25-b)		111,590,800,934	110,391,747,516
Cash and accounts receivable		585,300,772	1,030,371,923
		<u>881,379,541,683</u>	<u>883,350,298,373</u>
	¢	<u>954,549,056,042</u>	<u>952,796,261,722</u>

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

a) Securities held in custody are as follows:

Location	Type of custody		March 2018	March 2017
<i>Own custodial activities</i>				
Local	At face value - available	¢	4,791,798,400	8,236,550,000
Local	At purchase value of shares - available		15,000,002	15,000,002
	At purchase value of investments -			
Local	available		207,408	68,208,506
Local	At face value - pledged		209,868,002	110,000,000
Local	Amount of physical coupons - pledged		2,292,953	829,932
			<u>5,019,166,765</u>	<u>8,430,588,440</u>
<i>Custodial activities on behalf of third parties</i>				
Local	At face value - available		590,166,868,412	590,701,198,374
Local	At purchase value of shares - available		21,690,931,923	22,234,477,062
Local	At purchase value of investments -			
	available		10,130,341,815	12,451,549,121
Local	At face value - pledged		1,680,496,805	1,763,813,099
Local	At purchase value of shares - pledged		44,273,680	63,566,426
Local	At purchase value of investments -			
	pledged		198,161,822	10,957,865
Local	At face value - pending delivery		-	621,516,029
Local	At purchase value of shares - pending			
	delivery		2,817,624	4,750,000
			<u>623,913,892,081</u>	<u>627,851,827,976</u>
		¢	<u>628,933,058,846</u>	<u>636,282,416,416</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

March 2018								
Term buyer					Term seller			
	Colones	U.S. dollars	U.S. dollars expressed in colones	Total	Colones	U.S. dollars	U.S. dollars expressed in colones	Total
Own	18,273,397,586	19,478,942	10,954,957,075	29,228,354,661	-	-	-	-
Third	11,555,289,781	96,892,131	54,492,134,236	66,047,424,017	6,668,490,082	69,123,199	38,874,886,835	45,543,376,917
parties	<u>29,828,687,367</u>	<u>116,371,073</u>	<u>65,447,091,311</u>	<u>95,275,778,678</u>	<u>6,668,490,082</u>	<u>69,123,199</u>	<u>38,874,886,835</u>	<u>45,543,376,917</u>
March 2017								
Term buyer					Term seller			
	Colones	U.S. dollars	U.S. dollars expressed in colones	Total	Colones	U.S. dollars	U.S. dollars expressed in colones	Total
Own	15,866,065,620	19,269,218	10,683,432,330	26,549,497,950	-	-	-	-
Third	14,402,540,275	75,522,135	41,871,737,131	56,274,277,406	17,572,793,539	65,913,960	36,544,676,571	54,117,470,110
parties	<u>30,268,605,895</u>	<u>94,791,353</u>	<u>52,555,169,461</u>	<u>82,823,775,356</u>	<u>17,572,793,539</u>	<u>65,913,960</u>	<u>36,544,676,571</u>	<u>54,117,470,110</u>

As of March 31, 2018, term buyer and seller positions in tri-party repurchase agreements in U.S. dollars were valued at the exchange rate of ¢562.40 (2017: ¢554.43) to US\$1.00.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

March 2018				
	Term buyer		Term seller	
	Colones	U.S. dollars	Colones	U.S. dollars
<i>Own</i>				
1 to 30 days	¢ 1,043,260,109	1,160,325	-	-
31 to 60 days	15,598,816,244	5,060,620	-	-
61 to 90 days	1,631,321,233	12,615,407	-	-
More than 91 days	-	642,590	-	-
	<u>18,273,397,586</u>	<u>19,478,942</u>	<u>-</u>	<u>-</u>
<i>Third parties</i>				
1 to 30 days	595,533,939	1,669,337	1,730,006,488	2,180,726
31 to 60 days	8,897,989,220	27,448,672	2,964,301,897	24,942,906
61 to 90 days	1,949,795,140	62,497,712	1,862,210,215	36,080,567
More than 91 days	111,971,482	5,276,410	111,971,482	5,919,000
	<u>11,555,289,781</u>	<u>96,892,131</u>	<u>6,668,490,082</u>	<u>69,123,199</u>
¢	<u>29,828,687,367</u>	<u>116,371,073</u>	<u>6,668,490,082</u>	<u>69,123,199</u>
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>

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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

(26) Investment fund management agreements

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

Fund	March 2018		
	Net value	Shares	Value per share
<i>Funds in colones:</i>			
Súper Fondo - colones	¢ 118,091,486,820	29,640,831,126	3.98
Fon Depósito - colones	55,306,064,347	37,879,759,856	1.46
Creci Fondo - colones	2,973,763,292	588,976,220	5.04
Redi Fondo - colones	10,634,533,650	2,955,166,217	3.59
Diner Fondo - colones	59,661,850,031	22,235,736,878	2.68
	¢ <u>246,667,698,140</u>	<u>93,300,470,297</u>	
<i>Funds in U.S. dollars:</i>			
Súper Fondo - U.S. dollars	US\$ 23,226,622	15,651,703	1.48
Creci Fondo - U.S. dollars	5,196,322	2,906,641	1.78
Redi Fondo - U.S. dollars	25,855,841	17,192,528	1.50
Diner Fondo - U.S. dollars	99,118,097	76,576,759	1.29
Fon Depósito - U.S. dollars	52,814,400	48,168,486	1.09
Súper Fondo Plus - U.S. dollars	145,119,481	135,886,912	1.06
Fondo Hipotecario - U.S. dollars (mortgage fund)	174,013	172,425	196.18
BN Infraestructura Pública -1 – U.S. dollars (public infrastructure)	225,107	250	900.42
	US\$ <u>351,729,883</u>	<u>296,555,704</u>	
	¢ <u>197,812,886,720</u>	<u>166,782,927,930</u>	
Total assets of managed funds (note 24)	¢ <u>444,480,584,860</u>	<u>260,083,398,227</u>	
<i>Guarantees:</i>			
Performance bonds	57,868,351		
Outstanding checks	1,975,304		
Total memoranda accounts	¢ <u>444,540,428,515</u>		

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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>		

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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

(Continued)

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, 2018 and December 31, 2017, 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 a fund will lease the buildings to an entity of the BNCR Conglomerate. As of March 31, 2018 and December 31, 2017, this fund does not have operations.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- *Fondo de Inversión de Desarrollo Inmobiliario de Infraestructura Pública - I - Dólares* (real estate development - 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 a fund will lease the buildings to BCCR. As of March 31, 2018 and 2017, this fund does not have operations.

(27) Pension fund management agreements

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

	March 2018	March 2017
Mandatory Pension Fund (ROP)	¢ 1,086,059,023,062	973,411,907,853
ROP erroneous	14,426,353,017	13,706,671,318
Mandatory Retirement Savings Account (FCL)	80,695,000,585	71,455,564,783
FCL erroneous	3,361,122,252	3,186,119,528
Pension Fund in Colones A (FPC A)	65,141,975,621	62,208,502,786
Pension Fund in Colones B (FPC B)	17,363,026,700	14,228,637,094
Notary Fund (NOT)	26,477,926,112	24,727,115,629
Pension Fund in U.S. dollars A (FPD A) (a)	11,780,008,033	11,249,383,353
Pension Fund in U.S. dollars B (FPD B) (b)	8,956,208,426	7,461,358,022
Total assets of managed funds (note 24)	1,314,260,643,808	1,181,635,260,366
Securities and assets in own custody	7,993,621,905	7,986,100,347
Bid and performance bonds – colones	19,698,544	18,574,605
Bid and performance bonds – U.S. dollars (c)	73,072,491	52,538,602
Securities in DU	596,619,837	831,360,673
Total memoranda accounts (note 24)	¢ 1,322,943,656,585	1,190,523,834,592

- (a) As of March 31, 2018, this fund amounts to US\$20,945,960 and is valued at the exchange rate of ¢562.40 to US\$1.00 (2017: US\$20,289,998 valued at the exchange rate of ¢554.43 to US\$1.00).
- (b) As of March 31, 2018, this fund amounts to US\$15,924,979 and is valued at the exchange rate of ¢562.40 to US\$1.00 (2017: US\$13,457,710 valued at the exchange rate of ¢554.43 to US\$1.00).
- (c) As of March 31, 2017, this fund amounts to US\$129,930 and is valued at the exchange rate of ¢562.40 to US\$1.00 (2017: US\$94,761 valued at the exchange rate of ¢554.43 to US\$1.00).

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(28) Income from financial instruments

For the three months ended March 31, income from financial instruments is as follows:

	March 2018	March 2017
<i>Cash and due from banks:</i>		
Deposits in BCCR	¢ 4,125,187	1,168,727
Checking accounts and demand deposits in local entities	40,949,514	16,364,207
Checking accounts and demand deposits in foreign entities	1,635,290,248	282,351,777
	<u>1,680,364,949</u>	<u>299,884,711</u>
<i>Financial instruments:</i>		
Investments in available-for-sale securities	14,533,221,784	11,189,038,927
Investment in securities and restricted deposits	332,883,066	620,638,086
	<u>14,866,104,850</u>	<u>11,809,677,013</u>
¢	<u>16,546,469,799</u>	<u>12,109,561,724</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(29) Income from loan portfolio

For the three months ended March 31, income from the loan portfolio is as follows:

	March 2018	March 2017
<i>Current loans:</i>		
Checking account overdrafts	¢ 1,245,303	13,737,749
Loans granted with funds from BCCR	226,529,955	262,817,125
Loans granted with other funds	87,745,228,936	76,976,866,723
Credit cards	6,411,238,129	5,776,506,129
Issued letters of credit	558	-
Other loans	1,100,207	1,081,027
	<u>94,385,343,088</u>	<u>83,031,008,753</u>
<i>Past due loans and loans in legal collection:</i>		
Checking account overdrafts	403,489	708,846
Loans granted with funds from BCCR	37,384,892	30,322,117
Loans granted with other funds	13,008,685,249	10,266,756,708
Credit cards	849,830,119	543,405,622
Other loans	3,799	-
	<u>13,896,307,548</u>	<u>10,841,193,293</u>
¢	<u>108,281,650,636</u>	<u>93,872,202,046</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(30) Other finance income

For the three months ended March 31, other finance income is as follows:

	March 2018	March 2017
Fees and commissions on letters of credit	¢ 6,719,401	8,998,979
Fees and commissions on guarantees granted	132,123,366	133,958,750
Fees and commissions on lines of credit	74,557,934	23,561,646
Gain on fair value hedge for item measured at cost	11,405,754,819	3,122,362,216
Other sundry finance income	848,763,085	1,312,154,047
	¢ <u>12,467,918,605</u>	<u>4,601,035,638</u>

(31) Finance expenses for obligations with the public

For the three months ended March 31, finance expenses for obligations with the public are as follows:

	March 2018	March 2017
Demand deposits	¢ 11,700,244,891	8,136,450,085
Term deposits	33,207,593,945	22,488,283,209
Third-party repurchase agreements and securities lending	385,729,512	313,058,598
	¢ <u>45,293,568,348</u>	<u>30,937,791,892</u>

(32) Finance expenses for obligations with financial entities

For the three months ended March 31, finance expenses for obligations with financial entities are as follows:

	March 2018	March 2017
Demand obligations	¢ 608,763,608	493,774,733
Term obligations	17,350,261,950	15,078,044,104
	¢ <u>17,959,025,558</u>	<u>15,571,818,837</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(33) Other finance expenses

For the three months ended March 31, other finance expenses are as follows:

		March 2018	March 2017
Fees and commissions on letters of credit obtained	¢	47,095,632	19,280,092
Loss on hedged item measured at cost from fair value hedge on interest rate risk		994,423,161	4,968,558,745
Other sundry finance expenses		557,637,311	54,521,061
	¢	<u>1,599,156,104</u>	<u>5,042,359,898</u>

(34) Expenses for allowance for impairment of assets

For the three months ended March 31, expenses for allowance for impairment of assets are as follows:

		March 2018	March 2017
Allowance for loan losses (note 7-c)	¢	19,960,934,546	317,990,016
Allowance for impairment of other accounts receivable (note 8)		415,655,047	436,800,791
Allowance for stand-by credit losses (note 19)		4,140,000	-
General and counter-cyclical allowance for loan portfolio (note 7-c)		2,064,822,203	3,918,612,228
General and counter-cyclical allowance for stand-by credit losses (note 19)		3,600,000	46,112,000
Allowance for impairment of derivative financial instruments (note 5)		12,680,679	1,288,872
	¢	<u>22,461,832,475</u>	<u>4,720,803,907</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

For the three months ended March 31, income from recovery of assets and decreases in allowances and provisions is as follows:

	March 2018	March 2017
Recovery of loan write-offs	¢ 1,607,873,094	2,306,319,704
Recovery of receivable write-offs	675,481	643,832
Decrease in allowance for loan losses (note 7)	-	720,000,000
Decrease in allowance for impairment of other accounts receivable (note 8)	161,716,912	202,567,933
Decrease in allowance for stand-by credit losses (note 19)	-	230,000,000
Decrease in general and counter-cyclical allowance for stand-by credit losses (note 19)	-	50,000,000
Decrease in allowance for impairment of investments in financial instruments (note 5)	70,484,149	-
	¢ <u>1,840,749,636</u>	<u>3,509,531,469</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(36) Operating income from service fees and commissions

For the three months ended March 31, operating income from service fees and commissions is as follows:

	March 2018	March 2017
Drafts and transfers	¢ 2,152,561,032	2,073,545,324
Certified checks	1,189,480	1,363,051
Trusts	290,075,854	227,952,043
Custodial services	373,514,107	397,498,266
Banking mandates	39,756	73,864
Collections	7,273,412	69,869,849
Credit cards	14,644,336,981	13,162,190,789
Management services	891,355,640	830,626,085
Management of investment funds	1,296,667,201	1,177,657,702
Management of pension funds	1,997,909,865	1,760,604,449
Insurance underwriting	1,355,131,943	1,003,362,463
Brokerage operations (third parties in local market)	392,458,565	594,390,044
Brokerage operations (third parties in other markets)	13,652,495	30,055,759
Individual portfolio management	262,031	256,809
Operations with related parties	60,103,102	-
Other	10,476,948,885	10,154,058,055
	¢ <u>33,953,480,349</u>	<u>31,483,504,552</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(37) Other operating income

For the three months ended March 31, other operating income is as follows:

	March 2018	March 2017
Leasing of assets	¢ 8,599,511	16,310,194
Recovery of expenses	985,506,626	586,535,613
Net valuation of other assets (note 46-c)	127,038,214	47,531,515
Other income from accounts receivable	586,519	314,014
Sundry operating income	1,555,417,184	1,074,252,698
Decrease in provisions	5,907,874	148,947,502
	¢ <u>2,683,055,928</u>	<u>1,873,891,536</u>

(38) Expenses for foreclosed assets

For the three months ended March 31, expenses for foreclosed assets are as follows:

	March 2018	March 2017
Loss on sale of assets acquired in lieu of payment	¢ -	136,289,495
Loss on sale of assets awarded in judicial auctions	2,471,807,662	2,168,645,373
Management of assets awarded in judicial auctions	1,194,935,165	1,244,948,056
Loss on impairment of foreclosed assets (note 9)	12,442,736	16,466,497
Loss on allowance for impairment of foreclosed assets and per legal requirements (note 9)	1,476,541,179	1,433,877,457
Other expenses	19,051,845	22,743,951
	¢ <u>5,174,778,587</u>	<u>5,022,970,829</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(39) Expenses for provisions

For the three months ended March 31, expenses for provisions are as follows:

		March 2018	March 2017
Severance benefits	¢	368,888,293	200,440,300
Pending lawsuits		110,512,755	175,769,700
Other provisions		2,338,590,537	4,028,236,914
	¢	<u>2,817,991,585</u>	<u>4,404,446,914</u>

(40) Other operating expenses

For the three months ended March 31, other operating expenses are as follows:

		March 2018	March 2017
Fines for noncompliance with legal regulatory provisions	¢	50,000	334,963,638
Net valuation of other liabilities (note 46-c)		64,393,021	228,820,638
Income tax on remittances		-	71,441,302
Income tax (8%) on interest on investments in financial instruments		688,765,231	736,325,248
Property tax		81,534,091	79,317,487
Licenses		203,353,567	148,738,226
Other local taxes		102,042,419	877,821
Transfer to FINADE		745,214,349	1,172,329,364
Sundry operating expenses		14,938,455,181	13,853,541,945
	¢	<u>16,823,807,859</u>	<u>16,626,355,669</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(41) Personnel expenses

For the three months ended March 31, personnel expenses are as follows:

	March 2018	March 2017
Salaries and bonuses, permanent staff	¢ 16,880,575,565	16,573,079,777
Salaries and bonuses, contractors	426,881,118	418,693,309
Compensation for directors and statutory examiners	57,010,430	49,141,104
Overtime	173,166,295	214,137,986
Travel expenses	123,517,487	143,524,831
Statutory Christmas bonus	1,825,189,843	1,846,601,484
Vacation	2,102,993,823	1,813,851,152
Other compensation	771,422,438	1,045,975,860
Severance benefits	1,126,591,846	1,135,145,829
Employer social security taxes	6,951,230,906	7,005,065,217
Refreshments	133,319,493	101,432,144
Uniforms	87,706,815	41,149,604
Training	43,339,862	63,367,996
Employee insurance	56,306,207	59,637,211
Back-to-school bonus	1,595,555,696	1,646,781,473
Mandatory retirement savings account	669,067,957	674,030,786
Other personnel expenses	140,684,265	149,305,705
¢	<u>33,164,560,046</u>	<u>32,980,921,468</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(42) Other administrative expenses

For the three months ended March 31, other administrative expenses are as follows:

	March 2018	March 2017
Outsourcing	¢ 3,376,434,937	3,064,339,211
Transportation and communications	1,042,668,567	1,161,087,288
Infrastructure	8,602,437,748	8,735,188,142
Overhead	3,770,058,781	3,493,698,509
	¢ <u>16,791,600,033</u>	<u>16,454,313,150</u>

(43) Statutory allocations

For the three months ended March 31, statutory allocations are as follows:

	March 2018	March 2017
CONAPE 5%	¢ 446,342,428	1,265,032,935
CNE (3%)	294,597,845	778,296,914
INFOCOOP (10%)	835,275,265	1,849,825,494
Public capital pension operators	266,724,956	182,594,772
RIVM (15%)	925,599,684	2,310,237,756
	¢ <u>2,768,540,178</u>	<u>6,385,987,871</u>

For the three months ended March 31, statutory allocations decrease as follows:

	March 2018	March 2017
INFOCOOP (10%)	-	63,669,806
RIVM (15%)	-	30,585,366
	¢ <u>-</u>	<u>94,255,172</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(44) Fair value of financial instruments

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

		March 2018	
		Carrying amount	Fair value
<i>Financial assets:</i>			
Cash and due from banks	¢	1,269,157,612,373	1,269,157,612,373
Investments in financial instruments		1,153,191,624,240	1,153,191,624,240
Loan portfolio		4,493,674,921,437	4,079,062,358,937
	¢	<u>6,916,024,158,050</u>	<u>6,501,411,595,550</u>
<i>Financial liabilities:</i>			
Demand deposits from the public and financial entities	¢	2,957,679,621,274	2,957,679,621,274
Other demand obligations with the public		16,010,615,408	16,010,615,408
Term deposits from the public and financial entities		3,270,664,805,449	3,304,419,373,290
Obligations for tri-party repurchase agreements		29,007,858,287	29,007,858,287
	¢	<u>6,273,362,900,418</u>	<u>6,307,117,468,259</u>
		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

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, 2018 and 2017.

- (c) Term deposits

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

- (d) Obligations with entities

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

As of March 31, financial instruments measured at fair value by the level in the fair value hierarchy are as follows:

		March 2018			
		Level 1	Level 2	Level 3	Total
Available for sale	¢	1,047,995,103,405	73,961,382,540	4,709,768,184	1,126,666,254,129
Held to maturity		-	18,758,392,053	-	18,758,392,053
Derivative financial instruments		-	-	(240,358,713)	(240,358,713)
Term obligations with foreign financial entities		-	-	825,677,739,214	825,677,739,214
		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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

March 31,						
2018			2017			
	Available for sale	Derivative financial instruments	Term obligations with foreign financial entities	Available for sale	Derivative financial instruments	Term obligations with foreign financial entities
Opening balance	¢ 5,931,464,710	6,159,898,498	841,601,971,462	5,629,455,571	5,447,055,475	815,040,918,559
Purchases	(971,250,000)	-	-	-	-	-
Valuation	37,390,033	(6,116,180,423)	(10,291,847,507)	76,071,361	3,078,673,279	46,859,223,667
Amortizations	-	-	357,073,491	-	-	213,620,081
Exchange differences	(287,836,559)	(43,718,075)	(5,989,458,232)	99,016,704	513,299,173	(35,685,625,286)
Closing balance	¢ 4,709,768,184	-	825,677,739,214	5,804,543,636	9,039,027,927	826,428,137,021

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(45) Segments

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

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

	As of March 31, 2018							
	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations	Consolidated
ASSETS								
Cash and due from banks	¢ 1,264,669,946,438	1,952,602,684	125,790,926	200,358,084	3,101,560,996	1,270,050,259,128	892,646,755	1,269,157,612,373
Investments in financial instruments	1,085,515,756,161	54,189,250,689	6,660,012,542	6,856,104,849	-	1,153,221,124,241	29,500,002	1,153,191,624,239
Loan portfolio, net	4,336,342,153,237	-	-	-	-	4,336,342,153,237	-	4,336,342,153,237
Accounts and fees and commissions receivable, net	3,678,988,750	475,605,435	82,626,315	758,071,471	327,081,410	5,322,373,381	1,794,530,295	3,527,843,086
Fees and commissions	262,472,738	20,605,146	60,639,816	670,818,601	282,209,306	1,296,745,607	36,519,070	1,260,226,537
Brokerage services	-	3,203,141	-	-	-	3,203,141	-	3,203,141
Transactions with related parties	1,786,690,643	-	2,706,986	300,733	90,000	1,789,788,362	1,758,011,241	31,777,121
Deferred tax and income tax	988,978,177	415,590,600	19,042,603	76,200,661	44,768,849	1,544,580,890	(2)	1,544,580,892
Other	4,354,716,892	36,206,548	236,910	69,618,706	13,255	4,460,792,311	(14)	4,460,792,325
Accrued interest	1,863,847	-	-	-	-	1,863,847	-	1,863,847
Allowance for impairment of accounts and fees and commissions receivable	(3,715,733,547)	-	-	(58,867,230)	-	(3,774,600,777)	-	(3,774,600,777)
Foreclosed assets, net	18,111,643,632	-	-	-	-	18,111,643,632	-	18,111,643,632
Investments in other companies	93,103,857,533	30,000,000	-	-	-	93,133,857,533	30,896,600,299	62,237,257,234
Property and equipment, net	175,568,488,937	252,851,776	125,122,208	651,494,254	39,019,331	176,636,976,506	-	176,636,976,506
Other assets	46,118,023,038	200,714,733	519,533,470	147,645,767	149,239,631	47,135,156,639	-	47,135,156,639
TOTAL ASSETS	¢ 7,023,108,857,726	57,101,025,317	7,513,085,461	8,613,674,425	3,616,901,368	7,099,953,544,297	33,613,277,351	7,066,340,266,946
LIABILITIES AND EQUITY								
LIABILITIES								
Obligations with the public	¢ 4,868,689,621,548	29,138,802,125	-	-	-	4,897,828,423,673	29,500,000	4,897,798,923,673
Obligations with BCCR	125,644,412	-	-	-	-	125,644,412	-	125,644,412
Obligations with entities	1,314,683,819,722	11,702,739,136	-	-	-	1,326,386,558,858	892,646,751	1,325,493,912,107
Demand	205,134,925,544	-	-	-	-	205,134,925,544	892,646,751	204,242,278,793
Term	1,086,410,053,539	11,674,000,001	-	-	-	1,098,084,053,540	-	1,098,084,053,540
Finance charges payable	23,138,840,639	28,739,135	-	-	-	23,167,579,774	-	23,167,579,774
Accounts payable and provisions	80,925,978,236	1,478,408,277	1,350,376,533	1,567,978,245	709,781,964	86,032,523,255	1,794,530,310	84,237,992,945
Other liabilities	56,631,057,671	-	-	-	-	56,631,057,671	-	56,631,057,671
Subordinated obligations	73,792,554,481	-	-	-	-	73,792,554,481	-	73,792,554,481
TOTAL LIABILITIES	¢ 6,394,848,676,070	42,319,949,538	1,350,376,533	1,567,978,245	709,781,964	6,440,796,762,350	2,716,677,061	6,438,080,085,289

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of March 31, 2018								
	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations	Consolidated
EQUITY								
Share capital	¢ 172,237,030,102	6,600,000,000	3,000,000,000	4,718,571,872	369,700,000	186,925,301,974	14,688,271,872	172,237,030,102
Non-capitalized capital contributions	-	-	-	276,353,137	-	276,353,137	276,353,137	-
Equity adjustments	65,088,951,046	(799,353,318)	(24,352,845)	(25,526,814)	-	64,239,718,069	(849,232,977)	65,088,951,046
Capital reserves	333,885,279,519	1,320,000,000	539,734,980	300,000,000	73,940,000	336,118,954,499	2,233,674,980	333,885,279,519
Prior-period retained earnings	19,485,048,836	7,518,460,522	2,191,670,938	1,509,573,029	1,981,015,974	32,685,769,299	13,200,720,462	19,485,048,837
Income for the period	6,591,877,706	141,968,575	455,655,855	266,724,956	482,463,430	7,938,690,522	1,346,812,816	6,591,877,706
FOFIDE	30,971,994,447	-	-	-	-	30,971,994,447	-	30,971,994,447
TOTAL EQUITY	¢ 628,260,181,656	14,781,075,779	6,162,708,928	7,045,696,180	2,907,119,404	659,156,781,947	30,896,600,290	628,260,181,657
TOTAL LIABILITIES AND EQUITY	¢ 7,023,108,857,726	57,101,025,317	7,513,085,461	8,613,674,425	3,616,901,368	7,099,953,544,297	33,613,277,351	7,066,340,266,946
Debit memoranda accounts	¢ 654,771,321,313	185,355,668	-	23,000,000	-	654,979,676,981	-	654,979,676,981
Trust assets	¢ 1,578,314,034,100	388,007,753	-	-	-	1,578,702,041,853	-	1,578,702,041,853
Trust liabilities	¢ 120,629,300,249	811,917	-	-	-	120,630,112,166	-	120,630,112,166
Trust equity	¢ 1,457,684,733,851	387,195,836	-	-	-	1,458,071,929,687	-	1,458,071,929,687
Other debit memoranda accounts	¢ 18,150,801,033,802	954,549,056,042	444,540,428,515	1,322,943,656,585	-	20,872,834,174,944	-	20,872,834,174,944

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the year ended March 31, 2018								
	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations	Consolidated
Finance income	136,575,002,977	939,457,500	139,670,876	163,831,550	32,765,775	137,850,728,678	1,838,983	137,848,889,694
Finance costs	74,972,865,044	530,368,607	24,189,409	-	-	75,527,423,060	1,838,985	75,525,584,074
Allowance expense	22,461,832,475	-	-	-	-	22,461,832,475	-	22,461,832,475
Income from recovery of assets	1,840,749,636	-	-	-	-	1,840,749,636	-	1,840,749,636
FINANCE INCOME	40,981,055,094	409,088,893	115,481,467	163,831,550	32,765,775	41,702,222,779	(2)	41,702,222,781
Other operating income	40,678,580,254	636,187,688	1,298,117,023	1,998,960,990	1,244,545,512	45,856,391,467	1,643,560,176	44,212,831,291
Other operating expenses	25,787,153,731	122,851,713	132,150,524	315,625,994	53,638,593	26,411,420,555	272,454,740	26,138,965,815
GROSS OPERATING INCOME	55,872,481,617	922,424,868	1,281,447,966	1,847,166,546	1,223,672,694	61,147,193,691	1,371,105,434	59,776,088,257
Personnel expenses	30,781,705,337	591,466,636	494,032,310	834,209,636	463,146,128	33,164,560,047	1	33,164,560,046
Other administrative expenses	16,163,927,716	194,380,274	150,457,812	251,292,674	55,834,176	16,815,892,652	24,292,619	16,791,600,033
Total administrative expenses	46,945,633,053	785,846,910	644,490,122	1,085,502,310	518,980,304	49,980,452,699	24,292,620	49,956,160,079
NET OPERATING INCOME BEFORE STATUTORY ALLOCATIONS AND TAXES	8,926,848,564	136,577,958	636,957,844	761,664,236	704,692,390	11,166,740,992	1,346,812,814	9,819,928,178
Income tax	-	-	167,625,862	217,840,558	219,869,156	605,335,576	(3)	605,335,579
Decrease in income tax	99,647,590	9,487,956	5,432,609	12,476,162	18,780,968	145,825,285	-	145,825,285
Statutory allocations	2,434,618,448	4,097,339	19,108,736	289,574,884	21,140,772	2,768,540,179	1	2,768,540,178
INCOME FOR THE PERIOD	6,591,877,706	141,968,575	455,655,855	266,724,956	482,463,430	7,938,690,522	1,346,812,816	6,591,877,706

(Continued)

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
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 receivable	(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 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	125,644,412	-	-	-	-	125,644,412	-	125,644,412
Obligations with entities	1,258,562,387,659	11,180,756,584	-	-	-	1,269,743,144,243	1,584,327,683	1,268,158,816,560
Demand	212,419,659,369	-	-	-	-	212,419,659,369	1,584,327,683	210,835,331,686
Term	1,023,938,574,449	11,167,720,000	-	-	-	1,035,106,294,449	-	1,035,106,294,449
Finance charges payable	22,204,153,841	13,036,584	-	-	-	22,217,190,425	-	22,217,190,425
Accounts payable and provisions	100,201,953,600	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	65,527,042,435	-	-	-	-	65,527,042,435	-	65,527,042,435
Subordinated obligations	72,675,619,590	-	-	-	-	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

(Continued)

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
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 period	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	¢ 637,760,198,896	100,270,319	-	288,110,324	-	638,148,579,539	-	638,148,579,539
Trust assets	¢ 1,219,911,096,378	1,861,974,431	-	-	-	1,221,773,070,809	-	1,221,773,070,809
Trust liabilities	¢ 51,810,523,656	1,991,666	-	-	-	51,812,515,322	-	51,812,515,322
Trust equity	¢ 1,168,100,572,722	1,859,982,765	-	-	-	1,169,960,555,487	-	1,169,960,555,487
Other debit memoranda accounts	¢ 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

(Continued)

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
Decrease in statutory allocations	94,255,172	-	-	-	-	94,255,172	-	94,255,172
INCOME FOR THE PERIOD	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

(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:

	Note	Direct		Note	Stand-by	
		March 2018	March 2017		March 2018	March 2017
Loan portfolio						
Principal	7-a	¢ 4,458,021,970,233	4,207,916,207,151		348,789,713,742	326,685,814,084
Accounts and accrued interest receivable		35,652,951,204	28,394,872,419		-	-
Carrying amount, gross		4,493,674,921,437	4,236,311,079,570		348,789,713,742	326,685,814,084
Allowance for loan losses (accounting records)		(150,546,366,714)	(85,119,811,786)		(272,067,378)	(309,271,895)
Carrying amount, net	¢	<u>4,343,128,554,723</u>	<u>4,151,191,267,784</u>		<u>348,517,646,364</u>	<u>326,376,542,189</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		Direct		Stand-by	
		March 2018	March 2017	March 2018	March 2017
Loan portfolio					
Total balances:					
0	¢	19,322,570,932	6,693,259,163	-	1,533,254
A1		3,507,806,438,278	3,455,646,007,845	337,358,558,979	319,491,180,893
A2		32,430,446,536	34,917,802,843	632,384,451	528,192,805
B1		397,732,062,183	299,895,238,880	5,975,380,035	2,432,249,516
B2		12,080,472,346	11,423,597,485	44,660,763	38,595,359
C1		110,595,539,632	115,797,288,789	1,551,694,018	1,303,513,059
C2		5,149,790,399	3,844,877,692	17,374,392	7,915,638
D		128,972,974,524	125,461,904,534	853,765,813	1,211,597,442
E		279,584,626,607	182,631,102,339	2,355,895,291	1,671,036,118
		<u>4,493,674,921,437</u>	<u>4,236,311,079,570</u>	<u>348,789,713,742</u>	<u>326,685,814,084</u>
Structural allowance (subledger – database)		<u>(136,839,381,407)</u>	<u>(78,648,130,723)</u>	<u>(137,509,206)</u>	<u>(131,483,142)</u>
Carrying amount, net	¢	<u>4,356,835,540,030</u>	<u>4,157,662,948,847</u>	<u>348,652,204,536</u>	<u>326,554,330,942</u>
Individually assessed loans with allowance:					
0	¢	19,322,570,932	6,693,259,163	-	1,533,254
A1		3,507,806,438,278	3,455,646,007,845	51,446,511,149	43,279,147,787
A2		32,430,446,536	34,917,802,843	108,004,878	92,646,268
B1		397,732,062,183	299,895,238,880	1,249,236,513	775,301,323
B2		12,080,472,346	11,423,597,485	-	12,920,000
C1		110,595,539,632	115,797,288,789	40,260,836	115,153,821
C2		5,149,790,399	3,844,877,692	-	3,679,022
D		128,972,974,524	125,461,904,534	68,669,022	329,393,026
E		279,584,626,607	182,631,102,339	92,614,400	94,978,045
		<u>4,493,674,921,437</u>	<u>4,236,311,079,570</u>	<u>53,005,296,798</u>	<u>44,704,752,546</u>
Structural allowance (subledger – database)		<u>(136,839,381,407)</u>	<u>(78,648,130,723)</u>	<u>(137,509,206)</u>	<u>(131,483,142)</u>
Carrying amount, net	¢	<u>4,356,835,540,030</u>	<u>4,157,662,948,847</u>	<u>52,867,787,592</u>	<u>44,573,269,404</u>
		Direct		Stand-by	
		March 2018	March 2017	March 2018	March 2017
Current loans without allowance:					
0	¢	-	-	-	1,533,254
A1		-	-	285,912,047,831	276,212,033,107
A2		-	-	524,379,572	435,546,537
B1		-	-	4,726,143,522	1,656,948,193
B2		-	-	44,660,763	25,675,359
C1		-	-	1,511,433,181	1,188,359,238
C2		-	-	17,374,392	4,236,616
D		-	-	785,096,791	882,204,415
E		-	-	2,263,280,891	1,576,058,073
Carrying amount	¢	<u>-</u>	<u>-</u>	<u>295,784,416,943</u>	<u>281,982,594,792</u>
Carrying amount, gross		<u>4,493,674,921,437</u>	<u>4,236,311,079,570</u>	<u>348,789,713,742</u>	<u>326,685,814,084</u>
Allowance for loan losses (database)		<u>(136,839,381,407)</u>	<u>(78,648,130,723)</u>	<u>(137,509,206)</u>	<u>(131,483,142)</u>
Excess of allowance over structural allowance		<u>(13,706,985,307)</u>	<u>(6,471,681,063)</u>	<u>(134,558,172)</u>	<u>(177,788,753)</u>
Carrying amount, net	7-a ¢	<u>4,343,128,554,723</u>	<u>4,151,191,267,784</u>	<u>348,517,646,364</u>	<u>326,376,542,189</u>
Restructured loans	¢	<u>47,817,275,362</u>	<u>32,777,505,212</u>	<u>-</u>	<u>376,179</u>

(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 2018	
		Loans to customers	
		Gross	Net
0	¢	19,322,570,932	19,149,803,503
A1		3,507,806,438,278	3,474,243,421,969
A2		32,430,446,536	32,255,030,680
B1		397,732,062,183	394,059,432,384
B2		12,080,472,346	11,940,274,724
C1		110,595,539,632	107,260,417,003
C2		5,149,790,399	4,829,712,645
D		128,972,974,524	120,826,289,813
E		279,584,626,607	178,564,172,002
	¢	<u>4,493,674,921,437</u>	<u>4,343,128,554,723</u>

		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
	¢	<u>4,236,311,079,570</u>	<u>4,151,191,267,784</u>

As shown above, as of March 31, 2018, the gross loan portfolio amounts to ¢4,943 billion. Of that amount, 88.33% is classified in risk ratings “A + B” and 11.67% in risk ratings “C + D + E” (2017: ¢4,236 billion, of which 89.90% is classified in risk ratings “A + B” and 10.10% 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 for which, after considering the guarantee for the loan, there is still a balance to which the applicable allowance percentage will be applied.

Past due loans without allowance:

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

Restructured loans:

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

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

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

Loan write-off policy:

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

Borrower classification

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

The loan portfolio by borrower classification is as follows:

Borrower classification		Direct		Stand-by	
		March 2018	March 2017	March 2018	March 2017
Group 1	¢	2,728,641,306,772	2,566,555,055,671	72,424,410,136	56,984,643,239
Group 2		1,765,033,614,665	1,669,756,023,899	276,365,303,606	269,701,170,845
	¢	<u>4,493,674,921,437</u>	<u>4,236,311,079,570</u>	<u>348,789,713,742</u>	<u>326,685,814,084</u>

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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

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

Analysis of creditworthiness

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

Analysis of historical payment behavior

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Structural allowance for loan losses

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

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

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

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

<u>Risk rating</u>	<u>Specific allowance percentage - Uncovered portion</u>	<u>Specific allowance percentage - Covered portion</u>
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 a Directive. Accordingly, as of December 31, 2015, the Bank applied an allowance percentage of 0.32%, which will gradually increase on a quarterly basis to 0.5%, pursuant to the aforementioned Transition Provision.

Allowance percentages based on borrower risk rating are as follows:

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

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

March 2018			
	<u>Allowance booked</u>	<u>Structural allowance</u>	<u>Excess of allowance</u>
Direct	¢ 150,546,366,714	(136,839,381,407)	13,706,985,307
Stand-by	272,067,378	(137,509,206)	134,558,172
	<u>150,818,434,092</u>	<u>(136,976,890,613)</u>	<u>13,841,543,479</u>
Counter-cyclical - SUGEF 19-16	6,786,401,486	(6,786,401,486)	-
	<u>¢ 157,604,835,578</u>	<u>(143,763,292,099)</u>	<u>13,841,543,479</u>
March 2017			
	<u>Allowance booked</u>	<u>Structural allowance</u>	<u>Excess of allowance</u>
Direct	¢ 85,119,811,786	(78,648,130,723)	6,471,681,063
Stand-by	309,271,895	(131,483,142)	177,788,753
	<u>85,429,083,681</u>	<u>(78,779,613,865)</u>	<u>6,649,469,816</u>
Counter-cyclical - SUGEF 19-16	4,437,881,469	(4,437,881,469)	-
	<u>¢ 89,866,965,150</u>	<u>(83,217,495,334)</u>	<u>6,649,469,816</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of March 31, 2018, the balance of the Bank's allowance for loan losses (direct and stand-by), accrued interest receivable, and other receivables amounts to ¢161,379,436,355 (2017: ¢88,827,580,890).

Counter-cyclical allowance

As of March 31, 2018, the counter-cyclical allowance is valued pursuant to the provisions set forth in SUGEF Directive 19-16 *Regulations to Determine and Book Counter-cyclical Allowances*, approved by CONASSIF through Article 6 of minutes of meeting No. 1258-2016 held on June 7, 2016, published in Alcance No. 100 of the Official Gazette No. 117, of June 17, 2016. Those provisions are summarized as follows:

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

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

Transition Provision II of SUGEF Directive 19-16 indicates that starting July 2016 each entity must perform the monthly booking of the expense for the counter-cyclical component equivalent to a minimum of 7% of the difference between the balance of income accounts less expenses plus taxes and monthly statutory allocations, until the balance of the analytical account reaches the amount corresponding to the counter-cyclical allowance provided in the regulations (¢29,189,340,618 based on the calculation of the counter-cyclical allowance made by management as of March 31, 2018). Once the entity reach that level, it shall continue booking the counter-cyclical account as indicated by this Regulation.

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of March 31, 2018, the counter-cyclical allowance booked amounts to ¢6,786,401,486 (2017: ¢4,437,881,468).

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:

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

<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, 2018, the carrying amount of the allowance for impairment of foreclosed assets and per legal requirements amounts to ¢62,697,900,352 (2017: ¢60,843,125,565).

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

Sector		Direct		Stand-by	
		2018	2017	2018	2017
Trade	¢	412,698,199,857	379,502,829,802	3,349,182	4,814,192
Services		913,974,088,601	907,438,495,559	66,090,609,580	49,210,842,719
Financial services		132,909,531,254	139,015,596,179	-	-
Mining		899,931,430	1,036,722,208	-	-
Manufacturing and quarrying		185,827,523,999	180,278,652,510	-	-
Construction		110,811,134,822	105,023,878,492	-	-
Agriculture and forestry		121,207,894,729	118,997,172,400	583,609	15,154,193
Livestock, hunting, and fishing		84,689,746,724	79,639,907,216	-	-
Electricity, water, sanitation, and other related sectors		437,743,476,129	406,868,638,075	-	-
Transportation and telecommunications		45,128,721,817	46,463,933,656	-	-
Housing		1,304,442,207,939	1,234,072,065,273	17,793,234	15,403,292
Personal or consumer		560,412,275,321	475,027,769,551	282,483,437,122	277,237,041,837
Tourism		182,930,188,816	162,945,418,649	193,941,014	202,557,851
	¢	<u>4,493,674,921,438</u>	<u>4,236,311,079,570</u>	<u>348,789,713,741</u>	<u>326,685,814,084</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

	Direct		Stand-by	
	March 2018	March 2017	March 2018	March 2017
Central America	¢ 4,493,674,921,438	4,236,311,079,570	348,789,713,741	326,685,814,084

The loan portfolio by type of guarantee is as follows:

Type of guarantee	Direct		Stand-by	
	March 2018	March 2017	March 2018	March 2017
Back to back	¢ 15,883,486,972	41,505,747,765	562,400	1,648,642
Mortgage bond	299,083,288	449,971,993	-	-
Assignment of loans	322,489,564,387	464,286,285,411	-	152,779
Mortgage	1,804,210,241,085	1,744,821,687,025	159,947,138	196,417,640
Surety	928,326,487,084	784,478,271,246	-	23,221,204
Trust	477,867,193,129	375,193,645,313	19,511,073	78,528,279
Securities	28,351,475,087	919,322,628	-	-
Chattel mortgage	257,472,825,527	213,450,739,200	-	-
Other	658,774,564,879	611,205,408,989	348,609,693,130	326,385,845,540
	¢ 4,493,674,921,438	4,236,311,079,570	348,789,713,741	326,685,814,084

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, 2018 and 2017, 57.50% and 67.05%, respectively, of the loan portfolio is secured by collateral guarantees.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

Loan portfolio concentration		Direct		Stand-by	
		March 2018	March 2017	March 2018	March 2017
¢1 to ¢3,000,000	¢	163,241,541,560	148,755,780,382	105,154,304,568	101,165,156,223
¢3,000,001 to ¢15,000,000		627,204,028,350	580,793,851,170	176,453,608,642	174,455,247,622
¢15,000,001 to ¢30,000,000		470,831,732,454	459,097,117,871	6,394,060,070	5,854,844,036
¢30,000,001 to ¢50,000,000		479,542,907,973	460,355,500,699	2,201,027,057	1,912,095,079
¢50,000,001 to ¢75,000,000		384,325,078,424	348,455,869,613	2,219,365,572	2,200,051,391
¢75,000,001 to ¢100,000,000		192,265,836,416	161,770,901,501	1,581,407,620	1,108,808,114
¢100,000,001 to ¢200,000,000		237,918,266,152	227,357,891,669	3,640,324,222	4,322,047,021
More than ¢200,000,000		1,938,345,530,109	1,849,724,166,665	51,145,615,990	35,667,564,598
	¢	<u>4,493,674,921,438</u>	<u>4,236,311,079,570</u>	<u>348,789,713,741</u>	<u>326,685,814,035</u>

As of March 31, 2018 and 2017, the portion of the loan portfolio (direct and stand-by loans) corresponding to economic interest groups amounts to ¢483,679,828,215 and ¢471,741,546,037, respectively.

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

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

The Bank's loan portfolio is comprised of operations in various currencies, i.e. the Costa Rican colon, the 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.

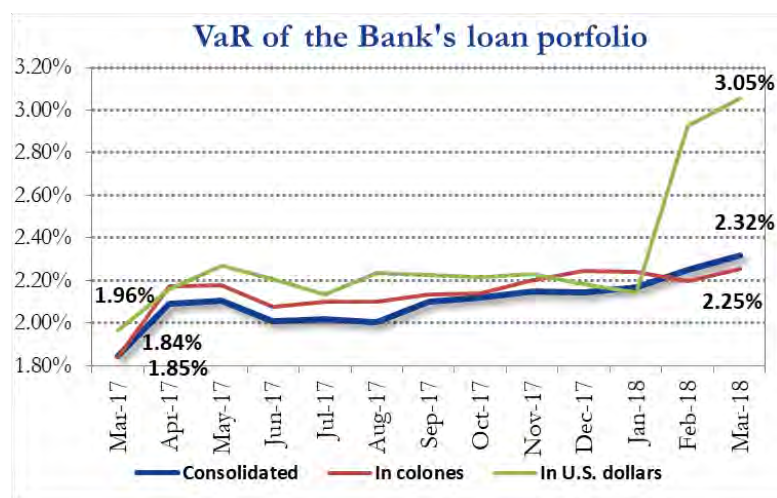
(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

The quarterly increase of the VaR is due to the impairment of arrears indicators (legal collection and arrears more than 90 days) in the entire loan portfolio between December 2017 and March 2018. Legal collection for the entire portfolio increased from 5.15% in December 2017 to 8.05% in March 2018, while arrears more than 90 days increased from 2.44% to 2.59%. For that same period, by currency, portfolios also showed similar behaviors in arrears indicators for both legal collection and arrears more than 90 days. In colones, legal collection increased from 5.65% to 7.18% and arrears more than 90 days increased from 2.46% to 2.54%. In U.S. dollars, legal collection increased from 4.07% to 9.64% and arrears more than 90 days increased from 2.35% to 2.63%. On a year-on-year basis, the consolidated VaR of the loan portfolio also increased during the period from March 2017 to March 2018. By currency, the VaR of the portfolios in colones, in U.S. dollars, and in DU increased.



(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

By economic activity, on a year-on-year basis, most activities show increases in VaR, namely: Energy, Construction, Agriculture, Mining, and Consumer. Only Industry presented a decrease in VaR. In consolidated terms, VaR increased from 1.85% in March 2017 to 2.32% in March 2018.

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

Activity	March 2018	March 2017
Agriculture	4.34%	3.38%
Livestock	3.13%	2.65%
Mining	7.75%	6.84%
Industry	2.93%	3.08%
Energy	5.48%	2.02%
Housing	1.50%	1.45%
Construction	4.73%	2.94%
Trade	2.99%	2.61%
Transportation	1.32%	1.02%
Financial services	0.24%	0.22%
Consumer	4.81%	4.10%
Services	2.04%	1.56%
Tourism	5.48%	5.05%
BNCR	2.32%	1.85%

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 a risk is measured and monitored using the Return on Risk-Adjusted Capital (RORAC) methodology.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

- formulation of credit policies;
- definition of concentration and exposure limits, which are included in the risk management and investment policy; 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.

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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

The Brokerage Firm may acquire the following instruments:

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Local currency:

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

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

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

For the March 2018 close, 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, most of the Brokerage Firm's financial instruments (69.04%) is concentrated in the portfolio denominated in colones.

With respect to the consolidated portfolio, investments in instruments issued by the Government of Costa Rica (65.37%), BCCR (3.65%), and BNCR (0.06%) comprise the portfolio in colones, representing 69.04% of the consolidated portfolio. Investments in instruments issued by the Government of Costa Rica comprise the portfolio in U.S. dollars, representing 30.96% of the consolidated portfolio.

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The Merton model uses 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.

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

As of March 31, 2018, the net assets managed by the Pension Fund Manager amount to ¢1,314,260.64 million (2017: ¢1,181,635.26 million), growing year-on-year by ¢132,625.38 million in nominal terms, equivalent to a growth rate of 11.22%. These data do not include the Pension Fund Manager's own assets.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The pension fund with the highest relative share is ROP, which represents 82.64%, growing year-on-year by ¢112,647.12 million, an increase of 11.57% with respect to the same period in 2017.

As of March 31, 2018, the Pension Fund Manager's portfolio of own funds is represented by available-for-sale investments in the amount of ¢6,522.68 million (2017: ¢6,371.29 million). An adjustment has been made to the price of assets that comprise the portfolio of investments of the Pension Fund Manager due to the increase in market's interest rates. This has a negative effect on the price of bonds, with a direct impact on gains on assets and a decrease in gains over the last year.

As of March 31, 2018, the VaR of credit in absolute terms is ¢30.66 million, equivalent to 0.44% (2017: ¢29.76 million, equivalent to 0.42%), showing a minimum increase.

Consolidated VaR - One year Fund	As of March 31,		Variation
	2018	2017	
FCL	1.49%	2.09%	(0.60%)
FPC A	0.02%	0.16%	(0.14%)
FPC B	3.64%	4.11%	(0.47%)
FPD A	26.03%	27.89%	(1.86%)
FPD B	32.78%	30.32%	2.46%
NOT	0.00%	0.00%	0.00%
ROP	5.90%	5.97%	(0.07%)
BN Vital (OPC)	0.44%	0.42%	0.02%
FCLE	4.98%	4.91%	0.07%
ROPE	4.04%	3.95%	0.08%

(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, 2018 and 2017, exposure to credit risk is represented by the carrying amounts of cash and due from banks and available-for-sale investments. Cash and due from banks correspond to checking account deposits with a State-owned bank. As of March 31, 2018, investments in financial instruments correspond to the non-diversified investment fund in colones “*Fondo de Inversión BN FonDepósito Colones, No Diversificado*”, which is secured by term certificates of deposit from BNCR.

b) Liquidity risk

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

(Continued)

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 remained stable in colones and increased in U.S. dollars with respect to Marzo 2017, remaining above the risk appetite level in both currencies. The LCR indicator in colones presented variations during the first half of 2017 as a result of the accelerated placement of loans in colones, managed by means of measures to diversify profit-taking (through standardized issues), adjustments to deposit taking rates and loan rationalization during the second half of the year. In U.S. dollars, the LCR indicator has shown a significant upward tendency during 2017, influenced by the expectation and evolution of the exchange rate, which has decelerated the placement of loans and increased profit-taking.

<u>Indicator</u>	<u>March 2018</u>	<u>March 2017</u>	<u>Variation</u>	<u>Level</u>
LCR in colones	108.50%	120.00%	(11.50)%	Appetite
LCR in U.S. dollars	298.70%	256.00%	42.20%	Appetite

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of March 31, 2018, the terms of the Bank's assets and liabilities denominated in local currency are matched as follows:

		Days							Total
		Past due	Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	
Cash and due from banks	¢	-	86,268,823,606	-	-	-	-	-	86,268,823,606
Minimum legal deposit in BCCR		-	303,457,795,271	31,772,843,351	22,181,731,164	18,045,759,283	74,743,649,250	73,988,330,422	540,732,466,583
Investments		-	-	23,368,548,488	2,595,536,987	34,499,190,185	41,986,778,624	76,392,836,388	491,354,774,828
Loan portfolio		168,104,910,078	-	51,109,812,509	49,353,583,984	52,885,505,039	90,474,701,549	136,967,539,617	2,997,019,573,507
Total recovery of assets	¢	168,104,910,078	389,726,618,877	106,251,204,348	74,130,852,135	105,430,454,507	207,205,129,423	287,348,706,427	4,115,375,638,524
Obligations with the public	¢	-	1,817,484,826,361	160,831,639,206	112,473,256,768	187,320,197,909	464,417,117,911	490,240,286,747	3,312,078,970,280
Obligations with BCCR		-	-	-	-	-	-	125,644,412	125,644,412
Obligations with financial entities		-	90,339,162,420	28,616,066,935	15,107,845,007	8,900,583,372	22,345,079,736	9,185,319,451	210,192,927,622
Charges payable		-	10,595,932,412	8,473,281,816	2,547,415,136	2,383,331,098	5,355,808,359	1,607,058,587	31,210,493,131
Total maturity of liabilities	¢	-	1,918,419,921,193	197,920,987,957	130,128,516,911	198,604,112,379	492,118,006,006	501,032,664,785	3,553,608,035,445
Difference	¢	168,104,910,078	(1,528,693,302,316)	(91,669,783,609)	(55,997,664,776)	(93,173,657,872)	(284,912,876,583)	(213,683,958,358)	561,767,603,079

(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:

		Days							Total
		Past due	Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	
Cash and due from banks	¢	-	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	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	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	2,699,570,802,625
Total recovery of assets	¢	117,114,308,525	380,808,740,669	84,401,413,324	66,929,808,089	67,990,078,165	222,037,349,226	297,165,473,604	3,802,029,018,319
Obligations with the public	¢	-	1,728,908,434,157	135,281,464,547	143,463,884,889	114,562,621,618	430,562,543,621	413,380,918,444	3,075,426,836,022
Obligations with BCCR		-	-	-	-	-	-	-	125,644,412
Obligations with financial entities		-	88,566,719,271	14,319,310,222	1,079,965,840	1,625,306,774	5,700,317,295	6,423,699,741	126,293,378,319
Charges payable		-	7,851,400,587	5,111,778,581	2,608,784,839	1,187,299,847	2,265,501,356	808,952,034	19,974,022,155
Total maturity of liabilities	¢	-	1,825,326,554,015	154,712,553,350	147,152,635,568	117,375,228,239	438,528,362,272	420,613,570,219	3,221,819,880,908
Difference	¢	117,114,308,525	(1,444,517,813,346)	(70,311,140,026)	(80,222,827,479)	(49,385,150,074)	(216,491,013,046)	(123,448,096,615)	580,209,137,411

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of March 31, 2018, the terms of the Bank's assets and liabilities denominated in foreign currency, expressed in local currency, are matched as follows:

		Days							Total
		Past due	Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	
Cash and due from banks	¢	30,168,353	329,232,758,175	-	-	-	-	-	329,362,118,241
Minimum legal deposit in BCCR		-	168,787,352,039	13,340,707,865	16,322,009,497	13,261,451,121	34,830,951,001	19,396,677,015	312,794,203,943
Investments		-	-	90,640,280,209	47,204,002,728	51,047,864,874	65,081,735,167	155,484,187,964	661,852,520,139
Loan portfolio		172,003,799,509	-	32,410,754,066	31,052,453,532	26,195,644,687	57,446,126,060	65,124,694,511	1,496,655,347,930
Total recovery of assets	¢	172,033,967,862	498,020,110,214	136,391,742,140	94,578,465,757	90,504,960,682	157,358,812,228	240,005,559,490	2,800,664,190,253
Obligations with the public	¢	-	915,274,605,285	115,238,683,038	82,833,224,543	80,276,248,090	175,080,371,188	127,543,898,581	1,560,617,607,478
Obligations with financial entities		-	114,795,763,124	11,253,624,000	11,816,024,000	10,975,236,000	22,078,730,694	281,653,175,520	1,092,133,404,711
Charges payable		-	2,042,124,228	8,503,587,085	14,016,238,943	1,932,202,559	1,059,667,342	792,697,086	28,645,612,884
Total maturity of liabilities	¢	-	1,032,112,492,637	134,995,894,123	108,665,487,486	93,183,686,649	198,218,769,224	409,989,771,187	2,681,396,625,073
Difference	¢	172,033,967,862	(534,092,382,423)	1,395,848,017	(14,087,021,729)	(2,678,725,967)	(40,859,956,996)	(169,984,211,697)	119,267,565,180

(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 foreign currency, expressed in local currency, are matched as follows:

		Days							Total
		Past due	Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	
Cash and due from banks	¢	-	386,991,455,339	-	-	-	-	-	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	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	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	1,536,740,276,945
Total recovery of assets	¢	71,504,696,681	544,022,388,606	58,696,214,669	108,476,278,406	41,576,568,838	167,643,375,958	190,273,689,415	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	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	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	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	2,613,631,031,888
Difference	¢	71,504,696,681	(455,978,524,117)	(49,582,735,500)	12,857,127,701	(11,880,226,954)	(81,009,228,678)	71,793,663,456	51,741,465,744

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

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

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

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

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

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

As of December 31, 2017, a change in the methodology is presented in relation to liquidity risk. The calculation of a liquidity ratio that shows the number of times that cash covers expected withdrawals. For the ROP, FCL, FPC B, and NOT, the methodology considers cash plus liquid investments (in the issuers BCCR and the government, with maturities of less than one month). Therefore, a comparison using the same date of the prior period is not made, but there must be an indication that as of the period-end the following liquidity ratio is kept for the funds:

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Fund	Liquidity ratio	
	March 2018	March 2017
ROP	11.41	10.21
FCL	7.93	14.50
NOT	21.16	76.97
FPC A	4.30	9.74
FPC B	7.44	10.07
FPD A	7.53	4.01
FPD B	8.52	4.85
FCL Erroneous	18.45	11.75
ROP Erroneous	27.70	68.27

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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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.

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

Below is the variation of the portfolios in each currency between March 2018 and March 2017.

<u>Currency</u>	<u>Face value of investments by currency</u>		
	<u>March 2018</u>	<u>March 2017</u>	<u>Variation</u>
Colones	422,275,794,400	439,536,300,000	(17,260,505,600.00)
U.S. dollars - local	413,654,000	391,303,064	22,350,935.98
U.S. dollars - intl	711,831,036	378,953,505	332,877,530.85
Euro	11,000,000	22,000,000	(11,000,000.00)
DU	21,082,530	34,823,795	(13,741,265.09)

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

<u>Duration</u>	<u>March 2018</u>	<u>March 2017</u>	<u>Variation</u>
Colones	0.70	0.84	(0.13)
U.S. dollars - local	0.81	0.71	0.10
U.S. dollars - intl	1.06	1.26	(0.20)
Euro	0.69	1.08	(0.39)
DU	1.25	1.64	(0.39)

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

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

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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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 2018	March 2017
VaR (99% confidence level)	0.28%	0.51%

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, 2018 and 2017, the carrying amount of the following financial instruments approximates fair value: cash, investments in financial instruments, interest receivable, obligations under repurchase agreements, interest payable, fees and commissions, and other accounts payable. Investments are carried at the fair value determined using the method described above.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

For the Brokerage Firm, 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.

(Continued)

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.

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

v. BN Corredora de Seguros, S.A.

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

- Market risk of investments

i. Banco Nacional de Costa Rica

The Bank's consolidated VaR regarding the market value of investments is at the risk appetite level, showing a slight increase in the last year. Increases in the monetary policy rate and a higher pressure on the liquidity in colones may give rise to higher pressure on local interest rates, increasing VaR due to movements in the curves.

<u>Type of risk</u>	<u>March 2018</u>	<u>March 2017</u>	<u>Variation</u>	<u>Level</u>
Consolidated VaR	0.51%	0.30%	0.21%	Appetite

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

<u>Currency</u>	<u>VaR by currency</u>		
	<u>March 2018</u>	<u>March 2017</u>	<u>Variation</u>
Colones	0.36%	0.41%	(0.06%)
U.S. dollars - local	0.26%	0.25%	0.01%
U.S. dollars - intl	0.40%	0.40%	0.00%
Euro	0.04%	0.02%	(0.02%)
DU	0.28%	0.26%	0.02%

- Interest rate risk

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

The Market Risk Division monitors this risk regularly and reports on its performance monthly to the Bank's Corporate Risk Committee. A summary is provided below:

<u>Type of risk</u>	<u>March 2018</u>	<u>March 2017</u>	<u>Variation</u>	<u>Level</u>
Interest rate risk in colones	0.26%	2.18%	(1.93%)	Normal
Interest rate risk in foreign currency	0.86%	0.45%	0.41%	Normal

Both indicators closed considerably below SUGEF's regulatory limits. The decrease in the interest rate risk in colones is due to improvements in the source of data, which makes use of the distribution of credit by time band based on the interest rate renegotiated starting June 2017. In U.S. dollars, the increase corresponds to changes in the 3-month LIBOR rate.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of March 31, 2018, the interest rate terms for the Bank's assets and liabilities (differences between the recovery of assets and the maturity of liabilities) are matched as follows:

		1 to 30 days	31 to 90 days	91 to 180 days	181 to 360 days	361 to 720 days	More than 720 days	Total
<i>Local currency (LC)</i>								
Investments	¢	23,313,361,523	36,944,705,425	41,968,756,226	66,962,418,993	132,520,295,145	170,393,315,478	472,102,852,790
Loan portfolio		2,636,146,416,647	105,402,167,660	100,838,928,668	16,352,382,488	17,873,682,816	70,148,217,067	2,946,761,795,346
Total recovery of rate-sensitive assets in LC (A)	¢	2,659,459,778,170	142,346,873,085	142,807,684,894	83,314,801,481	150,393,977,961	240,541,532,545	3,418,864,648,136
Obligations with the public	¢	229,812,091,907	305,751,302,699	516,459,489,319	462,434,323,051	56,570,358,928	24,644,906,859	1,595,672,472,763
Obligations with BCCR		-	-	-	-	-	125,644,412	125,644,412
Obligations with financial entities in LC		6,177,312,284	-	-	-	-	36,313,461,709	42,490,773,993
Total maturity of rate-sensitive liabilities in LC (B)	¢	235,989,404,191	305,751,302,699	516,459,489,319	462,434,323,051	56,570,358,928	61,084,012,980	1,638,288,891,168
Difference in LC, recovery of assets less maturity of liabilities (A - B)	¢	2,423,470,373,979	(163,404,429,614)	(373,651,804,425)	(379,119,521,570)	93,823,619,033	179,457,519,565	1,780,575,756,968
<i>Foreign currency (FC)</i>								
Investments	¢	90,640,280,281	98,251,867,592	65,063,230,136	151,144,296,157	97,876,140,349	158,516,962,744	661,492,777,259
Loan portfolio		1,282,181,306,236	47,695,565,225	27,895,452,361	3,066,817,045	25,623,410,171	71,139,044,856	1,457,601,595,894
Total recovery of rate-sensitive assets in FC (C)	¢	1,372,821,586,517	145,947,432,817	92,958,682,497	154,211,113,202	123,499,550,520	229,656,007,600	2,119,094,373,153
Obligations with the public	¢	115,107,622,955	236,260,354,595	198,696,868,766	116,773,498,592	300,967,366,141	572,090,131,808	1,539,895,842,857
Obligations with entities		2,249,600,000	1,547,726,363	128,596,342	-	-	94,632,739,421	98,558,662,126
Total maturity of rate-sensitive liabilities in FC (D)	¢	117,357,222,955	237,808,080,958	198,825,465,108	116,773,498,592	300,967,366,141	666,722,871,229	1,638,454,504,983
Difference in FC, recovery of assets less maturity of liabilities (C - D)	¢	1,255,464,363,562	(91,860,648,141)	(105,866,782,611)	37,437,614,610	(177,467,815,621)	(437,066,863,629)	480,639,868,170
Total recovery of rate-sensitive assets 1/ (A + C)	¢	4,032,281,364,687	288,294,305,902	235,766,367,391	237,525,914,683	273,893,528,481	470,197,540,145	5,537,959,021,289
Total maturity of rate-sensitive liabilities 2/ (B + D)	¢	353,346,627,146	543,559,383,657	715,284,954,427	579,207,821,643	357,537,725,069	727,806,884,209	3,276,743,396,151
Difference in LC + FC, recovery of assets less maturity of liabilities (item 1 - item 2)	¢	3,678,934,737,541	(255,265,077,755)	(479,518,587,036)	(341,681,906,960)	(83,644,196,588)	(257,609,344,064)	2,261,215,625,138

(Continued)

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

		1 to 30 days	31 to 90 days	91 to 180 days	181 to 360 days	361 to 720 days	More than 720 days	Total
<i>Local currency (LC)</i>								
Investments	¢	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 in 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 in LC		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 in 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
Difference in LC, 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	101,602,793,353	1,163,148,204,343	1,487,289,376,737
Total recovery of rate-sensitive assets in FC (C)	¢	68,386,424,051	116,100,552,628	128,378,830,068	173,904,703,662	201,972,684,671	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 in 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
Difference in FC, 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
Difference in LC + FC, recovery of assets less maturity of liabilities (item 1 - item 2)	¢	(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

(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, which were unusually high during the year (due to relatively low inflation).

The consolidated VaR of the Pension Fund Manager's own funds presents a downward trend with a maximum of 0.38% and a minimum of 0.00%, for an average of 0.25%, equivalent to ¢17.26 million. As of March 31, 2017, the indicator closed at 0.24%, compared to the indicator at the 2018 close at 0.25%, showing a slight increase resulting from the proportional decrease in the size of both the total investment portfolio and the portfolio of investments in fixed-rate instruments. For the 2017 period, 0.24% is equivalent to ¢17.39 million.

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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

<u>Type of risk</u>	<u>March 2018</u>	<u>March 2017</u>	<u>Variation</u>	<u>Level</u>
Currency risk	0.45%	0.06%	0.39%	Appetite

i. Banco Nacional de Costa Rica

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Assets and liabilities denominated in foreign currency are as follows:

		U.S. dollars	
		March 2018	March 2017
<u>Assets:</u>			
Cash and due from banks	US\$	1,098,268,268	1,162,833,682
Investments in financial instruments		1,162,952,688	822,209,488
Loan portfolio		2,522,034,714	2,718,345,270
Accounts and accrued interest receivable		478,524	654,820
Investments in other companies		110,573,673	105,294,999
Other assets		6,781,048	2,777,314
	US\$	4,901,088,915	4,812,115,573
<u>Liabilities:</u>			
Obligations with the public	US\$	2,712,188,155	2,593,266,248
Obligations with entities		1,979,002,456	2,057,304,473
Accounts payable and provisions		35,424,978	26,521,906
Other liabilities		26,379,305	35,988,045
Subordinated obligations		131,210,090	131,081,687
	US\$	4,884,204,984	4,844,162,359
Excess (deficit) of assets over liabilities in U.S. dollars	US\$	16,883,931	(32,046,786)
		Euro	
		March 2018	March 2017
<u>Assets:</u>			
Cash and due from banks	€	35,276,851	24,483,686
Investments in financial instruments		11,246,890	22,806,256
Other assets		-	(10)
	€	46,523,741	47,289,932
<u>Liabilities:</u>			
Obligations with the public	€	43,873,122	45,484,817
Obligations with entities		1,479,059	1,718,548
Accounts payable and provisions		221,795	102,911
	€	45,573,976	47,306,276
Excess (deficit) of assets over liabilities in euro	€	949,765	(16,344)

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		DU	
		March 2018	March 2017
<u>Assets:</u>			
Investments in financial instruments	DU	21,082,531	34,809,429
Loan portfolio		12,953,134	20,498,273
	DU	34,035,665	55,307,702
<u>Liabilities:</u>			
Accounts payable and provisions	DU	692,012	795,948
Other liabilities		2,946	4,173
	DU	694,958	800,121
Excess of assets over liabilities in DU	DU	33,340,707	54,507,581

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 2018	March 2017
Foreign exchange gain	¢	29,470,067,308	38,425,006,304
Foreign exchange loss		(28,920,892,043)	(38,469,389,041)
Net gain (loss)	¢	549,175,265	(44,382,737)

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

		March 2018	March 2017
Gain on net valuation of other assets (note 37)	¢	127,038,214	47,531,515
Loss on net valuation of other liabilities (note 40)		(64,393,021)	(228,820,638)
Net gain (loss)	¢	62,645,193	(181,289,123)

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

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

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

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

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

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

The Brokerage Firm incurs currency risk mainly on cash and investments in 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, 2018, 3.10% of the Pension Fund Manager's portfolio of own funds is represented by investments in U.S. dollars. By adding cash and due from banks denominated in foreign currency, the percentage increases to 3.53%, which in nominal terms represents ¢244.65 million compared to the close as of March 31, 2017 at 3.17% (¢225.78 million), considering cash and due from banks and bonded debt, which is a relatively low currency risk for the size of the managed portfolio.

v. BN Corredora de Seguros, S.A.

The Insurance Brokerage Firm is exposed to currency risk when the value of its assets and liabilities in 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 a methodology is applied to institutional processes:



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

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

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

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

(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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- Control: The Investment Fund Manager's strategies to control and mitigate the potential impact of different operational risks include contingent computer hardware, a redundant power infrastructure, personnel turnover, documentation of the activities performed by each position, specialized training, varied and continually open channels of communication, development of a general culture focused on operational controls, etc.
- Communication: Senior management informs employees of risk management trends and strategies as well the results of assessments through meetings with employees or announcements.

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Fair value of financial instruments

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

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

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of March 31, 2018, the Bank's General Risk Division presented the results of the VaR by legal risk for the Pension Fund Manager, indicating that the amount to be provisioned is the EL of ¢23.0 million that covers the main lawsuits against the Pension Fund Manager out of nine pending lawsuits, most of which are in first instance.

v. BN Corredora de Seguros, S.A.

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

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

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

Capital management

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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, 2018 and 2017, the Group's risk rating is at a normal level since its capital adequacy ratio is above the required 10% ratio.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(47) Contingencies

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

	Number of cases		Phase	Total estimated amount	
	2018	2017		2018	2017
Bank	247	245	First instance	¢ 239,896,092,326	244,219,482,235
	18	19	Second instance	18,915,107,289	19,691,852,029
	6	3	Appeal	3,615,000,000	3,600,000,000
			Administrative proceedings (note 48)		
	1	1		38,458,424,266	38,458,424,266
	272	268		300,884,623,881	305,969,758,530
Pension Fund Manager	1	1	First instance	23,000,000	288,110,324
	1	1		23,000,000	288,110,324
Investment Fund Manager	1	1	First instance	185,355,667	100,270,319
	1	1		185,355,667	100,270,319
	274	270	(note 22)	¢ 301,092,979,548	306,358,139,173

As of March 31, 2018 and 2017, the legal actions filed against the Bank are booked in memoranda accounts under “Other contingencies - pending litigation and lawsuits”.

As of March 31, 2018 and 2017, the Bank is a claimant in ordinary, labor, and criminal lawsuits for which the outcome is uncertain and are not booked in the accounting records, as follows:

Number of cases		Phase	Total estimated amount	
2018	2017		2018	2017
153	126	First instance	¢ 720,109,969,665	720,711,862,902
-	1	Second instance	-	375,839,600
153	127		¢ 720,109,969,665	721,087,702,502

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

As of March 31, 2018, the Bank does not book a provision for those lawsuits, given that the legal counsel has indicated that such proceedings must not be included in the calculation of the provision since the probability of a loss is low.

The following lawsuits can also be mentioned:

- File No. 14-003379-1027-CA
 - ✓ Statement of facts: The plaintiffs seek that the Bank be ordered to pay damages caused to all the plaintiffs and to pay compensation for pain and suffering caused due to the inability to acquire decent housing, as a result of apparent anomalies regarding the management of credits to Grupo Zion, S.A. to build the Bariloche Real condominium. Additionally, it has had media coverage.
 - ✓ Current status: Scheduling of hearing for judicial acknowledgment and public oral proceedings is pending.
- File No. 08-000388-0419-AG
 - ✓ Court: Agrarian Court of Corredores
 - ✓ Statement of facts: The proceedings seek to declare the liability of CORBANA, as Trustee of a banana plantation Management Trust, in which the Bank was the Trust Beneficiary.
 - ✓ Current status: Through a resolution of second instance, vote No. 055-F-18, the Agrarian Court of the Second Judicial Circuit of San José, Goicoechea, annulled the resolution of first instance, so that the judge must issue a ruling on the appeal concerning new facts and claims of the case on which resolution was omitted.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- File No. 08-000232-0419-AG
 - ✓ Court: Agrarian Court of Corredores
 - ✓ Statement of facts: This process was filed by the Bank against Surcoop R.L. It seeks to nullify the auction, awarding, and registration of lots of the Agrarian Court of Corredores processed through file No. 97-010656-1701 AG.
 - ✓ Current status: Vote No. 000061-F-2018, of the Agrarian Court, ordinary proceedings file No. 08-000232-0419-AG against Cooperativa de Producción de Cacao y Palma de Finca Diez, Once y Doce de Palmar Sur R.L., in its operative paragraphs, rejects the motion for application filed by the plaintiff, and confirms the judgment made at 15 hours of May 15, 2014.
- File No. 08-001455-1027-CA
 - ✓ Court: Administrative Court and Civil Court of the Public Treasury
 - ✓ Statement of facts: External notaries that filed a lawsuit against the Bank due to the termination of their contracts for professional services, since they consider that their contracts were for indefinite terms and they had an acquired right.
 - ✓ Current status: The appeal for annulment filed by the Bank was admitted, and the judgment of first instance sentencing the Bank was revoked. A decision was made on the merits of the case, rejecting the lawsuit against the Bank in all respects.
- File No.: 11-001042-0612-PE
 - ✓ Court: Public Prosecutor's Office for Economic, Tax, and Customs Offenses
 - ✓ Statement of facts: Denunciation of irregularities related to the Zion company in the processing of loans granted to that company, misuse of funds, presentation of false documentation to the Bank to obtain approval of loans, and alleged participation of some Bank employees in the events.
 - ✓ Current status: The final report is being drafted, which must be assessed by the Joint Prosecutor's Office for Economic, Tax, and Customs Offenses to prepare the claim. The case is processed by Andrina Guillén.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(48) Significant events

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

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

Additionally, on June 27, 2014, the periods to be audited were extended to include 2010 and 2011 through the “Notification of the Extension to the Tax Audit and Initial Information Requirements” (Notice No. 1-10-015-14-025-012-03 and Notice No. 1-10-015-14-016-121-03).

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- On February 5, 2015, in response to Official Letter SFGCN-020-15, management of the Bank filed Note SGR-044-2015 before the Large Taxpayer Division claiming that it is defenseless since it does not know the arguments and additional evidence provided and this infringes the right to defend oneself.
- On August 31, 2016, the Constitutional Chamber resolved the constitutional motion filed against Article 144 of the *Code of Tax Standards and Procedures* (CNPT), declaring unconstitutional Articles 144 and 192 of CNPT (Vote No. 12496-16).
- On October 12, 2016, the National Large Taxpayer Audit Area issued Notice of Deficiency and Observations No. 1-10-15-14-009-041-03, which details the tax payment in accordance with the tax base declared by the Bank for tax periods 2010, 2011, 2012, and 2013, assessing a tax liability in the amount of ¢29,089,100,723 and interest calculated as of that date in the amount of ¢9,369,323,543, for a total of ¢38,458,424,266.
- On November 28, 2016, the Bank filed before the Large Taxpayer Administration Official Letter GG-395-16 “Administrative Claim and Appeal for Annulment” against Notice of Deficiency and Observations No. 1-10-15-14-009-041-03, presenting the considerations of fact and of law and its claims.
- On March 28, 2017, the National Large Taxpayer Audit Area issued Determination Ruling DT10R-030-17 rejecting the annulment of the actions and rejecting the claim filed by the Bank against Notice of Deficiency and Observations No. 1-10-15-14-009-041-03, Regularization Proposal No. 1-10-015-14-091-341-03, and the official letter of the National Large Taxpayer Audit Area No. SFGCN 020-15. Additionally, taxes updated as of January 29, 2017 result in a tax liability of ¢29,089,100,723 and interest calculated as of that date in the amount of ¢10,453,749,273, for a total of ¢39,542,849,996.
- On April 19, 2017, the National Large Taxpayer Audit Area issues “Sanctioning Ruling Based on Article 81 of the Tax Code of Standards and Procedures” No. 2-10-15-14-5178-03 and No. 2-10-15-14-03-582-03, applying to the tax assessment in the amount of ¢29,089,100,723 the corresponding fines: 25% for 2010-2011 and 50% for 2012-2013, for a total of ¢11,286,519,808.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- On May 18, 2017, through file No. GC-02/10, management of the Bank filed an appeal for reversal against Ruling No. DT10R-030-17 before the Large Taxpayer Administration in accordance with Article 145 of the *Code of Tax Standards and Procedures* and in light of the considerations of fact and of law and claims filed, to admit the appeal and annul the aforementioned ruling, and accept the claims for annulment due to procedural defects and statute of limitations described in the aforementioned file and declare the annulment of the administrative-tax procedure and the statute of limitations of tax periods already closed to the tax audit.
- On May 23, 2017, through file No. 2-10-015-14 management of the Bank filed an appeal for reversal against Sanctioning Ruling No. 2-10-15-14-5178-03 and 2-10-15-14-03-582-03 to annul the sanction imposed to the Bank.
- On June 7, 2017, as a supplement to file No. GC-02/100, management presented the documentation required according to DTR-030-17 to be analyzed together with the arguments developed by the Bank.
- On July 26, 2017, ruling AUR-066-17 of June 23, 2017 rejects the objection of statute of limitations on the motion for dismissal and motion for reconsideration against determination ruling DT-R-030-17 filed by the Bank on May 18, 2017.
- On September 5, 2017, management of the Bank appeared before the authorities to file a formal appeal for reversal against Sanctioning Ruling No. 2-10-15-14-1-5178-03 and No. 2-10-15-14-03-582-03, dated April 5, 2017, notified to the Bank on April 19, 2017.
- On September 29, 2017, through resolution No. AP10R-110-17 and AP10R-109-17 dated September 14, the Large Taxpayer Administration heard the formal filing of the appeal for reversal filed by the Bank on September 5, and resolution AUR-066-17 dated July 26, thus admitting and initiating the processing of the aforementioned appeal.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

On November 29, 2017, the Bank’s management presented the technical and legal criteria that support its disagreement with the adjustments determined by the Large Taxpayer Administration as a response to the “Provisional Regularization Proposal” and the “Proposed Sanctioning Ruling Based on Article 81 of the Tax Standards and Procedures Code”.

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- On January 30, 2018, the National Large Taxpayer Audit Area issued “Regularization Proposal” No. DGCN-SF-PD-18-2017-1-341-03, which provides the details of the tax adjustments or corrections to the tax base declared by the Bank for fiscal years 2014, 2015, and 2016, for a total tax amount of ₡35,999,804,522, and corresponding interest as of that date in the amount of ₡7,281,607,516.
- On January 30, 2018, the National Large Taxpayer Administration issued the Minutes of Final Hearing No. DGCN-SF-PD-18-2017-1-361-03, whereby it communicated the determinations made regarding tax amounts not declared and the corresponding interest for fiscal years 2014, 2015, and 2016; the principal and interest add up to ₡9,971,946,319.82, ₡14,804,200,153.50, and ₡18,505,265,563.57, respectively.
- On February 5, 2018, the Bank’s management indicates its FULL DISCONFORMITY with “Regularization Proposal” No. DGCN-SF-PD-18-2017-1-341-03 dated January 30, 2018, based on the arguments and the evidence presented. Furthermore, it requests the annulment due to lack of cause of the “Regularization Proposal” regarding the collection of principal, interest, and fines, and of the “Report on claims filed” presented along with “Provisional Regularization Proposal” No. DGCN-SF-PD-18-2017-1-33-03, accepting only the mathematical errors corrected, and rejects the claims against “Proposed Sanctioning Ruling” No. DGCN-SF-PD-18-2017-1-513-03.
- On February 7, 2018, the National Large Taxpayer Administration issued notice of deficiency and observations No. DGCN-SF-PD-18-2017-1-41-03, which provides details of the adjustments to the tax base declared by the Bank for fiscal years 2014, 2015, and 2016, for a total tax amount of ₡35,999,804,522, and corresponding interest as of that date in the amount of ₡7,382,604,248, for a total of ₡43,382,408,770.
- On March 22, 2018, the Bank’s management filed an appeal against notice of deficiency and observations No. DGCN-SF-PD-18-2017-1-41-03 indicating its claims and legal grounds.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

c) Dividends paid to the Bank

As of March 31, dividends of the subsidiaries are as follows:

Subsidiary	Board of Directors' Agreement		Amount	
	2018	2017	2018	2017
BN Corredora de Seguros, S.A.	Article 5, Meeting No. 12,234, held on March 12, 2018	Article 4, Meeting No. 12,172, held on May 29, 2017	¢ 279,880,852	1,376,131,467
BN SAFI S.A.	Article 5, Meeting No. 12,235, held on March 12, 2018	Article 4, Meeting No. 12,171, held on May 29, 2017	914,468,820	1,000,000,000
BN Valores S.A.	Article 2, Meeting No. 12,236, held on March 12, 2018	Article 2, Meeting No. 12,161, held on April 24, 2017	675,205,850	3,024,096,802
BN Vital S.A.	Article 2, Meeting No. 12,237, held on March 12, 2018	Article 2, Meeting No. 12,163, held on April 24, 2017	560,939,777	560,091,499
			¢ 2,430,495,299	5,960,319,768

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

a) IAS 1: Presentation of Financial Statements

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

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

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

b) IAS 7: Statement of Cash Flows

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

c) IAS 12: Income Taxes

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

d) IAS 16: Property, Plant and Equipment

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

e) IAS 18: Revenue

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

Until December 31, 2013, CONASSIF allowed deferral of the net excess of loan fee and commission income minus expenses incurred for activities such as assessment of the borrower's financial position, evaluation and recognition of guarantees, sureties, or other collateral instruments, negotiation of the terms of the instrument, preparation and processing of documents, and settlement of the operation. IAS 18 does not allow deferral on a net basis of such income. Instead, it prescribes deferral of 100% of loan fee and commission income and permits the deferral of only certain incremental transaction costs, rather than all direct costs.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

g) IAS 27: Consolidated and Separate Financial Statements

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

h) IAS 28: Investments in Associates

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

i) Revised IAS 32: Financial Instruments - Presentation

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

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

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

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

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

l) IAS 38: Intangible Assets

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

m) IAS 39: Financial Instruments: Recognition and Measurement

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

IAS 39 requires that the allowance for loan losses be determined based on a financial analysis of actual losses. This Standard also prohibits the booking of provisions for contingent accounts. Any excess allowance must be reversed in the income statement.

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

- 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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

a) Pooled portfolios

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

b) Own investments of regulated entities

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

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

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

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

The above classifications do not necessarily adhere to the provisions of IAS 39.

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

n) IAS 40: Investment Property

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

o) Revised IFRS 3: Business Combinations

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

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

CONASSIF requires booking an allowance of one-twenty-fourth of the value of non-current assets classified as available for sale each month, so that if they are not sold within two years from acquisition, an allowance is recognized equivalent to 100% of the assets' carrying amount. IFRS 5 requires that these assets be recorded at the lower of the carrying amount or fair value less costs to sell, discounted to the present value of the assets that will be sold in periods greater than one year. Accordingly, assets could be understated, with excess allowances.

q) IFRS 9: Financial Instruments

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

r) IFRS 10: Consolidated Financial Statements

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

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

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

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

s) IFRS 11: Joint Arrangements

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

t) IFRS 12: Disclosure of Interests in Other Entities

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

u) IFRS 13: Fair Value Measurement

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

v) IFRS 14: Regulatory Deferral Accounts

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

w) IFRS 15: Revenue from Contracts with Customers

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

x) IFRS 16: Leases

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

y) IFRS 17: Insurance Contracts

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

z) IFRIC 10: Interim Financial Reporting and Impairment

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

aa) IFRIC 21: Levies

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

bb) IFRIC 22: Foreign currency transactions and advance considerations

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

cc) IFRIC 23: Uncertainty over Income Tax Treatments

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

(50) Disclosure of economic impact of departure from IFRSs

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

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