

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Financial information required by the
Superintendency General of Financial Entities

Consolidated Financial Statements

March 31, 2019

(With corresponding figures for 2018)

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

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

	Note	March 2019	December 2018	March 2018
ASSETS				
Cash and due from banks	4	1,092,361,653,645	1,025,465,414,007	1,269,157,612,373
Cash		89,323,295,453	79,721,131,128	87,929,096,139
BCCR		883,346,338,180	856,105,137,933	853,526,670,526
Local financial entities		3,827,376,641	6,683,469,272	19,316,584,082
Foreign financial entities		106,316,636,062	71,106,869,756	300,665,263,337
Other cash and due from banks		9,548,007,309	11,848,805,918	7,719,998,289
Investments in financial instruments	5	1,092,363,514,215	1,171,705,000,676	1,153,191,624,239
Held for trading		10,577,053,390	12,096,981,603	-
Available for sale		1,067,886,783,947	1,144,183,068,457	1,126,666,254,129
Held to maturity		-	-	18,758,392,053
Derivative financial instruments	6	4,849,593,681	678,813,152	180,092,433
Accrued interest receivable		9,051,648,108	14,756,839,149	7,602,556,350
(Allowance for impairment of investments in financial instruments)		(1,564,911)	(10,701,685)	(15,670,726)
Loan portfolio	7	4,355,825,252,250	4,416,292,531,288	4,336,342,153,237
Current		4,132,757,066,361	4,223,554,423,932	4,098,801,028,486
Past due		184,226,593,073	149,989,262,621	245,334,464,761
In legal collection		134,025,373,980	147,602,847,205	113,886,476,986
Accrued interest receivable		38,680,034,239	36,776,953,763	35,652,951,204
(Allowance for loan losses)		(133,863,815,403)	(141,630,956,233)	(157,332,768,200)
Accounts and fees and commissions receivable	8	3,939,033,137	3,986,324,592	3,527,843,086
Fees and commissions receivable		1,350,009,554	1,379,493,008	1,260,226,537
Accounts receivable for brokerage operations		8,764	56,675	3,203,141
Accounts receivable for transactions with related parties		36,767,895	23,953,056	31,777,121
Deferred tax and income tax receivable		2,337,545,110	2,486,073,653	1,544,580,892
Other receivables		4,091,848,536	4,009,191,298	4,460,792,325
Accrued interest receivable		3,133,214	2,082,892	1,863,847
(Allowance for impairment of accounts and fees and commissions receivable)		(3,880,279,936)	(3,914,525,990)	(3,774,600,777)
Foreclosed assets	9	24,333,785,148	20,074,903,998	18,111,643,632
Assets and securities acquired in lieu of payment		82,442,269,898	79,173,439,587	80,807,703,794
Other foreclosed assets		1,674,833	1,840,189	1,840,190
(Allowance for impairment of foreclosed assets and per legal requirements)		(58,110,159,583)	(59,100,375,778)	(62,697,900,352)
Investments in other companies	10	66,117,319,405	66,495,484,274	62,237,257,234
Property and equipment, net	11	184,203,078,167	185,735,321,962	176,636,976,506
Other assets	12	109,167,029,687	112,783,371,783	47,135,156,639
Deferred charges		73,770,910,158	77,656,451,038	8,235,086,241
Intangible assets		6,057,713,071	5,049,553,312	5,814,631,261
Other assets		29,338,406,458	30,077,367,433	33,085,439,137
TOTAL ASSETS		6,928,310,665,654	7,002,538,352,580	7,066,340,266,946

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

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

LIABILITIES AND EQUITY	Note	March 2019	December 2018	March 2018
LIABILITIES				
Obligations with the public	13	5,011,209,798,411	4,783,549,987,583	4,897,798,923,673
Demand obligations		2,784,193,158,608	2,741,094,583,154	2,732,759,431,647
Term obligations		2,176,984,244,109	1,989,376,199,821	2,099,343,107,497
Other obligations		11,382,757,775	12,135,686,821	29,007,858,288
Finance charges payable		38,649,637,919	40,943,517,787	36,688,526,241
Obligations with BCCR	14	125,644,412	150,630,088,856	125,644,412
Term obligations		125,644,412	150,525,644,412	125,644,412
Finance charges payable		-	104,444,444	-
Obligations with entities	15	1,005,349,332,634	1,168,782,406,639	1,325,493,912,107
Demand obligations		188,121,731,000	181,672,052,001	204,242,278,793
Term obligations		800,859,873,830	978,094,176,748	1,098,084,053,540
Finance charges payable		16,367,727,804	9,016,177,890	23,167,579,774
Accounts payable and provisions		98,348,795,790	104,573,300,619	84,237,992,945
Accounts payable for brokerage services		990,353,690	1,077,656,970	582,097,757
Deferred tax	16-b	10,302,124,915	10,009,306,802	10,190,684,508
Provisions	17	23,769,434,154	24,754,699,577	19,054,140,336
Other sundry accounts payable	18	63,286,883,031	68,731,637,270	54,411,070,344
Other liabilities	19	67,699,629,492	67,159,254,065	56,631,057,672
Deferred income		33,077,059,271	33,255,354,768	31,468,466,829
Allowance for stand-by credit losses		173,558,552	169,073,348	272,067,378
Other liabilities		34,449,011,669	33,734,825,949	24,890,523,465
Subordinated obligations	20	78,202,183,967	80,488,169,915	73,792,554,481
Subordinated obligations		77,485,200,000	78,570,700,000	73,112,000,000
Finance charges payable		716,983,967	1,917,469,915	680,554,481
TOTAL LIABILITIES		6,260,935,384,706	6,355,183,207,677	6,438,080,085,290
EQUITY				
Share capital		172,237,030,102	172,237,030,102	172,237,030,102
Paid-in capital	21-a	172,237,030,102	172,237,030,102	172,237,030,102
Equity adjustments		71,453,076,083	69,226,390,881	65,088,951,046
Surplus from revaluation of property	21-b	66,193,911,011	66,193,911,011	60,863,838,830
Adjustment for valuation of available-for-sale investments	21-c	(2,821,610,248)	(5,106,902,948)	(3,875,850,801)
Adjustment for valuation of restricted financial instruments	21-c	(65,107,895)	(1,053,043,002)	(430,143,041)
Surplus from revaluation of other assets		66,585,248	66,585,248	43,748,630
Adjustment for valuation of investments in other companies	1-e (iv), 21-d	8,079,297,967	9,125,840,572	8,487,357,428
Capital reserves	21-e	348,018,499,397	334,043,304,638	333,885,279,519
Prior period retained earnings		33,830,358,919	19,485,203,956	19,485,048,836
Income for the period		7,187,780,483	21,391,220,879	6,591,877,706
Equity of the Development Financing Fund	21-f	34,648,535,964	30,971,994,447	30,971,994,447
TOTAL EQUITY		667,375,280,948	647,355,144,903	628,260,181,656
TOTAL LIABILITIES AND EQUITY		6,928,310,665,654	7,002,538,352,580	7,066,340,266,946
DEBIT MEMORANDA ACCOUNTS	22	631,472,697,988	635,962,468,859	654,979,676,981
TRUST ASSETS	23	2,267,080,672,235	2,277,259,672,046	1,578,702,041,853
TRUST LIABILITIES		205,849,099,241	209,981,156,957	120,630,112,166
TRUST EQUITY		2,061,231,572,995	2,067,278,515,088	1,458,071,929,687
TRUST MEMORANDA ACCOUNTS		103,346,709,005	99,962,938,570	61,021,874,035
OTHER DEBIT MEMORANDA ACCOUNTS	24	22,467,958,527,723	23,025,592,011,994	20,872,834,174,944
Own debit memoranda accounts		7,138,805,862,724	7,588,595,867,700	6,972,029,697,518
Third-party debit memoranda accounts		3,114,850,820,777	2,992,442,398,537	2,659,239,520,675
Own debit memoranda accounts for custodial activities		240,242,406,226	230,639,645,060	369,641,969,963
Third-party debit memoranda accounts for custodial activities		11,974,059,437,996	12,213,914,100,697	10,871,922,986,788

Gustavo Vargas Fernández
General Manager

Alejandra Morales Centeno
General Accountant
CPI 21119

Ricardo Araya Jiménez
General Auditor

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



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
THREE MONTHS ENDED MARCH 31, 2019 AND 2018
(In colones)

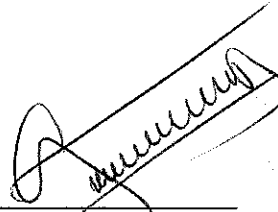
	Note	March 2019	March 2018
Finance income			
Cash and due from banks	28	734,645,385	1,680,364,949
Investments in financial instruments	28	17,325,307,948	14,866,104,850
Loan portfolio	29	113,365,089,224	108,281,650,636
Gain on foreign exchange differences and DU, net	46-c	1,350,071,299	549,175,265
Gain on available-for-sale financial instruments		176,407,321	3,675,390
Gain on derivative financial instruments, net	6	5,200,161,251	-
Other finance income	30	2,442,540,162	12,467,918,605
Total finance income		140,594,222,590	137,848,889,695
Finance costs			
Obligations with the public	31	47,349,650,592	45,293,568,348
Obligations with BCCR		427,413,535	-
Obligations with financial entities	32	15,334,279,449	17,959,025,558
Subordinated, convertible, and preferred obligations		1,353,037,967	1,224,532,040
Loss on available-for-sale financial instruments		401,941,098	120,796,698
Loss on derivative financial instruments	6	-	9,328,505,327
Other finance costs	33	11,407,008,422	1,599,156,104
Total finance costs		76,273,331,063	75,525,584,075
Allowance for impairment of assets	34	12,173,172,272	22,461,832,475
Recovery of assets and decrease in allowances	35	1,995,777,154	1,840,749,636
FINANCE INCOME		54,143,496,409	41,702,222,781
Other operating income			
Service fees and commissions	36	36,486,431,050	33,953,480,349
Foreclosed assets		2,868,679,053	1,057,725,263
Gain on investments in other foreign companies	1-a, 3	610,206,248	841,591,734
Gain on investments in other local companies		-	2,764,988
Foreign currency exchange and arbitrage		5,600,045,160	5,674,213,029
Other operating income	37	2,230,903,840	2,683,055,928
Total other operating income		47,796,265,351	44,212,831,291


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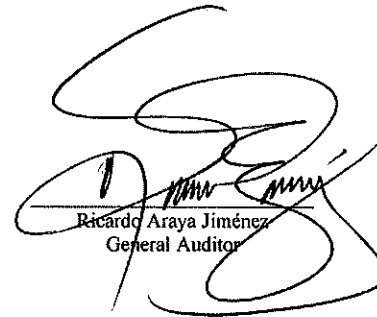
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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
THREE MONTHS ENDED MARCH 31, 2019 AND 2018
(In colones)

		March 2019	March 2018
Other operating expenses			
Service fees and commissions		1,145,985,284	1,150,257,480
Foreclosed assets	38	6,373,571,355	5,174,778,587
Sundry assets		245,092,183	36,181,051
Provisions	39	3,108,316,389	2,817,991,585
Bonuses on fees and commissions of voluntary pension funds		33,867,939	25,459,403
Foreign currency exchange and arbitrage		790,968	3,241,114
Other operating expenses	40	18,181,217,584	16,823,807,859
Amortization of deferred direct costs related to credits		94,072,507	107,248,736
Total other operating expenses		29,182,914,209	26,138,965,815
GROSS OPERATING INCOME		72,756,847,551	59,776,088,257
Administrative expenses			
Personnel expenses	41	34,529,396,885	33,164,560,046
Other administrative expenses	42	19,016,097,572	16,791,600,033
Total administrative expenses		53,545,494,457	49,956,160,079
NET OPERATING INCOME BEFORE TAXES AND STATUTORY ALLOCATIONS		19,211,353,094	9,819,928,178
Current tax	16-a	3,768,859,743	596,378,426
Prior period income tax	16-a	3,548,013,938	869,401
Deferred tax	16-a	8,087,752	8,087,752
Deferred tax income	16-a	39,585,002	145,825,285
Statutory allocations	43	4,738,196,180	2,768,540,178
INCOME FOR THE PERIOD		7,187,780,483	6,591,877,706
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		2,285,292,701	(1,877,531,845)
Adjustment for valuation of restricted financial instruments, net of income tax		987,935,106	(123,472,343)
Adjustment for valuation of investments in other companies		(1,046,542,605)	(608,267,257)
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX		2,226,685,202	(2,567,173,585)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		9,414,465,685	4,024,704,121


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

Note	Equity adjustments					Total equity adjustments	Capital reserves	Retained earnings	Equity of the Development Financing Fund	Total
	Share capital	Surplus from revaluation of property	Adjustment for valuation of available-for-sale investments and restricted financial instruments	Surplus from revaluation of other assets	Adjustment for valuation of investments in other companies					
Balance at January 1, 2018	172,237,030,102	61,425,174,760	(2,304,989,655)	43,748,630	9,095,624,686	68,259,558,421	311,121,806,369	45,505,124,630	27,111,958,013	624,235,477,535
Transactions with owners booked directly in equity:										
Legal reserves	-	-	-	-	-	-	22,901,882,569	(22,901,882,569)	-	-
Other statutory reserves	-	-	-	-	-	-	(138,409,419)	138,409,419	-	-
Equity of the Development Financing Fund	-	-	-	-	-	-	-	(3,860,036,434)	3,860,036,434	-
Total transactions with owners booked directly in equity	-	-	-	-	-	-	22,763,473,150	(26,623,509,584)	3,860,036,434	-
Comprehensive income for the period:										
Income for the period	-	-	-	-	-	-	-	6,591,877,706	-	6,591,877,706
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)
Adjustment for valuation of investments in other companies	1-e (iv)	-	-	-	(608,267,258)	(608,267,258)	-	-	-	(608,267,258)
Surplus from revaluation of property	-	42,097,860	-	-	-	42,097,860	-	-	-	42,097,860
Realization of surplus from revaluation of property	-	(603,433,790)	-	-	-	(603,433,790)	-	603,433,790	-	-
Total comprehensive income for the period	-	(561,335,930)	(2,001,004,187)	-	(608,267,258)	(3,170,607,375)	-	7,195,311,496	-	4,024,704,121
Balance at March 31, 2018	21	172,237,030,102	60,863,838,830	(4,305,993,842)	43,748,630	8,487,357,428	65,088,951,046	333,885,279,519	26,076,926,542	628,260,181,656

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
THREE MONTHS ENDED MARCH 31, 2019
(In colones)

Note	Share capital	Equity adjustments				Total equity adjustments	Capital reserves	Retained earnings	Equity of the Development Financing Fund	Total
		Surplus from revaluation of property	Adjustment for valuation of available-for-sale investments and restricted financial instruments	Surplus from revaluation of other assets	Adjustment for valuation of investments in other companies					
Balance at December 31, 2018	172,237,030,102	66,193,911,011	(6,159,945,950)	66,585,248	9,125,840,572	69,226,390,881	334,043,304,638	40,876,424,835	30,971,994,447	647,355,144,903
Adjustment to prior-period statutory allocations	-	-	-	-	-	-	-	10,605,670,360	-	10,605,670,360
Balance at January 1, 2019	172,237,030,102	66,193,911,011	(6,159,945,950)	66,585,248	9,125,840,572	69,226,390,881	334,043,304,638	51,482,095,195	30,971,994,447	667,960,815,263
Transactions with owners booked directly in equity:										
Legal reserves	-	-	-	-	-	-	14,381,547,502	(14,381,547,502)	-	-
Other statutory reserves	-	-	-	-	-	-	(406,352,743)	406,352,743	-	-
Equity of the Development Financing Fund	-	-	-	-	-	-	-	(3,676,541,517)	3,676,541,517	-
Total transactions with owners booked directly in equity	-	-	-	-	-	-	13,975,194,759	(17,651,736,276)	3,676,541,517	-
Comprehensive income for the period:										
Income for the period	-	-	-	-	-	-	-	7,187,780,483	-	7,187,780,483
Adjustment for valuation of available-for-sale investments, net of income tax	5	-	2,285,292,701	-	-	2,285,292,701	-	-	-	2,285,292,701
Adjustment for valuation of restricted financial instruments, net of income tax	5	-	987,935,106	-	-	987,935,106	-	-	-	987,935,106
Adjustment for valuation of investments in other companies	1-e (iv)	-	-	-	(1,046,542,605)	(1,046,542,605)	-	-	-	(1,046,542,605)
Total comprehensive income for the period		-	3,273,227,807	-	(1,046,542,605)	2,226,685,202	-	7,187,780,483	-	9,414,465,685
Balance at March 31, 2019	21	172,237,030,102	66,193,911,011	(2,886,718,143)	66,585,248	8,079,297,967	348,018,499,397	41,018,139,402	34,648,535,964	667,375,280,948

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2019 AND 2018
(In colones)

	Note	March 2019	March 2018
Cash flows from operating activities			
Income for the period		7,187,780,483	6,591,877,706
Items not requiring cash			
Gain on foreign exchange differences and development units, net		(8,855,389,498)	(4,483,905,910)
Loss on allowance for loan losses, net		10,100,144,956	20,425,623,654
Gain on allowance for impairment of investments, net		(9,136,774)	(57,803,470)
Loss on allowance for other receivables, net		86,386,935	253,262,654
(Gain) loss on allowance for impairment of foreclosed assets, net		(990,216,195)	716,352,088
Loss on sale of foreclosed assets		3,545,549,822	2,471,807,662
Provision expense, net of payments		1,007,033,123	1,910,790,216
Depreciation and amortization		5,563,627,772	5,441,877,413
Share in net profit of foreign associate		(610,206,248)	(841,591,734)
Statutory allocations, net		4,738,196,180	2,768,540,178
Income tax expense, net	16-a	7,316,873,681	597,247,827
Deferred tax, net	16-a	(31,497,250)	(137,737,533)
Finance income on loan portfolio and investments		(130,690,397,172)	(123,147,755,486)
Finance costs on term obligations with the public and financial entities		49,716,861,173	50,557,855,895
		<u>(51,924,389,012)</u>	<u>(36,933,558,840)</u>
(Increase) decrease in assets			
Credits and cash advances		22,559,716,211	15,936,147,354
Foreclosed assets		4,227,059,092	3,451,756,224
Accrued interest receivable on other receivables		(1,050,322)	(139,691)
Other assets		12,413,953,026	784,042,288
		<u>(12,724,711,005)</u>	<u>(16,761,752,665)</u>
Net increase (decrease) in liabilities			
Demand and term obligations		98,127,134,646	51,413,249,231
Other accounts payable and provisions		5,499,234,849	(10,852,085,330)
Other liabilities		(469,097,874)	(42,639,757,617)
		<u>90,432,560,616</u>	<u>(18,840,346,381)</u>
Interest received on loan portfolio and investments		134,492,507,737	123,113,163,356
Income tax paid		(6,263,277,755)	(9,352,106,060)
Interest paid on term obligations with the public and financial entities		(44,763,635,571)	(36,488,191,913)
Statutory allocations paid		(8,985,023,395)	(13,586,420,635)
Net cash from operating activities		<u>164,913,131,632</u>	<u>44,846,098,367</u>
Cash flows from investing activities			
Increase in financial instruments		(2,061,515,543,632)	(529,533,525,950)
Decrease in financial instruments		2,297,351,782,684	410,573,272,263
Acquisition of property and equipment		(12,214,158,436)	8,582,929,108
Sale of property, furniture, and equipment		183,391,938	1,014,865,886
Acquisition of intangible assets		(2,486,988,022)	(124,830,654)
Investments in other companies made in cash		71	(8,953,826)
Net cash from (used in) investing activities		<u>221,318,484,603</u>	<u>(109,496,243,173)</u>
Cash flows from financing activities			
Other new financial obligations		554,013,470	121,331,445
Settlement of obligations		(154,462,069,559)	(3,594,459,093)
Net cash used in financing activities		<u>(153,908,056,089)</u>	<u>(3,473,127,648)</u>
Net increase (decrease) in cash and cash equivalents		<u>232,323,560,146</u>	<u>(68,123,272,454)</u>
Cash and cash equivalents at beginning of year		<u>1,117,943,115,083</u>	<u>1,501,089,253,239</u>
Cash and cash equivalents at end of year	4	<u>1,350,266,675,229</u>	<u>1,432,965,980,785</u>

Gustavo Vargas Fernández
General Manager

Alejandra Morales Centeno
General Accountant
CPI 21119

Ricardo Araya Jiménez
General Auditor

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

March 31, 2019

(With corresponding figures for 2018)

(1) Summary of operations and significant accounting policies

(a) Operations

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of March 31, 2019, the Bank has 167 offices, 470 automated teller machines (ATMs), and along with its subsidiaries a total of 5,644 employees (2018: 169 offices, 470 ATMs, and 5,840 employees). Employees are distributed as follows: Banco Nacional de Costa Rica – 5,215 employees (2018: 5,440); BN Valores Puesto de Bolsa, S.A. - 70 employees (2018: 70); BN Vital Operadora de Planes de Pensiones Complementarias, S.A. - 188 employees (2018: 164); BN Sociedad Administradora de Fondos de Inversión, S.A. - 78 employees (2018: 77); and BN Corredora de Seguros, S.A. – 93 employees (2018: 89). The Bank’s website is www.bncr.fi.cr.

The following subsidiaries are wholly owned by the Bank:

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

Banco Internacional de Costa Rica, S.A. and Subsidiary (BICSA), which was organized under the laws of the Republic of Panama in 1976. BICSA operates under a general license granted by the Superintendency of Banks of Panama to engage in banking operations in Panama or abroad. BICSA's registered office is located in Panama City, Republic of Panama, calle Manuel María Icaza No. 25. BICSA has a branch in Miami, Florida, United States of America. Banco de Costa Rica holds the remaining 51% ownership interest.

As of March 31, the main components that comprise the financial statements of the entities in which the Bank holds ownership interest are detailed below:

	March 2019				
	BN Valores Puesto de Bolsa, S.A.	BN Vital Operadora de Planes de Pensiones Complementarias S.A.	BN Sociedad Administradora de Fondos de Inversión, S.A.	BN Sociedad Corredora de Seguros, S.A.	Banco Internacional de Costa Rica, S.A.
Assets	¢ 65,878,160,743	9,286,831,064	8,655,035,529	4,230,606,324	556,788,412,750
Liabilities	50,469,424,254	1,001,567,153	485,467,822	505,411,965	490,721,716,649
Equity	15,408,736,489	8,285,263,911	8,169,567,707	3,725,194,359	66,066,696,101
Income for the period	453,159,934	363,409,857	496,528,169	731,627,366	610,206,248
Memoranda accounts	1,052,953,333,001	1,480,898,905,414	451,139,767,141	-	-

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 2018

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

March 2018

	BN Vital Operadora de Planes de Pensiones Complementarias S.A.	BN Sociedad Administradora de Fondos de Inversión, S.A.	BN Sociedad Corredora de Seguros, S.A.	Banco Internacional de Costa Rica, S.A.
	BN Valores Puesto de Bolsa, S.A.			
Assets	¢ 57,101,025,317	8,613,674,425	7,513,085,462	3,616,901,363
Liabilities	42,319,949,538	1,567,978,245	1,350,376,533	709,781,964
Equity	14,781,075,779	7,045,696,180	6,162,708,929	2,907,119,399
Income for the period	141,968,575	266,724,956	455,655,855	482,463,430
Memoranda accounts	954,549,056,042	1,322,943,656,585	444,540,428,515	-

(b) Basis of preparation of the consolidated financial statements

• Statement of compliance

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- Basis of measurement of assets and liabilities

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

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

The accounting policies have been consistently applied.

- (c) Functional and presentation currency

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

- (d) Basis of consolidation

- i. Subsidiaries*

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

As of March 31, 2019 and 2018, the consolidated financial statements include the financial figures of the following subsidiaries:

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Subsidiaries were consolidated based on the following accounting principles:

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

ii. Associates

Associates are those entities in which the Bank has significant influence, but not control. The Bank updates the value of its associates using the equity method from the date that significant influence commences until the date significant influence ceases. As of March 31, 2019 and 2018, the Bank holds 49% ownership interest in BICSA.

(e) Foreign currency

i. Foreign currency transactions

Monetary assets and liabilities denominated in foreign currencies are translated into colones at the foreign exchange rate ruling at the consolidated balance sheet date, except for transactions that have a contractually agreed exchange rate. Transactions in foreign currency during the period are translated at the exchange rates ruling on the dates of the transactions. Foreign currency differences arising on translation are recognized in profit or loss for the period.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

ii. *Monetary unit and foreign exchange regulations*

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

In accordance with the Chart of Accounts, assets and liabilities denominated in foreign currency should be expressed in colones using the reference buy rate published by BCCR. As of March 31, 2019, the exchange rate was established at ¢596.04 and ¢602.36 to US\$1.00 (2018: ¢562.40 and ¢569.31 to US\$1.00) for the purchase and sale of US dollars, respectively.

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

As of March 31, 2019, assets and liabilities denominated in US dollars are valued at the exchange rate of ¢596.04 to US\$1.00 (2018: ¢562.40 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, 2019, assets and liabilities denominated in euro are valued at the exchange rate of ¢669.29 to €1.00 (2018: ¢694.23 to €1.00). This exchange rate is calculated by multiplying the international exchange rate published by Reuters by the reference buy rate for US dollars published by BCCR on the last business day of the month.

As of March 31, 2019, assets and liabilities denominated in Development Units (DU) are valued at the exchange rate of ¢903.94 to DU1.00 (2018: ¢889.76 to DU1.00). This exchange rate is based on the DU value tables published by SUGEVAL.

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

The financial statements of BICSA are presented in US dollars, which is the entity's functional currency. As of March 31, 2019 and 2018, the Bank holds 49% ownership interest in BICSA. Accordingly, the Bank should value its investment in that entity by the equity method rather than on a consolidated basis.

The financial statements of foreign operations are translated as follows:

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

For the three months ended March 31, 2019, a foreign exchange loss in the amount of ¢1,046,542,605 (December and March 2018: foreign exchange gain of ¢30,215,886 and foreign exchange loss of ¢608,267,258, respectively) is presented in equity for the translation of the consolidated financial statements of foreign operations. As of March 31, 2019, the adjustment for valuation of investments in other companies amounts to ¢8,079,297,967 (December and March 2018: ¢9,125,840,572 and ¢8,487,357,428, 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, 2019 and 2018, the Bank no longer classifies financial instruments as held-to-maturity, except for the securities denominated in DU received from the Central Government to capitalize the Bank. Those securities were authorized by the Executive Branch of the Government of Costa Rica as a capital contribution and are funded under the *Amendment to Law No. 8627 on the Ordinary and Extraordinary Budget of the Republic for Tax Year 2008* (Law No. 8703).

Securities sold under repurchase agreements

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

Securities purchased under reverse repurchase agreements

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Derivative financial instruments

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

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

Originated loans and other receivables

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

Deposits and debt securities issued

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

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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

iv. *Offsetting*

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

v. *Amortized cost measurement*

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

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

vi. *Fair value measurement*

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

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

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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

Investments in financial instruments

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

Subsequent to initial recognition, all trading and available-for-sale investments are measured at fair value, except for any investment or instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured, which is stated at cost, including transaction costs, less impairment losses. As of March 31, 2019, the Bank uses the methodology established by Proveedor Integral de Precios Centroamérica (PIPCA) for this measurement. As of March 31, 2018, the market price valuation methodology established by VALMER Costa Rica, S.A. was 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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

Derivative financial instruments

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

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

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

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

vii. Gains and losses on subsequent measurement

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

viii. *Impairment of financial assets*

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

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

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

(g) Loan portfolio

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

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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(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, 2019 and 2018, increases in the allowance for loan losses are included in the accounting records in accordance with Article 10 of IRNBS.

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

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

(j) Other receivables

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(k) Foreclosed assets

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

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

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

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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

(1) Investments in other companies

Investments in the share capital of entities over which the Bank exercises control or significant influence are accounted for using the equity method. As of March 31, 2019 and 2018, the Bank's investments in other companies are as follows:

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

Investments in other companies are recorded using the equity method, which initially recognizes investments at acquisition cost. Subsequently, the carrying amounts of the investments are increased or decreased in order to recognize the Bank's proportional share in the profit or loss of the issuer of the capital assets.

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

As of March 31, 2019 and 2018, the Bank has no full or partial share or influence over the management of other companies, in accordance with Article 73 of IRNBS and Article 146 of the Internal Regulations of the Central Bank of Costa Rica.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(m) Property, furniture and equipment

i. Own assets

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

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

ii. Leased assets

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

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

iii. Subsequent expenditure

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

iv. Depreciation and amortization

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

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

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

(n) Intangible assets

i. Other intangible assets

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

ii. Subsequent expenditure

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

iii. Amortization

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(o) Impairment of non-financial assets

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

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

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

(p) Accounts payable and other liabilities

Accounts payable and other liabilities are carried at amortized cost.

(q) Provisions

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(r) Employee benefits

i. *Severance benefits*

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

In the specific case of the Bank, that limit is 17 years for employees with more than 25 years of service. The Bank follows the policy of booking a provision to cover future disbursements related therewith for employees with more than 20 years of service, in compliance with Article 34 of the Collective Bargaining Agreement.

As of March 31, 2019 and 2018, severance is included in the provisions account (see Note 17), which meets the legal provisioning requirements in effect as of those dates.

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

ii. *Short-term employee benefits*

Statutory Christmas bonus

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

Vacation

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Back-to-school bonus

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

Incentives and Performance Assessment System (SEDI)

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

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

iii. *Employee Protection and Retirement Fund*

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

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(s) Deferred income

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

(t) Legal reserve

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

Other statutory reserves

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

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

(u) Revaluation surplus

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(v) Income tax

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

i. *Current tax*

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

ii. *Deferred tax*

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

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

iii. *Tax benefits - FOCREDE*

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

(w) Segment reporting

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

(x) Financial statements of the departments

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

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

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

(y) Use of estimates

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

(z) Recognition of income and costs

i. Interest income and interest expense

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

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

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

ii. Fee and commission income

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

iii. Income from foreign currency exchange and arbitrage

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

iv. *Operating lease expenses*

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

(aa) Statutory allocations

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

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

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

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

Article 78 of the *Employee Protection Law* (Law No. 7983) establishes a contribution of up to 15% of the earnings of State-owned public companies, with the purpose of strengthening the funding base for the RIVM of CCSS and to provide universal CCSS coverage for impoverished non-salaried workers.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the Pension Fund Manager, Article 49 of Law No. 7983 establishes that public capital pension operators must allocate 50% of their earnings to the affiliates of the Compulsory Retirement Savings Fund. Through Articles 5 and 13 of the minutes of meetings No. 1128-2014 and No. 1129-2014, respectively, held on September 29, 2014, CONASSIF established the monthly recording of this allocation as earnings are generated during the year. The allocation amount must be adjusted at the end of the period based on the annual earnings reflected in the audited financial statements.

(bb) Development Financing Fund (FOFIDE)

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(cc) Development Credit Fund (FOCREDE)

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- c. Pursuant to Article 35 of Law No. 8634, the Managing Banks may channel FOCREDE funds through placements to: associations, cooperatives, foundations, non-governmental organizations, producer organizations, or other formal entities, provided that they perform loan operations through development financing programs that meet the objectives established in Law No. 8634 and are duly authorized by the Governing Board.
- d. The term of the agreement is five years, renewable for equal and successive periods, unless a written order by the Governing Board provides otherwise and is notified at least three months in advance. If a lack of capacity and competence is proven by the Managing Banks, this agreement may be terminated under paragraph j), Article 12 of Law No. 8634, and the executive regulations thereto.

(dd) Trust operations

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(2) Collateralized or restricted assets

Collateralized or restricted assets are as follows:

Restricted asset	Cause of restriction	March 2019	December 2018	March 2018
<i>Cash and due from banks:</i>				
Checking account – colones (Note 4)	Minimum legal deposit	¢ 519,536,692,106	490,472,341,154	515,483,581,132
Checking account – US dollars (Note 4)	Minimum legal deposit	274,731,961,600	283,010,610,003	274,981,568,559
Checking account – euro (Note 4)	Minimum legal deposit	3,988,245,031	4,152,775,150	4,658,414,273
Other cash and due from banks (Note 4)	Custody of liabilities of Banco Crédito Agrícola de Cartago	1,138,961,818	1,198,002,163	2,833,983,269
Other cash and due from banks (Note 4)	Margin calls for tri-party repurchase agreements	107,334,184	8,462,542	-
Other cash and due from banks (Note 4)	Contribution to FOGABONA	229,157,372	214,975,302	-
		¢ <u>799,732,352,111</u>	<u>779,057,166,314</u>	<u>797,957,547,233</u>
<i>Investments in financial instruments:</i>				
Investments in financial instruments	Guarantee for tri-party repurchase agreements	¢ 12,541,708,369	13,392,509,848	33,170,409,522
Investments in financial instruments	Liquidity market operations	45,357,181,889	44,979,191,022	15,560,345,450
Securities issued by BCCR and the Government	Investments securing repurchase agreements	604,505,080	607,442,622	202,417,914
External debt bonds	Nomura Bank guarantee	82,278,928,905	45,173,015,838	91,606,659,162
	Interbank Electronic Payment System (SINPE) guarantee	-	96,089,536,625	-
Central Bank bonds (global bond)	SINPE guarantee	-	180,308,749,905	-
External debt bonds	SINPE guarantee	-	29,739,359,400	-
Monetary stabilization bonds	SINPE guarantee	-	-	-
		¢ <u>140,782,324,243</u>	<u>410,289,805,260</u>	<u>140,539,832,048</u>
<i>Other assets:</i>				
Other assets (Note 12)	Security deposits	¢ <u>463,959,508</u>	<u>529,032,006</u>	<u>650,827,347</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of March 31, 2019, the Brokerage Firm has restricted assets in the amount of ¢57,915,560,204 (December and March 2018: ¢58,388,594,807 and ¢48,730,754,972, respectively), corresponding to guarantees for tri-party repurchase agreements, operations in the liquidity market, and contributions to the Liquidation and Compensation Risk Management Fund.

(3) Balances and transactions with related parties

Balances and transactions with related parties are as follows:

	<u>March 2019</u>	<u>December 2018</u>	<u>March 2018</u>
<u>Assets:</u>			
Checking accounts in foreign financial entities (1) (Note 4)	¢ 17,791,914,644	17,945,463,302	29,126,869,697
Allowance for impairment for transactions with related parties	-	-	(69,360,848)
Investments in other companies (2)	<u>66,016,072,805</u>	<u>66,444,860,974</u>	<u>62,237,257,234</u>
	<u>¢ 83,807,987,449</u>	<u>84,390,324,276</u>	<u>91,294,766,083</u>
<u>Liabilities:</u>			
Demand obligations with entities (3)	42,343,739	510,449,626	18,381,239
Accounts payable	-	65,818	-
Term obligations with entities (3)	-	-	29,500,000
	<u>¢ 42,343,739</u>	<u>510,515,444</u>	<u>47,881,239</u>
<u>Income:</u>			
Gain on investments in foreign companies	610,206,248	3,160,852,893	841,591,734

Balances and transactions with related parties are as follows:

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

		March 2019	December 2018	March 2018
Short-term benefits	¢	506,851,367	1,871,232,334	472,582,012
Long-term benefits		65,890,678	243,260,203	61,435,659
Per diem – Board of directors		46,511,391	160,987,264	42,462,521
	¢	<u>619,253,436</u>	<u>2,275,479,801</u>	<u>576,480,192</u>

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

(4) Cash and cash equivalents

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

		March 2019	December 2018	March 2018
Cash and due from banks	¢	1,092,361,653,645	1,025,465,414,007	1,269,157,612,373
Investments with maturities of two months or less		257,905,021,584	92,477,701,076	163,808,368,412
	¢	<u>1,350,266,675,229</u>	<u>1,117,943,115,083</u>	<u>1,432,965,980,785</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Cash and due from banks is as follows:

	March 2019	December 2018	March 2018
Cash on hand and in vaults	¢ 69,788,976,529	54,926,278,487	63,108,270,235
Cash in transit	19,534,318,924	24,794,852,641	24,820,825,904
Checking account in BCCR (1)	78,091,537,934	68,856,647,714	52,855,444,939
Minimum legal deposits in BCCR (1)	805,254,800,246	787,248,490,219	800,671,225,587
Checking accounts and demand deposits in State-owned commercial banks and banks created under special laws	123,486,723	231,548,826	81,380,296
Checking accounts and other demand accounts in private financial entities	3,003,889,918	6,451,920,446	18,735,203,786
Overnight deposits in local financial entities	700,000,000	-	500,000,000
Checking accounts in foreign financial entities	82,196,302,199	49,891,592,911	266,460,737,890
Deposits and other demand accounts in foreign financial entities	18,012,527	101,093,880	99,191,709
Checking accounts and demand deposits in related entities (Note 3)	17,791,914,644	17,945,463,302	29,126,869,697
Overnight deposits in foreign financial entities	6,310,406,692	3,168,719,663	4,978,464,041
Transfers through the Interbank Electronic Payment System (SINPE)	4,759,042,057	1,785,642,086	1,627,019,893
Local notes receivable	2,579,349,990	6,098,464,304	2,529,118,622
Foreign notes receivable	734,161,888	2,543,259,521	729,876,505
Margin calls for tri-party repurchase agreements	107,334,184	8,462,542	57,164,355
Fondo de Garantía de la Bolsa Nacional de Valores (FOGABONA)	229,157,372	214,975,302	200,735,654
Other restricted cash and due from banks (2)	1,138,961,818	1,198,002,163	2,576,083,260
	¢ <u>1,092,361,653,645</u>	<u>1,025,465,414,007</u>	<u>1,269,157,612,373</u>

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

As of March 31, 2019 and 2018, 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.

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(5) Investments in financial instruments

Investments in financial instruments are as follows:

	March 2019	December 2018	March 2018
<u>Trading:</u>			
Open investment funds (1)	¢ 10,577,053,390	12,096,981,603	-
	10,577,053,390	12,096,981,603	-
<u>Available for sale:</u>			
<u>Local issuers:</u>			
Government of Costa Rica	464,049,529,891	501,672,592,983	539,276,336,934
BCCR	104,727,831,398	123,888,398,241	122,405,266,314
State-owned banks	45,039,506,771	35,603,879,775	31,526,789,248
Private issuers (1)	5,316,292,008	5,374,960,833	27,261,162,544
	619,133,160,068	666,539,831,832	720,469,555,040
<u>Foreign issuers:</u>			
Governments	257,740,780,490	250,699,141,704	86,140,491,395
Private issuers	127,948,083,024	145,841,940,179	229,822,024,376
Private banks	63,064,760,365	81,102,154,742	90,234,183,318
	448,753,623,879	477,643,236,625	406,196,699,089
	1,078,463,837,337	1,156,280,050,060	1,126,666,254,129
<u>Held to maturity:</u>			
Government of Costa Rica (Note 21)	-	-	18,758,392,053
	-	-	18,758,392,053
<u>Derivative financial instruments:</u>			
Interest rate futures - Hedges (Note 6)	4,817,014,429	564,329,586	18,505,024
Purchase of FX futures – Other than hedges (Note 6)	2,446,080	106,663,896	30,165
Sale of FX futures – Other than hedges (Note 6)	30,133,172	7,819,670	161,557,244
	4,849,593,681	678,813,152	180,092,433
<u>Allowance for impairment:</u>			
Allowance for impairment of investments	-	-	-
Allowance for impairment of derivative instruments other than hedges	(1,564,911)	(10,701,685)	(15,670,726)
	(1,564,911)	(10,701,685)	(15,670,726)
Accrued interest receivable on investments	9,051,648,108	14,756,839,149	7,602,556,350
¢	1,092,363,514,215	1,171,705,000,676	1,153,191,624,239

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

	March 2019	December 2018	March 2018
Opening balance	¢ 10,701,685	73,474,196	73,474,196
Allowance expense (Note 34)	1,277,792	27,236,248	12,680,679
Decrease in allowance (Note 35)	(10,414,566)	(90,008,759)	(11,763,677)
Foreign exchange differences	-	-	(58,720,472)
Closing balance	¢ 1,564,911	10,701,685	15,670,726

As of March 31, 2019, the Bank recognizes an allowance for impairment of derivative instruments other than hedges in the amount of ¢1,564,911, for sales of FX futures other than hedges in accordance with SUGEF Directive 09-08 (December and March 2018: ¢10,701,685 and ¢15,670,726, respectively).

Annual returns on investments in financial instruments are as follows:

Currency	March 2019	December 2018	March 2018
Colones	6.90% to 11.20%	4.87% to 11.20%	2.40% to 11.13%
US dollars	1.35% to 8.63%	0.75% to 6.85%	0.63% to 6.55%
Euro	0.12%	1.62% to 2.00%	1.10% to 5.13%
DU	-	-	0.00% to 0.74%

As of March 31, 2019, the valuation of available-for-sale investments and restricted financial instruments gave rise to an unrealized gain, net of deferred tax, in the amount of ¢3,273,227,807 (December and March 2018: unrealized loss of ¢3,854,956,295 and unrealized loss of ¢2,001,004,187, respectively). Accordingly, as of March 31, 2019, the cumulative balance of equity adjustments arising from valuation of these investments is an unrealized loss of ¢2,886,718,143 (December and March 2018: unrealized loss of ¢6,159,945,950 and unrealized loss of ¢4,305,993,842, respectively).

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(6) Derivative financial instruments

The Bank holds the following types of derivative financial instruments:

✓ Derivatives as risk hedging instruments:

Interest rate futures - hedges:

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

Derivative financial instruments are as follows:

Issuing bank	March 31, 2019		Purpose
	Notional amount	Valuation	
CitiBank	US\$ 100,000,000	US\$ 1,607,833	Swaps to hedge 10-year issues (maturing in 2023)
JP Morgan	200,000,000	3,215,666	
Bank of America	200,000,000	3,215,666	
	US\$ 500,000,000	US\$ 8,039,165	
Amount in colones	¢ 298,020,000,000	¢ 4,791,664,133	
Bank of America	US\$ 100,200,000	US\$ (2,494,512)	Swaps to hedge 5-year issues (maturing in 2021)
JP Morgan	250,000,000	(6,787,742)	
	US\$ 350,200,000	US\$ (9,282,254)	
Amount in colones	¢ 208,733,208,000	¢ (5,532,594,454)	
Chicago Board of Trade	US\$ 18,200,000	US\$ (28,094)	Standardized futures contracts (maturing in 2019)
Amount in colones	¢ 10,847,928,000	¢ (16,745,100)	

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018				Purpose
Issuing bank		Notional amount	Valuation	
CitiBank	US\$	100,000,000	US\$ 169,937	Swaps to hedge 10-year issues (maturing in 2023)
JP Morgan		200,000,000	339,871	
Bank of America		200,000,000	339,871	
	US\$	500,000,000	US\$ 849,679	
Amount in colones	¢	302,195,000,000	¢ 513,537,219	
Bank of America	US\$	250,000,000	US\$ (7,870,900)	Swaps to hedge 5-year issues (maturing in 2021)
JP Morgan		250,000,000	(7,870,900)	
	US\$	500,000,000	US\$ (15,741,800)	
Amount in colones	¢	302,195,000,000	¢ (9,514,186,508)	
Chicago Board of Trade	US\$	6,700,000	US\$ 84,039	Standardized futures contracts (maturing in 2019)
Amount in colones	¢	4,049,413,000	¢ 50,792,367	
March 31, 2018				Purpose
Issuing bank		Notional amount	Valuation	
CitiBank	US\$	100,000,000	US\$ (85,049)	Swaps to hedge 10-year issues (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	US\$	250,000,000	US\$ (10,032,877)	Swaps to hedge 5-year issues (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 2019)
Amount in colones	¢	19,459,040,000	¢ (42,336,201)	

As of March 31, 2019, total notional amounts of US\$868,400,000, equivalent to ¢517,601,136,000 (December and March 2018: US\$1,006,700,000, equivalent to ¢608,439,413,000, and US\$1,034,600,000, equivalent to ¢581,859,040,000, respectively) are booked under “Other debit memoranda accounts” (see Note 24).

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of March 31, 2019, the Bank booked an increase in the fair value of swaps in the amount of US\$8,039,165, equivalent to ¢4,817,014,429 (December and March 2018: US\$849,679 equivalent to ¢513,537,219 and nil, respectively; see Note 5) and a decrease in the fair value of those hedges in the amount of US\$9,352,879, equivalent to ¢5,574,689,850 (December and March 2018: US\$15,741,800, equivalent to ¢9,514,186,508 and US\$20,493,135, equivalent to ¢11,525,339,101, respectively; see Note 18).

As of March 31, 2019, the Bank booked an increase in the fair value of futures contracts in the amount of US\$42,531, equivalent to ¢25,350,296 (December and March 2018: US\$84,039, equivalent to ¢50,792,367, and US\$32,904, equivalent to ¢18,505,024, respectively; see Note 5) and a decrease in the fair value of those contracts in the amount of US\$70,625, equivalent to ¢42,095,397 (December 2018: nil; March 2018: US\$108,181, equivalent to ¢60,841,225; see Note 18). The net position of those instruments is thus US\$28,094, equivalent to ¢16,745,100 (December and March 2018: US\$84,039, equivalent to ¢50,792,367 and US\$75,278, equivalent to ¢42,336,201, respectively).

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

A valuation was performed as of March 31, 2019 and 2018 to calculate the change in the fair value of the primary and derivative instruments based on the following inputs:

- a 5- or 10-year LIBOR rate at the issue of the bond
- discount rates from Bloomberg
- zero rates corresponding to the swap curve as of March 31, 2019 and 2018
- only a portion of the bond cash flows is hedged (corresponding to the 5- and 10-year LIBOR rate in effect at the issue of the bond) rather than the total interest amount
- accrued and earned interest were segregated from the instruments to obtain variations in clean prices
- forward rate to calculate variable interest.

✓ Derivatives for trading purposes:

Currency forwards:

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

As of March 31, 2019, the total notional amount is US\$3,735,185, equivalent to ¢2,226,319,590 (December and March 2018: US\$8,853,765, equivalent to ¢5,351,126,744 and US\$9,014,199, equivalent to ¢5,069,585,630, respectively; see Note 22).

As of March 31, 2019, the Bank booked an increase in the fair value of these forwards in the amount of ¢32,579,252 under an asset account (see Note 5) and a decrease in the amount of ¢4,575,275 under a liability account (see Note 18) (December and March 2018: increase in the amount of ¢114,483,566 and ¢161,587,409, respectively, and decrease in the amount of ¢760,675 and nil, respectively).

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

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

		<u>March 2019</u>	<u>December 2018</u>	<u>March 2018</u>
Gain on derivative financial instruments	¢	7,112,083,155	20,850,704,979	2,258,466,063
Loss on derivative financial instruments		<u>(1,911,921,904)</u>	<u>(26,913,712,578)</u>	<u>(11,586,971,390)</u>
Net gain (loss)	¢	<u>5,200,161,251</u>	<u>(6,063,007,599)</u>	<u>(9,328,505,327)</u>

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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 2019	December 2018	March 2018
Trade	¢	380,142,439,830	396,785,279,700	410,270,516,726
Services		927,534,204,585	939,030,870,995	910,029,109,003
Financial services		130,850,410,479	136,874,986,400	132,181,240,553
Mining		893,940,944	884,454,369	895,123,301
Manufacturing and quarrying		190,638,472,958	193,446,458,802	185,163,263,379
Construction		108,034,534,191	116,304,451,617	110,208,946,734
Agriculture and forestry		113,600,845,397	121,629,572,584	119,821,639,109
Livestock, hunting, and fishing		80,495,071,959	81,952,751,313	83,673,380,013
Electricity, water, sanitation, and other related sectors		408,145,913,769	412,573,611,859	433,382,578,005
Transportation and telecommunications		43,567,338,022	45,062,571,105	44,947,529,130
Housing		1,308,791,879,078	1,304,945,620,152	1,292,338,107,941
Personal or consumer loans		570,663,566,790	580,323,359,989	553,396,653,587
Tourism		187,650,415,412	191,332,544,873	181,713,882,752
		<u>4,451,009,033,414</u>	<u>4,521,146,533,758</u>	<u>4,458,021,970,233</u>
Accrued interest receivable		38,680,034,239	36,776,953,763	35,652,951,204
Allowance for loan losses		<u>(133,863,815,403)</u>	<u>(141,630,956,233)</u>	<u>(157,332,768,200)</u>
	¢	<u>4,355,825,252,250</u>	<u>4,416,292,531,288</u>	<u>4,336,342,153,237</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Annual interest rates on loans receivable are as follows:

Currency	March 2019		December 2018		March 2018	
	Rates	Average (1)	Rates	Average (1)	Rates	Average (1)
Colones	2.00% to 57.90%	15.39%	4.00% to 47.28%	15.28%	4.50% to 40.56%	15.27%
US dollars	2.68% to 38.40%	10.34%	2.89% to 38.40%	10.46%	3.00% to 35.00%	10.03%
DU	3.85% to 11.00%	6.62%	3.85% to 11.00%	6.53%	3.85% to 11.00%	6.67%

(1) Corresponds to the average of the minimum and maximum values of the portfolio as of March 31, 2019 and 2018.

(b) Loan portfolio by arrears

The loan portfolio by arrears is as follows:

	March 2019	December 2018	March 2018
Current	¢ 4,133,030,178,933	4,223,913,959,985	4,099,336,341,945
1 to 30 days	86,912,745,577	68,387,417,598	91,968,023,309
31 to 60 days	74,794,982,258	53,200,289,272	132,341,201,819
61 to 90 days	22,547,322,594	27,612,191,520	20,963,214,380
91 to 120 days	7,401,193,504	14,006,115,691	5,226,342,686
121 to 180 days	16,465,382,025	16,987,435,996	19,249,694,250
More than 180 days	109,857,228,523	117,039,123,696	88,937,151,844
	4,451,009,033,414	4,521,146,533,758	4,458,021,970,233
Accrued interest receivable	38,680,034,239	36,776,953,763	35,652,951,204
Allowance for loan losses	(133,863,815,403)	(141,630,956,233)	(157,332,768,200)
	¢ 4,355,825,252,250	4,416,292,531,288	4,336,342,153,237

(c) Allowance for loan losses

Movement in the allowance for loan losses is as follows:

	March 2019	December 2018	March 2018
Opening balance	¢ 141,630,956,233	140,168,393,361	140,168,393,361
Allowance expense for the period (Note 34)	11,943,620,171	86,529,016,148	22,025,756,749
Write-offs	(19,133,771,089)	(91,064,341,598)	(4,303,344,853)
Foreign exchange differences	(576,989,912)	5,997,888,322	(558,037,057)
Closing balance	¢ 133,863,815,403	141,630,956,233	157,332,768,200

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

(8) Accounts and fees and commissions receivable

Accounts and fees and commissions receivable are as follows:

	March 2019	December 2018	March 2018
Fees and commissions	¢ 1,350,009,554	1,379,493,008	1,260,226,537
Accounts receivable for brokerage operations	8,764	56,675	3,203,141
Accounts due from officers	36,767,895	23,953,056	31,777,121
Deferred tax (Note 16-b)	2,271,114,326	2,217,534,051	1,446,350,266
Income tax receivable (1)	66,430,784	268,539,602	98,230,626
Sundry accounts receivable for credit cards	94,691,845	82,482,719	188,473,587
Advance payments to suppliers	106,642,701	-	-
Other recoverable expenses	21,103,139	21,163,480	46,240,837
Other accounts receivable (2)	3,869,410,851	3,905,545,099	4,226,077,901
Accrued interest receivable on other sundry accounts receivable	3,133,214	2,082,892	1,863,847
Allowance for impairment of accounts receivable	(3,880,279,936)	(3,914,525,990)	(3,774,600,777)
	¢ <u>3,939,033,137</u>	<u>3,986,324,592</u>	<u>3,527,843,086</u>

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

	March 2019	December 2018	March 2018
Banco Nacional de Costa Rica	¢ 33,392,215	156,399,541	31,804,278
BN Vital Operadora de Planes de Pensiones Complementarias, S.A.	20,660	80,512	40,438,461
BN Sociedad Corredora de Seguros, S.A.	33,017,909	112,059,549	25,987,887
	¢ <u>66,430,784</u>	<u>268,539,602</u>	<u>98,230,626</u>

(2) As of March 31, 2019, other accounts receivable include ¢2,298 million corresponding to theft and fraud (2018: ¢1,677 million corresponding to theft or misappropriation, malicious acts, scams and fraud).

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the three months ended March 31, movement in the allowance for impairment of other accounts receivable is as follows:

	March 2019	December 2018	March 2018
Opening balance	¢ 3,914,525,990	3,592,576,911	3,592,576,911
Allowance expense (Note 34)	222,174,309	1,949,617,277	415,655,047
Decrease in allowance (Note 35)	(133,718,281)	(1,149,713,455)	(161,716,912)
Items settled against allowance	(122,125,831)	(483,865,137)	(71,104,963)
Foreign exchange differences	(576,251)	5,910,394	(809,306)
Closing balance	¢ 3,880,279,936	3,914,525,990	3,774,600,777

(9) Foreclosed assets

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

	March 2019	December 2018	March 2018
Assets received in lieu of payment	82,442,269,898	79,173,439,587	80,807,703,794
Idle property, furniture and equipment	1,674,833	1,840,189	1,840,190
Allowance for impairment	(58,110,159,583)	(59,100,375,778)	(62,697,900,352)
	24,333,785,148	20,074,903,998	18,111,643,632

For the three months ended March 31, movement in the allowance for impairment of foreclosed assets is as follows:

	March 2019	December 2018	March 2018
Opening balance	59,100,375,778	62,466,054,133	62,466,054,133
Allowance expense (Note 38)	1,694,265,500	4,111,275,986	1,488,983,915
Disposal of foreclosed assets	-	(956,183,973)	(484,505,868)
Decrease in allowance	(2,684,481,695)	(6,520,770,368)	(772,631,828)
Closing balance	58,110,159,583	59,100,375,778	62,697,900,352

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(10) Investments in other companies

Investments in other companies are as follows:

		<u>March 2019</u>	<u>December 2018</u>	<u>March 2018</u>
Other financial and non-financial entities (1)	¢	50,623,300	50,623,300	50,623,300
Banco Internacional de Costa Rica, S.A. and Subsidiary (BICSA) (Note 3) (2)		66,066,696,105	66,444,860,974	62,186,633,934
	¢	<u>66,117,319,405</u>	<u>66,495,484,274</u>	<u>62,237,257,234</u>

(1) As of March 31, the Bank's investments in other entities are as follows:

		<u>March 2019</u>	<u>December 2018</u>	<u>March 2018</u>	<u>Concept</u>
National Stock Exchange	¢	15,000,000	15,000,000	15,000,000	Investment to operate as custodian of electronic securities
Central de Valores de la Bolsa Nacional de Valores, S.A.		15,000,000	15,000,000	15,000,000	Investment to operate as custodian of electronic securities
Interclear Central de Valores		15,000,000	15,000,000	15,000,000	Investment to operate as custodian of electronic securities
Depósito Libre Comercial Golfito (Golfito Duty Free Shopping Center) per Art. 24 of Law No. 7131		5,200,000	5,200,000	5,200,000	Investment in the Golfito Duty Free Shopping Center
Other financial entities		423,300	423,300	423,300	Investments in various cooperatives
	¢	<u>50,623,300</u>	<u>50,623,300</u>	<u>50,623,300</u>	

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(11) Property and equipment, net

Property and equipment is as follows:

		March 2019					
		Land	Buildings	Furniture and equipment	Computer hardware	Vehicles	Total
<u>Cost:</u>							
Historical cost balance at beginning of the period	¢	4,281,149,677	69,580,863,035	65,263,465,984	50,713,063,855	264,951,853	190,103,494,404
Revalued cost balance at beginning of the period		49,234,856,453	65,881,300,846	(9,367,058)	(33,530,103)	-	115,073,260,138
Additions		-	730,395,118	1,073,932,149	605,886,747	-	2,410,214,014
Disposals		-	-	(2,283,617,056)	(261,017,304)	-	(2,544,634,360)
Sales		-	-	(13,039,226)	-	-	(13,039,226)
Adjustments		-	(12,697,545)	466,430,020	55,470,074	-	509,202,549
Balance at end of the period		53,516,006,130	136,179,861,454	64,497,804,813	51,079,873,269	264,951,853	305,538,497,519
<u>Accumulated depreciation:</u>							
Balance at beginning of the period		-	43,897,512,316	38,877,680,173	36,445,870,667	220,369,424	119,441,432,580
Depreciation expense on historical cost		-	492,037,026	1,575,606,782	1,488,868,985	4,480,632	3,560,993,425
Depreciation expense on revalued cost		-	238,929,639	-	-	-	238,929,639
Disposals		-	-	(2,102,938,998)	(258,396,716)	-	(2,361,335,714)
Sales		-	-	(12,945,934)	-	-	(12,945,934)
Adjustments		-	-	413,517,392	54,827,964	-	468,345,356
Balance at end of the period	¢	-	44,628,478,981	38,750,919,415	37,731,170,900	224,850,056	121,335,419,352
Net balance at end of the period	¢	53,516,006,130	91,551,382,473	25,746,885,398	13,348,702,369	40,101,797	184,203,078,167

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		December 2018					
		Land	Buildings	Furniture and equipment	Computer hardware	Vehicles	Total
<u>Cost:</u>							
Historical cost balance at beginning of year	¢	4,421,981,504	65,365,769,140	62,756,449,219	52,272,157,864	264,401,853	185,080,759,580
Revalued cost balance at beginning of year		43,400,145,058	61,920,804,416	(8,658,186)	(33,536,634)	-	105,278,754,654
Additions		-	7,165,927,553	6,631,379,834	3,721,218,714	2,200,000	17,520,726,101
Revaluation of assets		6,558,097,036	1,561,779,065	3,808,347	46,156,991	-	8,169,841,439
Disposals		-	(39,919,164)	(4,126,169,331)	(5,291,792,094)	(1,650,000)	(9,459,530,589)
Sales		(355,489,489)	(357,880,881)	(467,191)	-	-	(713,837,561)
Reclassifications (i)		(508,727,979)	(154,316,248)	(2,243,766)	(34,671,090)	-	(699,959,083)
Balance at end of year		53,516,006,130	135,462,163,881	65,254,098,926	50,679,533,751	264,951,853	305,176,754,541
<u>Accumulated depreciation:</u>							
Balance at beginning of year		-	38,921,431,767	35,786,150,473	35,403,025,098	203,397,643	110,314,004,981
Depreciation expense on historical cost		-	1,433,440,132	6,222,953,216	6,337,566,233	18,085,531	14,012,045,112
Depreciation expense on revalued cost		-	1,462,409,623	-	-	-	1,462,409,623
Disposals		-	(20,459,937)	(3,140,688,503)	(5,253,973,221)	(1,113,750)	(8,416,235,411)
Sales		-	(101,779,142)	(261,634)	-	-	(102,040,776)
Reclassifications (ii)		-	2,202,469,870	9,526,623	(40,747,443)	-	2,171,249,050
Balance at end of year	¢	-	43,897,512,313	38,877,680,175	36,445,870,667	220,369,424	119,441,432,579
Net balance at end of year	¢	53,516,006,130	91,564,651,568	26,376,418,751	14,233,663,084	44,582,429	185,735,321,962

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

March 2018

		Land	Buildings	Furniture and equipment	Computer hardware	Vehicles	Total
<u>Cost:</u>							
Historical cost balance at beginning of the 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 the 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 (i)		-	-	105,263	(105,263)	-	-
Balance at end of the 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 the 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 revalued cost		-	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 the 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 the period	¢	47,541,224,465	87,445,323,461	26,085,716,760	15,508,174,492	56,537,328	176,636,976,506

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(12) Other assets

Other assets are as follows:

	March 2019	December 2018	March 2018
<i><u>Deferred charges:</u></i>			
Leasehold improvements (1)	¢ 559,938,245	690,513,572	769,782,564
Cost of issue of financial instruments, net (2)	941,474,024	1,020,486,226	1,324,956,773
Cost of subordinated debt project	329,688,447	340,742,718	376,105,200
Deferred direct costs related to loans	4,388,202,148	4,488,822,065	4,845,866,985
Other deferred charges (3)	67,551,607,295	71,115,886,457	918,374,719
	<u>73,770,910,158</u>	<u>77,656,451,038</u>	<u>8,235,086,241</u>
<i><u>Intangible assets:</u></i>			
Software (4)	6,055,052,868	5,046,893,109	5,343,156,588
Other intangible assets (4)	2,660,203	2,660,203	471,474,673
	<u>6,057,713,071</u>	<u>5,049,553,312</u>	<u>5,814,631,261</u>
<i><u>Other assets:</u></i>			
Prepaid interest and fees and commissions	303,314,504	365,324,853	310,632,381
Prepaid taxes	28,870,386	6,376,957,110	5,393,747,935
Prepaid insurance policy	234,487,141	144,379,676	275,917,670
Other prepaid expenses (5)	8,098,704,282	728,395,586	523,863,669
Stationery, office supplies, and other materials	871,313,529	452,274,191	537,690,669
Leased assets	120,679,002	121,011,254	99,115,958
Library and artwork	429,918,818	429,918,818	429,918,818
Construction work-in-progress	1,432,962,522	2,471,766,478	7,109,010,108
Software under development	953,628	953,628	-
Rights in welfare and trade associations	600,000	600,000	600,000
Other sundry assets	4,417,978,061	7,105,562,703	7,724,097,788
Operations pending settlement	12,053,902,491	11,126,219,515	9,440,099,684
Other operations pending application	861,068,113	224,971,615	589,917,109
Security deposits (Note 2)	311,979,622	368,859,948	470,325,011
Legal and administrative deposits (Note 2)	171,674,359	160,172,058	180,502,336
	<u>29,338,406,458</u>	<u>30,077,367,433</u>	<u>33,085,439,136</u>
¢	<u>109,167,029,687</u>	<u>112,783,371,783</u>	<u>47,135,156,638</u>

(1) As of March 31, 2019, the expense for amortization of leasehold improvements amounts to ¢141,347,751 (December and March 2018: ¢332,162,531 and ¢650,827,347, respectively).

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

March 2019				
	5-year issue (maturing in 2018)	10-year issue (maturing in 2023)	5-year issue (maturing 2021)	Total
Commission - structuring banks	¢ 298,020,000	298,020,000	506,634,000	1,102,674,000
Commission - Moody's Investors Service	149,010,000	149,010,000	-	298,020,000
Commission - Société de la Bourse de Luxembourg, S.A.	7,284,205	7,284,205	-	14,568,410
RR Donelley	6,524,850	6,524,826	3,906,014	16,955,690
BNY Mellon	2,356,146	2,356,146	3,437,363	8,149,655
Moody's - issuer rating	19,728,924	19,728,924	149,010,000	188,467,848
Fitch Ratings	149,010,000	149,010,000	149,010,000	447,030,000
Milbank	87,713,246	87,713,246	117,432,164	292,858,656
Shearman & Sterling	87,827,090	87,827,090	130,648,451	306,302,631
External audit	113,247,600	113,247,600	138,281,280	364,776,480
Perkins Cole (Broker)	-	-	7,818,286	7,818,286
Printing of documents	-	-	9,426,279	9,426,279
	920,722,061	920,722,037	1,215,603,837	3,057,047,935
Amortization	(920,722,061)	(486,057,996)	(708,793,854)	(2,115,573,911)
¢	-	434,664,041	506,809,983	941,474,024
December 2018				
	5-year issue (maturing in 2018)	10-year issue (maturing in 2023)	5-year issue (maturing 2021)	Total
Commission - structuring banks	¢ 302,195,000	302,195,000	513,731,500	1,118,121,500
Commission - Moody's Investors Service	151,097,500	151,097,500	-	302,195,000
Commission - Société de la Bourse de Luxembourg, S.A.	7,386,250	7,386,250	-	14,772,500
RR Donelley	6,616,257	6,616,233	3,960,734	17,193,224
BNY Mellon	2,389,154	2,389,154	3,485,518	8,263,826
Moody's - issuer rating	20,005,309	20,005,309	151,097,500	191,108,118
Fitch Ratings	151,097,500	151,097,500	151,097,500	453,292,500
Milbank	88,942,032	88,942,032	119,077,286	296,961,350
Shearman & Sterling	89,057,471	89,057,471	132,478,722	310,593,664
External audit	114,834,100	114,834,100	140,218,480	369,886,680
Perkins Cole (Broker)	-	-	7,927,814	7,927,814
Printing of documents	-	-	9,558,331	9,558,331
	933,620,573	933,620,549	1,232,633,385	3,099,874,507
Amortization	(933,620,573)	(469,459,691)	(676,308,017)	(2,079,388,281)
¢	-	464,160,858	556,325,368	1,020,486,226

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

March 2019			
	Software	Other intangible assets	Total
<i>Cost:</i>			
Opening balance	¢ 29,090,446,092	2,087,126,157	31,177,572,249
Additions	2,484,327,819	2,660,203	2,486,988,022
Disposals	(2,763,721,550)	-	(2,763,721,550)
Reclassifications	-	(2,660,203)	(2,660,203)
Adjustments	(2,169,430)	-	(2,169,430)
Closing balance	28,808,882,931	2,087,126,157	30,896,009,088
<i>Accumulated amortization:</i>			
Opening balance	24,043,552,982	2,084,465,954	26,128,018,936
Expense for the period	1,472,689,410	-	1,472,689,410
Disposals	(2,760,182,747)	-	(2,760,182,747)
Reclassifications	(2,229,582)	-	(2,229,582)
Closing balance	22,753,830,063	2,084,465,954	24,838,296,017
Net closing balance	¢ 6,055,052,868	2,660,203	6,057,713,071

December 2018			
	Software	Other intangible assets	Total
<i>Cost:</i>			
Opening balance	¢ 26,625,257,162	2,087,602,654	28,712,859,816
Additions	2,303,398,073	10,183,001	2,313,581,074
Disposals	(157,923,350)	-	(157,923,350)
Reclassifications	-	(10,659,498)	(10,659,498)
Adjustments	319,714,207	-	319,714,207
Closing balance	29,090,446,092	2,087,126,157	31,177,572,249
<i>Accumulated amortization:</i>			
Opening balance	20,104,598,731	1,264,874,499	21,369,473,230
Expense for the year	6,005,104,580	830,250,953	6,835,355,533
Disposals	(9,548,115)	-	(9,548,115)
Reclassifications	(79,589,410)	(10,659,498)	(90,248,908)
Adjustments	(1,977,012,803)	-	(1,977,012,803)
Closing balance	24,043,552,983	2,084,465,954	26,128,018,937
Net closing balance	¢ 5,046,893,109	2,660,203	5,049,553,312

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	March 2018		
	Software	Other intangible assets	Total
<i>Cost:</i>			
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
<i>Accumulated amortization:</i>			
Opening balance	20,104,598,731	1,264,874,499	21,369,473,230
Expense for the period	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

- (5) As of March 31, 2019, other prepaid expenses include the recording of amounts paid due to the recalculation of the parafiscal contributions for fiscal years 2010-2016, due to the notice of deficiency and pursuant to the *Amnesty Law* of the Ministry of Finance.

(13) Obligations with the public

Obligations with the public by cumulative amount are as follows:

	March 2019	December 2018	March 2018
<i>Demand deposits:</i>			
Checking accounts	¢ 1,313,114,931,712	1,266,981,098,817	1,337,925,789,959
Certified checks	83,451,156	73,507,572	112,817,511
Savings deposits	1,433,298,439,223	1,429,099,932,052	1,358,682,986,986
Matured term deposits	22,560,130,372	26,930,306,912	19,552,244,449
Other demand deposits	247,798,757	331,158,380	474,977,335
Drafts and transfers payable	97,708,628	210,113,339	141,243,481
Cashier's checks	3,304,941,903	3,573,252,271	3,966,541,039
Advance collections from customers for credit cards	10,124,398,793	12,462,263,255	9,281,495,013
Banking mandates	1,138,961,818	1,198,002,163	2,576,083,260
Trust fund obligations	222,396,246	234,948,393	45,252,614
	2,784,193,158,608	2,741,094,583,154	2,732,759,431,647
<i>Term deposits:</i>			
Deposits from the public	2,049,707,289,862	1,862,962,601,087	1,954,168,059,217
Other term deposits	127,276,954,247	126,413,598,734	145,175,048,280
	2,176,984,244,109	1,989,376,199,821	2,099,343,107,497
<i>Other obligations with the public:</i>			
Obligations with third parties for third-party repurchase agreements	11,382,757,775	12,135,686,821	29,007,858,288
Finance charges payable	38,649,637,919	40,943,517,787	36,688,526,241
	¢ 5,011,209,798,411	4,783,549,987,583	4,897,798,923,673

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of March 31, 2019, deposits in checking accounts denominated in colones bear interest at a maximum rate of 3.05% per annum (December and March 2018: 3.05% and 2.55% per annum, respectively) on balances and at a minimum rate of 0.00% per annum (December and March 2018: 0.00% per annum) on balances greater than or equal to ¢500,001. Deposits in checking accounts denominated in US dollars bear interest at a maximum rate of 0.45% per annum (December and March 2018: 0.45% per annum) on balances and at a minimum rate of 0.00% per annum (December and March 2018: 0.00% per annum) on balances greater than or equal to US\$1,000.

Term obligations correspond to term certificates of deposit in colones, US dollars and euro. As of March 31, term certificates bear annual interest at the following rates:

Currency	March 2019	December 2018	March 2018
Colones	4.00% to 8.95%	4.00% to 8.20%	4.00% to 8.20%
US dollars	0.50% to 5.10%	0.50% to 5.10%	0.50% to 5.10%

The Bank has term certificates of deposit that are restricted to secure certain loan operations. As of March 31, 2019, the balance of those term certificates of deposit is ¢45,752,114,979 (December and March 2018: ¢45,565,025,114 and ¢40,511,782,713, respectively). As of that date, the Bank has no inactive deposits with State-owned entities or other banks.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(14) Obligations with BCCR

Obligations with BCCR are as follows:

		March 2019	December 2018	March 2018
Financing for loans using external funds (i)	¢	125,644,412	125,644,412	125,644,412
Other term obligations with BCCR (ii)		-	150,400,000,000	-
Finance charges payable		-	104,444,444	-
	¢	<u>125,644,412</u>	<u>150,630,088,856</u>	<u>125,644,412</u>

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(15) Obligations with financial entities

Obligations with financial entities are as follows:

	March 2019	December 2018	March 2018
<i><u>Demand:</u></i>			
Checking accounts with local financial entities	¢ 45,898,639,602	46,734,855,631	63,286,791,032
Savings deposits with local financial entities	127,202,690	77,408,367	86,889,894
Development Credit Fund (FOCREDE) management	138,355,493,660	132,343,259,393	138,848,214,687
Outstanding checks	3,429,921,724	1,912,750,821	2,002,001,941
Matured term deposits	268,129,585	93,328,163	-
Checking accounts and obligations with related parties	42,343,739	510,449,626	18,381,239
	<u>188,121,731,000</u>	<u>181,672,052,001</u>	<u>204,242,278,793</u>
<i><u>Term:</u></i>			
Term deposits from local financial entities	105,769,518,035	111,103,688,102	124,132,613,195
Term deposits from foreign financial entities	-	-	5,624,000,000
Term obligations with foreign financial entities (1)	502,234,747,271	590,621,555,713	825,677,739,214
Liquidity market obligations	37,331,200,000	37,631,699,999	11,674,000,001
Loans from local financial entities (2)	34,195,569,244	34,750,337,565	36,313,461,709
Loans from foreign financial entities (2)(3)	94,878,839,280	98,386,895,369	94,632,739,421
Obligations with related financial entities	-	-	29,500,000
Obligations for liquidity deferred operations (2)	26,450,000,000	105,600,000,000	-
	<u>800,859,873,830</u>	<u>978,094,176,748</u>	<u>1,098,084,053,540</u>
Interest payable on other demand and term obligations with financial entities – foreign currency	130,984,308	96,502,933	282,335,367
Interest payable on other demand and term obligations with financial entities – local currency	1,299,178,658	1,632,784,606	1,199,808,687
Interest payable on loans with foreign financial entities (2)(3)	1,760,915,763	731,444,521	1,676,323,865
Interest payable on loans with local financial entities (2)	101,711,986	152,689,267	90,778,407
Interest payable on term deposits from foreign financial entities (1)	13,074,937,089	6,402,756,563	19,918,333,448
	<u>16,367,727,804</u>	<u>9,016,177,890</u>	<u>23,167,579,774</u>
¢	<u>1,005,349,332,634</u>	<u>1,168,782,406,639</u>	<u>1,325,493,912,107</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

Date of issue	Face value	Characteristics
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 2019		
	10-year issue (maturing in 2023)	5-year issue (maturing in 2021)	Total
Issue	¢ 295,254,374,400	208,065,261,734	503,319,636,134
Adjustment to fair value of hedged item measured at cost of international issues	3,268,375,195	(5,971,841,600)	(2,703,466,405)
Amortization of discount in traded amount of issues	1,261,312,436	357,265,106	1,618,577,542
	299,784,062,031	202,450,685,240	502,234,747,271
Finance charges payable	7,760,937,504	5,313,999,585	13,074,937,089
	¢ 307,544,999,535	207,764,684,825	515,309,684,360

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

		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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

March 2019			
	Local	Foreign	Total
Less than 1 year	26,460,983,332	-	26,460,983,332
3 to 5 years	34,286,297,898	4,504,315,431	38,790,613,329
More than 5 years	-	92,135,439,612	92,135,439,612
¢	<u>60,747,281,230</u>	<u>96,639,755,043</u>	<u>157,387,036,273</u>

December 2018			
	Local	Foreign	Total
Less than 1 year	256,171,857,332	-	256,171,857,332
1 to 2 years	-	5,141,281,219	5,141,281,219
2 to 5 years	34,835,613,944	93,977,058,672	128,812,672,616
¢	<u>291,007,471,276</u>	<u>99,118,339,891</u>	<u>390,125,811,167</u>

March 2018			
	Local	Foreign	Total
3 to 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
¢	<u>36,404,240,116</u>	<u>96,309,063,286</u>	<u>132,713,303,402</u>

- (3) As of March 31, 2019, loans due to foreign financial entities bear interest at rates ranging between 3.32% and 6.65% per annum (December and March 2018: between 3.32% and 7.11%, and 3.32% and 6.65% per annum, respectively).

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(16) Income tax

Pursuant to the *Costa Rican Income Tax Law*, the Bank is required to file income tax returns each year. As of 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 2019	March 2018
<u>Current tax:</u>		
Income tax expense for the period	¢ 3,768,859,743	596,378,426
	<u>3,768,859,743</u>	<u>596,378,426</u>
<u>Prior-period income tax:</u>		
Prior-period income tax expense	3,548,013,938	869,401
Prior-period income tax expense, net	<u>3,548,013,938</u>	<u>869,401</u>
	<u>7,316,873,681</u>	<u>597,247,827</u>
<u>Deferred tax:</u>		
Deferred tax expense	8,087,752	8,087,752
Deferred tax income	<u>(39,585,002)</u>	<u>(145,825,285)</u>
Deferred tax expense, net	<u>(31,497,250)</u>	<u>(137,737,533)</u>
Income tax expense, net	¢ <u><u>7,285,376,431</u></u>	<u><u>459,510,294</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 2019	March 2018
Profit before tax	¢ 19,211,353,094	9,819,928,178
<i>Plus (less) tax effect of:</i>		
Non-deductible expenses	14,173,584,041	11,767,061,738
Deductible expenses	(1,138,657,798)	(656,772,223)
Non-taxable income	(19,683,413,526)	(21,095,928,182)
Tax base	12,562,865,811	(165,710,489)
Tax rate	30%	30%
Subtotal - income tax expense	3,768,859,743	596,378,426
Prior-period income tax expense	3,548,013,938	869,401
Deferred tax expense	8,087,752	8,087,752
Income from deferred tax	(39,585,002)	(145,825,285)
Income tax expense, net	¢ 7,285,376,431	459,510,294

b) Deferred tax

Deferred tax assets and liabilities are as follows:

	March 2019		
	Assets	Liabilities	Net
Unrealized losses	¢ 2,180,027,621	-	2,180,027,621
Provisions	91,086,705	-	91,086,705
Unrealized gains	-	(539,037,683)	(539,037,683)
Revaluation of assets	-	(9,763,087,232)	(9,763,087,232)
	¢ 2,271,114,326	(10,302,124,915)	(8,031,010,589)

	December 2018		
	Assets	Liabilities	Net
Unrealized losses	¢ 2,172,375,621	-	2,172,375,621
Provisions	45,158,430	-	45,158,430
Unrealized gains	-	(246,219,571)	(246,219,571)
Revaluation of assets	-	(9,763,087,231)	(9,763,087,231)
	¢ 2,217,534,051	(10,009,306,802)	(7,791,772,751)

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

March 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)
	¢ <u>1,446,350,266</u>	<u>(10,190,684,508)</u>	<u>(8,744,334,242)</u>

Deferred tax assets and liabilities are as follows:

	December 31, 2018	Included in the income statement	Included in equity	March 31, 2019
Unrealized losses	¢ 2,171,066,820	(6,066,520)	15,027,322	2,180,027,622
Provisions	46,467,231	44,619,473	-	91,086,704
Unrealized gains	(246,219,570)	(7,055,704)	(285,762,409)	(539,037,683)
Revaluation of assets	(9,763,087,232)	-	-	(9,763,087,232)
	¢ <u>(7,791,772,751)</u>	<u>31,497,249</u>	<u>(270,735,087)</u>	<u>(8,031,010,589)</u>

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

	December 31, 2017	Included in the income statement	Included in equity	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
Unrealized gains	(317,646,873)	(8,838,020)	75,844,445	(250,640,448)
Revaluation of assets	(10,081,789,514)	-	141,745,454	(9,940,044,060)
	¢ <u>(9,131,514,881)</u>	<u>(182,143,681)</u>	<u>569,324,320</u>	<u>(8,744,334,242)</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

As of March 31, 2019, the Bank did not recognize a deferred tax liability in the amount of ¢2,896,083,005 (2018: ¢2,276,401,619), given that the Bank controls the moment when the subsidiaries pay dividends.

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

(17) Provisions

Provisions are as follows:

	March 2019	December 2018	March 2018
Severance benefits	¢ 634,232,379	610,346,000	671,408,246
Litigation	7,018,360,338	6,949,309,790	4,817,658,127
Checking and savings accounts liquidated	758,807,948	772,565,219	735,558,773
Manager commissions	13,388,954,935	12,787,348,741	11,140,292,415
Incentives and Performance Evaluation System (SEDI)	-	-	511,360,672
Variation in RIVM methodology	1,318,557,066	2,852,491,877	440,643,296
Notice of deficiency	314,237,256	782,637,950	-
Other	336,284,232	-	737,218,807
	¢ <u>23,769,434,154</u>	<u>24,754,699,577</u>	<u>19,054,140,336</u>

Movement in provisions is as follows:

	Severance Benefits	Litigation	Other	Total
Balance as of December 31, 2017	1,208,537,980	4,716,284,942	14,938,593,145	20,863,416,068
Increase in provision (Note 39)	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 (Note 37)	(5,704,512)	-	(203,363)	(5,907,875)
Balance as of March 31, 2018	<u>671,408,246</u>	<u>4,817,658,127</u>	<u>13,565,073,963</u>	<u>19,054,140,336</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Balance as of December 31, 2017	¢	1,208,537,980	4,716,284,942	14,938,593,146	20,863,416,068
Increase in provision (Note 39)		1,549,587,597	2,441,577,318	11,662,198,229	15,653,363,144
Used		(1,876,145,392)	(187,552,470)	(7,254,785,037)	(9,318,482,899)
Decrease in provision (Note 37)		(271,634,185)	(21,000,000)	(2,150,962,551)	(2,443,596,736)
Balance as of December 31, 2018	¢	<u>610,346,000</u>	<u>6,949,309,790</u>	<u>17,195,043,787</u>	<u>24,754,699,577</u>
Increase in provision (Note 39)		80,456,165	113,127,444	2,914,732,780	3,108,316,389
Used		(17,670,795)	(44,076,896)	(3,990,296,264)	(4,052,043,955)
Decrease in provision (Note 37)		(38,898,991)	-	(2,638,866)	(41,537,857)
Balance as of March 31, 2019	¢	<u>634,232,379</u>	<u>7,018,360,338</u>	<u>16,116,841,437</u>	<u>23,769,434,154</u>

As of March 31, the Bank and its subsidiaries are defendants in pending litigations and management considers that an outflow of economic benefits will be required. The Bank and its subsidiaries have estimated future outflows and made the following provisions:

Type	Claimed amount			Provision		
	March 2019	December 2018	March 2018	March 2019	December 2018	March 2018
Ordinary - in colones	66,419,536,375	65,950,513,209	4,296,568,066	4,285,916,459	4,296,568,066	3,566,509,968
Ordinary - in US dollars	213,074,164,794	214,868,706,304	1,877,804,885	1,946,032,572	1,877,804,885	435,987,345
Criminal - in colones	1,020,877,223	1,020,877,223	506,644,203	487,548,070	506,644,203	503,139,943
Labor - in colones	864,333,394	864,333,394	268,292,636	298,863,237	268,292,636	312,020,871
	<u>281,378,911,786</u>	<u>282,704,430,130</u>	<u>6,949,309,790</u>	<u>7,018,360,338</u>	<u>6,949,309,790</u>	<u>4,817,658,127</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(18) Other sundry accounts payable

Other sundry accounts payable are as follows:

	March 2019	December 2018	March 2018
Professional fees	¢ -	-	2,350,375
Creditors - goods and services	5,249,363,634	3,602,343,718	3,567,096,459
Current tax	3,768,859,743	6,263,277,755	596,378,426
Employer contributions	4,574,181,654	5,518,675,886	4,110,810,940
Court-ordered withholdings	3,547,142,844	3,697,873,283	3,485,028,251
Tax withholdings	3,397,378,705	3,781,589,858	3,797,644,535
Employee withholdings	759,863,358	614,833,686	761,956,072
Other third-party withholdings	207,979,105	13,160,925	206,150,728
Compensation	2,464,470,444	5,599,261,127	1,094,623,052
Statutory allocations	4,738,196,195	8,971,707,328	2,768,540,193
Obligations on loans with related parties	171,342	237,161	525,279
Clearing house operations	2,002,590,321	173,998,387	555,464,540
Accrued vacation	6,970,153,992	6,499,439,265	6,950,111,280
Accrued statutory Christmas bonus	2,799,422,636	995,517,307	2,924,016,863
Contributions to the Superintendencies' budget	4,997,897	8,078,817	13,476,657
Foreclosed assets	754,491,754	783,217,563	238,293,888
Temporary deposits for the payment of premiums	3,797,857,646	3,525,879,600	4,292,246,014
Direct contracts with the Government Purchases department - various (1)	1,254,842,512	1,172,877,958	1,196,330,421
Bid bonds and performance bonds	1,351,510,538	1,270,064,536	1,231,656,000
Accounts due to customers	3,761,514,589	1,804,936,443	983,898,391
Various creditors (2)	6,302,628,997	4,919,719,484	4,048,291,654
Interest rate futures – Hedges (Note 6)	5,574,689,850	9,514,186,508	11,586,180,326
Purchase of FX futures (Other than hedges) (Note 6)	4,575,275	-	-
Sale of FX futures (other than hedges) (Note 6)	-	760,675	-
	¢ <u>63,286,883,031</u>	<u>68,731,637,270</u>	<u>54,411,070,344</u>

(1) Corresponds to allowances booked for the payment of the Visa and Master Card brands

(2) As of March 31, 2019, the “Various creditors” account includes ¢3,496 million (December and March 2018: ¢2,746 million and ¢4,185 million, respectively) corresponding to the operations of the Bank’s Electronic Processing of Payments Office (VISA). The remaining amount corresponds to the normal operations of other divisions.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(19) Other liabilities

As of March 31, other liabilities are as follows:

	March 2019	December 2018	March 2018
<i><u>Deferred income:</u></i>			
Deferred finance income	¢ 33,042,956,068	33,218,566,310	31,436,143,516
Deferred fees and commissions for trust management	34,103,203	36,788,458	32,323,313
	<u>33,077,059,271</u>	<u>33,255,354,768</u>	<u>31,468,466,829</u>
Allowance for stand-by credit losses (1)	<u>173,558,552</u>	<u>169,073,348</u>	<u>272,067,378</u>
<i><u>Operations pending application:</u></i>			
Operations pending settlement	8,033,868,932	19,899,787,694	6,504,247,019
Other operations pending application	<u>26,415,142,737</u>	<u>13,835,038,255</u>	<u>18,386,276,445</u>
	<u>34,449,011,669</u>	<u>33,734,825,949</u>	<u>24,890,523,464</u>
	<u>¢ 67,699,629,492</u>	<u>67,159,254,065</u>	<u>56,631,057,671</u>

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

	March 2019	December 2018	March 2018
Opening balance	¢ 169,073,348	265,681,489	265,681,489
Allowance expense (Note 34)	6,100,000	20,750,000	7,740,000
Decrease in allowance (Note 35)	-	(130,000,000)	-
Adjustment for foreign exchange differences	<u>(1,614,796)</u>	<u>12,641,859</u>	<u>(1,354,111)</u>
Closing balance	<u>¢ 173,558,552</u>	<u>169,073,348</u>	<u>272,067,378</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 2019	December 2018	March 2018
6-month LIBOR + 4.50% in the first 5 years and 6-month LIBOR + 5.00% thereafter	10 years	27/05/2024	US\$	100,000,000	100,000,000	100,000,000
6-month LIBOR + 5.25% in the first 5 years and 6-month LIBOR + 5.75% thereafter	15 years	23/10/2029		30,000,000	30,000,000	30,000,000
			US\$	130,000,000	130,000,000	130,000,000
	Equivalent in colones		¢	77,485,200.000	78.570.700.000	73,112,000,000
	Finance charges payable			716,983,967	1.917.469.915	680,554,481
			¢	78,202,183,967	80,488,169,915	73,792,554,481

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 2019	December 2018	March 2018
Capital under Law No. 1644	¢ 144,618,072,265	144,618,072,265	144,618,072,265
Bank capitalization bonds	27,618,957,837	27,618,957,837	27,618,957,837
	¢ <u>172,237,030,102</u>	<u>172,237,030,102</u>	<u>172,237,030,102</u>

(b) Revaluation surplus

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

As of March 31, 2019, the revaluation surplus amounts to ¢66,193,911,011 (December and March 2018: ¢66,193,911,011 and ¢60,863,838,830, respectively).

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

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

As of March 31, 2019, the adjustment for the valuation of available-for-sale investments and restricted financial instruments resulted in an unrealized loss of ¢2,886,718,143 (December and March 2018: unrealized loss of ¢6,159,945,950 and ¢4,305,993,842, respectively).

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(d) Adjustment for valuation of investments in other companies

As of March 31, 2019, the adjustment for valuation of investments in foreign associates using the equity method amounts to ¢8,079,297,967 (December and March 2018: ¢9,125,840,572 and ¢8,487,357,428, respectively). These investments correspond to the Bank's 49% ownership interest in BICSA.

(e) Capital reserves

Capital reserves are as follows:

	March 2019	December 2018	March 2018
Legal reserve	¢ 332,764,162,820	318,382,615,318	318,379,529,052
Statutory reserve for foreclosed assets	283,263,641	247,445,202	169,899,218
Excess of statutory reserve for loans	5,060,348,171	5,739,879,198	7,132,568,262
Statutory dynamic provision	9,910,724,765	9,673,364,920	8,203,282,987
	¢ <u>348,018,499,397</u>	<u>334,043,304,638</u>	<u>333,885,279,519</u>

(f) Equity of the Development Financing Fund

As of March 31, 2019, the allocation of the Bank's earnings for the creation of the Development Financing Fund (FOFIDE) amounts to ¢34,648,535,964 (December and March 2018: ¢30,971,994,447).

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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 2019	December 2018	March 2018
Performance bonds	¢ 35,068,107,056	32,794,951,309	34,837,677,951
Bid bonds	5,829,046,424	5,632,858,532	2,799,831,126
Other guarantees	3,458,420,040	3,517,184,123	3,530,303,285
Letters of credit	15,420,543,145	17,288,986,781	24,911,083,833
Credits pending disbursement	214,039,830	212,097,543	227,380,423
	<u>59,990,156,495</u>	<u>59,446,078,288</u>	<u>66,306,276,618</u>
Pre-approved lines of credit	287,849,324,351	288,433,381,312	282,483,437,124
Other contingencies not related to credits	27,398,061	27,398,060	27,398,061
Other contingencies - Pending litigation and lawsuits (Note 47)	281,379,499,491	282,704,484,455	301,092,979,548
	<u>569,256,221,903</u>	<u>571,165,263,827</u>	<u>583,603,814,733</u>
Sale of FX futures - Other than hedges (Note 6)	2,226,319,590	5,351,126,744	5,069,585,630
¢	<u>631,472,697,988</u>	<u>635,962,468,859</u>	<u>654,979,676,981</u>

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

(23) Trust assets

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of March 31, 2019, trust capital is invested in the following assets:

Nature of trust	Cash or property management	Securitization	Portfolio management	Guaranty	Testamentary	Custody of stock with testamentary clauses	Custody of stock and management of funds	Cash guaranty and management	Custody of stock	Management custody and guaranty of stock	Guaranty and custody of stock	Total
<i>Trust assets</i>												
Cash and due from banks	¢ 298,398,676	2,943,096	15,987,588	74,747	185	-	8,633	-	-	-	-	317,412,925
Investments in financial instruments	371,273,240,329	15,772,874,819	1,108,293,722	1,628,709,079,451	1,272,982,987	-	2,233,001	-	-	35,774,738	-	2,018,174,479,047
Loan portfolio	3,170,066,430	-	1,493,388,165	-	-	-	-	-	-	-	-	4,663,454,595
Accounts and accrued interest receivable	43,470,690,020	24,287,070,170	1,725,149,875	28,487,973	96,199	-	-	110,034,600	-	-	3,814,657	69,625,343,494
Foreclosed assets	64,061,043	-	-	-	-	-	-	-	-	-	-	64,061,043
Investments in other companies	-	-	-	200,000,000	2,379,604	2,120,000	-	-	36,000	-	953,664,000	1,158,199,604
Property and equipment	782,355,876	46,663,556,196	-	61,660,877,229	93,224,756	-	-	1,544,041,161	-	-	1,738,460,805	112,482,516,023
Other assets	57,397,313,027	1,287,376,265	-	235,000,000	1,011,486	-	-	-	-	-	1,674,504,726	60,595,205,504
¢	476,456,125,401	88,013,820,546	4,342,819,350	1,690,833,519,400	1,369,695,217	2,120,000	2,241,634	1,654,075,761	36,000	35,774,738	4,370,444,188	2,267,080,672,235

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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

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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.

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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 2019	March 2018
Pension Fund Manager's own investments in custody		
– Face value of principal	¢ 7,031,918,000	6,792,620,000
Pension Fund Manager's own investments in custody		
– Coupons	1,129,826,950	1,201,001,882
Pension Fund Manager's own investments in custody		
– Number of shares	23	23
Guarantees received in the Bank's custody	614,446,364	1,336,850,436
Other guarantees received in the Bank's custody	5,312,953,778,807	5,192,381,065,064
Lines of credit granted but unused	363,766,731,006	374,430,610,657
Loans pending disbursement	203,266,578,596	235,218,377,271
Unused overdrafts	204,639,577	7,098,548
Loans settled	272,079,208,864	177,013,585,526
Other accounts receivable settled	11,150,836,208	9,919,017,809
Accrued interest receivable settled	23,571,914,376	17,107,512,741
Interest income on non-accrual loans of loan portfolio	22,517,993,886	17,231,665,607
Supporting documentation received in the Bank's custody	1,255	1,255
Securities issued pending placement	31,168,399,998	19,848,000,000
Notified letters of credit	19,148,346,398	14,584,811,895
Notional value subject to interest rate futures (Note 6)	517,601,136,000	581,859,040,000
Reversals made to income accounts for the year	7,116,995,166	5,560,821,062
Reversals made to expense accounts for the year	13,479,917,756	14,034,058,141
Non-deductible expenses	60,426,069,492	36,298,578,684
Non-taxable income	78,925,461,561	74,813,855,403
Other memoranda accounts	192,651,662,441	192,391,125,514
	<u>7,138,805,862,724</u>	<u>6,972,029,697,518</u>
Third-party debit memoranda accounts (I)	3,114,850,820,777	2,659,239,520,675
Own debit memoranda accounts for custodial activities	240,242,406,226	369,641,969,963
Third-party debit memoranda accounts for custodial activities	11,974,059,437,996	10,871,922,986,788
	<u>15,329,152,664,999</u>	<u>13,900,804,477,426</u>
¢	<u>22,467,958,527,723</u>	<u>20,872,834,174,944</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Other memoranda accounts by entity are as follows:

	March 2019	March 2018
Banco Nacional de Costa Rica	¢ 19,482,966,522,166	18,150,801,033,801
BN Valores Puesto de Bolsa, S.A. (Note 25)	1,052,953,333,001	954,549,056,042
BN Sociedad Administradora de Fondos de Inversión, S.A. (Note 26)	451,139,767,141	444,540,428,515
BN Vital Operadora de Planes de Pensiones Complementarias, S.A. (Note 27)	1,480,898,905,415	1,322,943,656,586
	¢ <u>22,467,958,527,723</u>	<u>20,872,834,174,944</u>

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

	March 2019	March 2018
Management of banking mandates	¢ 1,191,147,562,787	899,901,672,170
“TUDES” securities received in custody from affiliates under Article 75 of Law No. 7531	579,143,107	596,619,837
Pension funds (Note 27)	1,472,055,631,366	1,314,260,643,808
Investment funds (Note 26)	451,068,483,517	444,480,584,860
	¢ <u>3,114,850,820,777</u>	<u>2,659,239,520,675</u>

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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:

	March 2019	March 2018
<i>Own</i>		
Trading securities in custody (Note 25-a) ¢	-	5,019,166,765
Trading securities pledged as guarantees	-	33,282,613,201
Repurchase agreements pending settlement (Note 25-b)	49,236,371,098	29,228,354,661
Own trading securities	16,057,506,984	-
Other own memoranda accounts	5,973,812,201	5,639,379,732
	<u>71,267,690,283</u>	<u>73,169,514,359</u>
<i>Third-party</i>		
Trading securities in custody (Note 25-a)	-	623,913,892,081
Trading securities received as guarantees	-	58,613,056,934
Trading securities pledged as guarantees	66,766,861,022	86,673,678,962
Trading securities pending receipt	1,190,038,819	-
Signed agreements pending settlement	3,057,152,772	2,812,000
Repurchase agreements pending settlement (Note 25-b)	126,458,004,003	111,590,800,934
Third-party trading securities	783,223,217,724	-
Cash and accounts receivable	990,368,378	585,300,772
	<u>981,685,642,718</u>	<u>881,379,541,683</u>
¢	<u>1,052,953,333,001</u>	<u>954,549,056,042</u>

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

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

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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 2019	March 2018
<i>Own custodial activities</i>			
Local	At face value - available	¢ -	4,791,798,400
Local	At purchase value of shares - available	-	15,000,002
Local	At purchase value of investments - available	-	207,408
Local	At face value - pledged	-	209,868,002
Local	Amount of physical coupons - pledged	-	2,292,953
Local	Central de Valores (CEVAL) - private	12,541,773,693	-
Local	CEVAL - public	3,471,233,289	-
Local	Vault	44,500,002	-
		<u>16,057,506,984</u>	<u>5,019,166,765</u>
<i>Custodial activities on behalf of third parties</i>			
Local	At face value - available	-	590,166,868,412
Local	At purchase value of shares - available	-	21,690,931,923
Local	At purchase value of investments - available	-	10,130,341,815
Local	At face value - pledged	-	1,680,496,805
Local	At purchase value of shares - pledged	-	44,273,680
Local	At purchase value of investments - pledged	-	198,161,822
Local	At face value - pending delivery	-	2,817,624
Local	CEVAL - private	211,286,468,682	-
Foreign	CEVAL - private	19,249,596,250	-
Local	CEVAL - public	530,092,457,845	-
Foreign	International custody	22,154,108,168	-
Local	Vault	8,024,829	-
Local - Foreign	Securities that are doubtful, in arrears or in litigation	432,561,950	-
		<u>783,223,217,724</u>	<u>623,913,892,081</u>
		¢ <u>799,280,724,708</u>	<u>628,933,058,846</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

March 2019								
Own Third parties	Term buyer				Term seller			
			US dollars expressed in	Total			US dollars expressed in	Total
	Colones	US dollars	colones		Colones	US dollars	colones	
	27,588,419,711	36,109,824	21,522,899,303	49,111,319,014	125,052,084	-	-	125,052,084
	<u>11,236,688,086</u>	<u>102,709,941</u>	<u>61,219,233,189</u>	<u>72,455,921,275</u>	<u>14,182,242,755</u>	<u>66,807,329</u>	<u>39,819,839,973</u>	<u>54,002,082,728</u>
	<u>38,825,107,797</u>	<u>138,819,765</u>	<u>82,742,132,492</u>	<u>121,567,240,289</u>	<u>14,307,294,839</u>	<u>66,807,329</u>	<u>39,819,839,973</u>	<u>54,127,134,812</u>
March 2018								
Own Third parties	Term buyer				Term seller			
			US dollars expressed in	Total			US dollars expressed in	Total
	Colones	US dollars	colones		Colones	US dollars	colones	
	18,273,397,586	19,478,942	10,954,957,075	29,228,354,661	-	-	-	-
	<u>11,555,289,781</u>	<u>96,892,131</u>	<u>54,492,134,236</u>	<u>66,047,424,017</u>	<u>6,668,490,082</u>	<u>69,123,199</u>	<u>38,874,886,835</u>	<u>45,543,376,917</u>
	<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>

As of March 31, 2019, term buyer and seller positions in tri-party repurchase agreements in US dollars were valued at the exchange rate of ¢596.04 (2018: ¢562.40) to US\$1.00.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

March 2019				
	Term buyer		Term seller	
	Colones	US dollars	Colones	US dollars
<u>Own</u>				
1 to 30 days	¢ 1,029,090,944	5,805,241	125,052,084	-
31 to 60 days	26,052,476,027	-	-	-
61 to 90 days	506,852,740	30,304,583	-	-
	<u>27,588,419,711</u>	<u>36,109,824</u>	<u>125,052,084</u>	<u>-</u>
<u>Third parties</u>				
1 to 30 days	535,448,319	1,823,976	255,585,810	6,897,102
31 to 60 days	9,910,066,422	39,213,550	8,545,788,677	14,335,148
61 to 90 days	536,360,096	51,272,810	3,605,124,800	33,922,542
More than 91 days	254,813,249	10,399,605	1,775,743,468	11,652,537
	<u>11,236,688,086</u>	<u>102,709,941</u>	<u>14,182,242,755</u>	<u>66,807,329</u>
¢	<u>38,825,107,797</u>	<u>138,819,765</u>	<u>14,307,294,839</u>	<u>66,807,329</u>
March 2018				
	Term buyer		Term seller	
	Colones	US dollars	Colones	US dollars
<u>Own</u>				
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>
<u>Third parties</u>				
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>

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

(26) Investment fund management agreements

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

		March 2019		
Fund		Net value	Shares	Value per share
<i>Funds in colones:</i>				
Súper Fondo - colones	¢	96,341,447,827	22,999,350,767	4.19
Fon Depósito - colones		50,916,600,501	33,336,448,376	1.53
Creci Fondo - colones		2,946,773,981	542,818,391	5.43
Redi Fondo - colones		15,152,283,563	3,915,065,209	3.87
Diner Fondo - colones		48,933,993,612	17,401,708,121	2.81
	¢	<u>214,291,099,484</u>	<u>78,195,390,864</u>	
<i>Funds in US dollars:</i>				
Súper Fondo - US dollars	US\$	17,585,969	11,628,255	1.51
Creci Fondo - US dollars		7,252,540	3,920,210	1.85
Redi Fondo - US dollars		18,905,412	12,166,120	1.55
Diner Fondo - US dollars		87,230,116	66,127,862	1.32
Fon Depósito - US dollars		53,665,672	48,017,803	1.12
Súper Fondo Plus - US dollars		191,288,788	175,075,175	1.09
Fondo Hipotecario - US dollars (mortgage fund)		97,466	96,790	109.88
BN Infraestructura Pública -1 – US dollars (public infrastructure)		21,224,866	21,750	975.86
	US\$	<u>397,250,829</u>	<u>317,053,965</u>	
	¢	<u>236,777,384,033</u>	<u>188,976,845,299</u>	
Assets of managed funds	¢	<u>451,068,483,517</u>	<u>267,172,236,163</u>	
<i>Guarantees:</i>				
Performance bonds		69,308,320		
Outstanding checks		1,975,304		
		<u>71,283,624</u>		
Memoranda accounts (Note 24)	¢	<u>451,139,767,141</u>		

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		March 2018		
Fund		Net value	Shares	Value per share
Fund				
<i>Funds in colones:</i>	¢	118,091,486,820	29,640,831,126	3.98
Súper Fondo - colones		55,306,064,347	37,879,759,856	1.46
Fon Depósito - colones		2,973,763,292	588,976,220	5.04
Creci Fondo - colones		10,634,533,650	2,955,166,217	3.59
Redi Fondo - colones		59,661,850,031	22,235,736,878	2.68
Diner Fondo - colones	¢	246,667,698,140	93,300,470,297	
<i>Funds in US dollars:</i>				
Súper Fondo - US dollars	US\$	23,226,622	15,651,703	1.48
Creci Fondo - US dollars		5,196,322	2,906,641	1.78
Redi Fondo - US dollars		25,855,841	17,192,528	1.50
Diner Fondo - US dollars		99,118,097	76,576,759	1.29
Fon Depósito - US dollars		52,814,400	48,168,486	1.09
Súper Fondo Plus - US dollars		145,119,481	135,886,912	1.06
Fondo Hipotecario - US dollars (mortgage fund)		174,013	172,425	196.18
BN Infraestructura Pública -1 – US dollars (public infrastructure)		225,107	250	900.42
	US\$	351,729,883	296,555,704	
	¢	197,812,886,720	166,782,927,930	
Assets of managed funds	¢	444,480,584,860	260,083,398,227	
<i>Guarantees:</i>				
Performance bonds		57,868,351		
Outstanding checks		1,975,304		
		59,843,655		
Memoranda accounts (Note 24)	¢	444,540,428,515		

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- *BN DinerFondo - US dólares No Diversificado* (non-diversified - US dollars): This is an open-end (floating number of outstanding shares) money market fund with a fixed income portfolio. Returns on the investment portfolio are not distributed until the customer requests partial or full redemption of shares.
- *BN FonDepósito - US dólares No Diversificado* (non-diversified - US dollars): This is an open-end (floating number of outstanding shares) money market fund with a fixed income portfolio. Returns on the investment portfolio are not distributed until the customer requests partial or full redemption of shares.
- *BN Fondo de Inversión de Titularización Hipotecaria (FHIPO) - US dólares* (mortgage securitization - US dollars): This is mainly a closed-end mortgage investment fund, i.e. investor shares are listed and traded on a stock exchange.
- *BN SuperFondo Dólares Plus No Diversificado - Dólares* (non-diversified - US dollars): This fund is aimed at conservative investors looking for short-term investments. It allows obtaining reimbursement of the shares one business day and up to a maximum of three business days from the date of receipt of the withdrawal request. Since it is a short-term fund, it allows the investor to manage resources to address its present or future liquidity needs. The goal of the fund is to offer an investment mechanism that seeks to obtain higher returns than other investment alternatives under similar liquidity, term, and risk parameters, taking advantage of the short-term part of the yield curve in the composition of its portfolio.
- *BN Inmobiliario CR-2 - US dólares* (real estate development – US dollars): This is a long-term, closed-end fund, in US dollars, which has the goal of investing in real estate for its exploitation through leasing and sale. It is aimed at investors interested in diversifying their investments portfolio by including real estate property located in national territory and mainly occupied by public institutions. As of March 31, 2019 and 2018, this fund does not have operations.
- *Fondo de Inversión de Desarrollo Inmobiliario BN-1* (real estate development): This fund invests in the construction of buildings to be occupied by entities of the Banco Nacional Conglomerate (BNCR Conglomerate). Once the works are completed, the buildings will be sold to an entity of the BNCR Conglomerate or a real estate fund managed by BN Fondos, and investors thus realize their potential gains. If the buildings are sold to a real estate fund, such fund will lease the buildings to an entity of the BNCR Conglomerate. As of March 31, 2019 and 2018, this fund does not have operations.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- *Fondo de Inversión de Desarrollo Inmobiliario de Infraestructura Pública - I - Dólares* (real estate development - US dollars): This fund will invest in the construction of buildings to be occupied by the Maximum Deconcentration Organizations and other entities of BCCR. Once the works are completed, the buildings will be leased with a purchase option to BCCR or sold to BCCR or to a real estate fund managed by BN Fondos, and investors thus realize their potential gains. If the buildings are sold to a real estate fund, such fund will lease the buildings to BCCR. As of March 31, 2019 and 2018, this fund does not have operations.

(27) Pension fund management agreements

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

		March 2019	March 2018
Mandatory Pension Fund (ROP)	¢	1,221,625,759,029	1,086,059,023,062
ROP erroneous		15,471,676,386	14,426,353,017
Mandatory Retirement Savings Account (FCL)		90,269,640,254	80,695,000,585
FCL erroneous		3,603,291,475	3,361,122,252
Pension Fund in Colones A (FPC A)		73,124,625,250	65,141,975,621
Pension Fund in Colones B (FPC B)		18,564,427,660	17,363,026,700
Notary Fund (NOT)		28,815,814,823	26,477,926,112
Pension Fund in US dollars A (FPD A) (i)		12,894,118,306	11,780,008,033
Pension Fund in US dollars B (FPD B) (ii)		7,686,278,183	8,956,208,426
Assets of managed funds (Note 24)		1,472,055,631,366	1,314,260,643,808
Securities and assets in own custody		8,161,744,973	7,993,621,905
Bid and performance bonds – colones		22,168,293	19,698,544
Bid and performance bonds – US dollars (iii)		80,217,674	73,072,491
Securities in DU		579,143,109	596,619,838
Memoranda accounts (Note 24)	¢	1,480,898,905,415	1,322,943,656,586

- As of March 31, 2019, this fund amounts to US\$21,632,975 and is valued at the exchange rate of ¢596.04 to US\$1.00 (2018: US\$20,945,960 valued at the exchange rate of ¢562.40 to US\$1.00).
- As of March 31, 2019, this fund amounts to US\$12,895,574 and is valued at the exchange rate of ¢596.04 to US\$1.00 (2018: US\$15,924,979 valued at the exchange rate of ¢562.40 to US\$1.00).

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- iii. As of March 31, 2019, this fund amounts to US\$134,584 and is valued at the exchange rate of ¢596.04 to US\$1.00 (2018: US\$129,930 valued at the exchange rate of ¢562.40 to US\$1.00).

(28) Finance income on financial instruments

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

	March 2019	March 2018
<u>Cash and due from banks:</u>		
Deposits in BCCR	¢ 10,982,089	4,125,187
Checking accounts and demand deposits in local entities	27,751,919	40,949,514
Checking accounts and demand deposits in foreign entities	695,911,377	1,635,290,248
	<u>734,645,385</u>	<u>1,680,364,949</u>
<u>Financial instruments:</u>		
Investments in available-for-sale securities	16,456,447,685	14,533,221,784
Investment in securities and restricted deposits	868,860,263	332,883,066
	<u>17,325,307,948</u>	<u>14,866,104,850</u>
	<u>¢ 18,059,953,333</u>	<u>16,546,469,799</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(29) Finance income on loan portfolio

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

	March 2019	March 2018
<i><u>Current loans:</u></i>		
Checking account overdrafts	25,322,793	1,245,303
Loans granted with funds from BCCR	199,972,913	226,529,955
Loans granted with other funds	90,765,201,669	87,745,228,936
Credit cards	6,188,674,498	6,411,238,129
Issued letters of credit	-	558
Loan portfolio due to sales	1,326,689	-
Other loans	1,165,018	1,100,207
	<u>97,181,663,580</u>	<u>94,385,343,088</u>
<i><u>Past due loans and loans in legal collection:</u></i>		
Checking account overdrafts	1,053,567	403,489
Loans granted with funds from BCCR	41,272,615	37,384,892
Loans granted with other funds	15,323,454,580	13,008,685,249
Credit cards	817,641,544	849,830,119
Term sale of foreclosed assets	3,338	-
Other loans	-	3,799
	<u>16,183,425,644</u>	<u>13,896,307,548</u>
¢	<u>113,365,089,224</u>	<u>108,281,650,636</u>

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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 2019	March 2018
Fees and commissions on letters of credit	¢	3,276,544	6,719,401
Fees and commissions on guarantees granted		107,463,009	132,123,366
Fees and commissions on lines of credit		58,005,197	74,557,934
Valuation of trading financial instruments held for trading		80,608,774	-
Gain on fair value hedge for item measured at cost		453,140,043	11,405,754,819
Other sundry finance income		1,740,046,595	848,763,085
	¢	<u>2,442,540,162</u>	<u>12,467,918,605</u>

(31) Finance costs for obligations with the public

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

		March 2019	March 2018
Demand deposits	¢	12,471,811,086	11,700,244,891
Term deposits		34,691,523,294	33,207,593,945
Tri-party repurchase agreements and securities lending		186,316,212	385,729,512
	¢	<u>47,349,650,592</u>	<u>45,293,568,348</u>

(32) Finance costs for obligations with financial entities

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

		March 2019	March 2018
Demand obligations	¢	736,355,104	608,763,608
Term obligations		14,597,924,345	17,350,261,950
	¢	<u>15,334,279,449</u>	<u>17,959,025,558</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(33) Other finance costs

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

		<u>March 2019</u>	<u>March 2018</u>
Fees and commissions on letters of credit obtained	¢	50,907,581	47,095,632
Loss on hedged item measured at cost from fair value hedge on interest rate risk		10,858,928,257	994,423,161
Other sundry finance costs		497,172,584	557,637,311
	¢	<u>11,407,008,422</u>	<u>1,599,156,104</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:

		<u>March 2019</u>	<u>March 2018</u>
Allowance for loan losses (Note 7-c)	¢	10,919,900,000	19,960,934,546
Allowance for impairment of other accounts receivable (Note 8)		222,174,309	415,655,047
Allowance for stand-by credit losses (Note 19)		3,000,000	4,140,000
General and counter-cyclical allowance for loan portfolio (Note 7-c)		1,023,720,171	2,064,822,203
General and counter-cyclical allowance for stand-by credit losses (Note 19)		3,100,000	3,600,000
Allowance for impairment of derivative financial instruments (Note 5)		1,277,792	12,680,679
	¢	<u>12,173,172,272</u>	<u>22,461,832,475</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

	March 2019	March 2018
Recovery of loan write-offs	¢ 1,849,575,214	1,607,873,094
Recovery of receivable write-offs	2,069,093	675,481
Decrease in allowance for impairment of other accounts receivable (Note 8)	133,718,281	161,716,912
Decrease in allowance for impairment of investments in financial instruments (Note 5)	10,414,566	70,484,149
	¢ <u>1,995,777,154</u>	<u>1,840,749,636</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(36) Operating income from service fees and commissions

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

	March 2019	March 2018
Drafts and transfers	¢ 2,313,605,404	2,152,561,032
Certified checks	817,541	1,189,480
Trusts	364,242,548	290,075,854
Custodial services	471,543,948	373,514,107
Banking mandates	29,711	39,756
Collections	6,615,624	7,273,412
Credit cards	15,944,171,239	14,644,336,981
Management services	898,248,113	891,355,640
Management of investment funds	1,331,833,945	1,296,667,201
Management of pension funds	2,273,132,177	1,997,909,865
Insurance underwriting	1,648,352,134	1,355,131,943
Brokerage operations (third parties in local market)	634,611,184	392,458,565
Brokerage operations (third parties in other markets)	19,699,022	13,652,495
Individual portfolio management	-	262,031
Sundry custodies	-	60,103,102
Operations with related parties	66,349,498	-
Other service fees and commissions (1)	10,513,178,962	10,476,948,885
	¢ <u>36,486,431,050</u>	<u>33,953,480,349</u>

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

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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 2019	March 2018
Leasing of assets	¢ 10,346,923	8,599,511
Recovery of expenses	168,196,870	985,506,626
Net valuation of other assets (Note 46-c)	279,698,389	127,038,214
Other income from accounts receivable	1,452,714	586,519
Sundry operating income	1,729,671,087	1,555,417,184
Decrease in provisions	41,537,857	5,907,874
	¢ <u>2,230,903,840</u>	<u>2,683,055,928</u>

(38) Expenses for foreclosed assets

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

	March 2019	March 2018
Loss on sale of assets received in lieu of payment	¢ 38,030,102	-
Loss on sale of assets awarded in judicial auctions	3,507,519,719	2,471,807,662
Management of assets received in lieu of payment	3,854,445	-
Management of assets awarded in judicial auctions	1,125,933,990	1,194,935,165
Loss on impairment of foreclosed assets (Note 9)	12,422,168	12,442,736
Loss on allowance for impairment and per legal requirements (Note 9)	1,681,843,332	1,476,541,179
Other expenses	3,967,599	19,051,845
	¢ <u>6,373,571,355</u>	<u>5,174,778,587</u>

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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 2019	March 2018
Severance benefits	¢ 80,456,165	368,888,293
Pending litigation	113,127,444	110,512,755
Provision for “BN Premios” points program	452,633,607	703,424,434
Incentives and Performance Evaluation		
System (SEDI)	-	511,360,672
Case on the manager commissions with		
CCSS	601,606,194	506,948,840
Case on the RIVM contribution	1,486,921,429	443,725,374
Notice of deficiency	263,813,855	-
Other provisions	109,757,695	173,131,217
	¢ <u>3,108,316,389</u>	<u>2,817,991,585</u>

(40) Other operating expenses

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

	March 2019	March 2018
Fines for noncompliance with legal		
regulatory provisions	¢ -	50,000
Net valuation of other liabilities (Note 46-c)	192,468,940	64,393,021
Income tax on remittances	1,969,586	-
Income tax (8%) on interest on investments		
in financial instruments	901,521,094	688,765,231
Property tax	39,501,513	81,534,091
Licenses	140,932,660	203,353,567
Other local taxes	903,305	102,042,419
Transfer to FINADE	710,208,471	745,214,349
Sundry operating expenses	16,193,712,015	14,938,455,181
	¢ <u>18,181,217,584</u>	<u>16,823,807,859</u>

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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 2019	March 2018
Salaries and bonuses, permanent staff	¢	16,942,711,680	16,880,575,565
Salaries and bonuses, contractors		401,716,121	426,881,118
Compensation for directors and statutory examiners		63,490,206	57,010,430
Overtime		161,394,811	173,166,295
Travel expenses		101,411,720	123,517,487
Statutory Christmas bonus		1,824,060,715	1,825,189,843
Vacation		1,981,335,656	2,102,993,823
Incentives		857,478,227	-
Other compensation		829,031,691	771,422,438
Severance benefits		1,082,451,416	1,126,591,846
Employer social security taxes		6,944,367,929	6,951,230,906
Refreshments		93,574,262	133,319,493
Uniforms		2,721,540	87,706,815
Training		99,805,445	43,339,862
Employee insurance		50,351,227	56,306,207
Back-to-school bonus		2,289,135,302	1,595,555,696
Mandatory retirement savings account		670,314,454	669,067,957
Other personnel expenses		134,044,483	140,684,265
	¢	<u>34,529,396,885</u>	<u>33,164,560,046</u>

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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 2019	March 2018
Outsourcing	¢ 4,687,866,795	3,376,434,937
Transportation and communications	912,115,599	1,042,668,567
Infrastructure	9,773,033,138	8,602,437,748
Overhead	3,643,082,040	3,770,058,781
	¢ 19,016,097,572	16,791,600,033

(43) Statutory allocations

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

	March 2019	March 2018
CONAPE 5%	¢ 905,292,752	446,342,428
CNE (3%)	572,712,732	294,597,845
INFOCOOP (10%)	1,363,187,080	835,275,265
Public capital pension operators	363,409,857	266,724,956
RIVM (15%)	1,533,593,759	925,599,684
	¢ 4,738,196,180	2,768,540,178

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(44) Fair value of financial instruments

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

		March 2019	
		Carrying amount	Fair value
<i><u>Financial assets:</u></i>			
Cash and due from banks	¢	1,092,361,653,645	1,092,361,653,645
Loan portfolio		4,489,689,067,653	4,168,984,994,053
	¢	<u>5,582,050,721,298</u>	<u>5,261,346,647,698</u>
<i><u>Financial liabilities:</u></i>			
Demand deposits from the public and financial entities	¢	2,996,076,120,140	2,996,076,120,140
Other demand obligations with the public		14,888,407,387	14,888,407,387
Term deposits from the public and financial entities		2,977,969,762,351	2,957,350,209,441
Obligations for tri-party repurchase agreements		11,382,757,775	11,382,757,775
	¢	<u>6,000,317,047,653</u>	<u>5,979,697,494,743</u>
		March 2018	
		Carrying amount	Fair value
<i><u>Financial assets:</u></i>			
Cash and due from banks	¢	1,269,157,612,373	1,269,157,612,373
Loan portfolio		4,493,674,921,437	4,079,062,358,937
	¢	<u>5,762,832,533,810</u>	<u>5,348,219,971,310</u>
<i><u>Financial liabilities:</u></i>			
Demand deposits from the public and financial entities	¢	2,957,679,621,273	2,957,679,621,273
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		29,007,858,288	29,007,858,288
	¢	<u>6,273,362,900,418</u>	<u>6,307,117,468,259</u>

Fair value estimates

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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, 2019 and 2018.

(c) Term deposits

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

(d) Obligations with entities

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

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

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

		March 2019			
		Level 1	Level 2	Level 3	Total
Available for sale	¢	985,829,223,725	77,363,606,941	4,693,953,281	1,067,886,783,947
Held to maturity		10,577,053,390	-	-	10,577,053,390
Derivative financial instruments		-	-	4,824,243,385	4,824,243,385
Term obligations with foreign financial entities		-	-	502,234,747,271	502,234,747,271

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		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

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					
		2019			2018		
		Available for sale	Derivative financial instruments	Term obligations with foreign financial entities	Available for sale	Derivative financial instruments	Term obligations with foreign financial entities
Opening balance	¢	4,760,401,682	678,813,152	590,621,555,713	5,931,464,710	6,159,898,498	841,601,971,462
Purchases		-	-	(89,001,074,266)	(971,250,000)	-	-
Valuation		(680,678)	4,235,131,089	8,943,108,140	37,390,033	(6,116,180,423)	(10,291,847,507)
Amortizations		-	-	(30,946,317)	-	-	357,073,491
Foreign exchange differences		(65,767,723)	(89,700,856)	(8,297,895,999)	(287,836,559)	(43,718,075)	(5,989,458,232)
Closing balance	¢	4,693,953,281	4,824,243,385	502,234,747,271	4,709,768,184	-	825,677,739,214

(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, 2019							
		Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations	Consolidated
ASSETS									
Cash and due from banks	¢	1,088,718,964,493	2,472,213,365	194,477,598	231,658,570	1,186,379,232	1,092,803,693,258	442,039,613	1,092,361,653,645
Investments in financial instruments		1,012,712,171,655	62,240,636,160	7,532,716,984	7,513,725,337	2,405,164,079	1,092,404,414,215	40,900,000	1,092,363,514,215
Loan portfolio, net		4,355,825,252,249	-	-	-	-	4,355,825,252,249	-	4,355,825,252,249
Accounts and fees and commissions receivable, net		1,831,578,142	892,269,415	72,363,439	813,727,374	378,751,944	3,988,690,314	49,657,175	3,939,033,139
Fees and commissions		231,591,546	12,485,444	45,662,495	763,747,130	331,884,857	1,385,371,472	35,361,916	1,350,009,556
Brokerage services		-	8,764	-	-	-	8,764	-	8,764
Transactions with related parties		42,398,355	1,266,597	2,925,524	4,447,211	25,467	51,063,154	14,295,259	36,767,895
Deferred tax and income tax		1,367,429,969	875,165,363	15,575,307	40,005,675	39,368,796	2,337,545,110	-	2,337,545,110
Other		4,008,042,125	3,343,247	8,200,113	64,790,228	7,472,824	4,091,848,537	-	4,091,848,537
Accrued interest		3,133,214	-	-	-	-	3,133,214	-	3,133,214
Allowance for impairment of accounts and fees and commissions receivable		(3,821,017,067)	-	-	(59,262,870)	-	(3,880,279,937)	-	(3,880,279,937)
Foreclosed assets, net		24,333,785,148	-	-	-	-	24,333,785,148	-	24,333,785,148
Investments in other companies		101,676,081,868	30,000,000	-	-	-	101,706,081,868	35,588,762,463	66,117,319,405
Property and equipment, net		183,109,090,915	151,516,578	280,778,743	540,353,523	121,338,406	184,203,078,165	-	184,203,078,165
Other assets		108,174,466,775	91,525,225	574,698,765	187,366,261	138,972,662	109,167,029,688	-	109,167,029,688
TOTAL ASSETS	¢	6,876,381,391,245	65,878,160,743	8,655,035,529	9,286,831,065	4,230,606,323	6,964,432,024,905	36,121,359,251	6,928,310,665,654
LIABILITIES AND EQUITY									
LIABILITIES									
Obligations with the public	¢	4,999,794,163,206	11,415,635,205	-	-	-	5,011,209,798,411	-	5,011,209,798,411
Obligations with BCCR		125,644,412	-	-	-	-	125,644,412	-	125,644,412
Obligations with entities		968,289,531,866	37,503,997,775	-	-	-	1,005,793,529,641	444,197,007	1,005,349,332,634
Demand		188,525,028,007	-	-	-	-	188,525,028,007	403,297,007	188,121,731,000
Term		763,569,573,830	37,331,200,000	-	-	-	800,900,773,830	40,900,000	800,859,873,830
Finance charges payable		16,194,930,029	172,797,775	-	-	-	16,367,727,804	-	16,367,727,804
Accounts payable and provisions		94,856,214,754	1,549,791,274	485,467,822	1,001,567,153	505,411,965	98,398,452,968	49,657,178	98,348,795,790
Other liabilities		67,738,372,092	-	-	-	-	67,738,372,092	38,742,600	67,699,629,492
Subordinated obligations		78,202,183,967	-	-	-	-	78,202,183,967	-	78,202,183,967
TOTAL LIABILITIES	¢	6,209,006,110,297	50,469,424,254	485,467,822	1,001,567,153	505,411,965	6,261,467,981,491	532,596,785	6,260,935,384,706

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of March 31, 2019								
	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations	Consolidated
EQUITY								
Share capital	¢ 172,237,030,102	6,600,000,000	3,000,000,000	5,107,214,619	369,700,000	187,313,944,721	15,076,914,619	172,237,030,102
Non-capitalized capital contributions	-	-	-	1,087,710,390	-	1,087,710,390	1,087,710,390	-
Equity adjustments	71,453,076,083	(1,886,926,414)	(11,440,352)	(28,838,941)	(118,108)	69,525,752,268	(1,927,323,816)	71,453,076,084
Capital reserves	348,018,499,397	1,320,000,000	600,000,000	300,000,000	73,940,000	350,312,439,397	2,293,940,000	348,018,499,397
Prior-period retained earnings	33,830,358,919	8,922,502,969	4,084,479,890	1,455,767,986	2,550,045,102	50,843,154,866	17,012,795,947	33,830,358,919
Income for the period	7,187,780,482	453,159,934	496,528,169	363,409,857	731,627,366	9,232,505,808	2,044,725,330	7,187,780,478
FOFIDE	34,648,535,964	-	-	-	-	34,648,535,964	(4)	34,648,535,968
TOTAL EQUITY	¢ 667,375,280,947	15,408,736,489	8,169,567,707	8,285,263,911	3,725,194,360	702,964,043,414	35,588,762,466	667,375,280,948
TOTAL LIABILITIES AND EQUITY	¢ 6,876,381,391,244	65,878,160,743	8,655,035,529	9,286,831,064	4,230,606,325	6,964,432,024,905	36,121,359,251	6,928,310,665,654
Debit memoranda accounts	¢ 631,331,628,792	133,004,706	-	8,064,490	-	631,472,697,988	-	631,472,697,988
Trust assets	¢ 2,265,949,023,252	1,131,648,983	-	-	-	2,267,080,672,235	-	2,267,080,672,235
Trust liabilities	¢ 205,847,401,318	1,697,923	-	-	-	205,849,099,241	-	205,849,099,241
Trust equity	¢ 2,060,101,621,934	1,129,951,061	-	-	-	2,061,231,572,995	-	2,061,231,572,995
Other debit memoranda accounts	¢ 19,482,966,522,166	1,052,953,333,003	451,139,767,141	1,480,898,905,413	-	22,467,958,527,723	-	22,467,958,527,723

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the period ended March 31, 2019

	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations	Consolidated
Finance income	138,944,160,513	1,299,085,381	162,312,911	177,894,519	43,659,114	140,627,112,438	32,889,848	140,594,222,590
Finance costs	75,528,208,741	757,768,801	10,489,048	6,113,369	3,640,953	76,306,220,912	32,889,849	76,273,331,063
Allowance expense	12,173,172,272	-	-	-	-	12,173,172,272	-	12,173,172,272
Income from recovery of assets	1,995,777,154	-	-	-	-	1,995,777,154	-	1,995,777,154
FINANCE INCOME	53,238,556,654	541,316,580	151,823,863	171,781,150	40,018,161	54,143,496,408	(1)	54,143,496,409
Other operating income	44,076,477,255	933,431,320	1,341,841,181	2,277,357,309	1,582,418,311	50,211,525,376	2,415,260,025	47,796,265,351
Other operating expenses	28,863,095,055	112,109,963	127,562,365	369,874,184	31,379,338	29,504,020,905	321,106,696	29,182,914,209
GROSS OPERATING INCOME	68,451,938,854	1,362,637,937	1,366,102,679	2,079,264,275	1,591,057,134	74,851,000,879	2,094,153,328	72,756,847,551
Personnel expenses	31,929,943,670	716,265,564	515,498,012	902,510,063	465,179,576	34,529,396,885	-	34,529,396,885
Other administrative expenses	18,416,140,151	177,083,092	169,989,982	244,175,542	58,136,810	19,065,525,577	49,428,005	19,016,097,572
Total administrative expenses	50,346,083,821	893,348,656	685,487,994	1,146,685,605	523,316,386	53,594,922,462	49,428,005	53,545,494,457
NET OPERATING INCOME BEFORE STATUTORY ALLOCATIONS AND TAXES	18,105,855,033	469,289,281	680,614,685	932,578,670	1,067,740,748	21,256,078,417	2,044,725,323	19,211,353,094
Income tax	6,634,167,069	11,189,232	169,305,902	196,289,936	314,009,292	7,324,961,431	-	7,324,961,431
Decrease in income tax	-	9,138,563	5,637,827	18,508,341	6,300,270	39,585,001	-	39,585,001
Statutory allocations	4,283,907,481	14,078,678	20,418,441	391,387,218	28,404,362	4,738,196,180	-	4,738,196,180
INCOME FOR THE PERIOD	7,187,780,483	453,159,934	496,528,169	363,409,857	731,627,364	9,232,505,807	2,044,725,323	7,187,780,483

(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
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
INCOME FOR THE PERIOD	¢ 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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the period 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	137,848,889,695
Finance costs	74,972,865,044	530,368,607	24,189,409	-	-	75,527,423,060	1,838,985	75,525,584,075
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
Decrease in statutory allocations	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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(46) Risk management

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

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

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

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

The Bank manages the above risks as follows:

a) Credit risk

i. Banco Nacional de Costa Rica

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

(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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

	Note	Direct		Stand-by	
		March 2019	March 2018	March 2019	March 2018
Loan portfolio					
Principal	7-a	¢ 4,451,009,033,414	4,458,021,970,233	347,839,480,846	348,789,713,742
Accounts and accrued interest receivable		38,680,034,239	35,652,951,204	-	-
Carrying amount, gross		4,489,689,067,653	4,493,674,921,437	347,839,480,846	348,789,713,742
Allowance for loan losses (accounting records)		(123,680,074,531)	(150,546,366,714)	(173,558,552)	(272,067,378)
Carrying amount, net	¢	4,366,008,993,122	4,343,128,554,723	347,665,922,294	348,517,646,364
		Direct		Stand-by	
		March 2019	March 2018	March 2019	March 2018
Loan portfolio					
Total balances:					
0	¢	36,693,753,107	19,322,570,932	-	-
A1		3,318,721,141,040	3,507,806,438,278	332,232,884,803	337,358,558,979
A2		30,212,128,880	32,430,446,536	705,542,206	632,384,451
B1		537,110,286,966	397,732,062,183	8,841,634,841	5,975,380,035
B2		13,847,226,617	12,080,472,346	45,025,114	44,660,763
C1		126,162,900,239	110,595,539,632	1,885,713,221	1,551,694,018
C2		21,532,735,285	5,149,790,399	43,438,105	17,374,392
D		143,139,459,671	128,972,974,524	821,565,688	853,765,813
E		262,269,435,848	279,584,626,607	3,263,676,868	2,355,895,291
		4,489,689,067,653	4,493,674,921,437	347,839,480,846	348,789,713,742
Structural allowance (subledger – database)		(120,081,398,037)	(136,839,381,407)	(121,086,443)	(137,509,206)
Carrying amount, net	¢	4,369,607,669,616	4,356,835,540,030	347,718,394,403	348,652,204,536
Individually assessed loans with allowance:					
0	¢	36,693,753,107	19,322,570,932	-	-
A1		3,318,721,141,040	3,507,806,438,278	43,456,152,348	51,446,511,150
A2		30,212,128,880	32,430,446,536	119,056,214	108,004,878
B1		537,110,286,966	397,732,062,183	5,075,289,301	1,249,236,513
B2		13,847,226,617	12,080,472,346	-	-
C1		126,162,900,239	110,595,539,632	101,301,322	40,260,836
C2		21,532,735,285	5,149,790,399	-	-
D		143,139,459,671	128,972,974,524	43,825,938	68,669,022
E		262,269,435,848	279,584,626,607	28,405,927	92,614,400
		4,489,689,067,653	4,493,674,921,437	48,824,031,050	53,005,296,799
Structural allowance (subledger – database)		(120,081,398,037)	(136,839,381,407)	(121,086,443)	(137,509,206)
Carrying amount, net	¢	4,369,607,669,616	4,356,835,540,030	48,702,944,607	52,867,787,593

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		Direct		Stand-by	
		March 2019	March 2018	March 2019	March 2018
Current loans without allowance:					
A1	¢	-	-	288,776,732,456	285,912,047,831
A2		-	-	586,485,992	524,379,572
B1		-	-	3,766,345,540	4,726,143,522
B2		-	-	45,025,114	44,660,763
C1		-	-	1,784,411,899	1,511,433,181
C2		-	-	43,438,105	17,374,392
D		-	-	777,739,749	785,096,791
E		-	-	3,235,270,941	2,263,280,891
Carrying amount	¢	-	-	299,015,449,796	295,784,416,943
Carrying amount, gross	¢	4,489,689,067,653	4,493,674,921,437	347,839,480,846	348,789,713,742
Allowance for loan losses (database)		(120,081,398,037)	(136,839,381,407)	(121,086,443)	(137,509,206)
Excess of allowance over structural allowance		(3,598,676,494)	(13,706,985,307)	(52,472,109)	(134,558,172)
Carrying amount, net	7-a ¢	4,366,008,993,122	4,343,128,554,723	347,665,922,294	348,517,646,364
Restructured loans	¢	77,017,701,271	47,817,275,362	-	-

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 2019	
		Loans to customers	
		Gross	Net
0	¢	36,693,753,107	36,186,612,899
A1		3,318,721,141,040	3,297,142,176,359
A2		30,212,128,880	30,058,541,501
B1		537,110,286,966	531,939,289,878
B2		13,847,226,617	13,679,756,456
C1		126,162,900,239	121,970,210,458
C2		21,532,735,285	19,665,286,716
D		143,139,459,671	133,225,544,028
E		262,269,435,848	182,141,574,827
	¢	4,489,689,067,653	4,366,008,993,122

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		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>

As shown above, as of March 31, 2019, the gross loan portfolio amounts to ¢4,490 billion. Of that amount, 87.68% is classified in risk ratings “A + B” and 12.32% in risk ratings “C + D + E” (2018: ¢4,943 billion, of which 88.33% is classified in risk ratings “A + B” and 11.67% in risk ratings “C + D + E”).

Individually assessed loans with allowance:

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

Past due loans without allowance:

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Restructured loans:

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

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

Loan write-off policy:

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Borrower classification

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

The loan portfolio by borrower classification is as follows:

<u>Borrower classification</u>	<u>Direct</u>		<u>Stand-by</u>	
	<u>March 2019</u>	<u>March 2018</u>	<u>March 2019</u>	<u>March 2018</u>
Group 1	₡ 2,713,060,139,492	2,728,641,306,772	66,287,449,401	72,424,410,136
Group 2	1,776,628,928,161	1,765,033,614,665	281,552,031,445	276,365,303,606
	₡ 4,489,689,067,653	4,493,674,921,437	347,839,480,846	348,789,713,742

Risk ratings

The Bank individually classifies its borrowers in one of eight risk ratings, identified as A1, A2, B1, B2, C1, C2, D, and E, with rating A1 as the lowest credit risk and rating E as the highest credit risk,

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

Analysis of creditworthiness

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

- a. *Financial position and expected cash flows:* Analysis of the stability and continuity of main sources of income. The effectiveness of the analysis depends on the quality and timeliness of information.
- b. *Experience in the line of business and quality of management:* Analysis of the capacity of management to lead the business with appropriate controls and adequate support from the owners.
- c. *Business environment:* Analysis of the main sector variables that affect the borrower's creditworthiness.
- d. *Vulnerability to changes in interest rates and foreign exchange rates:* Analysis of the borrower's ability to confront unexpected adverse changes in interest rates and foreign exchange rates.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- e. *Other factors:* Analysis of other factors that affect the borrower's creditworthiness. In the case of legal entities, considerations include, but are not limited to, environmental issues, technological aspects, operating licenses and permits, representation of products or foreign offices, relationship with significant customers and suppliers, sales agreements, legal risks, and country risk (the latter for foreign-domiciled borrowers). In the case of individuals, the following borrower characteristics may be taken into consideration: marital status, age, level of education, profession, gender, etc.

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

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

Analysis of historical payment behavior

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

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

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

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Structural allowance for loan losses

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

The allowance for the covered portion of each loan operation is equivalent to the result of multiplying the covered amount by the corresponding allowance percentage in accordance with the aforementioned Article 13. The adjusted value of the corresponding guarantee must be weighted at 100% when the borrower or co-borrower with the lowest risk rating is rated C2 or in another lower-risk rating, at 80% when rated D, and at 60% when rated E.

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

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

Pursuant to Articles 11 bis and 12 of SUGEF Directive 1-05, the calculations of the general allowance and the specific allowance for covered portion for loan operations must consider the provisions of Transition Provision XII of such Directive. Accordingly, as of December 31, 2015, the Bank applied an allowance percentage of 0.2%, which will gradually increase on a quarterly basis to 0.5%, pursuant to the aforementioned Transition Provision.

Allowance percentages, based on borrower risk ratings, are as follows:

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

In accordance with Article 11 bis *General allowance* of CONASSIF Letter 1058/07 dated August 21, 2013, at each month-end, entities must book the general allowance for a minimum of 0.5% of the total outstanding balance for loan portfolios rated A1 and A2, without considering the effect of guarantees. The provisions of Article 13 of SUGEF Directive 1-05 are to be applied to stand-by credits.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

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

	<u>March 2019</u>		
	<u>Allowance booked</u>	<u>Structural allowance</u>	<u>Excess of allowance</u>
Allowance for direct loans	¢ 123,680,074,531	(120,081,398,037)	3,598,676,494
Allowance for stand-by credits	173,558,552	(121,086,443)	52,472,109
	<u>123,853,633,083</u>	<u>(120,202,484,480)</u>	<u>3,651,148,603</u>
Counter-cyclical allowance per SUGEF Directive 19-16	10,183,740,872	(10,183,740,872)	-
	<u>¢ 134,037,373,955</u>	<u>(130,386,225,352)</u>	<u>3,651,148,603</u>
	<u>March 2018</u>		
	<u>Allowance booked</u>	<u>Structural allowance</u>	<u>Excess of allowance</u>
Allowance for direct loans	¢ 150,546,366,714	(136,839,381,407)	13,706,985,307
Allowance for stand-by credits	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 allowance per SUGEF Directive 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>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Counter-cyclical allowance

As of March 31, 2019, the counter-cyclical allowance is valued pursuant to the provisions set forth in SUGEF Directive 19-16 *Regulations to Determine and Book Counter-cyclical Allowances*, approved by CONASSIF through Article 6 of minutes of meeting No. 1258-2016 held on June 7, 2016, published in Alcance No. 100 of the Official Gazette No. 117 of June 17, 2016. Those provisions are summarized as follows:

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

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

Transition Provision II of SUGEF Directive 19-16 indicates that starting July 2016 each entity must perform the monthly booking of the expense for the counter-cyclical component equivalent to a minimum of 7% of the difference between the balance of income accounts less expenses plus taxes and monthly statutory allocations, until the balance of the analytical account reaches the amount corresponding to the counter-cyclical allowance provided in the regulations (¢11,048,339,155 based on the calculation of the counter-cyclical allowance made by management as of March 31, 2019). Once the entity reach that level, it shall continue booking the counter-cyclical account as indicated by this regulation.

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

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

As of March 31, 2019, the counter-cyclical allowance booked amounts to ¢10,183,740,872 (2018: ¢6,786,401,486).

Credit equivalent

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

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

Allowance for other assets

Allowances should be established for the following assets:

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

As of March 31, 2019, the carrying amount of the allowance for impairment of foreclosed assets and per legal requirements amounts to ¢58,110,159,583 (2018: ¢62,697,900,352).

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

Sector		Direct		Stand-by	
		March 2019	March 2018	March 2019	March 2018
Trade	¢	382,901,088,638	412,698,199,856	2,489,091	3,349,183
Services		932,475,574,370	913,974,088,601	59,786,090,187	66,090,609,580
Financial services		131,603,345,620	132,909,531,254	-	-
Mining		897,868,916	899,931,430	-	-
Manufacturing and quarrying		191,261,242,936	185,827,523,999	-	-
Construction		108,607,860,448	110,811,134,822	-	-
Agriculture and forestry		115,177,612,427	121,207,894,729	945,291	583,609
Livestock, hunting, and fishing		81,789,031,666	84,689,746,724	-	-
Electricity, water, sanitation, and other related sectors		411,487,034,566	437,743,476,129	-	-
Transportation and telecommunications		43,859,951,904	45,128,721,817	-	-
Housing		1,321,745,594,329	1,304,442,207,939	20,359,605	17,793,234
Personal or consumer		578,989,664,731	560,412,275,321	287,849,324,354	282,483,437,122
Tourism		188,893,197,102	182,930,188,816	180,272,318	193,941,014
	¢	<u>4,489,689,067,653</u>	<u>4,493,674,921,437</u>	<u>347,839,480,846</u>	<u>348,789,713,742</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 2019	March 2018	March 2019	March 2018
Central America	¢	<u>4,489,689,067,653</u>	<u>4,493,674,921,437</u>	<u>347,839,480,846</u>	<u>348,789,713,742</u>

The loan portfolio by type of guarantee is as follows:

Guarantee		Direct		Stand-by	
		March 2019	March 2018	March 2019	March 2018
Back to back	¢	17,302,298,533	15,883,486,972	596,040	562,400
Mortgage bond		167,183,781	299,083,288	-	-
Assignment of loans		329,166,926,052	322,489,564,387	406,455	-
Mortgage		1,783,216,491,875	1,804,210,241,084	162,025,574	159,947,139
Surety		894,714,459,159	928,326,487,084	7,267,609	-
Trust		517,517,045,935	477,867,193,129	-	19,511,073
Securities		28,081,541,561	28,351,475,087	-	-
Chattel mortgage		268,699,906,186	257,472,825,527	-	-
Other		650,823,214,571	658,774,564,879	347,669,185,168	348,609,693,130
	¢	<u>4,489,689,067,653</u>	<u>4,493,674,921,437</u>	<u>347,839,480,846</u>	<u>348,789,713,742</u>

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, 2019 and 2018, 58.00% and 57.50% of the loan portfolio is secured by collateral guarantees, respectively.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

Loan portfolio concentration		Direct		Stand-by	
		March 2019	March 2018	March 2019	March 2018
¢1 to ¢3,000,000	¢	164,449,612,169	163,241,541,560	109,832,205,651	105,154,304,568
¢3,000,001 to ¢15,000,000		634,694,580,030	627,204,028,350	176,932,400,661	176,453,608,642
¢15,000,001 to ¢30,000,000		468,491,015,572	470,831,732,453	6,321,667,549	6,394,060,071
¢30,000,001 to ¢50,000,000		476,815,434,149	479,542,907,973	2,121,281,638	2,201,027,057
¢50,000,001 to ¢75,000,000		402,969,631,589	384,325,078,424	1,816,922,898	2,219,365,572
¢75,000,001 to ¢100,000,000		201,881,643,606	192,265,836,416	705,697,903	1,581,407,620
¢100,000,001 to ¢200,000,000		242,242,703,151	237,918,266,152	2,965,690,421	3,640,324,222
More than ¢200,000,000		1,898,144,447,387	1,938,345,530,109	47,143,614,125	51,145,615,990
	¢	<u>4,489,689,067,653</u>	<u>4,493,674,921,437</u>	<u>347,839,480,846</u>	<u>348,789,713,742</u>

As of March 31, 2019 and 2018, the portion of the loan portfolio (direct and stand-by loans) corresponding to economic interest groups amounts to ¢588,752,633,195 and ¢483,679,828,215, respectively.

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

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

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

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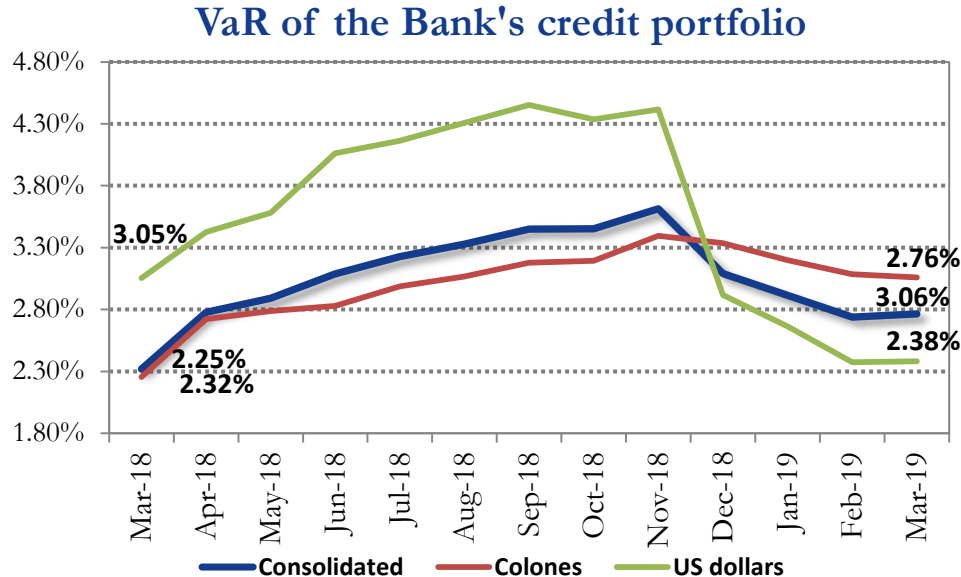
BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

The year-on-year growth observed in the VaR of the entire loan portfolio is due to the increase in arrears over 90 days between March 2018 and March 2019. The arrears over 90 days indicator increased from 2.59% to 3.04% during the aforementioned period, while legal collection decreased from 8.05% to 7.15%.

Based on the foregoing, by currency, the VaR of the portfolio in colones increased by 0.81% due to the increase in arrears. A similar behavior was observed in the portfolio in DU, with an increase in the VaR and increase in arrears. Regarding the portfolio in US dollars, the VAR decreased by 0.7% due to a considerable increase in legal collection between March 2018 and March 2019.



(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

As of March 31, the VaR of the Bank's loan portfolio by economic activity is as follows:

Activity	March 2019	March 2018
Agriculture	6.18%	4.34%
Livestock	3.88%	3.13%
Mining	8.55%	7.75%
Industry	3.53%	2.93%
Energy	1.88%	5.48%
Housing	1.84%	1.50%
Construction	4.62%	4.73%
Trade	3.96%	2.99%
Transportation	1.76%	1.32%
Financial services	0.32%	0.24%
Consumer	8.90%	4.81%
Services	1.78%	2.04%
Tourism	5.69%	5.48%
BNCR	2.76%	2.32%

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
- 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.

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

For the March 2019 close, the accounting records showed investments in colones, investments in instruments issued by local issuers in US dollars (\$CR), and investments in instruments issued by foreign issuers in US dollars (\$USA). The Brokerage Firm holds no investments in DU. By currency, most of the Brokerage Firm's financial instruments (68.34%) is concentrated in the portfolio denominated in colones.

With respect to the consolidated portfolio, investments in instruments issued by the Government of Costa Rica (64.94%) and BCCR (3.35%) comprise the portfolio in colones, representing 68.34% of the consolidated portfolio. Investments in instruments issued by the Government of Costa Rica comprise the portfolio in US dollars, representing 31.66% of the consolidated portfolio.

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

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

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

VaR is calculated through a procedure prepared by the Mathematical Modelling Risk Unit using the Matlab software. The information is stored in a folder shared by the Bank's Credit Risk Division. The results are communicated monthly in the consolidated risk report.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of March 31, 2019, the net assets managed by the Pension Fund Manager amount to ¢1,472,819 million (2018: ¢1,314,931 million), growing year-on-year by ¢157,887 million in nominal terms, equivalent to a growth rate of 12.01%. These data do not include the Pension Fund Manager's own assets.

The pension fund with the highest relative share is ROP, which represents 82.99% growing year-on-year by ¢135,625 million, an increase of 12.48% with respect to 2018.

As of March 31, 2019, the Pension Fund Manager's portfolio of own funds is represented by available-for-sale investments in the amount of ¢7,339 million (2018: ¢6.725 million).

As of March 31, 2019, the credit risk methodology is different from that used as of March 31, 2018, given that the VaR of credit is calculated using the financial copulas model. Consequently, it is not compared. As of March 31, 2019, the VaR of credit was 0.08% (¢6.02 million).

Consolidated VaR - One year Fund	As of March 31,	
	2019	2018
FCL	0.76%	1.49%
FPC A	1.09%	0.02%
FPC B	1.28%	3.64%
FPD A	4.01%	26.03%
FPD B	4.48%	32.78%
NOT	1.04%	0.00%
ROP	0.53%	5.90%
BN Vital (OPC)	0.08%	0.44%
FCLE	1.08%	4.98%
ROPE	0.89%	4.04%

(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 consolidated balance sheet.

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

As of March 31, 2019 and 2018, 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, 2019, investments in financial instruments correspond to the non-diversified investment fund in colones "*Fondo de Inversión BN FonDepósito Colones, No Diversificado*," which is secured by term certificates of deposit from BNCR. In addition, an investment was made in Monetary Stabilization Bonds issued by BCCR.

b) Liquidity risk

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

i. Banco Nacional de Costa Rica

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

<u>Indicator</u>	<u>March 2019</u>	<u>March 2018</u>	<u>Variation</u>	<u>Level</u>
LCR in colones	157.80%	108.51%	49.29%	Appetite
LCR in US dollars	255.20%	298.65%	(43.45)%	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, 2019, the terms of the Bank and its Subsidiaries' assets and liabilities denominated in local currency are matched as follows:

		Days							Total
		Past due	Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	
Cash and due from banks	¢	-	67,783,160,138	-	-	-	-	-	67,783,160,138
Minimum legal deposit in BCCR		-	326,288,579,773	24,711,709,897	23,741,096,917	22,348,635,765	78,387,202,649	60,637,654,020	562,118,928,104
Investments		-	-	2,626,153,788	2,127,311,267	1,871,114,749	55,128,320,596	52,610,603,214	485,017,831,573
Loan portfolio		203,055,481,917	-	56,263,492,040	43,790,508,554	37,442,476,205	100,694,721,967	144,463,225,407	3,098,087,201,924
Recovery of assets	¢	203,055,481,917	394,071,739,911	83,601,355,725	69,658,916,738	61,662,226,719	234,210,245,212	257,711,482,641	4,213,007,121,739
Obligations with the public	¢	-	1,794,433,853,519	168,533,275,581	136,759,113,433	128,150,756,626	493,822,373,438	446,016,417,396	3,317,366,634,427
Obligations with BCCR		-	-	-	-	-	-	-	125,644,412
Obligations with financial entities		-	85,188,779,395	55,771,861,495	23,495,851,182	5,745,683,888	45,393,005,290	1,615,062,826	33,886,357,060
Charges payable		-	9,073,991,341	8,617,058,052	3,483,842,725	2,504,248,457	6,909,165,998	1,592,405,501	465,114,829
Maturity of liabilities		-	1,888,696,624,255	232,922,195,128	163,738,807,340	136,400,688,971	546,124,544,726	449,223,885,723	184,127,960,735
Difference	¢	203,055,481,917	(1,494,624,884,344)	(149,320,839,403)	(94,079,890,602)	(74,738,462,252)	(311,914,299,514)	(191,512,403,082)	2,724,907,712,141

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

		Days							Total
		Past due	Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	
Cash and due from banks	¢	-	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
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	79,311,645,378
Obligations with BCCR		-	-	-	-	-	-	-	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	35,698,870,701
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	247,665,723
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	115,383,826,214
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)	2,661,793,936,515
									561,767,603,079

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of March 31, 2019, the terms of the Bank and its Subsidiaries' assets and liabilities denominated in foreign currency, expressed in local currency, are matched as follows:

		Days							Total
		Past due	Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	
Cash and due from banks	¢	-	141,002,997,850	-	-	-	-	-	141,232,155,327
Minimum legal deposit in BCCR		-	181,877,584,731	9,366,077,762	11,747,391,922	13,395,867,627	32,471,605,580	18,826,116,746	321,227,410,076
Investments		-	-	21,319,722,245	231,831,834,284	23,729,689,812	27,094,990,809	85,008,224,202	607,347,247,554
Loan portfolio		118,452,778,327	-	37,785,976,695	20,847,787,255	24,497,946,715	64,413,728,560	73,604,924,998	1,391,601,865,729
Recovery of assets	¢	118,452,778,327	322,880,582,581	68,471,776,702	264,427,013,461	61,623,504,154	123,980,324,949	177,439,265,946	2,461,408,678,686
Obligations with the public	¢	-	989,759,305,089	115,525,207,803	85,325,455,505	52,935,604,466	192,977,060,582	137,984,979,962	1,660,772,791,190
Obligations with financial entities		-	103,336,248,611	10,615,472,400	9,357,828,000	3,793,665,855	13,732,761,600	61,425,498	737,885,003,695
Charges payable		-	2,124,605,979	7,108,042,300	8,869,769,570	2,080,133,879	948,405,383	690,740,552	22,371,538,819
Maturity of liabilities	¢	-	1,095,220,159,679	133,248,722,503	103,553,053,075	58,809,404,200	207,658,227,565	138,737,146,012	2,421,029,333,704
Difference	¢	118,452,778,327	(772,339,577,098)	(64,776,945,801)	160,873,960,386	2,814,099,954	(83,677,902,616)	38,702,119,934	40,379,344,982

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

		Days									
		Past due	Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	More than 365	Total	
Cash and due from banks	¢	30,168,353	329,232,758,175	-	-	-	-	-	99,191,713	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	46,855,055,405	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	252,394,449,197	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	1,112,421,875,565	1,496,655,347,930	
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	1,411,770,571,880	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	64,370,576,753	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	639,560,851,373	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	299,095,641	28,645,612,884	
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	704,230,523,767	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)	707,540,048,113	119,267,565,180	

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

(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.

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Liquidity ratio Fund	As of March 31		Variation
	2019	2018	
FCL	9.66	7.93	1.73
FPC A	6.44	4.29	2.15
FPC B	3.91	7.44	(3.53)
FPD A	3.95	7.53	(3.58)
FPD B	4.36	8.52	(4.16)
NOT	12.53	21.16	(8.63)
ROP	18.86	11.41	7.45
FCL Erroneous	3.51	18.45	(14.94)
ROP Erroneous	16.17	27.70	(11.53)

Liquidity risk management

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

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

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

Exposure to liquidity risk:

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

v. BN Corredora de Seguros, S.A.

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

c) Market risks

i. Banco Nacional de Costa Rica.

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

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

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

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

<u>Currency</u>	<u>Face value of investments by currency</u>		<u>Variation</u>
	<u>March 2019</u>	<u>March 2018</u>	
Colones	421,224,700,000	422,275,794,400	(1,051,094,400)
US dollars - local	225,261,000	413,654,000	(188,393,000)
US dollars - intl	722,349,592	711,831,036	10,518,556
Euro	3,000,000	11,000,000	(8,000,000)
DU	-	21,082,530	(21,082,530)

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

<u>Duration</u>	<u>March 2019</u>	<u>March 2018</u>	<u>Variation</u>
Colones	0.72	0.70	0.02
US dollars - local	0.83	0.81	0.01
US dollars - intl	0.82	1.06	(0.24)
Euro	0.01	0.69	(0.68)
DU	-	1.25	(1.25)

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Market risk management

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

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

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

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

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

Market risk exposure – trading portfolio:

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

	March 2019	March 2018
VaR (99% confidence level)	0.43%	0.28%

Fair values

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

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

As of March 31, 2019 and 2018, the carrying amount of the following financial instruments approximates fair value: cash, investments in financial instruments, interest receivable, obligations under repurchase agreements, interest payable, fees and commissions, and other accounts payable. Investments are carried at the fair value determined using the method described above.

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

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

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

Price risk exposure:

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

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

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

v. BN Corredora de Seguros, S.A.

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

- Market risk of investments

i. Banco Nacional de Costa Rica

The Bank's consolidated VaR regarding the market value of investments is at the risk appetite level. There was a decrease during the last year, mainly caused by movement in yield curves.

<u>Type of risk</u>	<u>March 2019</u>	<u>March 2018</u>	<u>Variation</u>
Consolidated VaR	0.25%	0.51%	(0.26)%

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

<u>Currency</u>	<u>VaR by currency</u>		
	<u>March 2019</u>	<u>March 2018</u>	<u>Variation</u>
Colones	0.37%	0.36%	0.01%
US dollars - local	0.81%	0.26%	0.55%
US dollars - intl	0.33%	0.40%	(0.07)%
Euro	0.00003%	0.004%	0.00%
DU	0.00%	0.28%	(0.28)%

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- Interest rate risk

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

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

<u>Type of risk</u>	<u>March 2019</u>	<u>March 2018</u>	<u>Variation</u>	<u>Level</u>
Interest rate risk in colones	0.11%	0.26%	(0.15)%	Normal
Interest rate risk in foreign currency	0.59%	0.86%	(0.27)%	Normal

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of March 31, 2019, the interest rate terms for the Bank's assets and liabilities (differences between the recovery of assets and the maturity of liabilities) are matched as follows:

		1 to 30 days	31 to 90 days	91 to 180 days	181 to 360 days	361 to 720 days	More than 720 days	Total
<i>Local currency (LC)</i>								
Investments	¢	2,576,021,730	3,918,936,380	55,109,431,789	52,608,941,369	58,547,271,581	311,825,237,422	484,585,840,271
Loan portfolio		2,618,305,724,319	104,745,599,496	100,040,156,816	15,086,842,779	16,105,179,678	67,779,622,895	2,922,063,125,983
Recovery of rate-sensitive assets in LC (A)	¢	2,620,881,746,049	108,664,535,876	155,149,588,605	67,695,784,148	74,652,451,259	379,604,860,317	3,406,648,966,254
Obligations with the public	¢	196,982,521,403	290,951,469,944	550,412,832,720	444,343,972,906	88,786,555,810	61,974,133,239	1,633,451,486,022
Obligations with BCCR		-	-	-	-	-	125,644,412	125,644,412
Obligations with financial entities in LC		42,187,115,163	3,850,000,000	-	-	-	34,195,569,244	80,232,684,407
Maturity of rate-sensitive liabilities in LC (B)	¢	239,169,636,566	294,801,469,944	550,412,832,720	444,343,972,906	88,786,555,810	96,295,346,895	1,713,809,814,841
Difference in LC, recovery of assets less maturity of liabilities (A - B)	¢	2,381,712,109,483	(186,136,934,068)	(395,263,244,115)	(376,648,188,758)	(14,134,104,551)	283,309,513,422	1,692,839,151,413
<i>Foreign currency (FC)</i>								
Investments	¢	21,275,563,047	249,524,079,811	33,012,849,049	79,033,969,685	96,459,886,221	122,837,146,971	602,143,494,784
Loan portfolio		1,170,119,306,463	43,546,978,006	25,469,090,149	2,800,063,565	23,394,671,473	64,951,330,529	1,330,281,440,185
Recovery of rate-sensitive assets in FC (C)	¢	1,191,394,869,510	293,071,057,817	58,481,939,198	81,834,033,250	119,854,557,694	187,788,477,500	1,932,424,934,969
Obligations with the public	¢	129,349,982,745	147,004,836,110	209,910,077,253	134,468,193,058	46,711,874,745	538,846,600,764	1,206,291,564,675
Obligations with financial entities		14,304,960,000	5,203,689,723	133,466,040	-	4,470,300,000	90,408,539,280	114,520,955,043
Maturity of rate-sensitive liabilities in FC (D)	¢	143,654,942,745	152,208,525,833	210,043,543,293	134,468,193,058	51,182,174,745	629,255,140,044	1,320,812,519,718
Difference in FC, recovery of assets less maturity of liabilities (C - D)	¢	1,047,739,926,765	140,862,531,984	(151,561,604,095)	(52,634,159,808)	68,672,382,949	(441,466,662,544)	611,612,415,251
Recovery of rate-sensitive assets 1/ (A + C)	¢	3,812,276,615,559	401,735,593,693	213,631,527,803	149,529,817,398	194,507,008,953	567,393,337,817	5,339,073,901,223
Maturity of rate-sensitive liabilities 2/ (B + D)	¢	382,824,579,311	447,009,995,777	760,456,376,013	578,812,165,964	139,968,730,555	725,550,486,939	3,034,622,334,559
LC + FC difference, recovery of assets less maturity of liabilities (item 1 - item 2)	¢	3,429,452,036,248	(45,274,402,084)	(546,824,848,210)	(429,282,348,566)	54,538,278,398	(158,157,149,122)	2,304,451,566,664

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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
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
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
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 financial entities		2,249,600,000	1,547,726,363	128,596,342	-	-	94,632,739,421	98,558,662,126
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
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
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
LC + FC difference, 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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

For the Investment Fund Manager, interest rate risk in respect of cash flows and fair value are the risks that the future cash flows and the fair value of a financial instrument will fluctuate as a result of changes in market interest rates.

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

In general, the Pension Fund Manager sought to maintain the average term to maturity for investments in colones in order to receive the highest real returns, which were unusually high during the year (due to relatively low inflation).

The consolidated VaR of the Pension Fund Manager's own funds presented a maximum of 0.64% and a minimum of 0.04%, for an average of 0.38%, equivalent to ₡28.13 million. As of March 31, 2019, the indicator closed at 0.46% (2018: 0.25%). There is an increase in the indicator due to the proportion of the portfolio in fixed-rate instruments, given that this indicator shows volatility in the portfolio of investments with market interest rates.

iv. BN Corredora de Seguros, S.A.

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

• Currency risk

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

i. Banco Nacional de Costa Rica

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

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

<u>Type of risk</u>	<u>March 2019</u>	<u>March 2018</u>	<u>Variation</u>	<u>Level</u>
Currency risk	0.05%	0.45%	(0.40) %	Appetite

Assets and liabilities denominated in foreign currency are as follows:

		US dollars	
		March 2019	March 2018
<u>Assets:</u>			
Cash and due from banks	US\$	732,317,372	1,098,268,268
Investments in financial instruments		1,015,547,151	1,162,952,688
Loan portfolio		2,262,806,311	2,522,034,714
Accounts and accrued interest receivable		289,825	478,524
Investments in other companies		110,842,722	110,573,673
Other assets		7,152,686	6,781,048
	US\$	4,128,956,067	4,901,088,915
<u>Liabilities:</u>			
Obligations with the public	US\$	2,745,134,182	2,712,188,155
Obligations with entities		1,262,013,910	1,979,002,456
Accounts payable and provisions		32,240,010	35,424,978
Other liabilities		26,020,107	26,379,305
Subordinated obligations		131,202,913	131,210,090
	US\$	4,196,611,122	4,884,204,984
(Deficit) excess of assets over liabilities in US dollars	US\$	(67,655,055)	16,883,931

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		Euro	
		March 2019	March 2018
<u>Assets:</u>			
Cash and due from banks	€	38,800,995	35,276,851
Investments in financial instruments		3,048,789	11,246,890
	€	41,849,784	46,523,741
<u>Liabilities:</u>			
Obligations with the public	€	39,298,924	43,873,122
Obligations with entities		1,093,274	1,479,059
Accounts payable and provisions		319,824	221,795
	€	40,712,022	45,573,976
Excess of assets over liabilities in euro	€	1,137,762	949,765

		DU	
		March 2019	March 2018
<u>Assets:</u>			
Investments in financial instruments	UD	-	21,082,531
Loan portfolio		6,849,971	12,953,134
	UD	6,849,971	34,035,665
<u>Liabilities:</u>			
Accounts payable and provisions	UD	441,623	692,012
Other liabilities		1,537	2,946
	UD	443,160	694,958
Excess of assets over liabilities in DU	UD	6,406,811	33,340,707

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 2019	March 2018
Foreign exchange gain	¢ 66,487,990,792	29,470,067,308
Foreign exchange loss	(65,137,919,493)	(28,920,892,043)
Net gain	¢ 1,350,071,299	549,175,265

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

	March 2019	March 2018
Gain on net valuation of other assets (Note 37)	¢ 279,698,389	127,038,214
Loss on net valuation of other liabilities (Note 40)	(192,468,940)	(64,393,021)
Net gain	¢ 87,229,449	62,645,193

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

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

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

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

As of March 31, 2019, 4.05% of the Pension Fund Manager's portfolio of own funds is represented by investments in US dollars. By adding cash and due from banks denominated in foreign currency, the percentage increases to 4.82% (¢364.74 million) compared to the close as of March 31, 2018 at 3.53% (¢244.65 million), considering cash and due from banks and bonded debt, which is a relatively low currency risk for the size of the managed portfolio.

v. BN Corredora de Seguros, S.A.

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

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

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

d) Operational risk

i. Banco Nacional de Costa Rica

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

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

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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



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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

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

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

- Identification: Tools have been developed to accurately identify the different risks associated with each of the Investment Fund Manager's fundamental processes. Each process was analyzed together with any related processes to formulate a risk portfolio for the entire company. As a first step, the risks included in that portfolio were grouped by type and by class.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

Fair value of financial instruments

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

- appropriate segregation of duties, including the independent authorization of transactions
- requirements for effective reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- communication and application of conduct guidelines or ethical standards
- monitoring of risks using measurement tools
- reporting of operational losses and proposed remedial action
- comprehensive planning for resuming activities, including plans to restore key operations and internal and external support to ensure services are not interrupted
- personnel training.

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

As of March 31, 2019, the Bank's General Risk Division presented the results of the VaR by legal risk for the Pension Fund Manager, indicating that the amount to be provisioned is the EL of ¢7,476,785 that covers the main lawsuits against the Pension Fund Manager out of seven pending lawsuits, most of which are in first instance.

v. BN Corredora de Seguros, S.A.

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

Capital management

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

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

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

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

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

As of March 31, 2019 and 2018, the Bank's risk rating is at a normal level since its capital adequacy ratio is above the required 10% ratio.

(47) Contingencies

As of 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	
	2019	2018		2019	2018
Bank	256	247	First instance	¢ 255,323,292,455	239,896,092,326
	16	18	Second instance	20,060,272,493	18,915,107,289
	8	6	Appeal	5,854,865,346	3,615,000,000
	-	1	Administrative proceedings (Note 48)	-	38,458,424,266
	<u>280</u>	<u>272</u>		<u>281,238,430,294</u>	<u>300,884,623,881</u>
Pension Fund Manager	7	1	First instance	8,064,491	23,000,000
Investment Fund Manager	1	1	First instance	133,004,706	185,355,667
	<u>288</u>	<u>274</u>	(Note 22)	¢ <u>281,379,499,491</u>	<u>301,092,979,548</u>

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

Number of cases		Phase	Total estimated amount	
2019	2018		2019	2018
293	153	First instance	¢ 110,784,099,273	720,109,969,665
1	-	Second instance	375,839,600	-
294	153		¢ 111,159,938,873	720,109,969,665

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, 2019, the Bank has a provision in the amount of ¢744,848,327 for lawsuit No. 15-008666-1027-CA. It has not booked a provision for the other two lawsuits, given that the legal counsel indicated that such proceedings do not need to be included in the calculation of the provision since the probability of a loss is low.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The following lawsuits are also worth noting:

- File No.: 14-003379-1027-CA
 - ✓ Statement of facts: The plaintiffs seek that the Bank be ordered to pay damages caused to all the plaintiffs and to pay compensation for pain and suffering caused due to the inability to acquire decent housing, as a result of apparent anomalies regarding the management of credits to Grupo Zion, S.A. to build the Bariloche Real condominium. Additionally, it has had media coverage.
 - ✓ Current status: The resolution of April 10, 2018, at 17:15, ordered the separation of the case into separate files for each of the group members. This resolution was unsuccessfully challenged by the plaintiff's representatives. A number of separate lawsuits were presented to the Bank, which is in the process of filing the corresponding responses, and some preliminary hearings have been summoned.
- File No.: 08-000388-0419-AG
 - ✓ Court: Agrarian Court of Corredores
 - ✓ Statement of facts: The proceedings seek to declare the liability of CORBANA, as Trustee of a banana plantation Management Trust, in which the Bank was the Trust Beneficiary.
 - ✓ Current status: Vote No. 055-F-18 of January 31, 2018, at 11:55, denied the negative statute of limitations exception, in its commercial and decennial common modality. The judge of first instance must issue a ruling on the appeal concerning new facts and claims of the case, as applicable. Since the parties did not agree with the resolution, all parties filed appeals for review before the First Chamber. No activity to date.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- File No.: 08-000232-0419-AG
 - ✓ Court: Agrarian Court of Corredores
 - ✓ Statement of facts: This process was filed by the Bank against Surcoop R.L. It seeks to nullify the auction, awarding, and registration of lots of the Agrarian Court of Corredores processed through file No. 97-010656-1701 AG.
 - ✓ Current status: The Bank appeared before the First Chamber in relation to the appeal for review filed by the plaintiff. A resolution by the First Chamber is pending.

- File No.: 08-001455-1027-CA
 - ✓ Court: Administrative Court and Civil Litigation Court of the Public Treasury
 - ✓ Statement of facts: External notaries that filed a lawsuit against the Bank due to the termination of their contracts for professional services, since they consider that their contracts were for indefinite terms and they had an acquired right.
 - ✓ Current status: The Bank won the trial. The execution of judgment to collect the legal costs from the plaintiffs was submitted. The execution was approved by the Administrative Court and was declared final by the Administrative Court of Appeals. Once the term for payment elapsed, a request for seizure was filed for those plaintiffs who did not deposit the corresponding amount. The Judge in charge of the execution will coordinate directly with the Treasurer of the law firm to issue a final determination of who have made the payment and who have not, so as to issue the corresponding requests for seizure.

- File No.: 11-001042-0612-PE
 - ✓ Court: Office of Economic, Tax, and Customs Crimes
 - ✓ Statement of facts: Irregularities were reported with respect to the company Zion and the process to grant credits to that company, misuse of resources, presentation of fake documents to the Bank to obtain credit approval, and the apparent participation of some of the employees of Bank.
 - ✓ Current status: The public prosecutor's office has a final document, in which the Bank was not included as victim. A motion for declaration of procedural defects was filed, so that the accusation can be brought to the Bank's attention. There is a civil lawsuit against the Bank, but it does not hold because the accused (bank employees) were summoned to a testimony. Until the legal status of those individuals is defined they cannot be part of a civil lawsuit.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(48) Significant events

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

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

On October 12, 2016, the National Large Taxpayer Audit Area issued Notice of Deficiency and Observations No. 1-10-15-14-009-041-03, which details the tax payment in accordance with the tax base declared by the Bank for tax periods 2010, 2011, 2012, and 2013, assessing a tax liability in the amount of ¢29,089,100,723 and interest calculated as of that date in the amount of ¢9,369,323,543, for a total of ¢38,458,424,266.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

On January 30, 2018, the National Large Taxpayer Audit Area issued Regularization Proposal No. DGCN-SF-PD-18-2017-1-341-03 with details on the tax adjustments or corrections to the tax base declared by the Bank for fiscal years 2014, 2015, and 2016, for a total tax amount pending declaration of ₡35,999,804,522, calculating the corresponding interest as of that date of ₡7,281,607,516, for a total of ₡43,281,406,038.

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

b) Dividends paid to the Bank

Dividends of the subsidiaries are as follows:

Subsidiary	Amount	
	March 2019	March 2018
BN Corredora de Seguros, S.A.	-	279,880,852
BN Sociedad Administradora de Fondos de Inversión, S.A.	-	914,468,820
BN Valores Puesto de Bolsa, S.A.	-	675,205,850
BN Vital Operadora de Planes de Pensiones Complementarias, S.A.	-	560,939,777
	-	2,430,495,299

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

Through various resolutions, CONASSIF agreed to partial adoption starting January 1, 2004 of IFRS 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 IFRS and the corresponding Interpretations issued by the IASB in effect as of January 1, 2008, except for the special treatment indicated in Chapter II of the aforementioned Regulations.

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

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

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

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

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

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Notes to the Consolidated Financial Statements

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, IFRS 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.

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Additionally, SUGEF has allowed certain regulated entities to convert (capitalize) revaluation surplus into share capital. This Standard only permits realization of revaluation surplus through the sale or depreciation of the asset. As a result of this treatment, regulated entities must recognize the effect of any impaired fixed assets in profit or loss, since the effect cannot be 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.

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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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

g) IAS 27: Consolidated and Separate Financial Statements

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.

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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 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.

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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 loan portfolio allowance.

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

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Notes to the Consolidated Financial Statements

Regular-way 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.

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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.

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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.

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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 IFRS. 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.

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 to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This Standard replaces IFRS 4 Insurance Contracts. It is effective for annual periods beginning on or after January 1, 2021. Early application is permitted for those entities that will perform the early adoption of IFRS 9 and IFRS 15. This Standard has not been adopted by CONASSIF.

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.

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 the CONASSIF. However, Article 10 of the *Regulations on Financial Information* provides that in the event of a dispute of a specific tax treatment by the Tax Authorities, which begins with a notice of deficiency, the entity must:

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

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

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

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Notes to the Consolidated Financial Statements

(50) Disclosure of economic impact of departure from IFRS

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

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