

**BANCO NACIONAL DE COSTA RICA
AND SUBSIDIARIES**

Financial Information Required by the
Superintendency General of Financial Entities

Consolidated Financial Statements

September 30, 2016
(With corresponding figures for 2015)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
AS OF SEPTEMBER 30, 2016 AND 2015 AND DECEMBER 31, 2015
(In colones)

	Note	September 2016	December 2015	September 2015
ASSETS				
Cash and due from banks	4	1,003,880,473,885	850,267,856,821	813,943,459,272
Cash		67,682,875,136	79,938,812,261	65,659,092,757
Demand deposits in BCCR		707,004,566,932	640,340,750,042	625,121,103,557
Demand deposits in local financial entities		5,943,959,835	20,425,072,298	5,400,216,655
Demand deposits in foreign financial entities		160,263,357,653	103,283,890,249	108,558,782,910
Other cash and due from banks		62,985,684,035	6,279,291,698	9,204,262,330
Accrued interest receivable		30,294	40,273	1,063
Investments in financial instruments	5	1,094,732,400,650	1,148,614,214,346	1,187,555,743,967
Available-for-sale		1,032,354,330,727	1,098,274,577,490	1,129,765,253,180
Held-to-maturity		27,339,403,487	27,030,439,007	27,188,241,745
Derivative financial instruments		27,534,312,647	13,103,031,815	21,697,958,692
Accrued interest receivable		7,563,586,888	10,340,806,695	8,987,691,792
(Allowance for impairment of investments in financial instruments)		(59,233,099)	(134,640,661)	(83,401,442)
Loan portfolio	6	3,915,853,074,728	3,663,687,932,586	3,502,818,146,475
Current		3,745,526,329,529	3,490,768,356,493	3,326,159,219,469
Past due		133,976,992,371	124,446,457,751	130,807,008,226
In legal collection		90,058,289,060	86,287,327,716	82,230,170,323
Accrued interest receivable		28,068,739,498	25,154,673,605	25,256,781,577
(Allowance for loan losses)	6-f	(81,777,275,730)	(62,968,882,979)	(61,635,033,120)
Accounts and fees and commissions receivable	7	2,996,580,836	2,364,950,917	2,842,757,736
Fees and commissions receivable		1,138,547,880	1,073,457,946	1,023,648,612
Accounts receivable for brokerage operations		10,982,311	34,120	37,957,126
Accounts receivable for transactions with related parties		167,647,533	180,506,172	85,744,231
Deferred tax and income tax receivable		1,181,620,326	3,462,398,022	3,759,504,315
Other receivables		4,128,419,648	3,567,482,304	3,775,742,354
Accrued interest receivable		2,203,805	1,990,138	1,830,738
(Allowance for impairment of accounts and fees and commissions receivable)		(3,632,840,667)	(5,920,917,785)	(5,841,669,640)
Foreclosed assets	8	17,285,648,387	17,416,744,581	17,521,083,339
Assets and securities acquired in lieu of payment		78,922,759,508	78,575,996,987	78,484,156,005
Other foreclosed assets		627,277	1,770,509	1,770,510
(Allowance for impairment of foreclosed assets and per legal requirements)		(61,637,738,398)	(61,161,022,915)	(60,964,843,176)
Investments in other companies	9	57,429,260,382	53,559,078,256	53,075,748,822
Property, furniture and equipment, net	10	174,660,028,604	178,027,486,757	183,067,677,673
Other assets	11	37,594,927,486	34,132,369,067	40,901,357,365
Deferred charges		12,309,294,210	12,659,880,978	16,157,010,925
Intangible assets		3,286,491,867	3,991,214,261	4,051,791,159
Other assets		21,999,141,409	17,481,273,828	20,692,555,281
TOTAL ASSETS		6,304,432,394,958	5,948,070,633,331	5,801,725,974,649

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 SEPTEMBER 30, 2016 AND 2015 AND DECEMBER 31, 2015
(In colones)

	Note	September 2016	December 2015	September 2015
LIABILITIES AND EQUITY				
LIABILITIES				
Obligations with the public	12	4,135,068,475,728	3,968,907,321,801	3,889,335,033,355
Demand obligations		2,414,667,091,792	2,476,060,368,987	2,315,405,530,369
Term obligations		1,658,317,442,086	1,435,677,785,115	1,520,555,874,739
Other obligations		38,787,798,303	36,683,915,704	31,571,893,580
Charges payable		23,296,143,547	20,485,251,995	21,801,734,667
Obligations with BCCR	13	125,644,412	125,644,412	125,644,412
Term obligations		125,644,412	125,644,412	125,644,412
Obligations with entities	14-a	1,285,231,164,160	1,210,085,341,685	1,155,198,728,396
Demand obligations		213,109,082,323	272,574,469,925	229,387,105,760
Term obligations		1,049,901,747,201	930,461,049,359	910,985,216,613
Finance charges payable		22,220,334,636	7,049,822,401	14,826,406,023
Accounts payable and provisions		127,246,174,542	117,301,237,647	115,875,116,121
Accounts payable for brokerage services		797,343,903	1,255,898,777	642,227,189
Deferred tax	15-c	12,120,539,810	15,312,711,171	16,783,726,446
Provisions	16	29,635,106,319	35,921,720,140	30,229,141,931
Other sundry accounts payable	17	84,693,184,510	64,810,907,559	68,220,020,555
Other liabilities	18	103,559,008,874	42,411,442,867	37,384,189,446
Deferred income		21,311,103,866	14,717,958,057	12,862,653,589
Allowance for stand-by credit losses		1,769,455,707	1,545,597,997	1,536,210,630
Other liabilities		80,478,449,301	26,147,886,813	22,985,325,227
Subordinated obligations	14-b	71,624,223,687	70,347,385,713	69,228,621,502
Subordinated obligations		71,022,900,000	69,152,200,000	68,720,600,000
Finance charges payable		601,323,687	1,195,185,713	508,021,502
TOTAL LIABILITIES		5,722,854,691,403	5,409,178,374,125	5,267,147,333,232
EQUITY				
Share capital		118,130,303,482	118,130,303,482	118,130,303,482
Paid-in capital	19-a	118,130,303,482	118,130,303,482	118,130,303,482
Equity adjustments		69,154,961,916	73,595,044,363	76,462,665,008
Surplus from revaluation of property	19-b	60,806,752,437	63,572,929,305	68,571,839,670
Adjustment for valuation of available-for-sale investments	19-c	2,545,359,828	3,303,224,869	2,104,437,503
Adjustment for valuation of restricted financial instruments	19-c	(2,451,884,702)	(435,415,249)	(1,068,988,657)
Surplus from revaluation of other assets		69,678,787	69,678,787	69,678,787
Adjustment for valuation of investments in other companies	1-d (iv), 19-d	8,185,055,566	7,084,626,651	6,785,697,705
Equity reserves	19-e	273,305,122,640	247,784,553,250	248,457,997,514
Prior period retained earnings		55,415,912,371	44,435,719,699	45,534,870,270
Income for the year		43,821,583,826	36,801,775,377	27,846,729,903
Equity of the Development Financing Fund	19-f	21,749,819,320	18,144,863,035	18,146,075,240
TOTAL EQUITY		581,577,703,555	538,892,259,206	534,578,641,417
TOTAL LIABILITIES AND EQUITY		6,304,432,394,958	5,948,070,633,331	5,801,725,974,649
DEBIT MEMORANDA ACCOUNTS	20	555,140,039,908	520,000,578,556	519,776,281,428
TRUST ASSETS	21	1,059,937,685,102	986,889,695,199	933,775,195,905
TRUST LIABILITIES		43,765,666,157	47,653,258,628	62,229,206,918
TRUST EQUITY		1,016,172,018,945	939,236,436,571	871,545,988,987
TRUST MEMORANDA ACCOUNTS		28,753,445,596	20,926,149,777	16,885,236,491
OTHER DEBIT MEMORANDA ACCOUNTS	22	19,305,550,195,361	18,797,308,347,367	19,165,537,311,547
Own debit memoranda accounts		7,261,272,097,964	6,989,146,202,238	7,574,014,804,707
Third-party debit memoranda accounts		2,279,212,041,378	2,111,396,136,345	2,142,754,644,281
Own debit memoranda accounts for custodial activities		384,671,728,050	393,349,566,832	329,881,276,167
Third-party debit memoranda accounts for custodial activities		9,380,394,327,969	9,303,416,441,952	9,118,886,586,392

Juan Carlos Corrales Salas
General Manager

Gerardo Gómez Solís
General Accountant

Ricardo Araya Jiménez
General Auditor

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

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015
(In colones)

	Note	September 2016	September 2015	Three months ended September 30,	
				2016	2015
Finance income					
Cash and due from banks	26	566,397,932	271,920,005	154,432,631	70,896,578
Investments in financial instruments	26	36,742,268,977	36,607,610,788	13,810,445,975	12,264,155,010
Loan portfolio	27	260,482,132,337	246,582,114,575	89,362,039,564	84,552,442,198
Gain on foreign exchange differences and development units, net	42-c	-	68,977,524	-	(90,111,616)
Gain on available-for-sale financial instruments		1,003,024,972	1,597,799,026	267,530,590	767,410,448
Gain on derivative financial instruments, net	5-b	17,902,526,330	15,392,686,397	(5,392,780,826)	12,521,304,926
Other finance income	28	16,662,057,004	20,660,342,355	9,369,306,545	1,218,100,735
Total finance income		333,358,407,552	321,181,450,670	107,570,974,479	111,304,198,279
Finance expense					
Obligations with the public	29	80,137,373,670	83,476,370,025	26,946,847,897	27,566,827,676
Obligations with BCCR		-	556,658	-	74,919
Obligations with financial entities		40,980,110,780	34,857,861,985	15,308,292,642	11,653,355,846
Subordinated, convertible, and preferred obligations		2,990,174,694	2,745,868,598	1,117,665,342	918,633,331
Loss on foreign exchange differences and development units, net	42-c	1,087,974,936	-	122,436,135	-
Loss on available-for-sale financial instruments		32,056,062	80,367,896	672,920	33,522,814
Other finance expense	14-a	28,371,618,003	27,110,743,535	1,738,195,992	11,475,833,423
Total finance expense		153,599,308,145	148,271,768,697	45,234,110,928	51,648,248,009
Allowance for impairment of assets	30	28,072,655,143	27,017,989,367	9,939,823,121	3,465,495,454
Recovery of assets and decrease in allowances	31	9,418,618,029	9,251,391,121	4,598,771,615	2,662,262,590
FINANCE INCOME		161,105,062,293	155,143,083,727	56,995,812,045	58,852,717,406
Other operating income					
Service fees and commissions	32	88,870,222,766	81,599,240,668	29,631,600,199	27,495,282,600
Foreclosed assets		5,901,134,127	1,277,706,323	3,273,112,525	476,750,446
Gain on investments in other foreign companies	1-a, 3	2,072,446,755	3,687,775,920	494,885,964	972,870,008
Gain on investments in other local companies		16,313,452	4,394,615	-	-
Foreign currency exchange and arbitrage		18,317,334,312	17,827,994,108	5,932,796,525	6,086,556,578
Other income with related parties		-	19,840	-	19,840
Other operating income	33	19,571,128,659	13,328,022,471	2,773,565,031	2,102,220,306
Total other operating income		134,748,580,071	117,725,153,945	42,105,960,244	37,133,699,778

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015
(In colones)

	Note	September 2016	September 2015	Three months ended September 30,	
				2016	2015
Other operating expenses					
Service fees and commissions		4,867,752,351	4,532,404,117	1,221,518,181	1,449,798,051
Foreclosed assets	34	15,853,887,969	15,971,689,406	4,813,695,049	5,036,291,621
Sundry assets		958,493,970	1,186,804,820	234,285,187	200,324,308
Provisions	35	17,651,528,811	16,939,442,627	7,018,765,861	6,990,102,780
Bonuses on fees and commissions of voluntary pension funds		57,350,283	61,487,585	17,111,422	19,835,264
Foreign currency exchange and arbitrage		1,363,435	1,582,480	377,687	480,046
Other expenses with related parties		-	26,510	-	(4,157,163)
Other operating expenses	36	42,819,019,063	40,698,360,003	14,406,992,079	13,620,261,745
Amortization of deferred direct costs related to credits		311,784,895	6,361,593,354	86,002,471	1,319,632,691
Total other operating expenses		82,521,180,777	85,753,390,902	27,798,747,937	28,632,569,343
GROSS OPERATING INCOME		213,332,461,587	187,114,846,677	71,303,024,352	67,353,847,841
Administrative expenses					
Personnel expenses	37	100,125,251,052	98,723,896,796	33,466,687,686	35,636,113,598
Other administrative expenses	38	47,960,085,627	44,644,855,156	16,210,709,944	15,399,355,663
Total administrative expenses		148,085,336,679	143,368,751,952	49,677,397,630	51,035,469,261
NET OPERATING INCOME BEFORE TAXES AND STATUTORY ALLOCATIONS		65,247,124,908	43,746,094,818	21,625,626,722	16,318,378,580
Current tax expense	15-a	9,892,686,964	8,143,357,408	3,480,517,574	2,664,589,988
Deferred tax expense	15-a	209,484,830	53,708,122	93,686,576	20,419,946
Decrease in current tax for the period	15-a	1,334,895,134	1,269,188,626	-	20,419,947
Decrease in prior period income tax	15-b	16,380,331	-	-	-
Increase in deferred income tax	15-a	1,395,608,218	142,985,011	79,905,384	67,568,354
Statutory allocations	39	14,070,252,971	9,484,420,880	4,482,535,762	3,380,245,540
Decrease in statutory allocations	39	-	369,947,858	-	57,178,243
INCOME FOR THE YEAR		43,821,583,826	27,846,729,903	13,648,792,194	10,398,289,650
OTHER COMPREHENSIVE INCOME, NET OF TAX					
Surplus from revaluation of property		537,766,102	5,065,492,323	-	(1)
Adjustment for valuation of available-for-sale investments, net of income tax		(757,865,041)	3,850,817,442	(337,014,071)	(197,854,646)
Adjustment for valuation of restricted financial instruments, net of income tax		(2,016,469,453)	972,059,279	(492,405,267)	(228,981,948)
Surplus from revaluation of other assets		-	(567,838)	-	-
Adjustment for valuation of investments in other companies		1,100,428,915	455,791,384	378,244,897	(130,590,666)
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX		(1,136,139,477)	10,343,592,590	(451,174,441)	(557,427,261)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		42,685,444,349	38,190,322,493	13,197,617,753	9,840,862,389

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General Auditor

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015
(In colones)

Note	Equity adjustments					Total equity adjustments	Equity 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					
Balances at January 1, 2015	118,130,303,482	63,639,596,055	(3,787,427,875)	70,246,625	6,329,906,321	66,252,321,126	216,895,556,917	80,942,799,347	14,548,173,826	496,769,154,698
Transactions with owners booked directly in equity:										
Legal reserves	-	-	-	-	-	-	28,862,907,804	(28,862,907,804)	-	-
Other statutory reserves	-	-	-	-	-	-	2,699,532,793	(2,699,532,793)	-	-
Statutory allocations - Mandatory pension funds, Employee Protection Law No. 7983	-	-	-	-	-	-	-	(380,835,774)	-	(380,835,774)
Equity of the Development Financing Fund	-	-	-	-	-	-	-	(3,597,901,414)	3,597,901,414	-
Total transactions with owners booked directly in equity	-	-	-	-	-	-	31,562,440,597	(35,541,177,785)	3,597,901,414	(380,835,774)
Comprehensive income for the period:										
Income for the period	-	-	-	-	-	-	-	27,846,729,903	-	27,846,729,903
Adjustment for valuation of available-for-sale investments, net of income tax	5-a	-	3,850,817,442	-	-	3,850,817,442	-	-	-	3,850,817,442
Adjustment for valuation of restricted financial instruments, net of income tax	5-a	-	972,059,279	-	-	972,059,279	-	-	-	972,059,279
Adjustment for revaluation of investments in other companies	1-d (iv)	-	-	-	455,791,384	455,791,384	-	-	-	455,791,384
Surplus for revaluation of property, furniture and equipment	-	4,932,243,615	-	-	-	4,932,243,615	-	133,248,708	-	5,065,492,323
Realization of surplus for revaluation of other assets	-	-	-	(567,838)	-	(567,838)	-	-	-	(567,838)
Total comprehensive income for the period	-	4,932,243,615	4,822,876,721	(567,838)	455,791,384	10,210,343,882	-	27,979,978,611	-	38,190,322,493
Balances at September 30, 2015	19	118,130,303,482	68,571,839,670	1,035,448,846	69,678,787	6,785,697,705	248,457,997,514	73,381,600,173	18,146,075,240	534,578,641,417

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016
(In colones)

Note	Equity adjustments					Total equity adjustments	Equity 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					
Balances at January 1, 2016	118,130,303,482	63,572,929,305	2,867,809,620	69,678,787	7,084,626,651	73,595,044,363	247,784,553,250	81,237,495,076	18,144,863,035	538,892,259,206
Transactions with owners booked directly in equity:										
Legal reserves	-	-	-	-	-	-	23,820,568,736	(23,820,568,736)	-	-
Other statutory reserves	-	-	-	-	-	-	1,700,000,654	(1,700,000,654)	-	-
Equity of the Development Financing Fund	-	-	-	-	-	-	-	(3,604,956,285)	3,604,956,285	-
Total transactions with owners booked directly in equity	-	-	-	-	-	-	25,520,569,390	(29,125,525,675)	3,604,956,285	-
Comprehensive income for the period:										
Income for the period	-	-	-	-	-	-	-	43,821,583,826	-	43,821,583,826
Adjustment for valuation of available-for-sale investments, net of income tax	5-a	-	(757,865,041)	-	-	(757,865,041)	-	-	-	(757,865,041)
Adjustment for valuation of restricted financial instruments, net of income tax	5-a	-	(2,016,469,453)	-	-	(2,016,469,453)	-	-	-	(2,016,469,453)
Adjustment for valuation of investments in other companies	1-d (iv)	-	-	-	1,100,428,915	1,100,428,915	-	-	-	1,100,428,915
Surplus for revaluation of property	-	(2,766,176,868)	-	-	-	(2,766,176,868)	-	3,303,942,970	-	537,766,102
Total comprehensive income for the period	-	(2,766,176,868)	(2,774,334,494)	-	1,100,428,915	(4,440,082,447)	-	47,125,526,796	-	42,685,444,349
Balances at September 30, 2016	19	118,130,303,482	60,806,752,437	93,475,126	69,678,787	8,185,055,566	273,305,122,640	99,237,496,197	21,749,819,320	581,577,703,555

Juan Carlos Corrales Salas
General Manager

Gerardo Gómez Solís
General Accountant

Ricardo Araya Jiménez
General Auditor

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015
(In colones)

	Note	September 2016	September 2015
Cash flows from operating activities			
Income for the year		43,821,583,826	27,846,729,903
Items not requiring cash			
Gain on sale of idle property, furniture and equipment		(578,151)	(796)
Loss (gain) on foreign exchange and development units, net		14,635,880,567	(3,884,537,218)
Loss on allowance for loan losses, net		20,621,298,305	16,825,584,441
(Gain) loss on allowance for impairment of investments, net		(76,967,726)	23,410,374
(Gain) loss on allowance for other receivables, net		(1,890,293,465)	917,603,430
Loss on allowance for foreclosed assets, net		476,715,483	3,776,351,721
Loss on sale of foreclosed assets		4,831,800,198	5,328,333,267
Expense for severance accrual, net of payments		4,705,850,758	29,209,848,384
Depreciation and amortization		11,814,485,612	11,182,014,337
Share in net profit of foreign associate		(2,072,446,755)	(3,687,775,920)
Statutory allocations, net		14,070,252,971	9,114,473,023
Deferred tax income, net	15-a	(1,186,123,388)	(89,276,889)
Current tax expense, net	15-a	8,541,411,499	6,874,168,783
Interest income on loan portfolio and investments		(297,224,401,314)	(283,189,725,363)
Interest expense on term obligations with the public and financial entities		97,588,340,408	89,560,597,572
		<u>(81,343,191,172)</u>	<u>(90,192,200,951)</u>
Net (increase) decrease in assets			
Credits and cash advances		(247,045,252,621)	(243,314,272,192)
Foreclosed assets		11,778,857,050	12,161,933,886
Accrued interest receivable on other receivables		(213,667)	742,043
Other assets		(3,970,190,418)	8,060,783,956
		<u>(320,579,990,828)</u>	<u>(313,283,013,258)</u>
Net increase (decrease) in liabilities			
Demand and term obligations		307,344,842,172	203,121,440,583
Other accounts payable and provisions		(446,178,607)	(38,960,299,550)
Other liabilities		60,324,472,071	2,874,260,202
		<u>46,643,144,808</u>	<u>(146,247,612,023)</u>
Interest received on loan portfolio and investments		297,087,555,228	280,452,633,239
Income tax paid		(11,444,023,856)	(14,900,591,569)
Interest paid on term obligations with the public and financial entities		(79,606,936,621)	(78,820,414,630)
Net cash from operating activities		<u>252,679,739,559</u>	<u>40,484,015,017</u>
Net cash flows from investing activities			
Increase in financial instruments		(11,824,769,115,530)	(5,358,851,619,111)
Decrease in financial instruments		12,017,074,985,391	5,339,745,579,272
Acquisition of property, furniture and equipment		(8,460,885,606)	(20,034,358,735)
Sale of property, furniture and equipment		1,206,121,947	336,940,367
Cash investments in other companies		2,068	542,762,519
Net cash from (used in) investing activities		<u>185,051,108,270</u>	<u>(38,260,695,688)</u>
Net cash flows from financing activities			
Other new financial obligations		103,575,447,114	62,222,677,822
Settlement of obligations		(257,583,668,818)	(8,794,333,916)
Net cash (used in) from financing activities		<u>(154,008,221,704)</u>	<u>53,428,343,906</u>
Net increase in cash and cash equivalents		<u>283,722,626,125</u>	<u>55,651,663,235</u>
Cash and cash equivalents at beginning of period		<u>1,001,004,712,154</u>	<u>1,005,007,009,161</u>
Cash and cash equivalents at end of period	4	<u>1,284,727,338,279</u>	<u>1,060,658,672,396</u>

Juan Carlos Corrales Salas
General Manager

Gerardo Gómez Solís
General Accountant

Ricardo Araya Jiménez
General Auditor

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

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

September 30, 2016

(With corresponding figures for 2015)

(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 Superintendency General 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.

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

Currently, due to major 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 trading, 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 prime financial services that promote the sustainable creation of wealth.

As of September 30, 2016, the Bank has 174 offices (2015: 181 offices), 478 automated teller machines (ATM's) (2015: 465 ATM's), and, together with its subsidiaries, a total of 5,882 employees (2015: 5,930 employees). Employees are distributed as follows: Banco Nacional de Costa Rica – 5,464 employees (2015: 5,499); BN Valores Puesto de Bolsa, S.A. - 70 employees (2015: 76); BN Vital Operadora de Planes de Pensiones Complementarias, S.A. - 175 employees (2015: 183); BN Sociedad Administradora de Fondos de Inversión, S.A. - 85 employees (2015: 84); and BN Corredora de Seguros, S.A. - 88 employees (2015: 88). The Bank's website is www.bncr.fi.cr.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The following subsidiaries are wholly owned by the Bank:

BN Valores Puesto de Bolsa, S.A. (the Brokerage Firm) was organized as a corporation in 1998 under the laws of the Republic of Costa Rica to operate as a brokerage firm and carry out the brokerage activities permitted under the Securities Market Regulatory Law and the general regulations and provisions issued by the Costa Rican National Securities Commission (SUGEVAL). Its main activity is executing securities transactions on 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 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 managing investment funds on behalf of third parties and managing 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. In January 1993, the Pension Fund Manager acted as a voluntary pension “trust” called BN Vital. Its main activity is offering supplemental old-age and death benefit plans and promoting medium- and long-term planning and savings. Its activities are governed by Law No. 7523 of the Private Supplemental Pension Fund System and the amendments thereto, the Employee Protection Law (Law No. 7983), and the Regulations on Opening and Operating Regulated Entities and Operating Pension, Compulsory, and Voluntary Retirement Savings Funds as prescribed in the Employee Protection Law, Regulations on Regulated-Entity Investments, and the directives issued by the Pensions Superintendency (SUPEN).

BN Corredora de Seguros, S.A. (the Insurance Brokerage Firm) was organized as a corporation on May 19, 2009 under the laws of the Republic of Costa Rica. Its main activity is insurance brokerage for policies issued by insurance companies authorized to operate in Costa Rica. Its activities are governed by the Insurance Market Regulatory Law (Law No. 8653) and the regulations and provisions issued by the Superintendency General of Insurance (SUGESE). This entity began operations in January 2010.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

Banco Internacional de Costa Rica, S.A. and subsidiary (BICSA) was organized under the laws of the Republic of Panama in 1976. It 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. The Bank holds 49% ownership interest in BICSA. Banco de Costa Rica owns the remaining 51% of shares.

As of September 30, 2016 and 2015, and December 31, 2015, the main components that comprise the financial statements of the entities in which the Bank holds ownership interest are detailed below:

September 2016						
		Brokerage Firm	Pension Fund Manager	Investment Fund Manager	Insurance Brokerage Firm	BICSA
Assets	¢	68,113,220,472	10,128,962,706	7,683,221,872	2,793,613,471	479,004,305,134
Liabilities	¢	48,344,732,407	2,573,712,823	1,070,648,133	708,127,235	421,625,668,052
Equity	¢	19,768,488,065	7,555,249,883	6,612,573,739	2,085,486,236	57,378,637,082
Income for the year	¢	2,022,867,707	866,870,392	1,257,647,888	815,818,573	2,072,446,755
Memoranda accounts	¢	989,484,874,166	1,132,056,595,759	399,017,949,415	-	-
December 2015						
		Brokerage Firm	Pension Fund Manager	Investment Fund Manager	Insurance Brokerage Firm	BICSA
Assets	¢	70,930,053,316	10,337,310,768	6,259,049,759	1,823,709,312	482,821,702,119
Liabilities	¢	52,613,294,978	3,552,434,945	874,451,763	554,041,650	429,313,247,163
Equity	¢	18,316,758,338	6,784,875,823	5,384,597,996	1,269,667,662	53,508,454,956
Income for the year	¢	2,597,981,538	938,518,219	1,438,073,275	763,959,084	4,410,917,651
Memoranda accounts	¢	1,648,754,705,407	1,042,503,094,625	405,847,015,645	-	-
September 2015						
		Brokerage Firm	Pension Fund Manager	Investment Fund Manager	Insurance Brokerage Firm	BICSA
Assets	¢	59,804,695,957	9,415,428,606	5,736,386,643	1,408,010,311	465,684,413,830
Liabilities	¢	42,553,666,792	2,386,264,349	890,701,657	492,235,350	412,659,288,308
Equity	¢	17,251,029,165	7,029,164,257	4,845,684,986	915,774,961	53,025,125,522
Income for the year	¢	1,885,901,035	689,472,002	960,863,657	410,066,383	3,687,775,920
Memoranda accounts	¢	1,591,805,418,636	1,001,192,525,318	429,608,988,208	-	-

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(b) Basis of preparation

- Statement of compliance

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

- Basis of measurement applied to assets and liabilities

The consolidated financial statements have been prepared on a fair value basis for available-for-sale assets and derivative instruments. Other financial assets and liabilities are stated at amortized cost. The accounting policies have been consistently applied.

(c) 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 September 30, 2016 and 2015, the consolidated financial statements include the financial figures of the following subsidiaries:

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

Subsidiaries were consolidated based on the following accounting principles:

- All subsidiaries which the Bank controls, whether directly or indirectly, are consolidated.
- For cases in which there are long-term financial or legal restrictions on the transfer of resources or for cases in which the Bank controls the subsidiary temporarily, the subsidiary is not consolidated.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- On consolidation:
 - The effect of the equity method shown in the parent'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 income statement.
 - 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's unconsolidated financial statements since the subsidiaries were measured by the equity method when preparing the parent'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 September 30, 2016 and 2015, the Bank holds 49% ownership interest in BICSA.

(d) Foreign currency

i. Foreign currency transactions

Assets and liabilities held in foreign currency are translated into colones at the foreign exchange rate ruling at the balance sheet date, except for transactions that have a contractually agreed exchange rate. Transactions in foreign currency during the year are translated at the exchange rates ruling on the dates of the transactions. Foreign exchange gains and losses arising on translation are recognized in the accounts corresponding to gains or losses on foreign exchange and development units (DU), as appropriate.

ii. Monetary unit and foreign exchange regulations

The financial statements and notes thereto are expressed in colones (¢), currency of the Republic of Costa Rica.

On October 17, 2006, the Central Bank of Costa Rica (BCCR) revised the country's foreign exchange system, replacing mini-devaluations with an adjustable band regime. Under the new system, the Board of Directors of BCCR agreed to establish a rate floor and ceiling, which will be adjusted based on the country's financial and macroeconomic conditions. The adjustable band regime was in effect during all of 2014.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of February 2, 2015, as part of the transition towards an inflation targeting monetary scheme that requires greater exchange rate flexibility, the Board of Directors of BCCR, in Article 5 of Session No. 5677-2015 of January 30, 2015, declared the migration from the adjustable band regime to 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 September 30, 2016, the exchange rate was established at ¢546.33 and ¢558.80 (2015: ¢528.62 and ¢541.04) to US\$1.00 for the purchase and sale of U.S. dollars, respectively.

As of September 30, 2016, the exchange rate for the purchase and sale of euros was established at ¢596.39 and ¢626.39 (2015: ¢586.20 and ¢611.37) to €1.00, respectively.

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

As of Setiembre 30, 2016, assets and liabilities denominated in U.S. dollars were valued at the exchange rate of ¢546.33 to US\$1.00 (2015: ¢528.62 to US\$1.00), which is the reference buy rate published by BCCR as of that date.

As of September 30, 2016, assets and liabilities denominated in euros were valued at the exchange rate of ¢612.76 to €1.00 (2015: ¢591.00 to €1.00). This exchange rate was calculated by multiplying the international exchange rate published by Reuters by the reference buy rate for U.S. dollars published by BCCR on the last business day of the month.

As of September 30, 2016, assets and liabilities denominated in DU were valued at the exchange rate of ¢864.52 to DU 1.00 (2015: ¢859.74 to DU 1.00). This exchange rate is based on the DU value tables published by SUGEVAL.

iv. Financial statements of foreign operations (BICSA)

The financial statements of BICSA are presented in U.S. dollars, which is the entity's functional currency. As of September 30, 2016 and 2015, the Bank holds 49% ownership interest in BICSA. Accordingly, the Bank should value its investment in that entity by the equity method rather than on a consolidated basis.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The financial statements of foreign operations are translated as follows:

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

For the year ended September 30, 2016, a gain of ¢1,100,428,915 resulting from the translation of the consolidated financial statements is included in equity (December and September 2015: gain of ¢754,720,330 and gain of ¢455,791,384, respectively) as an adjustment for the foreign currency translation differences for foreign operations. As of September 30, 2016, the adjustment for the valuation of investments in other companies amounts to ¢8,185,055,566 (December and September 2015: ¢7,084,626,651 and ¢6,785,697,705, respectively).

(e) Financial instruments

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise. Financial instruments include primary instruments, i.e. loan portfolio, investments in financial instruments, other accounts receivable, deposits from the public, financial obligations, and accounts payable.

(i) *Classification*

Investments in financial instruments are recognized using settlement date accounting in accordance with the Accounting Regulations Applicable to Entities Regulated by SUGEF, SUGEVAL, SUPEN, and SUGESE and to Non-financial Issuers effective as of January 1, 2008. Those investments are classified as follows:

- 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 held-for-trading financial assets.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- 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.

The SUGEF Chart of Accounts for Financial Entities does not allow investments in financial instruments to be classified as held to maturity, except for the securities denominated in DU.

As of September 30, 2016, 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 Law No. 8703 “Amendment to Law No. 8627 on the Ordinary and Extraordinary Budget of the Republic for Tax Year 2008.”

Held-for-trading securities

Held-for-trading securities are stated at fair value and have been acquired for the purpose of short-term profit-taking based on price variations. Variations in the fair value of these securities are recognized in net profit or loss for the year.

Available-for-sale securities

Available-for-sale securities are financial assets that are not held for trading purposes or originated by the Bank. Available-for-sale instruments include money market placements and certain debt investments. Available-for-sale securities are stated at fair value and interest earned and amortization of premiums and discounts are recognized as income or expenses, as appropriate.

Any changes in the fair value of available-for-sale securities are recognized directly in equity until the securities are sold or considered to be impaired, at which time the cumulative gain or loss previously recognized in equity is transferred to the income statement.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Derivative financial instruments

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

Derivative instruments accounted for by the fair value method hedge exposure to changes in the fair value of a financial liability recognized in the balance sheet. Any valuation gains or losses are recorded in the income statement.

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 between 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.

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.

(ii) Recognition

The Bank recognizes available-for-sale assets using settlement date accounting. From this date, any gains or losses arising from changes in the fair value of the assets are recognized in equity, except for gains and losses arising from changes in the fair value of investments in open investment funds, which are recorded in profit or loss.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Originated loans and other receivables are recognized on the date they are transferred to the Bank.

(iii) *Measurement*

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

Subsequent to initial recognition, all trading and available-for-sale investments and derivative instruments are measured at fair value, except that any investment or instrument that does not have a quoted market price in an active market and which fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses. As of September 30, 2016 and 2015, the market price valuation methodology established by VALMER Costa Rica, S.A. is used. This methodology has been duly approved by SUGEVAL.

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

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

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

All non-trading financial assets and liabilities, originated loans and other receivables, and held-to-maturity investments are measured at amortized cost, including transaction costs, less impairment losses. Any premium or discount is included in the carrying amount of the underlying instrument and amortized to interest income or interest expense using the effective interest method.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(iv) *Fair value measurement principles*

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

(v) *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 income statement. When the financial assets are sold, collected, or otherwise disposed of, the accumulated gain or loss recognized in equity is transferred to the income statement.

(vi) *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 to a third party.

Available-for-sale investments that are sold are derecognized and the corresponding account due from the purchaser is recognized on the date the Bank sells the assets.

A financial liability is derecognized when the specific contractual obligation has been paid or settled, or when the obligation has expired.

(vii) *Offsetting*

Financial assets and 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.

(viii) *Impairment of financial assets*

The carrying amount of an asset is reviewed at each 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 income statement for assets carried at cost and treated as a decrease in unrealized gains for assets carried at fair value.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The recoverable amount of an asset is equivalent to 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 income statement or equity, as appropriate.

(ix) Specific instruments

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 original maturities of two months or less.

Demand deposits – overnight

Demand deposits that are classified as overnight deposits at the end of the business day are included in the "Cash and due from banks" account under "Foreign financial entities."

Investments in financial instruments

Investments that the Bank holds for the purpose of short-term profit-taking are classified as trading instruments. Other investments are classified as available-for-sale assets.

The effect of market price valuation of available-for-sale investments is included in the equity account under the caption "Adjustment for valuation of available-for-sale investments" until those investments are realized or sold.

Regular purchases or sales of financial assets are recognized using settlement date accounting, i.e. are booked on the date the entity's financial asset was exchanged.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Investments in repurchase agreements (term seller positions) and securities with original maturities of less than 180 days are not valued at market prices and are stated at the value of the original agreement.

When a financial asset is acquired with accrued interest, such interest is booked in a separate account as accrued interest receivable.

An allowance is established for the entire value of securities that may not be traded in an active financial or stock market due to the legal form of the issuer and the transfer method of the security and for which interest payable is past due.

Loans and advances to banks and customers

Loans originated by the Bank are classified as loan portfolio.

Loans and advances are presented net of allowances to reflect the estimated recoverable amounts.

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 balance sheet and stated at the value of the original agreement. The underlying securities are booked in asset accounts. Interest is presented as interest expense in the income statement and accrued interest payable is recognized in the 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 balance sheet and stated at the value of the original agreement. The underlying securities are booked in asset accounts. Interest earned is presented as interest income in the income statement and accrued interest receivable is recognized in the balance sheet.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(f) 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.

(g) Allowance for loan losses

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

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

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

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

As of September 30, 2016 and 2015, increases in the allowance for loan losses are included in the accounting records in accordance with article 10 of IRNBS.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(h) 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.

(i) Other receivables

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

(j) Property and equipment

i. Own assets

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

Pursuant to requirements established by regulatory authorities, the Bank must have its real property appraised by an independent appraiser at least once every five years, in order to determine its net realizable value. If the realizable value is less than the carrying amount, the carrying amount must be adjusted to the appraisal value.

ii. Leased assets

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

iii. *Subsequent expenditure*

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately, including major inspection and renovation costs, is capitalized. Other subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditure is recognized in the income statement as an expense when incurred.

iv. *Depreciation and amortization*

Depreciation and amortization are charged to the income statement on a straight-line basis over the estimated useful lives of the assets, in accordance with Appendix No. 2 of the Income Tax Law and Regulations thereto, as follows:

<u>Type of asset</u>	<u>Estimated useful life</u>
Buildings	Based on appraisals
Vehicles	10 years
Furniture and equipment	10 years
Computer hardware	5 years
Portable computers	3 years
Leasehold improvements	To be determined or established in lease terms

(k) 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 the future economic benefits. All other expenditure is recognized in the income statement 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 software and software licenses have an estimated useful life of 3 years and 1 year, respectively.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(l) Lease operations

Lease receivables are presented net of unearned interest pending collection. Interest on finance leases is recognized as income over the term of the finance lease agreement using the effective interest method. The difference between lease payments receivable and the cost of the leased asset is recorded as unearned interest and amortized to income accounts over the term of the lease. As of September 30, 2016 and 2015, the Bank has no finance leases.

The Bank's operating leases are mainly for vehicles and equipment. As of September 30, 2016 and 2015, vehicle lease agreements have expired and are settled through a purchase order.

(m) 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 on the sale of the asset from its estimated selling price. The estimated selling price of the asset is determined by an appraiser based on current market conditions. Future expectations for market improvements are not considered and it is assumed that the assets must be sold in the shortest period of time possible to enable the Bank to recover the money invested and use it for its business activities. For all foreclosed assets, reports should be prepared by the appraisers who made the appraisals and those reports are to be updated at least annually.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

(n) Investments in other companies

Investments in the share capital of entities over which the Bank exercises control or significant influence are accounted using the equity method in the Bank's unconsolidated financial statements but are eliminated on consolidation. The following entities are wholly owned by the Bank and are measured by the equity method: 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.; and BN Corredora de Seguros, S.A. The Bank's 49% ownership interest in BICSA is also measured by the equity method. Under the equity method, investments are initially recognized at acquisition cost. Subsequently, the carrying amounts of the investments are increased or decreased in order to recognize the Bank's proportional share in the profits or losses of the issuer of the capital assets.

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 September 30, 2016 and 2015, the Bank has no total or partial interest or influence over the management of other companies other than its subsidiaries and associate, 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

(o) Impairment of non-financial assets

The carrying amount of an asset is reviewed at each 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 income statement for assets carried at cost and treated as a revaluation decrease for assets carried at revalued amounts.

The recoverable amount of an asset is equivalent to 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 income statement or equity, as appropriate.

(p) Provisions

A provision is recognized in the 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 balance sheet date, directly affecting the income statement.

The provision for legal risks is calculated using a mathematical-statistical model developed by the Bank's Corporate Risk Division based on data provided by the File Master system, which is used by the Bank's Legal Department to manage legal actions as of a given date. This system is comprised of modules that provide data to construct statistical series and analyze the status of settled and in-process legal actions.

This system includes the legal proceedings initiated against the Bank in connection with the Employee Protection and Retirement Fund and the Trust 897 arbitration case.

Administrative claims filed for phishing (a form of Internet fraud) are also included.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The data obtained from the modules are reviewed on a monthly basis by the Bank's Operational Risk Division in order to update the likelihood of favorable rulings and the percentages to be provisioned and to adjust the provision amount projected by the model and the amounts booked each month until the proposed limit has been reached.

(q) Severance benefits

Costa Rican legislation requires the payment of severance benefits to employees in the event of retirement, invalidity, death, or dismissal without just cause, equivalent to 20 days' salary for each year of continuous service, up to a maximum of 8 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 September 30, 2016 and 2015, severance is included in the provisions account (see note 16), which meets the legal provisioning requirements in effect as of those dates.

The Employee Association of Banco Nacional de Costa Rica (ASEBANACIO) was created in 2012. Accordingly, the Bank currently follows the practice of making monthly transfers of severance benefits to the Employee Association, equivalent to 5.33% of member employees' monthly salaries, for management and custody. Those funds are paid out to employees upon termination of employment. Severance payments are expensed when the funds are transferred.

In February 2000, the Employee Protection Law was enacted and published. Such law modifies the existing severance benefit system and establishes a compulsory supplemental pension system, thereby amending several provisions of the Labor Code.

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(r) Employee benefits

Employee Protection and Retirement Fund

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

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

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

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

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

Vacation, back-to-school bonus, and incentive plans

The Bank and its subsidiaries book accruals for vacation, back-to-school bonus, and incentive plans. Incentives to employees are calculated using the Incentives and Performance Assessment System (SEDI).

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

(s) Accounts payable and other liabilities

Accounts payable and other liabilities are carried at cost.

(t) Deferred income

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

(u) 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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Other statutory reserves

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

i. *Statutory reserve for foreclosed assets:*

The Superintendency of Banks of Panama established a term of five (5) years to dispose of real property acquired in lieu of payment, starting from the date of registration in the Public Registry. If after such period Panamanian banks have not sold such real property, an appraisal must be performed by an independent appraiser to determine if the value of that property has decreased; if so, the provisions of IFRSs must be applied.

Also, Panamanian banks must create a reserve under an equity account by appropriating funds first from retained earnings and second from income for the year. The following portions of the value of the foreclosed assets are to be transferred to those accounts:

First year:	10%
Second year:	20%
Third year:	35%
Fourth year:	15%
Fifth year:	10%

These reserves must be recognized until the acquired assets are effectively transferred; also, they are not considered to be statutory reserves for purposes of equity ratio calculation.

ii. *Excess of statutory reserve for loans:*

General Decision No. SBP-GJD-003-2013 of the Board of Directors of the Superintendency of Banks of Panama dated July 9, 2013 establishes the accounting treatment for differences between the Prudential Standards issued by such Superintendency and IFRSs, as follows: 1) the accounting records are to be kept and the financial statements prepared in accordance with IFRSs, as required by Decision No. 006-2012 dated December 18, 2012; and 2) in the event that the amount calculated for a provision or reserve based on the Prudential Standards applicable to banks (which include specific accounting matters additional to those required by IFRSs) is higher than the amount determined in accordance with IFRSs, the excess of the provision or reserve calculated under the Prudential Standards is to be recognized under a statutory reserve in equity. This General Decision is effective for the accounting periods ending on or after December 31, 2015.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

With prior approval of the Superintendency, the banks may reverse, partially or in full, the provision determined provided that a justification therefor is duly evidenced and presented to the aforementioned Superintendency.

iii. Statutory dynamic provision:

Agreement No. 004-2013 of the Superintendency of Banks of Panama indicates that specific provisions arise from objective and concrete evidence of impairment. Such provisions must be created in respect of individual credit facilities or groups thereof classified under the following risk ratings: special mention, substandard, doubtful, and loss.

Starting December 31, 2013, Panamanian banks must calculate and maintain at all times, as a minimum, the specific provisions determined using the methodology provided for in the aforementioned agreement, which considers the outstanding balance of each credit facility with the risk ratings mentioned above, the present value of each guarantee available (as established per guarantee type in the Decision), and a table with weighting factors applicable to the net balance exposed to losses.

In the event that the amount calculated for the specific provision in accordance with the aforementioned decision is higher than the amount determined in accordance with IFRSs, the excess is to be booked under a statutory reserve in equity that increases or decreases with appropriations to or from retained earnings. Statutory reserves are not considered to be capital funds for purposes of calculation of certain prudential indexes or ratios mentioned in the agreement.

(v) Revaluation surplus

Revaluation surplus included in equity may be transferred directly to 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 retained earnings is not made through the income statement. The Bank follows the policy of capitalizing revaluation surplus directly to share capital as authorized by SUGEF.

In prior periods, the Bank has capitalized surplus from revaluation of property and equipment, in compliance with SUGEF regulations.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(w) 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 and credited to a liability account in the balance sheet.

i. Current tax:

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

The Bank applies the AD-HOC methodology to calculate the percentage of nondeductible expenses by applying a proportional factor of annual average obligations with the public applied to the investment portfolio. The proportional factor of obligations is calculated by deducting from total obligations with the public (group of accounts 210, 230 and 260), the amount allocated to cash and due from banks (group of accounts 110) and the loan portfolio (group of accounts 130), divided by total obligations with the public. All data correspond to annual averages based on month-end balances.

The resulting proportional factor is applied to total interest expense for the year, net of the revaluation effect.

For the subsidiaries BN Vital Operadora de Planes de Pensiones Complementarias, S.A.; BN Sociedad Administradora de Fondos de Inversión, S.A.; BN Valores Puesto de Bolsa, S.A., and BN Corredora de Seguros, S.A., income tax is calculated by applying the applicable tax rate to net income after deducting nontaxable income and adding nondeductible expenses.

ii. Deferred tax:

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

(x) Segment reporting

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

(y) Combination of financial statements of departments

The financial statements of the Commercial Banking, Mortgage Banking, and Rural Credit Banking departments were combined to determine the financial and economic position of the legal entity (the Bank), since those departments are dedicated to banking activities and are directly subordinate 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.

(z) Use of estimates

Management has made a number of estimates and assumptions relating to the reporting of assets, liabilities, profit or loss, and the disclosure of contingent liabilities in preparing these consolidated financial statements. Actual results may differ from those estimates. Material estimates that are particularly susceptible to significant changes are related to the calculation of the allowance for loan losses.

(aa) Recognition of income and expenses

i. *Interest income and interest expense*

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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 income statement.

ii. Fee and commission income

Fees and commissions on the loan portfolio are recognized directly in profit or loss provided they are related to costs incurred in loan portfolio activities, as stipulated in the current Chart of Accounts.

Fee and commission income arises on services provided by the Bank. Fee and commission income is recognized when the service is provided, i.e. on an accrual basis. When fees and commissions are deferred, they are recognized over the term of the service.

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 income statement on a monthly basis.

iv. Operating lease expenses

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

(bb) Statutory allocations

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 the National Institute for Cooperative Development (INFOCOOP); and the remainder to increase the Bank's capital, pursuant to article 20 of Law No. 6074.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

In conformity with SUGEF's Chart of Accounts, statutory allocations on the year's net earnings payable to INFOCOOP, the National Emergency Commission (CNE), and the National Commission for Educational Loans (CONAPE) are presented as expenses in the income statement.

Pursuant to paragraph a) of article 20 of Law No. 6041 "Law to Create the National Commission for Educational Loans (CONAPE)", 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 Law No. 7983 "Employee Protection Law" 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 Disability, Old Age, and Death Benefit System (RIVM) of CCSS and to provide universal CCSS coverage for impoverished non-salaried workers. Accordingly, through Executive Order No. 37127-MTSS, published in Official Gazette No. 103 dated May 29, 2012, this contribution is established gradually as follows:

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(cc) Development Financing Fund (FOFIDE)

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

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

(dd) Development Credit Fund (FCD)

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

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

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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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	September 2016 Carrying amount	December 2015 Carrying amount	September 2015 Carrying amount
<i>Cash and due from banks:</i>				
Checking account - colones	Minimum legal deposit	¢ 434,761,332,079	415,470,981,358	384,166,982,067
Checking account - euros	Minimum legal deposit	4,604,275,729	4,874,288,911	5,185,475,372
Checking account - U.S. dollars	Minimum legal deposit	222,637,455,882	189,644,176,846	192,136,036,002
Checking account - colones	Liquidation and compensation risk management fund	250,437,081	1,057,218,469	201,352,876
		¢ 662,253,500,771	611,046,665,584	581,689,846,317
<i>Investments in financial instruments:</i>				
Investments in financial instruments	Guarantee for repurchase agreements (tri-party)	¢ 37,309,764,101	39,664,189,932	48,696,134,809
Investments in financial instruments	Liquidity market operations	15,320,700,065	16,106,434,695	-
Securities issued by BCCR and the Government	Investments securing repurchase agreements	459,113,578	463,461,676	402,063,290
Monetary stabilization bonds	Citibank guarantee	-	29,866,916,093	29,234,691,172
Central Bank bonds (global bonds)	Citibank guarantee	-	115,181,185,610	113,651,514,252
External debt bonds	Barclays guarantee	-	72,471,607,603	72,779,098,073
External debt bonds	Nomura guarantee	57,983,483,459	-	-
External debt bonds	Credit Suisse guarantee	69,870,374,838	66,482,575,651	68,882,490,907
		¢ 180,943,436,041	340,236,371,260	333,645,992,503
<i>Other assets:</i>				
Other assets (note 11)	Guarantee deposits	¢ 453,596,807	509,289,396	499,933,813

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of September 30, 2016 and 2015, the applicable percentage for the minimum cash reserve is 15%. The corresponding amount must be deposited in cash in BCCR pursuant to current banking legislation. The reserve is calculated as a percentage of third-party deposits, which varies based on the term and form of deposit-taking used by the Bank.

As of September 30, 2016, the Brokerage Firm has restricted assets in the amount of ¢52,880,901,247 (December and September 2015: ¢56,827,843,096 and ¢48,897,487,685, respectively), corresponding to guarantees for tri-party repurchase agreements 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:

	September 2016	December 2015	September 2015
<u>Assets:</u>			
Checking accounts in foreign financial entities (note 4)	¢ 9,997,467,539	10,601,795,993	7,077,002,274
Investments in financial instruments and accrued interest receivable	8,194,950,000	-	-
Allowance for impairment for operations with related parties	(55,019,477)	-	(43,004,470)
Investments in other companies (note 9)	57,429,260,382	53,508,454,956	53,075,748,822
	¢ <u>75,566,658,444</u>	<u>64,110,250,949</u>	<u>60,109,746,626</u>
<u>Liabilities:</u>			
Demand obligations with entities	197,133,738	25,933,333	19,757,588
	¢ <u>197,133,738</u>	<u>25,933,333</u>	<u>19,757,588</u>
<u>Income:</u>			
Operating	-	313,720	19,840
Gain on investments in other foreign entities	1,577,560,791	4,410,917,651	2,714,905,911
Gain on investments in SUGEVAL regulated entities	16,313,452	-	4,394,615
	¢ <u>1,593,874,243</u>	<u>4,411,231,371</u>	<u>2,719,320,366</u>
<u>Expenses:</u>			
Operating	313,720	-	26,510
	<u>313,720</u>	<u>-</u>	<u>26,510</u>

Compensation paid to key personnel is as follows:

	September 2016	December 2015	September 2015
Short-term benefits	¢ 1,274,322,848	1,821,731,849	1,311,107,427
Long-term benefits	165,661,971	236,825,140	170,443,967
Per Diem for Board of Directors	98,913,309	149,609,686	107,401,024
	¢ <u>1,538,898,128</u>	<u>2,208,166,675</u>	<u>1,588,952,418</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(4) Cash and due from banks

Cash and due from banks is as follows for purposes of reconciliation with the consolidated statement of cash flows:

	September 2016	December 2015	September 2015
Cash and due from banks	¢ 1,003,880,473,884	850,267,856,821	813,943,459,272
Investments with maturities of less than two months	280,846,864,397	150,736,855,330	246,715,213,124
	¢ <u>1,284,727,338,279</u>	<u>1,001,004,712,151</u>	<u>1,060,658,672,396</u>

Cash and due from banks is as follows:

	September 2016	December 2015	September 2015
<i>Local currency:</i>			
Cash	¢ 38,052,458,373	39,941,795,481	35,309,242,644
Cash in transit	12,883,939,000	19,920,450,000	4,045,973,000
BCCR (1)	459,392,753,357	430,144,490,237	425,892,421,515
Checking accounts and demand deposits	5,886,855,495	20,334,002,101	5,399,528,275
Outstanding checks and other	58,695,873,745	3,973,366,581	5,647,385,532
Margin calls for tri-party repurchase agreements	-	678,054,981	36,063,473
<i>Foreign currency:</i>			
Cash	15,331,007,049	18,728,552,746	25,624,492,279
Cash in transit	1,415,470,713	1,348,014,034	679,384,834
BCCR (1)	247,611,813,575	210,196,259,805	199,228,682,042
Checking accounts and demand deposits	57,104,340	91,070,197	688,380
Foreign correspondent banks	143,593,757,012	82,042,623,264	97,832,824,667
Other demand deposits in foreign financial entities	44,235,840	58,446,548	85,224,973
Checking accounts and demand deposits in related parties (note 3)	9,997,467,539	10,601,795,993	7,077,002,274
Overnight deposits in foreign financial entities	6,627,897,262	10,581,024,444	3,563,730,996
Outstanding checks and other	4,039,373,209	1,248,706,648	3,355,523,922
Margin calls for tri-party repurchase agreements	-	6,112,231	-
Guarantee fund of National Stock Exchange	250,437,081	373,051,257	165,289,403
Accrued interest receivable	30,294	40,273	1,063
	¢ <u>1,003,880,473,884</u>	<u>850,267,856,821</u>	<u>813,943,459,272</u>

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(5) Investments in financial instruments and derivative financial instruments

(a) Investments in financial instruments

Investments in financial instruments are as follows:

	September 2016	December 2015	September 2015
<i>Available for sale:</i>			
<u>Local issuers:</u>			
Government of Costa Rica	¢ 489,980,944,109	496,645,983,004	430,418,668,368
BCCR	106,397,913,024	197,502,805,066	127,170,963,111
State-owned banks	105,867,317,207	180,186,806,909	155,765,400,268
Private banks	22,333,787,134	5,222,907,661	5,512,925,028
Private issuers	77,389,782,848	5,119,104,420	191,997,564,672
	<u>801,969,744,322</u>	<u>884,677,607,060</u>	<u>910,865,521,447</u>
<u>Foreign issuers:</u>			
Governments	31,404,215,255	34,585,082,997	40,731,580,744
Private issuers	63,615,779,563	71,604,777,235	66,304,992,169
Private banks	135,364,591,587	107,407,110,198	111,863,158,820
	<u>230,384,586,405</u>	<u>213,596,970,430</u>	<u>218,899,731,733</u>
	<u>1,032,354,330,727</u>	<u>1,098,274,577,490</u>	<u>1,129,765,253,180</u>
<i>Held to maturity:</i>			
Government of Costa Rica	27,339,403,487	27,030,439,007	27,188,241,745
	<u>27,339,403,487</u>	<u>27,030,439,007</u>	<u>27,188,241,745</u>
<i>Derivative financial instruments:</i>			
Interest rate futures - Hedges (note 5-b)	27,534,312,647	12,835,717,440	21,566,706,312
FX futures - Other than hedges (note 5-b)	-	267,314,375	131,252,380
	<u>27,534,312,647</u>	<u>13,103,031,815</u>	<u>21,697,958,692</u>
<i>Allowance for impairment:</i>			
Allowance for impairment of investments	(59,233,099)	(57,672,935)	(57,312,980)
Allowance for impairment of derivative instruments other than hedges	-	(76,967,726)	(26,088,462)
	<u>(59,233,099)</u>	<u>(134,640,661)</u>	<u>(83,401,442)</u>
Accrued interest receivable	7,563,586,888	10,340,806,695	8,987,691,792
¢	<u><u>1,094,732,400,650</u></u>	<u><u>1,148,614,214,346</u></u>	<u><u>1,187,555,743,967</u></u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Movement in the allowance for impairment of financial instruments, both investments and derivative instruments, is as follows:

	September 2016	December 2015	September 2015
Opening balance	¢ 134,640,661	60,499,558	60,499,558
Allowance expense (note 30)	20,527,703	128,016,660	62,765,143
Decrease in allowance charged to profit or loss (note 31)	(97,495,429)	(53,727,022)	(39,354,768)
Foreign exchange differences	1,560,164	(148,535)	(508,491)
Closing balance	¢ 59,233,099	134,640,661	83,401,442

As of September 30, 2016, the allowance for impairment of investments in non-derivative financial instruments amounts to ¢59,233,099 (December and September 2015: ¢57,672,935 and ¢57,312,980, respectively) and is booked for investments in Z Bonds related to the Mortgage Securitization Trust (impairment of 26% for both years).

As of September 30, 2016, the Bank did not book an allowance for impairment of derivative instruments other than hedges (December and September 2015: ¢76,967,726 and ¢26,088,642, respectively) and is booked for FX futures other than hedges in accordance with SUGEF Directive 09-08.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Investments in financial instruments are detailed as follows:

		<u>September 2016</u>	<u>December 2015</u>	<u>September 2015</u>
<i>Available-for-sale:</i>				
Securities issued by BCCR	¢	98,345,561,569	86,498,225,148	90,316,819,025
Securities issued by local non-financial public sector		449,097,103,661	340,732,188,259	279,505,699,015
Securities issued by local financial entities		123,104,494,460	180,134,579,260	158,279,192,124
Securities issued by foreign financial entities		2,669,006,863	3,224,157,216	6,433,050,204
Financial instruments issued by foreign financial entities		63,515,784,244	38,087,100,169	41,351,158,568
Other securities issued abroad		28,137,852,530	33,331,531,136	29,453,938,365
Financial instruments in foreign related parties		8,208,084,866	-	-
Liquidity market operations – own resources		72,900,000,000	70,610,640,000	185,387,383,000
Other available-for-sale financial instruments		5,433,006,493	5,419,785,042	5,392,020,376
Financial instruments for tri-party repurchase agreements (note 2)		37,309,764,101	39,664,189,932	48,696,134,809
Financial instruments restricted for credit operations (note 2)		127,853,858,297	284,002,284,957	284,547,794,404
Financial instruments restricted for liquidity market operations (note 2)		15,320,700,065	16,106,434,695	-
Other financial instruments (note 2)		459,113,578	463,461,676	402,063,290
		<u>1,032,354,330,727</u>	<u>1,098,274,577,490</u>	<u>1,129,765,253,180</u>
<i>Held-to-maturity:</i>				
Securities issued by local non-financial public sector		27,339,403,487	27,030,439,007	27,188,241,745
		<u>27,339,403,487</u>	<u>27,030,439,007</u>	<u>27,188,241,745</u>
<i>Derivative financial instruments:</i>				
Interest rate futures - Hedges (note 5-b)		27,534,312,647	12,835,717,440	21,566,706,312
FX futures - Other than hedges (note 5-b)		-	267,314,375	131,252,380
		<u>27,534,312,647</u>	<u>13,103,031,815</u>	<u>21,697,958,692</u>
<i>Allowance for impairment</i>				
Allowance for impairment of investments		(59,233,099)	(57,672,935)	(57,312,980)
Allowance for impairment of derivative instruments other than hedges		-	(76,967,726)	(26,088,462)
		<u>(59,233,099)</u>	<u>(134,640,661)</u>	<u>(83,401,442)</u>
Accrued interest receivable		7,563,586,888	10,340,806,695	8,987,691,792
¢		<u>1,094,732,400,650</u>	<u>1,148,614,214,346</u>	<u>1,187,555,743,967</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Interest rates on investments in financial instruments are as follows:

<u>Currency</u>	<u>September 2016</u>	<u>December 2015</u>	<u>September 2015</u>
Colones	1.50% to 12.00%	1.25% to 11.04%	2.60% to 11.04%
U.S. dollars	0.3% to 7.63%	0.25% to 7.63%	0.05% to 7.63%
Euros	1.10% to 5.50%	0.18 % to 4.75%	0.18% to 4.75%
DU	0.00% to 0.80%	0.67% to 0.74%	0.67% to 0.74%

As of September 30, 2016, an unrealized loss, net of deferred tax, in the amount of ¢2,774,334,494 resulted from the valuation of available-for-sale investments and restricted financial assets, (December and September 2015: unrealized gain of ¢6,655,237,495 and ¢4,822,876,721, respectively). Consequently, as of September 30, 2016 the accumulated balance of adjustments in equity originated from the valuation of these investments is an unrealized gain amounting to ¢93,475,126 (December and September 2015: unrealized gain of ¢2,867,809,620 and ¢1,035,448,846, respectively).

(b) Derivative financial instruments

In Notice J.D. 5566/06/02 dated October 29, 2012, SUGEF authorized the Bank to trade derivative financial instruments.

As of September 30, 2016 and 2015, the Bank holds the following types of derivative financial instruments:

✓ Derivatives as risk hedging instruments:

Interest rate swaps:

In 2013, five interest rate hedges were formalized to hedge exposure to the LIBOR rate related to international debt issues made in October 2013 in U.S. dollars at a fixed rate. The purpose of these financial instruments is to compensate for the changes in fair value attributable to fluctuations in such benchmark rate.

As of September 30, 2016, the total notional amount of US\$1,250 million, equivalent to ¢677,087,500,000 (December and September 2015: US\$750 million, equivalent to ¢398,955,000,000 and ¢396,465,000,000, respectively) is booked under “Other debit memoranda accounts”.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

As of September 30, 2016, the Bank booked an increase in the fair value of these hedges in the amount of US\$50,398,681 equivalent to ₡27,534,312,647 (see note 5-a).

		September 2016		Purpose
Issuing bank		Notional amount	Valuation	
Citibank	US\$	100,000,000	US\$ 9,271,561	Swaps to hedge 10-year issues (maturing in 2023)
JP Morgan		200,000,000	18,543,123	
Bank of America		200,000,000	18,543,123	
Subtotal		500,000,000	46,357,807	
Citibank		100,000,000	716,975	Swaps to hedge 5-year issues (maturing in 2018)
JP Morgan		150,000,000	1,075,463	
Subtotal		250,000,000	1,792,438	
Citibank		250,000,000	1,124,218	Swaps to hedge 5-year issues (maturing in 2021)
JP Morgan		250,000,000	1,124,218	
Subtotal		500,000,000	2,248,436	
Total	US\$	1,250,000,000	US\$ 50,398,681	
Amount in colones	₡	677,087,500,000	₡ 27,534,312,647	

As of December 31, 2015, the Bank booked an increase in the fair value of these hedges in the amount of US\$24,130,009 equivalent to ₡12,835,717,440.

		December 2015		Purpose
Issuing bank		Notional amount	Valuation	
Citibank	US\$	100,000,000	US\$ 4,725,793	Swaps to hedge 10-year issues (maturing in 2023)
JP Morgan		200,000,000	9,451,587	
Bank of America		200,000,000	9,451,587	
Subtotal		500,000,000	23,628,967	
Citibank		100,000,000	200,417	Swaps to hedge 5-year issues (maturing in 2018)
JP Morgan		150,000,000	300,625	
Subtotal		250,000,000	501,042	
Total	US\$	750,000,000	US\$ 24,130,009	
Amount in colones	₡	398,955,000,000	₡ 12,835,717,440	

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of September 30, 2015, the Bank booked an increase in the fair value of these hedges in the amount of US\$40,798,128 equivalent to ¢21,566,706,312 (see note 5-a).

Issuing bank	September 2015				Purpose
		Notional amount		Valuation	
Citibank	US\$	100,000,000	US\$	7,346,492	Swaps to hedge 10-year issues (maturing in 2023)
JP Morgan		200,000,000		14,692,983	
Bank of America		200,000,000		14,692,983	
Subtotal		500,000,000		36,732,458	
Citibank		100,000,000		1,626,268	Swaps to hedge 5-year issues (maturing in 2018)
JP Morgan		150,000,000		2,439,402	
Subtotal		250,000,000		4,065,670	
Total	US\$	750,000,000	US\$	40,798,128	
Amount in colones	¢	396,465,000,000	¢	21,566,706,312	

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

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

	Effective rate		
	September 2016	December 2015	September 2015
5-year issue (maturing in 2018)	92.98%	107.44%	95.37%
10-year issue (maturing in 2023)	91.54%	100.48%	96.42%
5-year issue (maturing in 2021)	93.97%	-	-

A valuation was performed as of September 30, 2016 and 2015 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 September 30, 2016
- only a portion of the bond cash flows is hedged (corresponding to the 5- and 10-year LIBOR rate in effect at the issue of the bond) rather than the total interest rate
- accrued and earned interest were segregated from the instruments to obtain variations in clean prices
- forward rate to calculate variable interest.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

✓ Derivatives for trading purposes:

Currency forwards:

In 2016, currency forwards agreed with several clients matured. Under these derivative financial instruments, the Bank acts as an authorized intermediary (counterparty). These instruments serve as a trading tool that is not used for currency speculation and whereby no risks are hedged.

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

As of September 30, 2016, there is no total notional amount given that currency forwards matured (December and September 2015: total notional amount of US\$21,900,000 and US\$17,200,000 equivalent to ¢6,064,303,700 and ¢9,092,264,000, respectively, booked under "Other debit memoranda accounts" (see note 20)).

As a result, as of September 30, 2016, the Bank does not book a valuation of the fair value of these forwards (December and September 2015: ¢267,314,375 and ¢131,252,380, respectively, booked under an asset account (see note 5-a)).

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

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

		September 2016	December 2015	September 2015
Gain on derivative financial instruments	¢	31,185,619,210	35,212,694,463	33,333,088,912
Loss on derivative financial instruments		(13,283,092,880)	(24,488,661,522)	(17,940,402,515)
Gain (loss), net	¢	<u>17,902,526,330</u>	<u>10,724,032,941</u>	<u>15,392,686,397</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(6) Loan portfolio

(a) Loan portfolio by sector

The loan portfolio by sector is as follows:

	September 2016	December 2015	September 2015
Trade	₡ 378,015,091,341	376,806,025,997	361,869,193,470
Services	858,116,410,954	796,162,829,760	738,628,290,777
Financial services	138,700,559,136	125,197,166,308	121,983,793,365
Mining	913,925,482	740,793,348	399,245,022
Manufacturing and quarrying	143,209,786,678	154,988,964,935	143,338,382,110
Construction	99,350,878,911	88,630,791,109	85,063,512,075
Agriculture and forestry	115,723,338,996	109,941,332,285	105,648,388,926
Livestock, hunting, and fishing	73,615,487,634	64,738,300,126	60,773,684,091
Electricity, water, sanitation, and other related sectors	392,492,857,063	347,407,634,466	320,635,660,250
Transportation and telecommunications	39,441,583,504	26,464,717,118	25,304,100,221
Housing	1,169,904,986,033	1,108,935,164,745	1,091,268,869,932
Personal or consumer loans	418,170,088,992	364,732,599,797	354,968,244,138
Tourism	141,906,616,236	136,755,821,966	129,315,033,641
Total direct loans	3,969,561,610,960	3,701,502,141,960	3,539,196,398,018
Accrued interest receivable	28,068,739,498	25,154,673,605	25,256,781,577
Allowance for loan losses	(81,777,275,730)	(62,968,882,979)	(61,635,033,120)
Total loan portfolio	₡ 3,915,853,074,728	3,663,687,932,586	3,502,818,146,475

Annual interest rates on loans receivable are as follows:

Currency	September 2016		December 2015		September 2015	
	Rates	Average	Rates	Average	Rates	Average
Colones	4.70% to 39.00%	13.76%	5.95% to 34.92%	14.32%	6.50% to 36.25%	15.10%
U.S. dollars	3.00% to 34.92%	8.96%	3.00% to 27.96%	8.38%	2.92% to 27.96%	8.23%
DU	3.85% to 11.00%	6.58%	3.85% to 11.00%	6.50%	3.85% to 11.00%	6.50%

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Sold and securitized portfolio

On August 22, 2006, the Bank sold the securitized portfolio related to the BNCR\$2006-1 Mortgage Securitization Trust, managed by Banco Improsa, S.A., for US\$11,477,863. The securitization structure was sold at par and gave rise to no gains or losses.

The Bank was the formal and final seller of the portfolio, which was duly assigned and transferred in the Property Registry. The Bank has no further obligations in respect of the borrower payment behavior for loans sold and all of the related risks, including default, prepayment, and foreclosure of property, were assumed by the investors who purchased the bonds issued.

As of September 30, 2016, the balance of the securitized portfolio is US\$6,473,049, which is equivalent to ¢3,506,256,376 (December and September 2015: US\$6,590,597 and US\$6,671,770 equivalent to ¢3,505,802,328 and ¢3,526,830,957, respectively).

Sale of portfolio

In 2016, the Bank did not perform portfolio sales. During 2015, the Bank partially assigned certain formalized loans to entities. The portfolio was sold at par; accordingly, no gains or losses were generated.

The Bank was the formal and final seller of the portfolio and will be unilaterally responsible for the management, follow-up, and control of the servicing of the loan.

As of September 30, 2016, the sales prices of the sold portfolio are as follows:

<u>Purchaser</u>		<u>Sales price</u>
Banco BICSA Panamá	US\$	33,500,000
Asociación Solidarista de Empleados del BNCR		19,500,000
Bancrédito (BCAC)		15,000,000
Banco Davivienda		27,000,000
Global Bank de Panamá		19,550,000
Total	US\$	<u>114,550,000</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(b) Loan portfolio by arrears

The loan portfolio by arrears is as follows:

	September 2016	December 2015	September 2015
Current	¢ 3,746,100,127,202	3,491,758,501,550	3,326,697,350,450
1 to 30 days	92,522,931,126	54,239,972,503	89,678,053,777
31 to 60 days	20,891,021,197	51,342,045,126	22,214,393,439
61 to 90 days	20,648,624,050	18,171,340,010	20,600,800,988
91 to 120 days	9,181,477,645	10,014,328,343	9,811,622,466
121 to 180 days	10,228,360,513	13,749,242,525	12,022,083,913
More than 180 days	69,989,069,227	62,226,711,903	58,172,092,985
Total direct loans	3,969,561,610,960	3,701,502,141,960	3,539,196,398,018
Accrued interest receivable	28,068,739,498	25,154,673,605	25,256,781,577
Allowance for loan losses	(81,777,275,730)	(62,968,882,979)	(61,635,033,120)
Total loan portfolio	¢ <u>3,915,853,074,728</u>	<u>3,663,687,932,586</u>	<u>3,502,818,146,475</u>

(c) Loan portfolio by origin

The loan portfolio by origin is as follows:

	September 2016	December 2015	September 2015
Loans originated by the Bank	¢ 3,969,503,274,383	3,701,441,568,101	3,539,134,961,944
Loans purchased by the Bank	58,336,577	60,573,859	61,436,074
Total direct loans	3,969,561,610,960	3,701,502,141,960	3,539,196,398,018
Accrued interest receivable	28,068,739,498	25,154,673,605	25,256,781,577
Allowance for loan losses	(81,777,275,730)	(62,968,882,979)	(61,635,033,120)
Total loan portfolio	¢ <u>3,915,853,074,728</u>	<u>3,663,687,932,586</u>	<u>3,502,818,146,475</u>

As of September 30, 2016 and 2015, the loan portfolio acquired by the Bank was purchased from BICSA and Subsidiary.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(d) Past due loans

Past due loans, including loans in accrual status (for which interest is recognized on a cash basis), and unearned interest on those loans, are as follows:

	<u>September 2016</u>	<u>December 2015</u>	<u>September 2015</u>
Past due loans in accrual status: 20,100 loans, 3.86% of portfolio in 2016 (December and September 2015: 20,442 and 21,309 loans, respectively).	¢ 153,373,681,765	148,279,853,379	155,059,081,045
Loans in legal collection: 7,828 loans, 2.27% of portfolio in 2016 (December and September 2015: 6,590 loans, 2.33% of portfolio and 6,506 loans, 4.38% of portfolio, respectively).	¢ 90,058,289,055	86,287,327,716	82,230,170,328
Total unearned interest in 2016 and 2015	¢ 2,836,882,453	2,037,606,104	1,177,821,374

As of September 30, 2016, the Bank increased the “Interest income on non-accrual loans” account as a result of the recovery of loans receivable over 180 days past due by ¢2,836,882,453 (December and September 2015: ¢2,037,606,104 and ¢1,177,821,374, respectively).

The Bank classifies loans as past due when no principal or interest payments have been made by one day after the due date.

(e) Accrued interest receivable on loan portfolio

Accrued interest receivable is as follows:

	<u>September 2016</u>	<u>December 2015</u>	<u>September 2015</u>
Current	¢ 16,103,762,027	14,386,339,789	14,697,049,555
Past due	2,535,854,934	2,457,638,279	2,566,533,980
In legal collection	9,429,122,537	8,310,695,537	7,993,198,042
	¢ <u>28,068,739,498</u>	<u>25,154,673,605</u>	<u>25,256,781,577</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(f) Allowance for loan losses

Movement in the allowance for loan losses is as follows:

	<u>September 2016</u>	<u>December 2015</u>	<u>September 2015</u>
Opening balance	¢ 62,968,882,979	49,838,574,099	49,838,574,099
Expense for the year (note 30)	26,730,096,644	30,936,117,232	25,681,537,616
Settlements	(8,563,476,776)	(17,763,386,035)	(13,719,722,885)
Foreign exchange differences	641,772,883	(42,422,317)	(165,355,710)
Closing balance	¢ <u>81,777,275,730</u>	<u>62,968,882,979</u>	<u>61,635,033,120</u>

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

(7) Other receivables

Other receivables are as follows:

	<u>September 2016</u>	<u>December 2015</u>	<u>September 2015</u>
Fees and commissions	¢ 1,138,547,880	1,073,457,946	1,023,648,612
Stock exchange transactions	10,982,311	34,120	37,957,126
Transactions with related parties (officers and employees)	167,647,533	180,506,172	85,744,231
Deferred tax (note 15-c)	1,020,686,864	832,024,366	1,123,666,046
Income tax	160,933,462	2,630,373,656	2,635,838,269
Other sundry accounts	4,128,419,648	3,567,482,304	3,775,742,354
Accrued interest receivable on other sundry accounts receivable	2,203,805	1,990,138	1,830,738
Allowance for impairment of other accounts receivable	<u>(3,632,840,667)</u>	<u>(5,920,917,785)</u>	<u>(5,841,669,640)</u>
	¢ <u>2,996,580,836</u>	<u>2,364,950,917</u>	<u>2,842,757,736</u>

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

	<u>September 2016</u>	<u>December 2015</u>	<u>September 2015</u>
Opening balance	¢ 5,862,408,795	5,361,359,410	5,361,359,410
Allowance expense (note 30)	1,136,700,776	1,332,435,790	1,046,393,576
Decrease in allowance charged to profit or loss (note 31)	(3,026,994,241)	(128,906,016)	(128,790,146)
Items settled against allowance	(342,555,963)	(642,663,621)	(434,962,144)
Foreign exchange differences	3,281,300	(1,307,778)	(2,331,056)
Closing balance	¢ <u>3,632,840,667</u>	<u>5,920,917,785</u>	<u>5,841,669,640</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(8) Foreclosed assets

Foreclosed assets are presented net of the allowance for impairment and per legal requirements are as follows:

	<u>September 2016</u>	<u>December 2015</u>	<u>September 2015</u>
Assets acquired in lieu of payment	¢ 78,922,759,508	78,575,996,987	78,484,156,005
Idle property and equipment	627,277	1,770,509	1,770,510
Allowance for impairment	(61,637,738,398)	(61,161,022,915)	(60,964,843,176)
	<u>¢ 17,285,648,387</u>	<u>17,416,744,581</u>	<u>17,521,083,339</u>

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

	<u>September 2016</u>	<u>December 2015</u>	<u>September 2015</u>
Opening balance	¢ 61,161,022,915	57,188,491,454	57,188,491,454
Allowance expense (note 34)	4,810,518,873	4,847,672,218	3,933,977,234
Liquidation of foreclosed assets	-	(83,315,000)	-
Decrease in allowance charged to profit or loss	(4,333,803,390)	(791,825,757)	(157,625,512)
Closing balance	<u>¢ 61,637,738,398</u>	<u>61,161,022,915</u>	<u>60,964,843,176</u>

(9) Investments in other companies

Investments in other companies are as follows:

	<u>September 2016</u>	<u>December 2015</u>	<u>September 2015</u>
Other financial and non-financial companies	¢ 50,623,300	50,623,300	50,623,300
Banco Internacional de Costa Rica, S.A. and Subsidiary (BICSA) (note 3)	<u>57,378,637,082</u>	<u>53,508,454,956</u>	<u>53,025,125,522</u>
	<u>¢ 57,429,260,382</u>	<u>53,559,078,256</u>	<u>53,075,748,822</u>

As of September 30, 2016, the Bank holds 49% ownership interest in BICSA, which is represented by 6,506,563 ordinary shares of US\$10 par value each (December and September 2015: 6,506,563 and 6,506,563 ordinary shares of US\$10 par value each, respectively).

At a BICSA shareholders meeting held in April 2014, shareholders agreed to capitalize US\$7 million, which was booked in 2014 and included in BICSA's financial statements. As a result of the capitalization, total share capital amounted to US\$132.78 million, represented by 13,278,700 shares of US\$10 par value each.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

		<u>September 2016</u>	<u>December 2015</u>	<u>September 2015</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, S.A.		15,000,000	15,000,000	15,000,000	Investment to operate as custodian of electronic securities
Depósito Libre Comercial de Golfito (Golfito Duty Free Shopping Center) per article 24 of Law No. 7131		5,200,000	5,200,000	5,200,000	Investment in the Golfito Duty Free Shopping Center
Other entities		423,300	423,300	423,300	Investments in various cooperatives
	¢	<u>50,623,300</u>	<u>50,623,300</u>	<u>50,623,300</u>	

(Continued)

BANCO NACIONAL DE COSTA RICA Y SUBSIDIARIAS

Notes to the Consolidated Financial Statements

(10) Property and equipment

Property and equipment is as follows:

		September 2016				
		Land	Buildings	Furniture and equipment	Computer hardware	Vehicles
		Total				
<i>Cost:</i>						
Opening balance	¢	46,614,089,726	119,784,198,972	59,048,581,832	57,942,113,324	451,048,332
Additions		-	744,708,083	3,504,769,777	3,671,399,718	-
Disposals		-	-	(2,798,086,098)	(4,250,011,407)	-
Sales		(135,459,981)	(168,500,338)	(273,874)	-	(13,644,336)
Adjustments		-	610,173,384	137,725,167	(31,665,564)	-
Reclassifications		-	-	(10,370,074)	10,450,594	(80,520)
Closing balance		46,478,629,745	120,970,580,101	59,882,346,730	57,342,286,665	437,323,476
<i>Accumulated depreciation:</i>						
Opening balance		-	29,704,829,213	31,171,302,930	44,614,967,063	321,446,224
Depreciation expense on historical cost		-	1,032,540,535	3,940,105,696	3,974,759,928	22,005,591
Depreciation expense on revaluation		-	1,005,658,517	-	-	-
Disposals		-	-	(1,886,815,035)	(4,188,766,268)	-
Sales		-	(70,932,726)	(273,874)	-	(13,644,335)
Adjustments		-	829,784,567	43,971,961	(49,801,874)	-
Reclassifications		-	-	(5,582,533)	5,663,053	(80,520)
Closing balance		-	32,501,880,106	33,262,709,145	44,356,821,902	329,726,960
Net closing balance	¢	46,478,629,745	88,468,699,995	26,619,637,585	12,985,464,763	107,596,516
						174,660,028,604

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		December 2015					
		Land	Buildings	Furniture and equipment	Computer hardware	Vehicles	Total
<i>Cost:</i>							
Opening balance	¢	43,172,317,837	110,297,273,275	54,512,881,977	53,524,427,013	453,581,087	261,960,481,189
Additions		-	15,381,426,392	5,700,436,805	5,239,146,948	-	26,321,010,145
Revaluation of assets		3,518,297,616	(5,692,905,154)	-	-	-	(2,174,607,538)
Disposals		-	-	(1,168,746,773)	(755,807,411)	(2,593,675)	(1,927,147,859)
Adjustments		(76,525,727)	(201,595,542)	(53,540)	(38,292,660)	-	(316,467,469)
Reclassifications		-	-	4,063,362	(27,360,564)	60,920	(23,236,282)
Closing balance		46,614,089,726	119,784,198,971	59,048,581,831	57,942,113,326	451,048,332	283,840,032,186
<i>Accumulated depreciation:</i>							
Opening balance		-	26,840,836,640	27,066,836,852	40,296,173,459	290,977,528	94,494,824,479
Depreciation expense on historical cost		-	1,132,988,745	4,798,710,357	4,953,096,361	32,761,018	10,917,556,481
Depreciation expense on revaluation		-	1,506,603,638	-	-	-	1,506,603,638
Disposals		-	-	(784,998,545)	(693,841,758)	(2,322,599)	(1,481,162,902)
Adjustments		-	224,400,190	74,796,657	75,526,886	-	374,723,733
Reclassifications		-	-	15,957,607	(15,987,884)	30,277	-
Closing balance		-	29,704,829,213	31,171,302,928	44,614,967,064	321,446,224	105,812,545,429
Net closing balance	¢	46,614,089,726	90,079,369,758	27,877,278,903	13,327,146,262	129,602,108	178,027,486,757

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	September 2015					
	Land	Buildings	Furniture and equipment	Computer hardware	Vehicles	Total
<i>Cost:</i>						
Opening balance	¢ 43,172,317,837	110,297,273,275	54,512,881,978	53,524,427,013	453,581,087	261,960,481,190
Additions	-	12,419,512,150	3,716,114,138	3,284,430,232	-	19,420,056,520
Asset revaluation	-	159,681,438	-	-	-	159,681,438
Disposals	-	-	(910,910,048)	(736,925,756)	(2,593,675)	(1,650,429,479)
Adjustments	3,187,248,621	4,824,203,526	2,152,353	(29,089,845)	-	7,984,514,655
Reclassifications	-	-	1,410,199	(1,410,199)	-	-
Closing balance	46,359,566,458	127,700,670,389	57,321,648,619	56,041,431,445	450,987,412	287,874,304,323
<i>Accumulated depreciation:</i>						
Opening balance	-	26,840,836,640	27,066,836,851	40,296,173,459	290,977,528	94,494,824,478
Depreciation expense on historical cost	-	816,347,190	3,537,470,498	3,638,553,725	25,215,199	8,017,586,612
Depreciation expense on revaluation	-	1,143,313,329	-	-	-	1,143,313,329
Disposals	-	-	(651,865,228)	(659,302,081)	(2,322,600)	(1,313,489,909)
Adjustments	-	2,492,227,282	20,218,979	(48,054,122)	-	2,464,392,139
Reclassifications	-	-	2,730,237	(2,730,237)	-	-
Closing balance	-	31,292,724,441	29,975,391,337	43,224,640,744	313,870,128	104,806,626,650
Net closing balance	¢ 46,359,566,458	96,407,945,948	27,346,257,282	12,816,790,701	137,117,284	183,067,677,673

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(11) Other assets

Other assets are as follows:

	<u>September 2016</u>	<u>December 2015</u>	<u>September 2015</u>
<i>Deferred charges:</i>			
Leasehold improvements	¢ 1,052,375,818	1,207,934,825	913,958,286
Cost of issue of financial instruments (3)	1,996,723,728	1,175,391,199	1,224,636,668
Cost of subordinated debt project	493,666,940	546,893,248	561,018,390
Deferred direct costs related to loans	5,786,239,544	6,080,470,185	9,477,397,641
Other deferred charges	2,980,288,180	3,649,191,521	3,979,999,940
Subtotal	<u>12,309,294,210</u>	<u>12,659,880,978</u>	<u>16,157,010,925</u>
<i>Intangible assets:</i>			
Software (2)	3,282,346,787	3,988,941,169	4,051,791,159
Other intangible assets (2)	4,145,080	2,273,092	-
Subtotal	<u>3,286,491,867</u>	<u>3,991,214,261</u>	<u>4,051,791,159</u>
<i>Other assets:</i>			
Prepaid interest and fees and commissions	235,172,829	217,253,376	226,907,201
Estimated tax	4,591,503,011	7,104,437,763	6,340,030,567
Prepaid insurance policy	236,222,762	255,446,560	504,415,694
Other prepaid expenses	128,657,688	384,854,631	446,840,137
Stationery, office supplies, and other materials	426,915,299	391,707,623	346,877,629
Leased assets	101,149,151	102,151,718	102,480,303
Library and artwork	349,637,151	341,297,151	341,267,151
Construction work-in-progress	4,906,647,066	2,823,622,889	5,321,901,655
Software under development	330,408,049	289,048,089	278,985,826
Rights in welfare and trade associations	600,000	600,000	600,000
Other sundry assets	4,830,112,571	2,580,658,839	1,529,264,167
Operations pending settlement	4,529,376,628	2,100,268,728	4,280,265,731
Other operations pending application	879,142,397	380,637,065	472,785,407
Guarantee deposits (1)	267,829,653	347,688,068	324,799,267
Legal and administrative deposits (1)	185,767,154	161,601,328	175,134,546
Subtotal	<u>21,999,141,409</u>	<u>17,481,273,828</u>	<u>20,692,555,281</u>
Total	¢ <u>37,594,927,486</u>	<u>34,132,369,067</u>	<u>40,901,357,365</u>

(1) As of September 30, 2016, guarantee deposits amount to ¢453,596,807 (December and September 2015: ¢509,289,396 and ¢499,933,813, respectively) (see note 2).

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(2) Intangible assets, net are as follows:

		September 2016		
		Software	Other intangible assets	Total
<i>Cost:</i>				
Opening balance	¢	20,535,208,567	96,302,651	20,631,511,218
Additions		143,827,240	14,335,018	158,162,258
Disposals		(1,669,581,293)	-	(1,669,581,293)
Reclassifications		-	(12,463,030)	(12,463,030)
Adjustments		629,973,974	-	629,973,974
Closing balance		19,639,428,488	98,174,639	19,737,603,127
<i>Accumulated amortization:</i>				
Opening balance		16,546,267,398	94,029,559	16,640,296,957
Expense for the year		1,493,803,364	12,463,030	1,506,266,394
Disposals		(1,655,579,914)	(12,463,030)	(1,668,042,944)
Adjustments		(27,409,147)	-	(27,409,147)
Closing balance		16,357,081,701	94,029,559	16,451,111,260
Net closing balance	¢	3,282,346,787	4,145,080	3,286,491,867
		December 2015		
		Software	Other intangible assets	Total
<i>Cost:</i>				
Opening balance	¢	19,066,822,045	96,516,837	19,163,338,882
Additions		1,664,403,003	8,776,518	1,673,179,521
Disposals		(169,055,790)	-	(169,055,790)
Reclassifications		(12,067,256)	(8,990,704)	(21,057,960)
Adjustments		(14,893,432)	-	(14,893,432)
Closing balance		20,535,208,570	96,302,651	20,631,511,221
<i>Accumulated amortization:</i>				
Opening balance		14,566,562,079	94,029,559	14,660,591,638
Expense for the year		2,141,179,018	8,990,704	2,150,169,722
Disposals		(99,492,813)	(8,990,704)	(108,483,517)
Reclassifications		(61,980,883)	-	(61,980,883)
Closing balance		16,546,267,401	94,029,559	16,640,296,960
Net closing balance	¢	3,988,941,169	2,273,092	3,991,214,261

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		September 2015		
		Software	Other intangible assets	Total
<i>Cost:</i>				
Opening balance	¢	19,066,822,045	96,516,837	19,163,338,882
Additions		1,196,237,701	4,258,122	1,200,495,823
Disposals		(122,295,227)	-	(122,295,227)
Reclassifications		(12,067,256)	(6,745,400)	(18,812,656)
Adjustments		(1,103,775)	-	(1,103,775)
Closing balance		20,127,593,488	94,029,559	20,221,623,047
<i>Accumulated amortization:</i>				
Opening balance		14,566,562,077	94,029,559	14,660,591,636
Expense for the year		1,626,926,849	4,974,556	1,631,901,405
Disposals		(79,145,230)	-	(79,145,230)
Reclassifications		(38,541,367)	(4,974,556)	(43,515,923)
Closing balance		16,075,802,329	94,029,559	16,169,831,888
Net closing balance	¢	4,051,791,159	-	4,051,791,159

- (3) As of September 30, 2016, costs related to the issue of financial instruments are as follows:

	5-year issue (maturing in 2018)	10-year issue (maturing in 2023)	5-year issue (maturing in 2021)	Total
Commission - structuring banks	¢ 273,165,000	273,165,000	464,380,500	1,010,710,500
Commission - Moody's Investors Service	136,582,500	136,582,500	-	273,165,000
Commission - Société de la Bourse de Luxembourg, S.A.	6,676,699	6,676,699	-	13,353,398
RR Donelley	5,980,675	5,980,653	3,580,251	15,541,579
BNY Mellon	2,159,642	2,159,642	3,150,685	7,469,969
Moody's - issuer rating	18,083,523	18,083,523	136,582,500	172,749,546
Fitch Ratings	136,582,500	136,582,500	136,582,500	409,747,500
Milbank	80,397,923	80,397,923	107,638,270	268,434,116
Shearman & Sterling	80,502,272	80,502,272	119,752,313	280,756,857
External audit	103,802,700	103,802,700	126,748,560	334,353,960
Perkins Cole (Broker)	-	-	7,166,238	7,166,238
Printing of documents	-	-	8,640,122	8,640,122
Subtotal	843,933,434	843,933,412	1,114,221,939	2,802,088,785
Deferral	(476,466,609)	(211,113,236)	(117,785,212)	(805,365,057)
Total	¢ 367,466,825	632,820,176	996,436,727	1,996,723,728

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of December 30, 2015, costs related to the issue of financial instruments are as follows:

	5-year issue	10-year issue	Total
Commission - structuring banks	¢ 265,970,000	265,970,000	531,940,000
Commission - Moody's Investors Service	132,985,000	132,985,000	265,970,000
Commission - Société de la Bourse de Luxembourg, S.A.	6,500,839	6,500,839	13,001,678
RR Donelley	5,823,147	5,823,126	11,646,273
BNY Mellon	2,102,759	2,102,759	4,205,518
Moody's - issuer rating	17,607,214	17,607,214	35,214,428
Fitch Ratings	132,985,000	132,985,000	265,970,000
Milbank	78,280,290	78,280,290	156,560,580
Shearman & Sterling	78,381,891	78,381,891	156,763,782
External audit	101,068,600	101,068,600	202,137,200
Subtotal	821,704,740	821,704,719	1,643,409,459
Deferral	(331,073,839)	(136,944,421)	(468,018,260)
Total	¢ 490,630,901	684,760,298	1,175,391,199

As of September 30, 2015, costs related to the issue of financial instruments are as follows:

	5-year issue	10-year issue	Total
Commission - structuring banks	¢ 264,310,000	264,310,000	528,620,000
Commission - Moody's Investors Service	132,155,000	132,155,000	264,310,000
Commission - Société de la Bourse de Luxembourg, S.A.	6,460,265	6,460,265	12,920,530
RR Donelley	5,786,803	5,786,782	11,573,585
BNY Mellon	2,089,635	2,089,635	4,179,270
Moody's - issuer rating	17,497,322	17,497,322	34,994,644
Fitch Ratings	132,155,000	132,155,000	264,310,000
Milbank	77,791,719	77,791,719	155,583,438
Shearman & Sterling	77,892,686	77,892,686	155,785,372
External audit	100,437,800	100,437,800	200,875,600
Subtotal	816,576,230	816,576,209	1,633,152,439
Deferral	(289,127,895)	(119,387,876)	(408,515,771)
Total	¢ 527,448,335	697,188,333	1,224,636,668

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(12) Obligations with the public

(a) By cumulative amount

Obligations with the public by cumulative amount are as follows:

	September 2016	December 2015	September 2015
<i>Demand obligations:</i>			
Checking accounts	¢ 1,173,132,221,082	1,286,985,762,872	1,229,178,656,737
Certified checks	182,074,673	95,816,002	155,638,695
Savings deposits	1,207,908,493,367	1,149,490,351,138	1,040,403,950,207
Matured term deposits	17,362,013,307	21,175,066,864	18,732,266,227
Other demand deposits	704,614,683	6,039,745,640	14,178,180,594
Drafts and transfers	165,477,046	208,837,724	200,795,085
Cashier's checks	5,087,716,564	4,722,486,424	5,875,577,175
Advance collections from customers for credit cards	10,104,211,350	7,322,184,118	6,632,800,969
Obligations for trust funds	20,269,720	20,118,205	47,664,680
Subtotal	<u>2,414,667,091,792</u>	<u>2,476,060,368,987</u>	<u>2,315,405,530,369</u>
<i>Term obligations:</i>			
Deposits from the public	1,554,306,024,985	1,351,925,567,103	1,436,558,486,938
Other term deposits	104,011,417,101	83,752,218,012	83,997,387,801
Subtotal	<u>1,658,317,442,086</u>	<u>1,435,677,785,115</u>	<u>1,520,555,874,739</u>
<i>Other obligations with the public:</i>			
Obligations for tri-party repurchase agreements	38,787,798,303	36,683,915,704	31,571,893,580
Subtotal	<u>38,787,798,303</u>	<u>36,683,915,704</u>	<u>31,571,893,580</u>
Charges payable for obligations with the public	23,296,143,547	20,485,251,995	21,801,734,667
Total	<u>¢ 4,135,068,475,728</u>	<u>3,968,907,321,801</u>	<u>3,889,335,033,355</u>

As of September 30, 2016, deposits in checking accounts denominated in colones bear interest at a maximum rate of 0.90% per annum (December and September 2015: 1.50% per annum) on balances and at a minimum rate of 0.50% per annum (December and September 2015: 0.50% per annum) on balances greater than or equal to ¢10,000,001. Deposits in checking accounts denominated in U.S. dollars bear interest at a maximum rate of 0.10% per annum (December and September 2015: 0.05% per annum) on balances and at a minimum rate of 0.05% per annum (December and September 2015: 0.03% per annum) on balances greater than or equal to US\$20,001.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

Term certificates bear annual interest at the following rates:

<u>Currency</u>	<u>September 2016</u>	<u>December 2015</u>	<u>September 2015</u>
Colones	1.15% to 7.40%	1.15% to 7.60%	1.80% to 7.60%
U.S. dollars	0.20% to 5.80%	0.10% to 5.00%	0.10% to 4.50%
Euros	0.00%	0.01% to 0.05%	0.01% to 0.05%

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

As of September 30, 2016, those term certificates of deposit amount to ¢32,228,230,310 (December and September 2015: ¢30,173,842,271 and ¢29,050,586,862, respectively).

As of that date, the Bank has no inactive deposits with State-owned entities or other banks.

(b) By number of customers

Obligations with the public by number of customers are as follows:

	<u>September 2016</u>	<u>December 2015</u>	<u>September 2015</u>
<i>Obligations with the public:</i>			
Demand	1,887,066	1,846,797	1,833,274
Term	65,998	65,282	65,550

(13) Obligations with BCCR

Obligations with BCCR are as follows:

	<u>September 2016</u>	<u>December 2015</u>	<u>September 2015</u>
Financing for loans using external funds	125,644,412	125,644,412	125,644,412
¢	<u>125,644,412</u>	<u>125,644,412</u>	<u>125,644,412</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(14) Obligations with entities and subordinated obligations

(a) Obligations with entities

Obligations with entities are as follows:

	<u>September 2016</u>	<u>December 2015</u>	<u>September 2015</u>
<i>Demand:</i>			
Checking accounts with local financial entities	¢ 62,972,610,475	135,826,173,704	85,148,954,173
Savings deposits from local financial entities	31,566,224	40,013,665	30,737,909
FCD fund management	142,207,450,287	133,455,307,294	136,748,014,843
Outstanding checks	6,878,623,005	2,681,849,500	6,740,492,888
Checking accounts and obligations with related parties	197,133,734	25,933,333	19,757,588
Other demand obligations with financial entities	821,698,598	545,192,429	699,148,359
Subtotal	<u>213,109,082,323</u>	<u>272,574,469,925</u>	<u>229,387,105,760</u>
<i>Term:</i>			
Term deposits from local financial entities	10,269,228,045	46,549,514,521	51,740,175,969
Term deposits from foreign financial entities (3)	849,729,971,907	539,553,389,165	542,767,108,583
Funds from liquidity market	7,200,000,000	12,825,000,000	8,875,000,000
Loans from local financial entities	8,480,713,534	3,303,090,254	3,452,990,518
Loans from foreign financial entities (1)(2)	174,221,833,715	328,230,055,419	304,149,941,543
Subtotal	<u>1,049,901,747,201</u>	<u>930,461,049,359</u>	<u>910,985,216,613</u>
Charges payable for other demand and term obligations with financial entities –foreign currency	66,087,420	45,675,752	68,896,307
Charges payable for other demand and term obligations with financial entities –local currency	286,918,993	322,092,919	241,129,423
Charges payable for loans with foreign financial entities (1)	2,282,341,110	1,738,990,390	2,251,662,906
Charges payable for loans with local financial entities	12,904,549	11,536,232	12,847,576
Charges payable for term deposits from foreign financial entities (3)	19,572,082,564	4,931,527,108	12,251,869,811
Subtotal	<u>22,220,334,636</u>	<u>7,049,822,401</u>	<u>14,826,406,023</u>
Total	¢ <u>1,285,231,164,160</u>	<u>1,210,085,341,685</u>	<u>1,155,198,728,396</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(1) Loans from foreign financial entities are as follows:

Entity	Annual interest rate			Maturity			Balance		
	September 2016	December 2015	September 2015	September 2016	December 2015	September 2015	September 2016	December 2015	September 2015
CABEI	4.55% to 4.64%	1.09% to 6.90%	4.55% to 8.00%	2018 to 2021	2016 to 2021	2015 to 2021	¢ 12,550,978,408	15,589,747,903	16,929,329,949
Barclays	0.00%	2.03% to 3.15%	6.20% to 6.55%	-	2023 to 2029	2023 to 2029	-	66,839,055,216	67,502,571,415
Commerce, N.A. Miami	0.00%	2.48%	2.03%	2016	2016	2016	-	10,712,628,929	10,592,084,135
Deutsche Bank AG New York	2.48%	4.54% to 4.55%	-	2016	2016	-	6,133,444,971	8,788,913,600	-
Credit Suisse Bank	4.41%	3.75%	3.76%	2017	2017	2017	57,737,149,108	56,693,536,210	55,806,482,209
JP Morgan Chase Bank National	2.32%	4.63% to 6.20%	-	2016	2016	-	8,269,965,525	8,005,846,918	-
Kreditanstalt für Wiederaufbau (KfW)	3.32%	3.32% to 6.20%	3.32%	2023	2023	2023	22,048,572,103	7,640,853,871	6,125,829,266
Wells Fargo Bank	0.00%	3.32% to 6.65%	1.48 to 2.13%	2016	2016	2016	-	28,229,138,633	22,765,969,258
Nomura	6.20% to 6.65%	-	-	2023 to 2029	-	-	69,764,064,710	-	-
Citibank	0.00%	2.32% to 3.15%	1.43% to 3.08%	2016	2016	2016	-	127,469,324,529	126,679,338,217
							¢ <u>176,504,174,825</u>	<u>329,969,045,809</u>	<u>306,401,604,449</u>

(2) Guarantees backing the above loans are detailed in note 2.

As of September 30, 2016, loans due to foreign financial entities bear interest at rates ranging between 2.32 % and 6.65% per annum (December and September 2015: between 1.09% and 6.90% per annum and between 1.43% and 8.00% per annum, respectively).

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- (3) On October 29, 2013, the Bank made two international issues with a face value of US\$1 billion equivalent to ₡541,967,554,950 in September 2016 (December and September 2015: ₡527,692,459,100 and ₡532,418,391,228, respectively) and the following characteristics:

a. 5-year issue:

- ✓ Face value: US\$500 million
- ✓ Traded amount: 99.331%
- ✓ Term: 5 years
- ✓ Interest rate: 4.875% per coupon payment
- ✓ Maturity: November 1, 2018

b. 10-year issue:

- ✓ Face value: US\$500 million
- ✓ Traded amount: 99.072%
- ✓ Term: 10 years
- ✓ Interest rate: 6.250% per coupon payment
- ✓ Maturity: November 1, 2023

On April 25, 2016, the Bank made one international issue with a face value of US\$500 million equivalent to ₡269,968,328,000 in September 2016, with the following characteristics:

c. 5-year issue:

- ✓ Face value: US\$500 million
- ✓ Traded amount: 99.68%
- ✓ Term: 5 years
- ✓ Interest rate: 5.875% per coupon payment
- ✓ Maturity: April 25, 2021

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

	September 2016			Total
	5-year issue (maturing in 2018)	10-year issue (maturing in 2023)	5-year issue (maturing in 2021)	
Issue	¢ 272,915,949,645	307,723,446,459	274,496,185,165	855,135,581,269
Adjustment to fair value of item hedged measured at cost of international issues	(895,822,835)	(12,928,594,636)	(1,102,656,582)	(14,927,074,053)
Amortization of discount in traded amount of issues	1,010,119,070	582,454,662	65,590,959	1,658,164,691
Subtotal	273,030,245,880	295,377,306,485	273,459,119,542	841,866,671,907
Charges payable	5,548,664,062	7,113,671,884	6,909,746,618	19,572,082,564
Total	¢ 278,578,909,942	302,490,978,369	280,368,866,160	861,438,754,471

	December 2015			Total
	5-year issue	10-year issue		
Issue	¢ 265,291,954,796	272,403,786,799		537,695,741,595
Adjustment to fair value of item hedged measured at cost of international issues	(1,308,900,128)	2,038,284,564		729,384,436
Amortization of discount in traded amount of issues	716,915,358	411,347,776		1,128,263,134
Subtotal	264,699,970,026	274,853,419,139		539,553,389,165
Charges payable	2,161,006,250	2,770,520,858		4,931,527,108
Total	¢ 266,860,976,276	277,623,939,997		544,484,916,273

	September 2015			Total
	5-year issue	10-year issue		
Issue	¢ 261,714,759,658	270,703,631,570		532,418,391,228
Adjustment to fair value of item hedged measured at cost of international issues	2,087,448,847	7,276,571,744		9,364,020,591
Amortization of discount in traded amount of issues	626,084,577	358,612,187		984,696,764
Subtotal	264,428,293,082	278,338,815,501		542,767,108,583
Charges payable	5,368,796,875	6,883,072,936		12,251,869,811
Total	¢ 269,797,089,957	285,221,888,437		555,018,978,394

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

A valuation was performed as of September 30, 2016 and 2015 in order to calculate the change in the fair value of the primary instrument based on the following inputs:

- ✓ a 5- or 10-year LIBOR rate at the issue of the bond
- ✓ discount rates from Bloomberg
- ✓ zero rates corresponding to the swap curve as of September 30, 2016 and december and September 2015
- ✓ 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 rate
- ✓ accrued and earned interest were segregated from the instruments to obtain variations in clean prices
- ✓ forward rate to calculate variable interest.

For the period ended September 30, 2016, the Bank booked an increase in the fair value of these issues in the amount of ¢13,025,975,336 under “Other interest income” (December and September 2015: ¢23,860,842,948 and ¢17,510,702,857, respectively) (see note 25). For the year ended September 30, 2016, the Bank booked a decrease in the fair value of these issues in the amount of ¢27,421,960,479 under “Other interest expense” (December and September 2015: ¢26,560,630,673 and ¢26,910,970,713, respectively). The balance of this account amounts to a total of ¢28,371,618,003 (December and September 2015: ¢27,087,497,352 and ¢27,110,743,535, respectively).

Maturities of loans due to entities

Loans due to entities mature as follows:

		September 2016		
		Local	Foreign	Total
Less than 1 year	¢	587,829,199	72,140,559,603	72,728,388,802
Between 1 and 2 years		-	3,282,481,690	3,282,481,690
Between 3 and 5 years		125,644,412	9,268,496,719	9,394,141,131
More than 5 years		7,905,788,884	91,812,636,813	99,718,425,697
	¢	<u>8,619,262,495</u>	<u>176,504,174,825</u>	<u>185,123,437,320</u>
		December 2015		
		Local	Foreign	Total
Less than 1 year	¢	-	183,472,534,284	183,472,534,284
Between 1 and 2 years		879,757,812	56,693,536,210	57,573,294,022
Between 3 and 5 years		125,644,412	4,794,632,376	4,920,276,788
More than 5 years		2,434,868,674	85,008,342,939	87,443,211,613
	¢	<u>3,440,270,898</u>	<u>329,969,045,809</u>	<u>333,409,316,707</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	September 2015		
	Local	Foreign	Total
Between 1 and 2 years	-	221,812,258,290	221,812,258,290
Between 3 and 5 years	-	10,960,945,478	10,960,945,478
More than 5 years	3,591,482,506	73,628,400,681	77,219,883,187
	¢ 3,591,482,506	306,401,604,449	309,993,086,955

As of September 30, 2016 and 2015, loans due to local entities correspond to obligations with Banco Crédito Agrícola de Cartago and BCCR.

(b) Subordinated obligations

The Bank's subordinated obligations are as follows:

Entity	Annual interest rate	Term	Maturity		September 2016	December 2015	September 2015
IDB	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						
CABEI		15 years	23/10/2029		30,000,000	30,000,000	30,000,000
Total				US\$	130,000,000	130,000,000	130,000,000
Total in colones				¢	71,022,900,000	69,152,200,000	68,720,600,000
Finance charges payable					601,323,687	1,195,185,713	508,021,502
				¢	71,624,223,687	70,347,385,713	69,228,621,502

For the year ended September 30, 2016, the Bank presents no instances of noncompliance with payments of principal or interest.

As of September 30, 2016, interest earned by subordinated liabilities amount to US\$1,100,660 equivalent to ¢601,323,687 (December and September 2015: US\$2,246,843 equivalent to ¢1,195,185,713 and US\$961,033 equivalent to ¢508,021,502, respectively).

In accordance with IRNBS 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 do not 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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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.

(15) Income tax

Pursuant to the Costa Rican Income Tax Law, the Bank is required to file annual income tax returns for the year ending December 31 of each year.

a) Current tax

The income tax expense is as follows:

	September		Quarter from July 1 to September 30	
	2016	2015	2016	2015
<i>Current tax:</i>				
Current tax expense	¢ 9,892,686,964	8,143,357,408	3,480,517,574	2,664,589,988
Decrease in income tax for the year	(1,334,895,134)	(1,269,188,626)	-	(20,419,947)
Decrease in prior period income tax	(16,380,331)	-	-	-
Total current tax expense, net	8,541,411,499	6,874,168,783	3,480,517,574	2,644,170,042
<i>Deferred tax:</i>				
Deferred tax expense	209,484,830	53,708,122	93,686,576	20,419,946
Deferred tax income	(1,395,608,218)	(142,985,011)	(79,905,384)	(67,568,354)
Total deferred tax income, net	(1,186,123,388)	(89,276,889)	13,781,192	(47,148,408)
Total income tax expense, net	¢ 7,355,288,111	6,784,891,894	3,494,298,766	2,597,021,634

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The difference between the income tax expense and the amount that would result from applying the corresponding tax rate to income before income tax (30%) is reconciled as follows:

	September 2016	September 2015
Profit before income tax	¢ 68,720,272,554	47,692,397,883
Plus (less) tax effect of:		
Non-deductible expenses	30,012,974,411	32,258,736,656
Deductible expenses	(4,220,126,052)	(3,048,160,568)
Non-taxable income	(65,987,148,145)	(53,970,344,125)
Taxable income	-	49,332,583
Tax base	¢ 28,525,972,768	22,981,962,429
Tax rate	30%	30%
Subtotal income tax expense	¢ 8,557,791,830	6,894,588,729
Decrease in prior period income tax	(16,380,331)	-
Decrease in deferred tax	-	(20,419,946)
Total current tax expense	8,541,411,499	6,874,168,783
Deferred tax expense	209,484,831	53,708,122
Deferred tax income	(1,395,608,218)	(142,985,011)
Total income tax expense, net	¢ 7,355,288,112	6,784,891,894

b) Decrease in prior period income tax

	September 2016	December 2015	September 2015
Decrease in Pension Fund Manager's prior period income tax	¢ 16,380,331	-	-
	¢ 16,380,331	-	-

c) Deferred tax

Deferred tax assets arise from temporary differences in the following financial statement items:

	September 2016	December 2015	September 2015
Unrealized losses	¢ 691,636,464	503,251,464	928,394,233
Tax base of furniture and equipment	-	1,127	-
Legal provisions	329,050,400	328,771,775	195,271,813
Subtotal	¢ 1,020,686,864	832,024,366	1,123,666,046

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of September 30, 2016, movement in temporary differences that give rise to deferred tax assets is as follows:

	December 31, 2015	Included in the income statement	Included in equity	September 30, 2016
Unrealized losses	¢ 503,251,465	-	188,384,999	691,636,464
Allowance for doubtful accounts	17,552,696	(17,552,696)	-	-
Tax base of furniture and equipment	1,128	(1,128)	-	-
Legal provisions	328,771,775	278,625	-	329,050,400
	¢ <u>849,577,064</u>	<u>(17,275,199)</u>	<u>188,384,999</u>	<u>1,020,686,864</u>

As of December 31, 2015, movement in temporary differences that give rise to deferred tax assets is as follows:

	December 31, 2014	Included in the income statement	Included in equity	December 31, 2015
Unrealized losses	¢ 1,484,152,904	-	(980,901,440)	503,251,464
Legal provisions	183,716,442	145,056,460	-	328,772,902
	¢ <u>1,667,869,346</u>	<u>145,056,460</u>	<u>(980,901,440)</u>	<u>832,024,366</u>

As of September 30, 2015, movement in temporary differences that give rise to deferred tax assets is as follows:

	December 31, 2014	Included in the income statement	Included in equity	September 30, 2015
Unrealized losses	¢ 1,484,152,904	49,332,583	(605,091,254)	928,394,233
Legal provisions	183,716,442	34,075,407	(22,520,036)	195,271,813
	¢ <u>1,667,869,346</u>	<u>83,407,990</u>	<u>(627,611,290)</u>	<u>1,123,666,046</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Deferred tax liabilities arise from temporary differences in the following financial statement items:

		September 2016	December 2015	September 2015
Revaluation of assets	¢	10,339,228,565	11,524,732,937	14,107,278,242
Unrealized gains		1,781,311,245	3,787,978,234	2,676,448,204
	¢	<u>12,120,539,810</u>	<u>15,312,711,171</u>	<u>16,783,726,446</u>

As of September 30, 2016, movement in temporary differences that give rise to deferred tax liabilities is as follows:

		December 31, 2015	Included in the income statement	Included in equity	September 30, 2016
Revaluation of assets	¢	11,524,732,939	-	(1,185,504,374)	10,339,228,564
Unrealized gains		3,787,978,233	(553,631,376)	(1,453,035,612)	1,781,311,246
	¢	<u>15,312,711,172</u>	<u>(553,631,376)</u>	<u>(2,638,539,986)</u>	<u>12,120,539,810</u>

As of December 30, 2015, movement in temporary differences that give rise to deferred tax liabilities is as follows:

		December 31, 2014	Included in the income statement	Included in equity	September 30, 2015
Revaluation of assets	¢	13,283,636,328	-	(1,758,903,391)	11,524,732,937
Unrealized gains		883,882,942	4,789,080	2,899,306,212	3,787,978,234
	¢	<u>14,167,519,270</u>	<u>4,789,080</u>	<u>1,140,402,821</u>	<u>15,312,711,171</u>

As of September 30, 2015, movement in temporary differences that give rise to deferred tax liabilities is as follows:

		December 31, 2014	Included in the income statement	Included in equity	September 30, 2015
Revaluation of assets	¢	13,283,636,328	-	823,641,914	14,107,278,242
Unrealized gains		883,882,942	1,579,740	1,790,985,522	2,676,448,204
	¢	<u>14,167,519,270</u>	<u>1,579,740</u>	<u>2,614,627,436</u>	<u>16,783,726,446</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

Tax returns filed by the Bank for the years ended December 31, 2012, 2013, 2014, 2015, and the tax return that will be filed for the year ended December 31, 2016 are open to review by Tax Authorities.

(16) Provisions

Provisions are as follows:

	September 2016	December 2015	September 2015
Severance benefits	¢ 9,120,392,430	19,351,170,766	17,488,622,249
Litigation	4,791,738,374	4,759,970,548	3,663,522,213
Other	15,722,975,515	11,810,578,826	9,076,997,469
	¢ <u>29,635,106,319</u>	<u>35,921,720,140</u>	<u>30,229,141,931</u>

Movement in provisions is as follows:

	Severance benefits	Litigation	Other	Total
Balance at December 31, 2014	¢ 28,436,142,592	2,680,918,923	8,385,833,140	39,502,894,655
Provisioned	6,039,307,999	1,509,517,216	9,390,617,411	16,939,442,626
Used	(13,613,745,068)	(370,798,225)	(5,856,365,647)	(19,840,908,940)
Decrease in provisions credited in the income statement	(3,373,083,274)	(156,115,701)	(2,843,087,435)	(6,372,286,410)
Balance at September 30, 2015	<u>17,488,622,249</u>	<u>3,663,522,213</u>	<u>9,076,997,469</u>	<u>30,229,141,931</u>
Balance at December 31, 2014	¢ 28,436,142,592	2,680,918,923	8,385,833,140	39,502,894,655
Provisioned	8,479,879,789	2,775,512,681	14,115,568,588	25,370,961,058
Used	(13,998,174,006)	(540,345,355)	(6,429,604,978)	(20,968,124,339)
Decrease in provisions credited in the income statement	(3,566,677,609)	(156,115,701)	(4,261,217,924)	(7,984,011,234)
Balance at December 31, 2015	¢ <u>19,351,170,766</u>	<u>4,759,970,548</u>	<u>11,810,578,826</u>	<u>35,921,720,140</u>
Provisioned	3,754,961,732	1,577,734,649	12,318,832,430	17,651,528,811
Used	(13,698,410,251)	(757,625,879)	(7,587,001,533)	(22,043,037,663)
Decrease in provisions credited in the income statement	(287,329,817)	(788,340,944)	(819,434,208)	(1,895,104,969)
Balance at September 30, 2016	¢ <u>9,120,392,430</u>	<u>4,791,738,374</u>	<u>15,722,975,515</u>	<u>29,635,106,319</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The provision for litigation is as follows:

	<u>September 2016</u>	<u>December 2015</u>	<u>September 2015</u>
Ordinary suits	¢ 4,370,433,947	3,922,523,187	2,882,373,378
Ordinary suits against subsidiaries	421,304,428	421,304,428	365,005,902
Phishing	-	416,142,933	416,142,933
	<u>¢ 4,791,738,375</u>	<u>4,759,970,548</u>	<u>3,663,522,213</u>

As of September 30, 2016 and 2015, the Bank is a defendant in litigation and management considers that an outflow of economic benefits will be required to settle the corresponding obligations. The Bank has estimated future outflows and made the following provisions:

- Ordinary suits filed against the Bank have been estimated at ¢65,583,749,229 (December and September 2015: ¢62,174,427,307 and ¢66,652,236,832, respectively) and US\$336,486,386 (December and September 2015: US\$324,983,715 and US\$345,053,143, respectively). Management of the Bank has provisioned ¢4,370,433,947 (December and September 2015: ¢3,922,523,187 and ¢2,882,373,378, respectively) for ordinary and labor suits and judicial litigation.
- For criminal proceedings in which the Bank is the civil defendant, the total potential liability has been estimated at ¢1,004,052,000 (December and September 2015: ¢398,430,775 and ¢400,697,275, respectively). The amount provisioned by the Bank in connection therewith is included in the provision for ordinary suits.
- Labor suits by nature are difficult to estimate. However, they have been estimated at ¢1,123,913,807 (December and September 2015: ¢1,486,333,665 and ¢1,561,333,665, respectively). The amount provisioned by the Bank in connection therewith is included in the provision for ordinary suits.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- The accounting records of the Bank's subsidiaries include provisions for ordinary suits filed against the subsidiaries for a total of ¢421,304,428 (December and September 2015: ¢421,304,428 and ¢365,005,902, respectively).
 - The provision recognized by the Pension Fund Manager amounts to ¢288,110,324 (December and September 2015: ¢288,110,324).
 - The provision booked by the Investment Fund Manager amounts to ¢133,194,104 (December and September 2015: ¢133,194,104 and ¢99,895,578, respectively).
 - The Brokerage Firm and Insurance Brokerage Firm have not booked provisions for pending litigation in 2016 or 2015.
- As of September 30, 2016, the Bank is a defendant in 514 administrative proceedings related to Internet fraud (phishing), which are not provisioned (December and September 2015: 514 administrative proceedings for a total of ¢416,142,933, which were provisioned in full).

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 September 30, 2016, the Bank did not book a provision for litigation because a reliable estimate for the proceedings has not been determined by the legal counsel and the probability of a loss is low.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(17) Other sundry accounts payable

Other sundry accounts payable are as follows:

	September 2016	December 2015	September 2015
Professional fees	¢ 17,724,330	1,604,376	2,427,475
Creditors - goods and services	3,684,342,537	3,111,297,196	3,632,219,259
Current tax	8,557,791,830	8,993,566,061	6,874,168,783
Employer contributions (1)	7,409,634,878	8,375,642,825	7,410,513,301
Court-ordered withholdings	3,308,272,496	3,105,351,390	3,148,255,857
Tax withholdings	1,972,790,886	2,721,503,637	1,832,529,603
Employee withholdings	688,909,475	570,210,272	566,576,929
Other third-party withholdings	86,958,819	16,570,398	309,975,089
Compensation	5,165,545,205	6,753,067,878	5,892,506,817
Statutory allocations	14,070,252,988	12,097,287,024	9,171,651,279
Clearing house operations	12,905,324,409	513,780,850	1,458,198,063
Accrued vacation	7,228,939,737	6,575,901,665	7,154,784,794
Accrued statutory Christmas bonus	7,016,734,762	1,446,425,804	6,829,957,643
Contributions to superintendencies	-	7,323,169	-
Foreclosed assets	655,414,785	117,483,268	144,027,670
Various creditors - Local currency (2)	7,605,638,632	6,713,672,996	7,882,774,339
Various creditors - Foreign currency	4,318,908,741	3,690,218,750	5,909,453,654
	¢ <u>84,693,184,510</u>	<u>64,810,907,559</u>	<u>68,220,020,555</u>

- (1) The “Employer contributions” item mainly includes employer contributions due to CCSS, Banco Popular y de Desarrollo Comunal, National Learning Institute (INA), and Mixed Institute of Social Welfare (IMAS).
- (2) As of September 30, 2016, the “Various creditors - Local currency” item includes ¢2,062 million (December and September 2015: ¢2,436 million and ¢1,973.24 million, respectively), for the operations of the Bank’s Electronic Means of Payment Division (Visa). The remaining amount corresponds to normal operations of other divisions.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(18) Other liabilities

Other liabilities are as follows:

	<u>September 2016</u>	<u>December 2015</u>	<u>September 2015</u>
<i>Deferred income:</i>			
Deferred interest income	¢ 21,290,474,374	14,699,323,266	12,845,261,425
Deferred fees and commissions for trust management	20,629,492	16,916,474	17,315,741
Other	-	1,718,317	76,423
Subtotal	<u>21,311,103,866</u>	<u>14,717,958,057</u>	<u>12,862,653,589</u>
Allowance for stand-by credit losses (1)	<u>1,769,455,707</u>	<u>1,545,597,997</u>	<u>1,536,210,630</u>
<i>Operations pending application:</i>			
Operations pending settlement	60,961,053,093	20,341,189,654	8,509,391,582
Other	<u>19,517,396,208</u>	<u>5,806,697,159</u>	<u>14,475,933,645</u>
Subtotal	<u>80,478,449,301</u>	<u>26,147,886,813</u>	<u>22,985,325,227</u>
Total	<u>¢ 103,559,008,874</u>	<u>42,411,442,867</u>	<u>37,384,189,446</u>

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

	<u>September 2016</u>	<u>December 2015</u>	<u>September 2015</u>
Opening balance	¢ 1,545,597,997	1,319,693,076	1,319,693,076
Allowance expense charged to profit or loss (note 30)	185,330,020	228,413,037	227,293,032
Adjustment for foreign exchange differences	<u>38,527,690</u>	<u>(2,508,116)</u>	<u>(10,775,478)</u>
Closing balance	<u>¢ 1,769,455,707</u>	<u>1,545,597,997</u>	<u>1,536,210,630</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(19) Equity

(a) Share capital

The Bank's share capital is as follows:

		September 2016	December 2015	September 2015
Capital under Law No. 1644	¢	90,511,345,645	90,511,345,645	90,511,345,645
Bank capitalization bonds		27,618,957,837	27,618,957,837	27,618,957,837
	¢	<u>118,130,303,482</u>	<u>118,130,303,482</u>	<u>118,130,303,482</u>

On December 23, 2008, the Executive Branch of the Costa Rican Government authorized a capital contribution funded under Law No. 8703 "Amendment to Law No. 8627 on the Ordinary and Extraordinary Budget of the Republic for Tax Year 2008." Such law grants funds to capitalize three State-owned banks, including the Bank, in order to stimulate productive sectors, particularly small and medium-sized enterprises. For such purposes, the Bank received four securities for a total of US\$50,000,000 (equivalent to ¢27,619,000,002) and denominated in DU maturing in 2013, 2017, 2018, and 2019 (No. 4183, No. 4184, No. 4185, and No. 4190 for DU10,541,265,09 each, at a reference exchange rate of ¢655,021 to DU1,00). As of September 30, 2016 and based on the exchange rate as of that date, the balance of those investments is ¢27,339,403,487 (December and September 2015: ¢27,030,439,007 and ¢27,188,241,745, respectively) (see note 5-a).

(b) Revaluation surplus

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

As of September 30, 2016, revaluation surplus amounts ¢60,806,752,437 (December and September 2015: ¢63,572,929,305 and ¢68,571,839,670, 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 September 30, 2016, the adjustment for the valuation of available-for-sale investments and restricted financial instruments results in an unrealized gain of ¢93,475,126 (December and September 2015: unrealized gain of ¢2,867,809,620 and unrealized gain of ¢1,035,448,846, respectively).

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(d) Adjustment for valuation of investments in other companies

This item corresponds to the valuation of the Bank's investments in other financial entities (companies or subsidiaries) over which the Bank exercises control or significant influence.

As of September 30, 2016, the adjustment for valuation of investments in foreign associates by the equity method amounts to ¢8,185,055,566 (December and September 2015: ¢7,084,626,651 and ¢6,785,697,705, respectively). These investments correspond to the Bank's 49% ownership interest in BICSA and Subsidiary.

(e) Equity reserves

Equity reserves are as follows:

	September 2016	December 2015	September 2015
Legal reserve	¢ 261,729,722,013	237,909,153,277	237,921,031,309
Statutory reserve for foreclosed assets	142,319,593	110,915,646	96,624,638
Excess of statutory reserve for loans	3,819,093,220	4,456,681,706	5,115,597,599
Statutory dynamic provision	7,613,987,814	5,307,802,621	5,324,743,968
	¢ 273,305,122,640	247,784,553,250	248,457,997,514

(f) Equity of the Development Financing Fund

As of September 30, 2016, the allocation of the Bank's earnings for the creation of the Development Financing Fund (FOFIDE) amounts to ¢21,749,819,320 (December and September 2015: ¢18,144,863,035 and ¢18,146,075,240, respectively).

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(20) Commitments and contingencies

The Bank has off-consolidated balance sheet commitments and contingencies that arise in the normal course of business and involve elements of credit and liquidity risk, and the notional amounts of foreign exchange derivatives, as follows:

	<u>September 2016</u>	<u>September 2015</u>
Performance bonds	¢ 30,211,228,147	27,291,441,259
Bid bonds	1,302,287,713	1,590,304,749
Other guarantees	4,166,742,101	3,320,913,247
Letters of credit	16,500,412,784	18,996,556,479
Credits pending disbursement	264,085,019	333,291,501
Subtotal	<u>52,444,755,764</u>	<u>51,532,507,235</u>
Pre-approved lines of credit	250,498,799,908	207,189,743,853
Other contingencies not related to credits	636,737,855	532,022,775
Other contingencies - Pending litigation and lawsuits (note 44)	<u>251,559,746,381</u>	<u>251,429,743,565</u>
Subtotal	<u>502,695,284,144</u>	<u>459,151,510,193</u>
FX futures - Other than hedges (note 5-b)	-	9,092,264,000
Total	¢ <u>555,140,039,908</u>	<u>519,776,281,428</u>

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

Off-balance sheet financial instruments with risk (no prior deposit) and without risk (prior deposit) are as follows:

	<u>September 2016</u>	<u>September 2015</u>
<i>Contingencies without prior deposit:</i>		
Letters of credit	¢ 14,411,206,824	16,058,262,146
Guarantees and sureties granted	32,949,031,423	29,332,116,076
Subtotal	<u>47,360,238,247</u>	<u>45,390,378,222</u>
<i>Contingencies with prior deposit:</i>		
Letters of credit	2,089,205,960	2,938,294,333
Guarantees and sureties granted	<u>2,731,226,538</u>	<u>2,870,543,179</u>
Subtotal	<u>4,820,432,498</u>	<u>5,808,837,512</u>
Credits pending disbursement	264,085,019	333,291,501
Total	<u>¢ 52,444,755,764</u>	<u>51,532,507,235</u>

(21) Trust assets

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of September 30, 2016, trust capital is invested in the following assets:

Nature of trust	Cash or property management	Securitization	Portfolio management	Guaranty	Testamentary	Custody of stock with testamentary clause	Custody and management of stock	Cash guaranty and management	Pre-sales management	Cash or property management	Securitization
<i>Trust assets</i>											
Cash and due from banks	¢ 158,517,239	4,632,096	9,990,490	847	-	-	8,573	-	-	-	173,149,245
Investment securities and term deposits	185,948,040,801	4,055,169,686	1,707,608,506	704,989,579,689	1,184,228,431	-	1,969,273	-	-	-	897,886,596,386
Loan portfolio	2,715,192,748	-	1,272,916,248	-	-	-	-	-	-	-	3,988,108,996
Accounts and accrued interest receivable	9,525,027,864	12,579,083,098	1,780,619,809	24,318,221	-	-	-	32,730,171	-	218,532	23,941,997,695
Foreclosed assets	18,092,733	-	-	-	-	-	-	-	-	-	18,092,733
Investments in other companies	907,839,450	-	-	-	2,320,000	2,096,000	-	-	-	874,128,000	1,786,383,450
Property and equipment	2,482,777,286	50,013,556,849	-	71,760,296,254	-	-	-	1,544,041,161	-	1,454,901,292	127,255,572,842
Other assets	2,448,731,004	773,929,672	-	1,658,085,263	1,442,945	-	-	-	5,591,595	3,276	4,887,783,755
Total	¢ 204,204,219,125	67,426,371,401	4,771,135,053	778,432,280,274	1,187,991,376	2,096,000	1,977,846	1,576,771,332	5,591,595	2,329,251,100	1,059,937,685,102

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of September 30, 2015, trust capital is invested in the following assets:

Nature of trust	Cash or property management	Securitization	Portfolio management	Guaranty	Testamentary	Custody of stock with testamentary clause	Custody and management of stock	Cash guaranty and management	Pre-sales management	Cash or property management	Securitization
<i>Trust assets</i>											
Cash and due from banks	¢ 153,479,698	666,354	1,752,489	4,634,997	-	7,824	8,411	-	951,516	-	161,501,289
Investment securities and term deposits	173,094,238,846	15,811,618,416	2,785,712,035	593,361,531,232	1,331,118,772	-	1,852,674	-	432,131,720	-	786,818,203,695
Loan portfolio	2,496,322,661	-	2,871,806,669	-	-	-	-	-	-	-	5,368,129,330
Accounts and accrued interest receivable	7,484,809,250	1,175,987,515	1,992,898,316	23,087,956	-	-	-	26,896,151	-	-	10,703,679,188
Foreclosed assets	40,674,940	-	3,668,383	-	-	-	-	-	-	-	44,343,323
Investments in other companies	1,135,868,133	-	-	-	2,332,000	2,396,000	-	-	-	845,792,000	1,986,388,133
Property and equipment	981,675,745	53,745,642,498	-	68,941,665,567	-	-	-	1,544,041,161	-	-	125,213,024,971
Other assets	451,869,403	864,179,305	22,428,776	2,136,416,841	1,303,921	-	-	-	3,727,730	-	3,479,925,976
Total	¢ 185,838,938,676	71,598,094,088	7,678,266,668	664,467,336,593	1,334,754,693	2,403,824	1,861,085	1,570,937,312	436,810,966	845,792,000	933,775,195,905

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

a) Housing mortgage

These trusts are exclusively dedicated to managing housing loan portfolios.

b) Cash or property management

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

c) Securitization

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

d) Portfolio management

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

e) Special accounts

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

f) Guaranty

These trusts hold trust property that is to be transferred as a guaranty for loan operations at the direction of the trustor.

g) Testamentary

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

h) Custody of stock with testamentary clause

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

(22) Other debit memoranda accounts

Other debit memoranda accounts are as follows:

	September 2016	September 2015
Pension Fund Manager's own investments in custody		
- Face value of principal	¢ 7,564,300,000	7,110,943,000
Pension Fund Manager's own investments in custody		
- Coupons	2,072,175,100	2,396,156,089
Pension Fund Manager's own investments in custody		
- Number of shares	23	23
Guarantees received in the Bank's custody	5,361,490,014,202	5,918,509,510,867
Unused, authorized lines of credit	671,246,021,332	783,878,467,692
Write-offs	188,314,704,190	180,135,490,292
Interest income on non-accrual loans	11,588,487,691	7,891,820,508
Supporting documentation received in the Bank's custody	1,223	992
Nondeductible expenses	37,865,472,682	26,453,870,224
Nontaxable income	65,404,708,082	47,100,847,967
Other memoranda accounts	915,726,213,439	600,537,697,053
Subtotal	<u>7,261,272,097,964</u>	<u>7,574,014,804,707</u>
Third-party debit memoranda accounts	2,279,212,041,378	2,142,754,644,279
Own debit memoranda accounts for custodial activities	384,671,728,050	329,881,276,167
Third-party debit memoranda accounts for custodial activities	<u>9,380,394,327,969</u>	<u>9,118,886,586,392</u>
Subtotal	<u>12,044,278,097,397</u>	<u>11,591,522,506,838</u>
Total	¢ <u>19,305,550,195,361</u>	<u>19,165,537,311,547</u>

- a) According to SUGEVAL Decision SGV-R-1706 of June 6, 2007, the Bank is registered with the National Registry of Securities and Brokers as a class C custodian, in conformity with current regulations.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Other memoranda accounts by entity are as follows:

	September 2016	September 2015
Bank	¢ 16,784,990,776,022	16,142,930,379,385
Brokerage Firm (note 23)	989,484,874,165	1,591,805,418,636
Investment Fund Manager (note 24)	399,017,949,415	429,608,988,208
Pension Fund Manager (note 25)	1,132,056,595,759	1,001,192,525,318
	¢ 19,305,550,195,361	19,165,537,311,547

Banking mandates are as follows:

	September 2016	September 2015
Management of banking mandates	¢ 757,918,360,137	721,594,629,003
Assets in custody on behalf of third parties	392,901	392,901
“TUDES” securities received in custody from affiliates under article 75 of Law No. 7531	1,077,909,350	1,349,882,853
Pension funds (note 25)	1,121,276,726,043	990,267,937,709
Investment funds (note 24)	398,938,652,947	429,541,801,813
	¢ 2,279,212,041,378	2,142,754,644,279

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

Memoranda accounts are summarized as follows:

	September 2016	September 2015
<i>Own</i>		
Trading securities in custody (note 23-a)	¢ 7,430,088,096	7,628,704,137
Securities received as guarantees at value	520,787,080	-
Trading securities pledged as guarantees	39,741,213,341	33,849,129,220
Confirmed agreements confirmed in cash pending settlement	520,212,458	264,309,999
Repurchase agreements pending settlement (note 23-b)	39,031,331,872	31,785,686,000
Other own memoranda accounts	5,476,155,511	5,298,832,232
	92,719,788,358	78,826,661,588
<i>Third-party</i>		
Trading securities in custody (note 23-a)	611,001,300,447	1,331,931,279,786
Trading securities received as guarantees	71,860,404,725	45,159,117,374
Trading securities pledged as guarantees	82,636,663,791	51,901,135,412
Trading securities pending receipt	1,018,183,796	2,367,113,657
Subscribed contracts pending settlement	861,232,599	781,747,419
Repurchase agreements pending settlement (note 23-b)	128,578,675,087	80,158,146,841
Cash and accounts receivable	808,625,362	680,216,559
	896,765,085,807	1,512,978,757,048
	¢ 989,484,874,165	1,591,805,418,636

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

a) Securities held in custody are as follows:

Location	Type of custody		September 2016	September 2015
<i>Own custodial activities</i>				
Local	At face value - available	¢	6,966,890,279	7,176,867,138
Local	At purchase value of shares - available		15,000,002	21,561,315
Local	At purchase value of investments - available		64,367,882	65,651,844
Local	At face value - pledged		383,000,000	31,000,000
Local	Amount of physical coupons - pledged		829,933	2,623,840
Local	At face value - pending delivery		-	331,000,000
			<u>7,430,088,096</u>	<u>7,628,704,137</u>
<i>Custodial activities on behalf of third parties</i>				
Local	At face value - available		574,186,452,873	963,071,298,779
Local	Amount of physical coupons - available		-	440,304
Local	At purchase value of shares - available		22,522,945,577	45,881,967,413
Local	At purchase value of investments - available		12,425,626,604	320,339,779,927
Local	At face value - pledged		1,713,143,024	2,441,813,839
Local	At purchase value of shares - pledged		64,939,976	63,384,800
Local	At purchase value of investments - pledged		16,076,833	16,094,724
Local	At face value - pending delivery		72,115,560	103,000,000
Local	At purchase value of shares - pending delivery		-	13,500,000
			<u>611,001,300,447</u>	<u>1,331,931,279,786</u>
		¢	<u>618,431,388,543</u>	<u>1,339,559,983,923</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

September 2016								
	Term buyer				Term seller			
	Colones	U.S. dollars	U.S. dollars expressed in colones	Total	Colones	U.S. dollars	U.S. dollars expressed in colones	Total
Own	27,980,711,217	20,227,007	11,050,620,655	39,031,331,872	-	-	-	-
Third parties	28,700,638,163	69,639,695	38,046,254,477	66,746,892,640	34,880,696,990	49,331,147	26,951,085,457	61,831,782,447
Total	<u>56,681,349,380</u>	<u>89,866,702</u>	<u>49,096,875,132</u>	<u>105,778,224,512</u>	<u>34,880,696,990</u>	<u>49,331,147</u>	<u>26,951,085,457</u>	<u>61,831,782,447</u>

September 2015								
	Term buyer				Term seller			
	Colones	U.S. dollars	U.S. dollars expressed in colones	Total	Colones	U.S. dollars	U.S. dollars expressed in colones	Total
Own	30,038,838,119	3,304,544	1,746,847,881	31,785,686,000	-	-	-	-
Third parties	24,076,255,026	33,726,375	17,828,436,363	41,904,691,389	25,404,516,530	24,306,570	12,848,938,922	38,253,455,452
Total	<u>54,115,093,145</u>	<u>37,030,919</u>	<u>19,575,284,244</u>	<u>73,690,377,389</u>	<u>25,404,516,530</u>	<u>24,306,570</u>	<u>12,848,938,922</u>	<u>38,253,455,452</u>

As of September 30, 2016, term buyer and seller positions in tri-party repurchase agreements in U.S. dollars were valued at the exchange rate of ¢546.33 to US\$1.00 (2015: ¢528.62 to US\$1.00).

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

		September 2016			
		Term buyer		Term seller	
		Colones	U.S. dollars	Colones	U.S. dollars
<i>Own</i>					
1 to 30 days	¢	1,002,485,929	3,862,673	-	-
31 to 60 days		13,074,499,742	13,324,263	-	-
61 to 90 days		13,903,725,546	3,040,071	-	-
		<u>27,980,711,217</u>	<u>20,227,007</u>	<u>-</u>	<u>-</u>
<i>Third parties</i>					
1 to 30 days		1,678,762,529	1,470,759	727,275,054	275,391
31 to 60 days		18,504,661,836	34,872,654	17,105,781,410	19,617,767
61 to 90 days		8,177,993,946	19,027,814	16,779,991,164	15,169,521
More than 91 days		339,219,852	14,268,468	267,649,362	14,268,468
		<u>28,700,638,163</u>	<u>69,639,695</u>	<u>34,880,696,990</u>	<u>49,331,147</u>
	¢	<u>56,681,349,380</u>	<u>89,866,702</u>	<u>34,880,696,990</u>	<u>49,331,147</u>
		September 2015			
		Term buyer		Term seller	
		Colones	U.S. dollars	Colones	U.S. dollars
<i>Own</i>					
1 to 30 days	¢	2,078,397,123	3,010,331	-	-
31 to 60 days		18,116,480,754	294,213	-	-
61 to 90 days		9,843,960,242	-	-	-
		<u>30,038,838,119</u>	<u>3,304,544</u>	<u>-</u>	<u>-</u>
<i>Third parties</i>					
1 to 30 days		3,151,103,738	1,722,897	2,697,445,944	1,159,671
31 to 60 days		15,313,964,550	18,699,870	19,367,337,303	13,942,844
61 to 90 days		4,972,722,460	12,684,452	2,701,269,006	9,204,055
More than 91 days		638,464,278	619,156	638,464,277	-
		<u>24,076,255,026</u>	<u>33,726,375</u>	<u>25,404,516,530</u>	<u>24,306,570</u>
	¢	<u>54,115,093,145</u>	<u>37,030,919</u>	<u>25,404,516,530</u>	<u>24,306,570</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.

As of September 30, 2016 and 2015, the Brokerage Firm has no margin calls that require disclosure.

(24) Investment fund management agreements

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

Fund	September 2016		
	Net value	Shares	Value per share
<i>Funds in colones:</i>			
Super Fondo - colones	¢ 90,311,354,536	23,959,444,966	3.77
Fon Depósito - colones	68,429,279,891	49,115,426,491	1.39
Creci Fondo - colones	3,995,174,800	853,275,246	4.68
Redi Fondo - colones	18,485,785,731	5,545,030,478	3.33
Diner Fondo - colones	59,788,309,128	23,408,659,943	2.55
Subtotal - colones	¢ 241,009,904,086	102,881,837,124	
<i>Funds in U.S. dollars:</i>			
Super Fondo – U.S. dollars	US\$ 22,905,779	15,873,760	1.44
Creci Fondo – U.S. dollars	2,832,868	1,676,360	1.69
Redi Fondo – U.S. dollars	14,102,944	9,877,336	1.43
Diner Fondo – U.S. dollars	81,918,005	64,727,853	1.27
Fon Depósito – U.S. dollars	58,508,733	54,626,160	1.07
Super Fondo Plus – U.S. dollars	108,464,886	104,515,041	1.04
Fondo Hipotecario – U.S. dollars	338,864	336,251	382.03
Subtotal – U.S. dollars	US\$ 289,072,079	251,632,761	
Subtotal – U.S. dollars, expressed in colones	¢ 157,928,748,861	137,474,526,317	
Total assets of managed funds (note 22-a)	¢ 398,938,652,947	240,356,363,441	
<i>Guarantees:</i>			
Performance bonds	¢ 77,321,164		
Outstanding checks	1,975,304		
Total memoranda accounts (note 22-a)	¢ 399,017,949,415		

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Fund	September 2015		
	Net value	Shares	Value per share
<i>Funds in colones:</i>			
Super Fondo - colones	¢ 103,460,576,040	28,192,867,471	3.68
Fon Depósito - colones	94,046,831,188	68,933,867,904	1.36
Creci Fondo - colones	2,377,980,267	540,374,009	4.40
Redi Fondo - colones	11,234,491,445	3,578,066,318	3.14
Diner Fondo - colones	65,924,570,568	26,452,563,160	2.49
Subtotal - colones	¢ 277,044,449,508	127,697,738,862	
<i>Funds in U.S. dollars:</i>			
Super Fondo – U.S. dollars	US\$ 22,945,608	16,149,705	1.42
Creci Fondo – U.S. dollars	1,729,464	1,054,398	1.64
Redi Fondo – U.S. dollars	9,934,546	7,168,992	1.39
Diner Fondo – U.S. dollars	101,671,799	81,120,850	1.25
Fon Depósito – U.S. dollars	64,977,500	61,249,453	1.06
Super Fondo Plus – U.S. dollars	83,534,265	81,712,004	1.02
Fondo Hipotecario – U.S. dollars (mortgage fund)	489,962	486,948	552.38
Subtotal – U.S. dollars	US\$ 285,283,144	248,942,350	
Subtotal – U.S. dollars, expressed in colones	¢ 150,806,375,924	131,595,905,057	
<i>Funds in euros:</i>			
Diner Fondo - euros	€ 2,861,226	3,056,847	1.07
Subtotal – euros	€ 2,861,226	3,056,847	
Subtotal - euros, expressed in colones	¢ 1,690,976,381	1,806,587,896	
Total assets of managed funds (note 22-a)	¢ 429,541,801,813	261,100,231,815	
<i>Guarantees:</i>			
Performance bonds	¢ 65,211,090		
Outstanding checks	1,975,305		
Total memoranda accounts (note 22-a)	¢ 429,608,988,208		

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 - Dólares Diversificado (diversified – U.S. dollars): This is an open-end (floating number of outstanding shares) money market fund with a variable income portfolio. Returns on the investment portfolio are not distributed until the customer requests partial or full redemption of shares.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- BN CreciFondo - Dólares No Diversificado (non-diversified – U.S. dollars): This is an open-end (floating number of outstanding shares) growth fund with a variable income portfolio. Returns on the investment portfolio are not distributed until the customer requests partial or full redemption of shares.
- BN RediFondo Trimestral - Dólares No Diversificado (quarterly, non-diversified – U.S. dollars): This is an open-end (floating number of outstanding shares) income fund with a fixed income portfolio. Returns on the investment portfolio are not distributed until the customer requests partial or full redemption of shares.
- BN DinerFondo - Dólares No Diversificado (non-diversified - U.S. dollars): This is an open-end (floating number of outstanding shares) money market fund with a fixed income portfolio. Returns on the investment portfolio are not distributed until the customer requests partial or full redemption of shares.
- BN FonDepósito - Dólares No Diversificado (non-diversified - U.S. dollars): This is an open-end (floating number of outstanding shares) money market fund with a fixed income portfolio. Returns on the investment portfolio are not distributed until the customer requests partial or full redemption of shares.
- BN Fondo de Inversión de Titularización Hipotecaria (FHIPO) - Dólares (mortgage securitization - U.S. dollars): This is mainly a closed-end mortgage investment fund, i.e. investor shares are listed and traded on a stock exchange.
- BN SuperFondo Dólares Plus No Diversificado - Dólares (non-diversified - U.S. dollars): This fund is aimed at conservative investors looking for short-term investments. It allows obtaining reimbursement of the shares one business day and up to a maximum of three business days from the date of receipt of the withdrawal request. Since it is a short-term fund, it allows the investor to manage resources to address its present or future liquidity needs. The goal of the fund is to offer an investment mechanism that seeks to obtain higher returns than other investment alternatives under similar liquidity, term, and risk parameters, taking advantage of the short-term part of the yield curve in the composition of its portfolio.
- BN Inmobiliario CR-2 - Dólares (real estate development – U.S. dollars): This is a long-term, closed-end fund, in U.S. dollars, which has the goal of investing in real estate for its exploitation through leasing and sale. It is aimed at investors interested in diversifying their investments portfolio by including real estate property located in national territory and mainly occupied by public institutions. As of September 30, 2016 and 2015, 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 BN-1 - Dólares (real estate development - U.S. dollars): This fund invests in the construction of buildings to be occupied by entities of the Banco Nacional Conglomerate (BNCR Conglomerate). Once the works are completed, the buildings will be sold to an entity of the BNCR Conglomerate or a real estate fund managed by BN Fondos, and investors thus realize their potential gains. If the buildings are sold to a real estate fund, such fund will lease the buildings to an entity of the BNCR Conglomerate. As of September 30, 2016 and 2015, this fund does not have operations.
- Fondo de Inversión de Desarrollo Inmobiliario de Infraestructura Pública - 1 - Dólares (real estate development - U.S. dollars): This fund will invest in the construction of buildings to be occupied by the Maximum Deconcentration Organizations and other entities of BCCR. Once the works are completed, the buildings will be leased with a purchase option to BCCR or sold to BCCR or to a real estate fund managed by BN Fondos, and investors thus realize their potential gains. If the buildings are sold to a real estate fund, such fund will lease the buildings to BCCR. As of September 30, 2016 and 2015, this fund does not have operations.

As of September 30, 2014, the Investment Fund Manager registered with SUGEVAL the following funds, which closed operations during 2014:

- BN Diner Fondo - Euros No Diversificado (non-diversified - euros): 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 Inmobiliario CR-1 - Dólares (real estate development - U.S. dollars): This is a long-term, closed-end fund, in U.S. dollars, which has the goal of investing in real estate for its exploitation through leasing and sale. It is aimed at investors interested in diversifying their investments portfolio by including real estate property located in national territory and mainly occupied by public institutions. This fund is aimed at investors who wish to participate in a real estate portfolio and are thus willing to assume the risks inherent to the real estate market in return for the generation of periodic returns and the possibility of materializing capital gains generated from the sale of the fund's real estate property. As of December 31, 2014, this fund did not have operations.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- Fondo de Inversión BN Industria y Servicios no Diversificado - Dólares (industry and services non-diversified - U.S. dollars): This is a long-term, closed-end fund, in U.S. dollars, which has the goal of investing in real estate for its exploitation through leasing and sale. It is aimed at investors interested in diversifying their investments portfolio by including real estate property located in national territory, destined for the industrial sector or services sector inside or outside a free zone regime. As of December 31, 2014, this fund did not have operations.
- Fondo de Inversión BN Vivienda -1- Dólares (housing- U.S. dollars): This fund has the goal of investing in housing units for lease to individuals or legal entities through a purchase option agreement. It is aimed at investors interested in diversifying their investments portfolio by including real estate property located in national territory. This fund is created as a mechanism to be able to offer lessors the “lease with a purchase option”. During the term of the “lease” and until the purchase option is exercised, the lessor must create periodic savings to accumulate a premium that it will later apply to the purchase of the property. As of December 31, 2014, this fund did not have operations.
- Fondo de Inversión de Titularización Hipotecaria (FHIPO) - Colones (mortgage securitization - colones): This fund is aimed at investors who wish to participate in a mortgage fund. The investment is made by purchasing shares in a closed-end fund, which grants ownership rights on the fund’s equity. In this fund, the investor does not obtain fixed returns, but participates in the profit or loss generated by such equity. On a monthly basis, all of the profit generated by the fund is distributed. As of December 31, 2014, this fund did not have operations.
- Fondo de Inversión de Titularización Hipotecaria (FHIPO) - Dólares - 2 (mortgage securitization - U.S. dollars): This fund is aimed at investors who wish to participate in a mortgage fund. The investment is made by purchasing shares in a closed-end fund, which grants ownership rights on the fund’s equity. In this fund, the investor does not obtain fixed returns, but participates in the profit or loss generated by such equity. On a monthly basis, all of the profit generated by the fund is distributed. As of December 31, 2014, this fund did not have operations.

Investment fund management is regulated by SUGEVAL and the Securities Market Regulatory Law.

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Notes to the Consolidated Financial Statements

(25) Pension fund management agreements

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

	September 2016	September 2015
Mandatory Pension Fund (ROP)	¢ 928,521,056,283	787,485,519,349
Mandatory Retirement Savings Account (FCL)	80,339,798,159	110,224,346,804
Pension Fund in Colones A (FPC A)	58,301,192,694	45,859,576,017
Pension Fund in Colones B (FPC B)	12,805,346,715	9,574,515,494
Notary Fund (NOT)	23,693,950,010	21,166,713,376
Pension Fund in U.S. dollars A (FPD A) (a)	10,792,197,455	9,729,068,118
Pension Fund in U.S. dollars B (FPD B) (b)	6,823,184,727	6,228,198,551
Total assets of managed funds (note 22-a)	1,121,276,726,043	990,267,937,709
Securities and assets in own custody	9,636,475,123	9,507,099,112
Bid and performance bonds – colones	16,784,223	14,378,817
Bid and performance bonds – U.S. dollars (c)	48,701,020	53,226,827
Securities in DU	1,077,909,350	1,349,882,853
Total memoranda accounts (note 22-a)	¢ 1,132,056,595,759	1,001,192,525,318

- (a) As of September 30, 2016, this fund amounts to US\$19,753,990 and was valued at the exchange rate of ¢546.33 to US\$1.00 (2015: US\$18,404,654 valued at the exchange rate of ¢528.62 to US\$1.00).
- (b) As of September 30, 2016, this fund amounts to US\$12,489,127 and was valued at the exchange rate of ¢546.33 to US\$1.00 (2015: US\$11,781,996 valued at the exchange rate of ¢528.62 to US\$1.00).
- (c) As of September 30, 2016, this fund amounts to US\$89,142 and was valued at the exchange rate of ¢546.33 to US\$1.00 (2015: US\$100,690 valued at the exchange rate of ¢528.62 to US\$1.00).

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(26) Interest income on cash and due from banks and investments in financial instruments

Interest income on cash and due from banks and investments in financial instruments is as follows:

	September		Quarter from July 1 to September 30,	
	2016	2015	2016	2015
<i>Cash and due from banks:</i>				
Deposits in BCCR	¢ 3,820,859	24,207,361	1,289,324	3,623,120
Checking accounts and demand deposits in local entities	62,380,961	42,236,766	15,632,378	10,330,386
Checking accounts and demand deposits in foreign entities	500,196,112	205,475,878	137,510,929	56,943,072
	<u>566,397,932</u>	<u>271,920,005</u>	<u>154,432,631</u>	<u>70,896,578</u>
<i>Financial instruments:</i>				
Investments in available-for- sale securities	30,541,864,142	30,163,765,695	12,470,558,690	10,006,224,113
Investments in committed deposits and securities	6,200,404,835	6,443,845,093	1,339,887,285	2,257,930,897
Subtotal	<u>36,742,268,977</u>	<u>36,607,610,788</u>	<u>13,810,445,975</u>	<u>12,264,155,010</u>
Total	¢ <u>37,308,666,909</u>	<u>36,879,530,793</u>	<u>13,964,878,606</u>	<u>12,335,051,588</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(27) Intrest income on loan portfolio

Interest income on the loan portfolio is as follows:

	September		Quarter from July 1 to September 30,	
	2016	2015	2016	2015
<i>Current loans:</i>				
Checking account overdrafts	¢ 42,083,688	63,584,088	6,000,505	14,437,751
Factoring	626,964	1,076,522,051	-	341,367,592
Loans granted with funds from BCCR	894,740,817	195,709,009,581	298,307,965	67,483,704,967
Loans granted with other funds	211,640,163,823	14,720,217,838	73,241,764,119	4,916,664,407
Credit cards	15,431,669,659	660,803	5,380,588,521	7,358
Issued letters of credit	49,184	398,676	18,668	398,676
Other loans	3,386,501	3,323,698	1,142,746	1,080,179
Subtotal	<u>228,012,720,636</u>	<u>211,573,716,735</u>	<u>78,927,822,524</u>	<u>72,757,660,930</u>
<i>Past due loans and loans in legal collection:</i>				
Checking account overdrafts	9,024,332	2,985,462	170,864	2,339,893
Loans granted with funds from BCCR	138,652,745	249,199,156	45,383,120	66,970,422
Loans granted with other funds	30,544,263,349	32,706,506,655	9,738,013,227	11,014,546,739
Credit cards	1,777,471,275	2,049,069,726	650,649,829	710,834,098
Other	-	636,841	-	90,116
Subtotal	<u>32,469,411,701</u>	<u>35,008,397,840</u>	<u>10,434,217,040</u>	<u>11,794,781,268</u>
Total	¢ <u>260,482,132,337</u>	<u>246,582,114,575</u>	<u>89,362,039,564</u>	<u>84,552,442,198</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(28) Other interest income

Other interest income is as follows:

	September		Quarter from July 1 to September 30,	
	2016	2015	2016	2015
Fees and commissions on letters of credit	¢ 47,798,757	50,461,172	9,290,999	29,209,425
Fees and commissions on guarantees granted	332,092,909	498,166,340	100,823,947	126,773,652
Fees and commissions on lines of credit	82,693,375	132,450,048	24,985,063	47,420,290
Gain on fair value hedge item measured at cost (note 14-a)	13,025,975,336	17,510,702,857	8,392,625,978	76,156,061
Other sundry interest income	3,173,496,627	2,468,561,938	841,580,558	938,541,299
	<u>¢ 16,662,057,004</u>	<u>20,660,342,355</u>	<u>9,369,306,545</u>	<u>1,218,100,727</u>

(29) Expenses for obligations with the public

Expenses for obligations with the public are as follows:

	September		Quarter from July 1 to September 30,	
	2016	2015	2016	2015
Demand deposits	¢ 20,991,588,771	25,406,414,758	6,733,246,346	8,171,115,243
Term deposits	57,951,862,726	56,348,198,876	19,800,068,046	18,845,306,060
Tri-party repurchase agreements and securities lending	1,193,922,173	1,721,075,478	413,533,505	550,406,373
Other term obligations with the public	-	680,913	-	-
	<u>¢ 80,137,373,670</u>	<u>83,476,370,025</u>	<u>26,946,847,897</u>	<u>27,566,827,676</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(30) Expenses for allowances for impairment of assets

Expenses for allowances for impairment of assets are as follows:

	September		Quarter from July 1 to September 30,	
	2016	2015	2016	2015
Allowance for loan losses (note 6) ¢	21,617,216,855	24,147,185,562	6,785,518,697	2,405,688,569
General and counter-cyclical allowance for loan portfolio (note 6)	5,112,879,789	1,534,352,054	2,684,276,499	773,427,027
Allowance for impairment of other accounts receivable (note 7)	1,136,700,776	1,046,393,576	460,027,922	242,262,833
Allowance for stand-by credit losses (note 18)	130,000,001	159,000,009	-	10,000,004
General and counter-cyclical allowance for stand-by credit losses (note 18)	55,330,019	68,293,023	10,000,003	10,391,010
Allowance for impairment of derivative financial instruments (note 5-a)	20,527,703	62,765,143	-	23,726,011
¢	<u>28,072,655,143</u>	<u>27,017,989,367</u>	<u>9,939,823,121</u>	<u>3,465,495,454</u>

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

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

	September		Quarter from July 1 to September 30,	
	2016	2015	2016	2015
Recovery of loan write-offs ¢	6,293,310,970	9,082,617,875	2,019,571,783	2,627,742,568
Recovery of receivable write- offs	817,389	628,332	582,971	2,912
Decrease in allowance for impairment of other accounts receivable (note 7)	3,026,994,241	128,790,146	2,578,616,861	34,481,595
Decrease in allowance for impairment of investments in financial instruments (note 5-a)	97,495,429	39,354,768	-	35,515
¢	<u>9,418,618,029</u>	<u>9,251,391,121</u>	<u>4,598,771,615</u>	<u>2,662,262,590</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(32) Operating income from service fees and commissions

Operating income from service fees and commissions is as follows:

		September		Quarter from July 1 to September 30,	
		2016	2015	2016	2015
Drafts and transfers	¢	5,759,818,860	5,344,766,761	1,961,550,136	1,808,318,991
Certified checks		3,449,454	3,855,607	1,181,299	1,383,446
Trusts		545,426,510	611,900,206	176,072,507	198,249,175
Custodial services		1,099,020,208	960,244,511	367,973,292	348,271,123
Banking mandates		116,064	111,872	38,307	37,283
Collections		27,047,725	28,659,098	9,089,326	9,027,437
Credit cards		33,831,897,495	30,874,103,555	11,640,331,921	10,237,642,565
Management services		2,853,091,333	2,576,018,978	873,087,892	865,409,661
Management of investment funds		3,937,866,982	3,430,986,754	1,181,205,203	1,317,242,755
Management of pension funds		6,420,097,082	6,001,720,844	2,147,300,797	2,107,889,923
Insurance underwriting		3,215,415,740	2,467,106,366	1,257,674,485	793,107,634
Brokerage operations (third parties in local market)		2,264,416,432	2,023,359,682	766,255,702	694,735,378
Brokerage operations (third parties in other markets)		136,592,955	61,835,362	47,560,508	17,126,330
Individual portfolio management		861,141	984,732	268,064	349,245
Other		28,775,104,785	27,213,586,340	9,202,010,760	9,096,491,654
	¢	<u>88,870,222,766</u>	<u>81,599,240,668</u>	<u>29,631,600,199</u>	<u>27,495,282,600</u>

(33) Other operating income

Other operating income is as follows:

		September		Quarter from July 1 to September 30,	
		2016	2015	2016	2015
Leasing of assets	¢	33,410,194	33,410,228	12,430,097	9,843,365
Recovery of expenses		1,988,054,398	3,320,195,077	597,216,795	510,348,026
Net valuation of other assets (note 42-c)		287,355,748	255,087,989	168,891,113	19,227,742
Other income from accounts receivable		1,025,982	1,808,308	358,503	356,920
Sundry operating income		15,366,177,369	3,345,234,458	1,457,380,678	1,181,556,686
Decrease in provisions		1,895,104,968	6,372,286,411	537,287,845	380,887,575
	¢	<u>19,571,128,659</u>	<u>13,328,022,471</u>	<u>2,773,565,031</u>	<u>2,102,220,314</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(34) Expenses for foreclosed assets

Expenses for foreclosed assets are as follows:

	September		Quarter from July 1 to September 30,	
	2016	2015	2016	2015
Loss on sale of assets acquired in lieu of payment	542,280,047	333,525,535	373,306,294	141,480,535
Loss on sale of assets awarded in judicial auctions	4,289,520,152	4,994,807,732	1,664,899,872	1,523,087,102
Management of assets awarded in judicial auctions	6,103,802,493	6,630,235,151	1,849,718,043	2,351,574,456
Loss on impairment of foreclosed assets (note 8)	54,089,975	449,369,767	16,941,246	20,919,304
Loss on allowance for impairment of foreclosed assets and per legal requirements (note 8)	4,756,428,898	3,484,607,467	814,645,157	974,800,931
Other expenses for foreclosed assets	107,766,404	79,143,754	94,184,437	24,429,293
	<u>¢ 15,853,887,969</u>	<u>15,971,689,406</u>	<u>4,813,695,049</u>	<u>5,036,291,621</u>

(35) Expenses for provisions

Expenses for provisions are as follows:

	September		Quarter from July 1 to September 30,	
	2016	2015	2016	2015
Severance benefits	¢ 3,754,961,732	6,039,307,999	2,263,491,580	2,751,222,758
Pending litigation	1,577,734,649	1,509,517,216	692,099,475	873,701,006
Other provisions	12,318,832,430	9,390,617,412	4,063,174,806	3,365,179,016
	<u>¢ 17,651,528,811</u>	<u>16,939,442,627</u>	<u>7,018,765,861</u>	<u>6,990,102,780</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(36) Other operating expenses

Other operating expenses are as follows:

	September		Quarter from July 1 to September 30,	
	2016	2015	2016	2015
Penalties for noncompliance with regulatory provisions	¢ 19,593,179	101,475,893	31,424	69,304
Net valuation of other liabilities (note 42-c)	446,541,530	186,293,704	125,346,190	29,531,789
Income tax on foreign remittances	1,232,258,637	74,074,160	116,940,843	70,310,472
Income tax (8%) on interest on investments in financial instruments	2,096,586,226	2,507,783,155	635,759,250	813,293,555
Property tax	169,802,176	139,248,126	48,217,734	36,707,136
Licenses	362,145,484	578,471,142	111,423,096	162,885,326
Other local taxes	2,572,889	290,718,469	1,474,044	120,375,511
Transfers to FINADE	2,566,142,163	2,447,004,633	1,006,023,840	811,222,801
Sundry operating expenses	35,923,376,779	34,373,290,721	12,361,775,659	11,575,865,851
¢	<u>42,819,019,063</u>	<u>40,698,360,003</u>	<u>14,406,992,080</u>	<u>13,620,261,745</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(37) Personnel expenses

Personnel expenses are as follows:

	September		Quarter from July 1 to September 30,	
	2016	2015	2016	2015
Salaries and bonuses, permanent staff	¢ 49,923,093,592	46,900,214,609	16,661,609,182	18,498,084,970
Salaries and bonuses, contractors	1,326,596,546	1,452,646,764	467,165,991	425,464,674
Compensation for directors and statutory examiners	127,530,668	144,518,864	49,296,459	52,058,045
Overtime	702,049,850	721,274,140	204,912,405	224,942,692
Travel expenses	518,868,566	554,149,134	190,380,864	194,588,465
Statutory Christmas bonus	5,613,804,908	5,565,258,407	1,890,564,098	1,888,010,985
Vacation	6,262,898,954	6,428,346,014	1,820,664,300	1,943,855,143
Other compensation	2,964,323,285	3,711,219,645	1,054,626,601	1,312,802,372
Severance benefits	3,351,673,925	3,261,358,942	1,133,632,958	1,100,585,889
Employer social security taxes	21,041,466,462	21,047,410,100	7,077,936,006	7,031,076,089
Refreshments	326,385,295	325,537,899	131,553,663	105,502,706
Uniforms	11,911,886	232,429,768	2,446,276	11,720,018
Training	510,427,600	738,480,120	286,374,925	299,228,854
Employee insurance	205,449,235	194,812,436	68,643,349	65,565,515
Back-to-school bonus	4,780,755,391	5,044,680,322	1,611,194,996	1,690,279,693
Mandatory retirement savings account	2,019,255,428	2,031,214,137	678,846,391	671,921,404
Other personnel expenses	438,759,461	370,345,495	136,839,222	120,426,084
¢	<u>100,125,251,052</u>	<u>98,723,896,796</u>	<u>33,466,687,686</u>	<u>35,636,113,598</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(38) Other administrative expenses

Other administrative expenses are as follows:

	September		Quarter from July 1 to September 30,	
	2016	2015	2016	2015
Outsourcing	¢ 9,168,206,216	9,615,912,315	3,042,096,337	3,807,211,329
Transportation and communications	3,172,949,706	3,166,610,892	1,128,064,478	1,081,573,667
Infrastructure	26,409,132,848	23,872,141,438	8,614,482,571	7,503,861,035
Overhead	9,209,796,857	7,990,190,511	3,426,066,558	3,006,709,632
	¢ 47,960,085,627	44,644,855,156	16,210,709,944	15,399,355,663

(39) Statutory allocations

Statutory allocations are as follows:

	September		Quarter from July 1 to September 30,	
	2016	2015	2016	2015
CONAPE (5%)	¢ 3,127,069,363	2,188,710,845	1,039,740,132	778,350,070
CNE (3%)	1,957,443,630	1,389,477,562	648,798,684	489,288,088
INFOCOOP (10%)	5,194,045,341	3,344,565,038	1,617,456,072	1,222,470,712
Public capital pension operators	866,870,392	689,472,002	268,228,418	229,011,663
RIVM (7%)	2,924,824,245	1,872,195,433	908,312,456	661,125,007
	¢ 14,070,252,971	9,484,420,880	4,482,535,762	3,380,245,540

	September		Quarter from July 1 to September 30,	
	2016	2015	2016	2015
CONAPE (5%)	¢ -	100,043,827	-	-
CNE (3%)	-	77,752,300	-	-
INFOCOOP (10%)	-	57,431,174	-	-
RIVM (7%)	-	77,542,314	-	-
FIDAGRO	-	57,178,243	-	57,178,243
	¢ -	369,947,858	-	57,178,243

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(40) 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:

		September 2016	
		Carrying amount	Fair value
<i>Financial assets:</i>			
Cash and due from banks	¢	1,003,880,473,884	1,003,880,473,884
Investments in financial instruments		1,094,732,400,650	1,094,732,400,650
Loan portfolio		3,997,630,350,458	3,704,457,532,556
	¢	<u>6,096,243,224,992</u>	<u>5,803,070,407,090</u>
<i>Financial liabilities:</i>			
Demand deposits from the public and financial entities	¢	2,635,694,642,981	2,635,694,642,981
Other demand obligations with the public		15,377,674,681	15,377,674,681
Term deposits from the public and financial entities		2,779,969,057,386	2,790,952,573,552
Obligations for repurchase agreements		38,787,798,303	38,787,798,303
	¢	<u>5,469,829,173,351</u>	<u>5,480,812,689,517</u>
		September 2015	
		Carrying amount	Fair value
<i>Financial assets:</i>			
Cash and due from banks	¢	813,943,459,272	813,943,459,272
Investments in financial instruments		1,187,555,743,967	1,187,555,743,967
Loan portfolio		3,564,453,179,595	3,301,668,386,290
	¢	<u>5,565,952,382,834</u>	<u>5,303,167,589,529</u>
<i>Financial liabilities:</i>			
Demand deposits from the public and financial entities	¢	2,553,837,532,886	2,553,837,532,886
Other demand obligations with the public		12,756,837,910	12,756,837,910
Term deposits from the public and financial entities		2,500,895,357,266	2,481,084,239,314
Obligations for tri-party repurchase agreements		31,571,893,580	31,571,893,580
	¢	<u>5,099,061,621,642</u>	<u>5,079,250,503,690</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 balance sheet:

- (a) Cash and due from banks, accrued interest receivable, other receivables, demand deposits from the public, accrued interest payable, and other liabilities

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(b) Investments in financial instruments

The fair values of available-for-sale investments in financial instruments are based on quoted market prices, except for Auction Rate Securities (ARS), which fair values are determined using the valuation method developed by the Bank.

(c) 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 September 30, 2016 and 2015.

(d) Term deposits

The fair value of term deposits is calculated by discounting cash flows at the interest rates offered for term deposits with similar maturities as of September 30, 2016 and 2015.

(e) Obligations with entities

The fair value of obligations with entities is calculated by discounting cash flows at the interest rates in effect as of September 30, 2016 and 2015.

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

The following table analyzes financial instruments measured at fair value by the level in the fair value hierarchy:

		September 2016			
		Level 1	Level 2	Level 3	Total
Available-for- sale	¢	870,143,912,087	156,596,757,611	5,613,661,030	1,032,354,330,728
Held-to-maturity	¢	-	27,339,403,487	-	27,339,403,487

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		September 2015		
		Level 1	Level 2	Level 3
		Total		
Available-for- sale	¢	948,600,735,826	183,478,154,277	5,643,081,405
Held-to-maturity	¢	-	27,188,431,488	-

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:

		September 30,	
		2016	2015
Opening balance	¢	5,594,435,115	5,606,070,339
Valuation		(105,840,134)	187,983
Exchange rate differences		125,066,049	(40,759,235)
Closing balance	¢	5,613,661,030	5,556,499,087

(41) Segments

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

		September 30, 2016							
		Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations	Consolidated
ASSETS									
Cash and due from banks	¢	1,000,868,637,031	1,887,554,026	116,055,018	145,732,572	2,061,674,098	1,005,079,652,745	1,199,178,860	1,003,880,473,885
Investments in financial instruments		1,019,122,558,534	65,409,506,450	6,549,325,487	8,106,799,049	-	1,099,188,189,520	4,455,788,870	1,094,732,400,650
Loan portfolio, net		3,915,853,074,728	-	-	-	-	3,915,853,074,728	-	3,915,853,074,728
Accounts and fees and commissions receivable, net		1,598,788,933	165,731,719	62,935,024	847,315,468	366,455,685	3,041,226,829	44,645,993	2,996,580,836
Fees and commissions		150,300,296	26,144,811	14,384,711	702,521,257	274,084,606	1,167,435,681	28,887,801	1,138,547,880
Brokerage services		-	10,982,311	-	-	-	10,982,311	-	10,982,311
Transactions with related parties		177,160,942	83,831	3,885,240	1,679,220	596,492	183,405,725	15,758,192	167,647,533
Deferred tax and income tax		774,789,154	128,355,713	44,320,403	142,505,710	91,649,346	1,181,620,326	-	1,181,620,326
Other		4,068,520,710	165,053	344,670	59,263,974	125,241	4,128,419,648	-	4,128,419,648
Accrued interest		2,203,805	-	-	-	-	2,203,805	-	2,203,805
Allowance for impairment of accounts and fees and commissions		(3,574,185,974)	-	-	(58,654,693)	-	(3,632,840,667)	-	(3,632,840,667)
Foreclosed assets, net		17,285,648,387	-	-	-	-	17,285,648,387	-	17,285,648,387
Investments in other companies		93,421,058,304	30,000,000	-	-	-	93,451,058,304	36,021,797,922	57,429,260,382
Property, furniture, and equipment, net		173,545,563,418	362,588,481	208,517,483	502,539,807	40,819,415	174,660,028,604	-	174,660,028,604
Other assets		35,739,458,747	257,839,796	746,388,860	526,575,810	324,664,273	37,594,927,486	-	37,594,927,486
TOTAL ASSETS	¢	6,257,434,788,082	68,113,220,472	7,683,221,872	10,128,962,706	2,793,613,471	6,346,153,806,603	41,721,411,645	6,304,432,394,958
LIABILITIES AND EQUITY									
LIABILITIES									
Obligations with the public	¢	4,100,621,715,366	38,902,549,231	-	-	-	4,139,524,264,597	4,455,788,869	4,135,068,475,728
Obligations with BCCR		125,644,412	-	-	-	-	125,644,412	-	125,644,412
Obligations with entities		1,279,221,394,409	7,208,948,611	-	-	-	1,286,430,343,020	1,199,178,860	1,285,231,164,160
Demand		214,308,261,183	-	-	-	-	214,308,261,183	1,199,178,860	213,109,082,323
Term		1,042,701,747,201	7,200,000,000	-	-	-	1,049,901,747,201	-	1,049,901,747,201
Finance charges payable		22,211,386,025	8,948,611	-	-	-	22,220,334,636	-	22,220,334,636
Accounts payable and provisions		120,705,097,779	2,233,234,565	1,070,648,133	2,573,712,823	708,127,235	127,290,820,535	44,645,993	127,246,174,542
Other liabilities		103,559,008,874	-	-	-	-	103,559,008,874	-	103,559,008,874
Subordinated obligations		71,624,223,687	-	-	-	-	71,624,223,687	-	71,624,223,687
TOTAL LIABILITIES	¢	5,675,857,084,527	48,344,732,407	1,070,648,133	2,573,712,823	708,127,235	5,728,554,305,125	5,699,613,722	5,722,854,691,403

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

September 30, 2016								
	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations	Consolidated
EQUITY								
Share capital	¢ 118,130,303,482	6,600,000,000	3,000,000,000	4,243,956,940	369,700,000	132,343,960,422	14,213,656,940	118,130,303,482
Non-capitalized capital contributions	-	-	-	750,968,069	-	750,968,069	750,968,069	-
Equity adjustments	69,154,961,916	403,164,777	65,677,424	111,783,643	-	69,735,587,760	580,625,844	69,154,961,916
Capital reserves	273,305,122,640	1,140,842,882	371,903,664	300,000,000	73,940,000	275,191,809,186	1,886,686,546	273,305,122,640
Prior period retained earnings	55,415,912,371	9,601,612,699	1,917,344,763	1,281,670,839	826,027,663	69,042,568,335	13,626,655,964	55,415,912,371
Income for the year	43,821,583,826	2,022,867,707	1,257,647,888	866,870,392	815,818,573	48,784,788,386	4,963,204,560	43,821,583,826
FOFIDE	21,749,819,320	-	-	-	-	21,749,819,320	-	21,749,819,320
TOTAL EQUITY	¢ 581,577,703,555	19,768,488,065	6,612,573,739	7,555,249,883	2,085,486,236	617,599,501,478	36,021,797,923	581,577,703,555
TOTAL LIABILITIES AND EQUITY	¢ 6,257,434,788,082	68,113,220,472	7,683,221,872	10,128,962,706	2,793,613,471	6,346,153,806,603	41,721,411,645	6,304,432,394,958
Debit memoranda accounts	¢ 555,006,845,804	133,194,104	-	-	-	555,140,039,908	-	555,140,039,908
Trust assets	¢ 1,058,642,439,003	1,295,246,099	-	-	-	1,059,937,685,102	-	1,059,937,685,102
Trust liabilities	¢ 43,761,187,550	4,478,607	-	-	-	43,765,666,157	-	43,765,666,157
Trust equity	¢ 1,014,881,251,453	1,290,767,492	-	-	-	1,016,172,018,945	-	1,016,172,018,945
Other debit memoranda accounts	¢ 16,784,990,776,022	989,484,874,166	399,017,949,415	1,132,056,595,759	-	19,305,550,195,361	-	19,305,550,195,361

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the year ended September 30, 2016

	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations	Consolidated
Interest income	328,874,173,977	3,632,336,353	385,549,304	507,616,454	27,361,811	333,427,037,899	68,630,347	333,358,407,552
Interest expense	152,195,963,425	1,380,116,230	82,790,824	8,102,988	965,025	153,667,938,492	68,630,347	153,599,308,145
Income from recovery of assets	9,418,618,029	-	-	-	-	9,418,618,029	-	9,418,618,029
Allowance expense	28,072,655,143	-	-	-	-	28,072,655,143	-	28,072,655,143
INTEREST INCOME	158,024,173,438	2,252,220,123	302,758,480	499,513,466	26,396,786	161,105,062,293	-	161,105,062,293
Other operating income	124,065,900,622	3,120,080,143	3,954,046,300	6,617,657,247	2,759,912,089	140,517,596,401	5,769,016,330	134,748,580,071
Other operating expenses	81,308,406,101	460,610,926	497,711,623	860,453,566	113,120,488	83,240,302,704	719,121,927	82,521,180,777
GROSS OPERATING INCOME	200,781,667,959	4,911,689,340	3,759,093,157	6,256,717,147	2,673,188,387	218,382,355,990	5,049,894,403	213,332,461,587
Personnel expenses	92,427,399,273	2,132,948,268	1,477,106,828	2,775,783,272	1,312,013,411	100,125,251,052	-	100,125,251,052
Other administrative expenses	45,812,881,429	646,737,040	489,975,320	942,555,236	154,626,445	48,046,775,470	86,689,843	47,960,085,627
Total administrative expenses	138,240,280,702	2,779,685,308	1,967,082,148	3,718,338,508	1,466,639,856	148,172,026,522	86,689,843	148,085,336,679
NET OPERATING INCOME BEFORE STATUTORY ALLOCATIONS AND TAXES	62,541,387,257	2,132,004,032	1,792,011,009	2,538,378,639	1,206,548,531	70,210,329,468	4,963,204,560	65,247,124,908
Income tax	8,278,793,792	126,080,600	522,954,972	784,723,040	389,619,390	10,102,171,794	-	10,102,171,794
Decrease in income tax	2,532,274,791	80,904,396	42,382,009	56,236,544	35,085,943	2,746,883,683	-	2,746,883,683
Statutory allocations	12,973,284,430	63,960,121	53,790,158	943,021,751	36,196,511	14,070,252,971	-	14,070,252,971
INCOME FOR THE YEAR	43,821,583,826	2,022,867,707	1,257,647,888	866,870,392	815,818,573	48,784,788,386	4,963,204,560	43,821,583,826

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

September 30, 2015								
	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations	Consolidated
ASSETS								
Cash and due from banks	¢ 812,056,653,646	1,763,104,046	231,306,925	226,621,723	811,981,916	815,089,668,256	1,146,208,984	813,943,459,272
Investments in financial instruments	1,118,038,309,478	57,182,604,107	4,722,262,345	7,643,568,037	-	1,187,586,743,967	31,000,000	1,187,555,743,967
Loan portfolio, net	3,502,818,146,475	-	-	-	-	3,502,818,146,475	-	3,502,818,146,475
Accounts and fees and commissions receivable, net	1,519,446,186	172,237,883	72,087,882	892,335,646	251,674,560	2,907,782,157	65,024,421	2,842,757,736
Fees and commissions	153,728,682	24,246,664	16,911,474	660,699,784	199,787,267	1,055,373,871	31,725,259	1,023,648,612
Brokerage services	-	37,957,126	-	-	-	37,957,126	-	37,957,126
Transactions with related parties	109,410,584	520,971	3,130,978	3,872,399	2,108,461	119,043,393	33,299,162	85,744,231
Deferred tax and income tax	3,392,452,575	98,604,142	51,571,337	167,457,429	49,418,832	3,759,504,315	-	3,759,504,315
Other	3,703,693,247	10,908,980	474,093	60,306,034	360,000	3,775,742,354	-	3,775,742,354
Accrued interest	1,830,738	-	-	-	-	1,830,738	-	1,830,738
Allowance for impairment of accounts and fees and commissions	-5,841,669,640	-	-	-	-	-5,841,669,640	-	-5,841,669,640
Foreclosed assets, net	17,521,083,339	-	-	-	-	17,521,083,339	-	17,521,083,339
Investments in other companies	83,087,402,183	30,000,000	-	-	-	83,117,402,183	30,041,653,361	53,075,748,822
Property, furniture, and equipment, net	182,059,854,124	456,346,204	185,893,736	313,698,139	51,885,470	183,067,677,673	-	183,067,677,673
Other assets	39,544,444,467	200,403,717	524,835,755	339,205,061	292,468,365	40,901,357,365	-	40,901,357,365
TOTAL ASSETS	¢ 5,756,645,339,898	59,804,695,957	5,736,386,643	9,415,428,606	1,408,010,311	5,833,009,861,415	31,283,886,766	5,801,725,974,649
LIABILITIES AND EQUITY								
LIABILITIES								
Obligations with the public	¢ 3,857,658,247,884	31,707,785,471	-	-	-	3,889,366,033,355	31,000,000	3,889,335,033,355
Obligations with BCCR	125,644,412	-	-	-	-	125,644,412	-	125,644,412
Obligations with entities	1,147,456,687,637	8,888,249,735	-	-	-	1,156,344,937,372	1,146,208,976	1,155,198,728,396
Demand	230,533,314,737	-	-	-	-	230,533,314,737	1,146,208,976	229,387,105,761
Term	902,110,216,613	8,875,000,000	-	-	-	910,985,216,613	-	910,985,216,613
Finance charges payable	14,813,156,287	13,249,735	-	-	-	14,826,406,022	-	14,826,406,022
Accounts payable and provisions	110,213,307,600	1,957,631,586	890,701,657	2,386,264,349	492,235,350	115,940,140,542	65,024,421	115,875,116,121
Other liabilities	37,384,189,446	-	-	-	-	37,384,189,446	-	37,384,189,446
Subordinated obligations	69,228,621,502	-	-	-	-	69,228,621,502	-	69,228,621,502
TOTAL LIABILITIES	¢ 5,222,066,698,481	42,553,666,792	890,701,657	2,386,264,349	492,235,350	5,268,389,566,629	1,242,233,397	5,267,147,333,232

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

September 30, 2015								
	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations	Consolidated
EQUITY								
Share capital	¢ 118,130,303,482	6,600,000,000	3,000,000,000	3,922,753,061	369,700,000	132,022,756,543	13,892,453,061	118,130,303,482
Non-capitalized capital contributions	-	-	-	1,072,171,948	-	1,072,171,948	1,072,171,948	-
Equity adjustments	76,462,665,008	620,654,087	33,646,177	84,890,790	-	77,201,856,062	739,191,054	76,462,665,008
Capital reserves	248,457,997,514	1,010,943,805	300,000,000	300,000,000	73,940,000	250,142,881,319	1,684,883,805	248,457,997,514
Prior period retained earnings	45,534,870,270	7,133,530,238	551,175,152	959,876,456	62,068,578	54,241,520,694	8,706,650,424	45,534,870,270
Income for the year	27,846,729,903	1,885,901,035	960,863,657	689,472,002	410,066,383	31,793,032,980	3,946,303,077	27,846,729,903
FOFIDE	18,146,075,240	-	-	-	-	18,146,075,240	-	18,146,075,240
TOTAL EQUITY	¢ 534,578,641,417	17,251,029,165	4,845,684,986	7,029,164,257	915,774,961	564,620,294,786	30,041,653,369	534,578,641,417
TOTAL LIABILITIES AND EQUITY	¢ 5,756,645,339,898	59,804,695,957	5,736,386,643	9,415,428,606	1,408,010,311	5,833,009,861,415	31,283,886,766	5,801,725,974,649
Debit memoranda accounts	¢ 519,511,171,104	-	-	265,110,324	-	519,776,281,428	-	519,776,281,428
Trust assets	¢ 931,373,818,589	2,401,377,316	-	-	-	933,775,195,905	-	933,775,195,905
Trust liabilities	¢ 62,228,779,527	427,391	-	-	-	62,229,206,918	-	62,229,206,918
Trust equity	¢ 869,145,039,063	2,400,949,924	-	-	-	871,545,988,987	-	871,545,988,987
Other debit memoranda accounts	¢ 16,142,930,379,385	1,591,805,418,636	429,608,988,208	1,001,192,525,318	-	19,165,537,311,547	-	19,165,537,311,547

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the year ended September 30, 2015

	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations	Consolidated
Interest income	316,091,360,214	4,367,686,862	286,451,012	462,384,492	33,040,066	321,240,922,646	59,471,976	321,181,450,670
Interest expense	146,375,402,249	1,926,518,764	29,319,660	-	-	148,331,240,673	59,471,976	148,271,768,697
Allowance expense	27,017,989,367	-	-	-	-	27,017,989,367	-	27,017,989,367
Income from recovery of assets	9,251,391,121	-	-	-	-	9,251,391,121	-	9,251,391,121
INTEREST INCOME	151,949,359,719	2,441,168,098	257,131,352	462,384,492	33,040,066	155,143,083,727	-	155,143,083,727
Other operating income	108,129,900,390	2,922,900,498	3,540,326,692	6,102,255,063	1,818,197,181	122,513,579,824	4,788,425,879	117,725,153,945
Other operating expenses	84,350,692,112	549,013,564	492,099,720	1,014,999,217	84,285,294	86,491,089,907	737,699,005	85,753,390,902
GROSS OPERATING INCOME	175,728,567,997	4,815,055,032	3,305,358,324	5,549,640,338	1,766,951,953	191,165,573,644	4,050,726,874	187,114,846,770
Personnel expenses	91,427,154,867	2,156,321,690	1,480,942,951	2,606,470,675	1,053,006,613	98,723,896,796	-	98,723,896,796
Other administrative expenses	42,528,072,776	624,056,114	502,995,300	926,459,904	167,694,859	44,749,278,953	104,423,797	44,644,855,156
Total administrative expenses	133,955,227,643	2,780,377,804	1,983,938,251	3,532,930,579	1,220,701,472	143,473,175,749	104,423,797	143,368,751,952
NET OPERATING INCOME BEFORE STATUTORY ALLOCATIONS AND TAXES	41,773,340,354	2,034,677,228	1,321,420,073	2,016,709,759	546,250,481	47,692,397,895	3,946,303,077	43,746,094,818
Income tax	6,927,292,254	117,704,549	370,246,397	622,696,234	159,126,096	8,197,065,530	-	8,197,065,530
Decrease in income tax	1,248,768,679	29,968,673	49,332,583	45,431,772	38,671,930	1,412,173,637	-	1,412,173,637
Statutory allocations	8,618,034,734	61,040,317	39,642,602	749,973,295	15,729,932	9,484,420,880	-	9,484,420,880
Decrease in statutory allocations	369,947,858	-	-	-	-	369,947,858	-	369,947,858
Income for the year	27,846,729,903	1,885,901,035	960,863,657	689,472,002	410,066,383	31,793,032,980	3,946,303,077	27,846,729,903

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(42) Risk management

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

- credit risk
- liquidity risk
- market risks
 - interest rate risk
 - currency risk and
- 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, Pension Fund Manager, and Insurance Brokerage Firm.

The Bank manages the above risks as follows:

a) Credit risk

i. Banco Nacional de Costa Rica

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

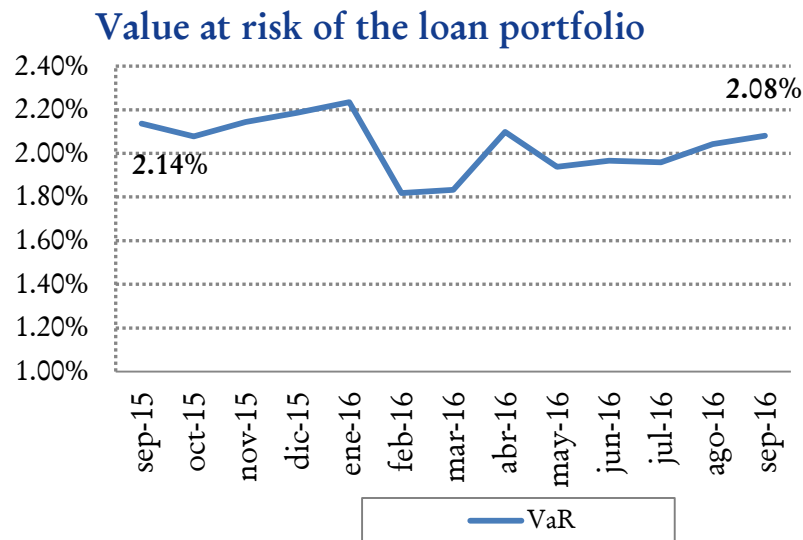
This approach is applied using a computational system developed in “Matlab” software. Also, the credit risk model takes into consideration the impact of changes in macroeconomic variables (endogenous and exogenous) on the loan portfolio when determining systemic factors. Results are compared with prior-month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

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

Various technical tools are used to provide other angles for the analysis. Other types of estimates are made in addition to those obtained using the VaR methodology, such as the performance of the portfolio in legal collections, 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.

For September 2016, the VaR of the loan portfolio presents a monthly increase due to an increase in arrears indicators, affecting income by currency, where all portfolios reflect an increase in the VaR due to increases in arrears in legal collections, in accounts over 90 days past due, or both.

However, with regard to September 2015, the decrease in arrears positively affected the consolidated VaR results, reflecting a decrease of 0.06 p.p.



(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

By economic activity, year on year, most of the activities show growth due to the increase in arrears over 90 days.

Activity	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16
Agriculture	2.73%	2.63%	2.53%	3.08%	2.86%
Livestock	3.48%	3.39%	3.20%	3.48%	3.49%
Mining	10.69%	13.78%	4.95%	5.14%	7.38%
Industry	2.83%	3.55%	3.63%	4.51%	4.11%
Energy	5.87%	5.48%	1.94%	2.88%	2.64%
Housing	1.51%	1.47%	1.42%	1.47%	1.49%
Construction	3.55%	3.06%	3.28%	3.11%	3.37%
Commerce	2.63%	2.58%	2.42%	2.68%	2.67%
Transport	1.72%	1.61%	1.44%	1.37%	1.10%
Financial services	0.32%	0.27%	0.19%	0.50%	0.27%
Consumer	4.20%	4.15%	4.14%	4.31%	4.78%
Services	1.87%	1.83%	1.43%	1.64%	2.05%
Tourism	5.07%	6.75%	4.76%	6.50%	6.51%
BNCR	2.14%	2.19%	1.83%	1.97%	2.08%

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

	Note	Direct		Note	Stand-by	
		September 2016	September 2015		September 2016	September 2015
Loan portfolio						
Principal	6-a	¢ 3,969,561,610,960	3,539,196,398,018	20	302,943,555,672	258,722,251,088
Accounts and accrued interest receivable		28,068,739,498	25,256,781,577		-	-
Carrying amount, gross		3,997,630,350,458	3,564,453,179,595		302,943,555,672	258,722,251,088
Allowance for loan losses (accounting records)		(81,777,275,730)	(61,635,033,120)		(1,769,455,707)	(1,536,210,630)
Carrying amount, net	¢	<u>3,915,853,074,728</u>	<u>3,502,818,146,475</u>		<u>301,174,099,965</u>	<u>257,186,040,458</u>
Loan portfolio						
Total balances:						
A1	¢	3,236,178,987,390	2,912,746,118,567		291,805,915,748	252,084,375,459
A2		35,536,650,224	35,942,192,148		512,586,330	418,982,382
B1		302,783,387,341	277,823,672,000		6,642,306,969	2,499,285,876
B2		7,157,273,409	8,119,278,260		32,357,444	26,152,834
C1		128,156,052,217	84,379,950,657		1,869,745,051	1,670,608,435
C2		4,991,318,502	4,798,758,862		14,736,935	9,198,443
D		102,790,891,528	82,769,983,255		466,348,493	606,081,277
E		180,035,789,847	157,873,225,846		1,599,558,702	1,407,566,382
		<u>3,997,630,350,458</u>	<u>3,564,453,179,595</u>		<u>302,943,555,672</u>	<u>258,722,251,088</u>
Structural allowance (subledger – database)		(72,639,357,551)	(56,719,258,236)		(68,368,295)	(880,802,209)
Carrying amount, net	¢	<u>3,924,990,992,907</u>	<u>3,507,733,921,359</u>		<u>302,875,187,377</u>	<u>257,841,448,879</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	Direct		Stand-by	
	September 2016	September 2015	September 2016	September 2015
Individually assessed loans with allowance:				
A1	¢ 3,236,178,987,390	2,912,746,118,567	42,832,822,606	246,322,862,486
A2	35,536,650,224	35,942,192,148	123,078,839	410,354,532
B1	302,783,387,341	277,823,672,000	4,315,603,746	2,470,696,173
B2	7,157,273,409	8,119,278,260	8,320,000	25,777,834
C1	128,156,052,217	84,379,950,657	225,746,758	1,666,128,210
C2	4,991,318,502	4,798,758,862	-	9,198,443
D	102,790,891,528	82,769,983,255	7,776,497	606,081,277
E	180,035,789,847	157,873,225,846	110,974,814	1,402,314,504
	<u>3,997,630,350,458</u>	<u>3,564,453,179,595</u>	<u>47,624,323,260</u>	<u>252,913,413,459</u>
Structural allowance (subledger – database)	<u>(72,639,357,551)</u>	<u>(56,719,258,236)</u>	<u>(68,368,295)</u>	<u>(880,802,209)</u>
Carrying amount, net	¢ <u>3,924,990,992,907</u>	<u>3,507,733,921,359</u>	<u>47,555,954,965</u>	<u>252,032,611,250</u>
	Direct		Stand-by	
	September 2016	September 2015	September 2016	September 2015
Current loans without allowance:				
A1	¢ -	-	248,973,093,144	5,761,512,973
A2	-	-	389,507,491	8,627,850
B1	-	-	2,326,703,222	28,589,703
B2	-	-	24,037,444	375,000
C1	-	-	1,643,998,292	4,480,225
C2	-	-	14,736,935	-
D	-	-	458,571,996	-
E	-	-	1,488,583,888	5,251,879
Carrying amount	¢ <u>-</u>	<u>-</u>	<u>255,319,232,412</u>	<u>5,808,837,630</u>
Carrying amount, gross	<u>3,997,630,350,458</u>	<u>3,564,453,179,595</u>	<u>302,943,555,672</u>	<u>258,722,251,088</u>
Allowance for loan losses (database)	<u>(72,639,357,551)</u>	<u>(56,719,258,236)</u>	<u>(68,368,295)</u>	<u>(880,802,209)</u>
(Excess) insufficiency of allowance over structural allowance	<u>(9,137,918,179)</u>	<u>(4,915,774,884)</u>	<u>(1,701,087,412)</u>	<u>(655,408,421)</u>
Carrying amount, net	¢ <u>3,915,853,074,728</u>	<u>3,502,818,146,475</u>	<u>301,174,099,965</u>	<u>257,186,040,458</u>
Restructured loans	¢ <u>43,125,088,659</u>	<u>38,958,776,207</u>	<u>8,491,066</u>	<u>4,020,204</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of September 30, 2016, no information is available for past due and current loans without allowance because an allowance has been established for the whole loan portfolio pursuant to CONASSIF Directive No. 1058/07 dated August 21, 2013, which became effective on January 1, 2014.

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:

September 2016		
Loans to customers		
	Gross	Net
A1	¢ 3,236,178,987,390	3,217,491,914,835
A2	35,536,650,224	35,433,592,380
B1	302,783,387,341	300,955,401,550
B2	7,157,273,409	7,093,954,794
C1	128,156,052,217	125,493,262,315
C2	4,991,318,502	4,795,654,241
D	102,790,891,528	97,385,341,069
E	180,035,789,847	127,203,953,544
¢	<u>3,997,630,350,458</u>	<u>3,915,853,074,728</u>

September 2015		
Loans to customers		
	Gross	Net
A1	¢ 2,912,746,118,567	2,902,878,468,075
A2	35,942,192,148	35,881,085,098
B1	277,823,672,000	276,297,514,060
B2	8,119,278,260	8,056,779,576
C1	84,379,950,657	83,113,599,315
C2	4,798,758,862	4,521,867,702
D	82,769,983,255	77,338,981,397
E	157,873,225,846	114,729,851,252
¢	<u>3,564,453,179,595</u>	<u>3,502,818,146,475</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As shown above, as of September 30, 2016, the gross portfolio amounts to ₡3,997 billion. Of that amount, 89.59% is classified in risk ratings “A + B” and 10.41% in risk ratings “C+ D+ E” (2015: ₡3,564 billion, of which 90.75% is classified in risk ratings “A + B” and 9.25% 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 that after considering the guarantee for the loan, there is still a balance to which the applicable allowance percentage will be applied.

Past due loans without allowance:

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

Restructured loans:

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

Restructured loans are as follows:

	Direct		Stand-by	
	September 2016	September 2015	September 2016	September 2015
Restructured loans	¢ 43,125,088,659	38,958,776,207	8,491,066	4,020,204

Loan charge-off policy:

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

Risk ratings

The loan portfolio by borrower classification is as follows:

Borrower classification	Direct		Stand-by	
	September 2016	September 2015	September 2016	September 2015
Group 1	¢ 2,402,496,038,111	2,069,238,418,499	57,541,528,637	56,427,095,087
Group 2	1,595,134,312,347	1,495,214,761,096	245,402,027,035	202,295,156,001
	¢ 3,997,630,350,458	3,564,453,179,595	302,943,555,672	258,722,251,088

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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Borrower classification

Analysis of creditworthiness

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

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

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Analysis of historical payment behavior

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

Risk rating	Arrears	Direct		Stand-by	
		September 2016	September 2015	September 2016	September 2015
A1	30 days or less	¢ 3,236,178,987,390	2,912,746,118,808	291,805,915,748	252,084,375,306
A2	60 days or less	35,536,650,224	35,942,192,148	512,586,330	418,982,382
B1	60 days or less	302,783,387,341	277,823,672,000	6,642,306,969	2,499,285,876
B2	60 days or less	7,157,273,409	8,119,278,260	32,357,444	26,152,834
C1	90 days or less	128,156,052,217	84,379,950,657	1,869,745,051	1,670,608,435
C2	90 days or less	4,991,318,502	4,798,758,862	14,736,935	9,198,443
D	120 days or less	102,790,891,528	82,769,983,255	466,348,493	606,081,277
E	More than 120 days or other factors	180,035,789,847	157,873,225,605	1,599,558,702	1,407,566,535
		<u>¢ 3,997,630,350,458</u>	<u>3,564,453,179,595</u>	<u>302,943,555,672</u>	<u>258,722,251,088</u>

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.

Borrower classification

Starting January 1, 2014, for purposes of borrower classification, pursuant to SUGEF Directive 1-05, borrowers in Group 1 and Group 2 are classified based on arrears, historical payment behavior and creditworthiness.

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Structural allowance for loan losses

From January 2014, the allowances for loan losses are as follows:

- ✓ General allowance for total outstanding balances, not considering the corresponding guarantees.
- ✓ Specific allowance for covered portion (with guarantees).
- ✓ Specific allowance for uncovered portion (with no guarantees).

The general allowance only applies to loan operations corresponding to borrowers rated A1 and A2. The specific allowances for covered and uncovered portions are applicable to all borrowers, except for those rated A1 and A2. Until December 2013, allowances were established solely for the uncovered portion of loan operations.

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 indicated below should be used.

The adjusted value of the corresponding guarantee must be weighted with 100% when the borrower or co-borrower with the lowest risk rating is rated C2 or in another lower-risk rating, with 80% when rated D, and with 60% when rated E.

Risk ratings are as follows:

<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

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 September 30, 2016, the Bank applied an allowance percentage of 0.02%, which will gradually increase on a quarterly basis to 0.5%, pursuant to the aforementioned Transition Provision.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Allowance percentages based on borrower risk rating are as follows:

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

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

Starting January 2014 and as an exception in the case of risk rating E, the minimum specific allowance for borrowers whose historical payment behavior is classified as level 3 should be calculated as follows:

<u>Arrears</u>	<u>Specific allowance</u>	<u>Specific allowance</u>	<u>Creditworthiness</u>	<u>Creditworthiness</u>
	<u>percentage - Uncovered portion</u>	<u>percentage - Covered portion</u>	<u>(Group 1 borrowers)</u>	<u>(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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

		September 2016		
		Allowance booked	Structural allowance	Excess (insufficiency) of allowance
Direct	¢	81,777,275,730	(72,639,357,551)	9,137,918,179
Stand-by		1,769,455,707	(68,368,295)	1,701,087,412
	¢	<u>83,546,731,437</u>	<u>(72,707,725,846)</u>	<u>10,839,005,591</u>
		September 2015		
		Allowance booked	Structural allowance	Excess (insufficiency) of allowance
Direct	¢	61,635,033,120	(56,719,258,236)	4,915,774,884
Stand-by		1,536,210,630	(880,802,209)	655,408,421
	¢	<u>63,171,243,750</u>	<u>(57,600,060,445)</u>	<u>5,571,183,305</u>

As of September 30, 2016, the excess above the minimum allowance required by the current regulations in the amount of ¢10,839,005,591 (2015: ¢5,571,183,305) corresponds to an excess of ¢571,611,191 (2015: ¢60,995,687) in accordance with CONASSIF Directive 1058/07 (gradual general allowance), an excess of ¢8,733,277,929 (2015: ¢5,510,187,621) in the specific allowance, and an excess of ¢1,534,116,471 in the countercyclical allowance, which represents 12.01% of the minimum allowance required (2015: 9.57%).

As of September 30, 2016, the balance of the Bank's allowance for loan losses (direct and stand-by), accrued interest receivable, and other receivables amounts to ¢87,120,917,411 (2015: ¢69,012,913,390).

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Credit equivalent

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

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

Allowance for other assets

Allowances should be established for the following assets:

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

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

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

As of September 30, 2016, the carrying amount of the allowance for impairment of foreclosed assets and per legal requirements amounts to ¢61,637,738,398 (2015: ¢60,964,843,176).

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

Sector	Direct		Stand-by	
	September 2016	September 2015	September 2016	September 2015
Trade	¢ 380,010,500,704	363,663,066,807	34,697,036	86,055,062
Services	861,098,623,840	740,843,079,730	52,196,878,004	51,231,823,375
Financial services	139,378,206,664	122,510,641,170	-	-
Mining	915,481,394	401,334,100	-	-
Manufacturing and quarrying	143,652,375,432	143,941,936,809	1,771,472	1,434,792
Construction	99,718,829,430	85,457,609,032	-	-
Agriculture and forestry	117,014,380,406	106,856,854,653	14,995,227	14,325,640
Livestock, hunting, and fishing	74,516,359,197	61,568,759,079	-	-
Electricity, water, sanitation, and other related sectors	395,891,080,499	323,574,466,365	-	-
Transportation and telecommunications	39,528,782,447	25,341,135,168	-	-
Housing	1,179,695,073,788	1,100,666,756,179	14,484,568	12,678,349
Personal or consumer	423,370,753,195	359,248,748,447	250,498,799,910	207,189,743,855
Tourism	142,839,903,462	130,378,792,056	181,929,455	186,190,015
	¢ <u>3,997,630,350,458</u>	<u>3,564,453,179,595</u>	<u>302,943,555,672</u>	<u>258,722,251,088</u>

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

	Direct		Stand-by	
	September 2016	September 2015	September 2016	September 2015
Central America	¢ <u>3,997,630,350,458</u>	<u>3,564,453,179,595</u>	<u>302,943,555,672</u>	<u>258,722,251,088</u>

The loan portfolio by type of guarantee is as follows:

Guarantee	Direct		Stand-by	
	September 2016	September 2015	September 2016	September 2015
Back to back	¢ 39,593,330,764	9,869,945,994	1,521,163	6,247,474
Mortgage bond	506,798,329	9,924,643,422	-	-
Assignment of loans	443,843,522,976	357,628,902,365	218,532	207,050
Mortgage	1,683,145,883,905	1,597,273,973,294	199,152,629	356,664,201
Surety	726,078,140,864	675,937,062,601	-	70,877,186
Trust	352,046,754,243	321,565,826,598	84,378,276	137,493,502
Securities	1,011,538,116	1,233,892,727	-	-
Chattel mortgage	186,897,238,186	141,040,927,903	-	-
Other	564,507,143,075	449,978,004,691	302,658,285,072	258,150,761,675
	¢ <u>3,997,630,350,458</u>	<u>3,564,453,179,595</u>	<u>302,943,555,672</u>	<u>258,722,251,088</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Guarantees:

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

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

The Bank conducts strict credit analyses before granting loans and requires guarantees from its borrowers before disbursing loans. As of September 30, 2016, 67.72% of the loan portfolio is secured by collateral guarantees (2015: 44.49%).

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

Loan portfolio concentration	Direct		Stand-by	
	September 2016	September 2015	September 2016	September 2015
¢1 to ¢3,000,000	¢ 146,265,400,164	143,350,037,443	95,877,500,140	91,157,066,080
¢3,000,001 to ¢15,000,000	546,808,635,505	512,248,575,141	152,978,071,593	113,063,537,537
¢15,000,001 to ¢30,000,000	443,701,708,053	412,608,910,081	5,897,844,196	6,350,481,334
¢30,000,001 to ¢50,000,000	434,158,358,608	402,222,618,887	1,982,608,482	2,698,428,365
¢50,000,001 to ¢75,000,000	324,390,537,749	277,793,659,601	2,149,095,643	2,040,264,457
¢75,000,001 to ¢100,000,000	143,230,793,908	124,860,911,190	1,064,768,285	1,324,732,355
¢100,000,001 to ¢200,000,000	217,708,529,405	206,194,700,104	3,612,222,026	3,531,006,167
More than ¢200,000,000	1,741,366,387,066	1,485,173,767,148	39,381,445,307	38,556,734,793
	¢ 3,997,630,350,458	3,564,453,179,595	302,943,555,672	258,722,251,088

As of September 30, 2016 and 2015, the portion of the loan portfolio (direct and stand-by loans) corresponding to economic interest groups amounts to ¢457,989,816,165 and ¢230,755,126,073, respectively.

The use of the above analyses has led to sound credit risk management practices that, along with tight control over loan collection, have helped to substantially improve the level of arrears in the loan portfolio.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

With that purpose and to continually improve the calculation models, a recent adjustment in the parameters used for quantification of credit risk was performed to obtain more accurate credit risk estimates. Consequently, subsequent to the aforementioned adjustment, results obtained exceed prior results (specifically between March and June 2014). The Corporate Risk Committee and the Board of Directors approved the methodology.

As of the September 2016 close, the consolidated VaR presented a monthly increase of 0.05 p.p. due to an increase in arrears over 90 days, both in colones and in U.S. dollars.

However, by currency, the VaR in U.S. dollars is not affected by the foregoing, as it decreased due to a decrease in arrears.

Activities including Livestock, Industry, Commerce, and Transport show a decrease in monthly VaR results, due to the recovery of arrears indicators (loans in legal collection, loans more than 90 days past due, or both). Consumer shows a decrease related to the decrease in the balance of loans 46-150 days past due.

Mining, Energy, and Financial Services are influenced by the concentration effect, thus resulting in the monthly and year-on-year variations evidenced. Industry and Commerce are the only ones that show an increase in monthly VaR results, due to the impairment of arrears over 90 days past due and arrears in legal collections, respectively.

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

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

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

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

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

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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

The Brokerage Firm may acquire the following instruments:

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

Local currency:

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

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

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

As of the September 2016 close, the accounting records showed investments in colones, investments in instruments issued by local issuers in U.S. dollars (\$CR), and investments in instruments issued by foreign issuers in U.S. dollars (\$USA). The Brokerage Firm holds no investments in DU. By currency, the majority (83.83%) of the Brokerage Firm's financial instruments is concentrated in the portfolio denominated in colones.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The consolidated portfolio is comprised of investments in instruments issued by the Government of Costa Rica (56.81%), BCCR (15.27%), BNCR (6.89%), BPDC (2.33%), MUCAP (1.30%), and BCR (1.23%). These issuers represent 83.83% of the consolidated portfolio. The portfolio in U.S. dollars represents 16.17%, comprised of investments in instruments issued by the Government of Costa Rica (15.22%), Banco de San José (0.85%), and other issuers (0.10%).

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

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

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

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

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

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

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

As of September 30, 2016, the net assets managed by the Pension Fund Manager amount to ¢1,121,276.73 million, growing year-on-year by ¢131,008.79. This implies a growth with respect to the portfolio managed as of September 2015 (¢990,267.94 million). These data do not include the Pension Fund Manager's own assets.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The pension fund with the highest relative share is ROP, which represents 81.63% and shows a year-on-year growth of ¢127,809.89 million and a growth rate of 16.23% with respect to September 2015 (¢787,485.52 million).

For the Pension Fund Manager's own funds, the portfolio has available-for-sale investments with a market value of ¢7,976.50 million as of September 30, 2016, reflecting a decrease in value of ¢468.03 million with regard to the previous year, when it reached ¢7,508.47 million.

In September 2016, the VaR of Credit in absolute terms was located at ¢28.20 million, 0.35% of the portfolio in relative terms (September 2015: ¢27.94 million, 0.37% in relative terms). This indicator decreased due to government securities denominated in U.S. dollars that matured and were not renewed in that currency.

v. BN Corredora de Seguros, S.A.

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

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

As of September 30, 2016 and 2015, 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 September 30, 2016, investments in financial instruments correspond to the non-diversified investment fund in colones "Fondo de Inversión BN FonDepósito Colones, No Diversificado", which is secured by term certificates of deposit from BNCR.

b) Liquidity risk

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of September 30, 2016, the terms of the Bank's assets and liabilities denominated in local currency are matched as follows:

		Days							Total
		Past due	Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	
Cash and due from banks	¢	-	115,519,126,613	-	-	-	-	-	115,519,126,613
Minimum cash reserve in BCCR		-	276,250,803,764	23,410,614,699	20,107,041,812	27,750,940,203	68,599,247,684	33,884,251,980	459,392,753,357
Investments		-	-	169,989,641,295	7,135,550,973	5,836,716,707	130,106,371,499	93,849,483,944	578,729,740,753
Loan portfolio		107,692,338,536	-	34,264,721,183	37,926,852,899	24,111,674,073	81,791,934,487	99,076,590,894	2,487,932,349,981
Total recovery of assets	¢	107,692,338,536	391,769,930,377	227,664,977,177	65,169,445,684	57,699,330,983	280,497,553,670	226,810,326,818	3,641,573,970,704
Obligations with the public	¢	-	1,610,485,802,806	139,294,084,106	202,144,946,300	162,442,979,488	437,920,369,172	227,987,851,458	2,873,488,679,273
Obligations with BCCR		-	-	-	-	-	-	125,644,412	125,644,412
Obligations with financial entities		-	87,971,049,263	13,498,510,000	2,605,195,000	21,034,994	203,359,347	1,150,093,358	112,688,779,862
Charges payable		-	7,342,225,175	3,884,731,533	2,933,616,715	1,569,859,133	1,565,220,680	2,254,296,530	19,661,257,685
Total maturity of liabilities	¢	-	1,705,799,077,244	156,677,325,639	207,683,758,015	164,033,873,615	439,688,949,199	231,392,241,346	3,005,964,361,232
Difference	¢	107,692,338,536	(1,314,029,146,867)	70,987,651,538	(142,514,312,331)	(106,334,542,632)	(159,191,395,529)	(4,581,914,528)	635,609,609,472

As of September 30, 2015, the terms of the Bank's assets and liabilities denominated in local currency are matched as follows:

		Days							Total
		Past due	Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	
Cash and due from banks	¢	-	50,438,218,921	-	-	-	-	-	50,438,218,921
Minimum cash reserve in BCCR		-	267,083,894,360	25,175,830,974	14,359,874,764	25,473,259,560	55,013,785,232	25,667,210,500	425,892,421,514
Investments		-	-	194,551,788,109	3,159,083,050	9,576,794,096	50,968,037,110	93,175,808,095	623,016,195,359
Loan portfolio		100,018,588,183	-	31,641,024,032	38,718,554,581	20,966,585,660	66,218,284,337	85,738,956,279	2,180,389,344,879
Total recovery of assets	¢	100,018,588,183	317,522,113,281	251,368,643,115	56,237,512,395	56,016,639,316	172,200,106,679	204,581,974,874	3,279,736,180,673
Obligations with the public	¢	-	1,561,999,843,083	178,937,646,185	181,130,109,488	117,530,630,275	368,951,434,244	163,354,748,695	2,661,142,222,156
Obligations with BCCR		-	-	-	-	-	-	125,644,412	125,644,412
Obligations with financial entities		-	80,816,651,709	10,281,906,403	3,075,986,781	6,514,217,080	16,442,233,955	409,488,914	120,289,181,109
Charges payable		-	6,912,269,399	5,988,919,851	3,114,815,045	1,326,973,873	1,880,756,808	413,215,253	19,771,724,206
Total maturity of liabilities	¢	-	1,649,728,764,191	195,208,472,439	187,320,911,314	125,371,821,228	387,274,425,007	164,177,452,862	2,801,328,771,883
Difference	¢	100,018,588,183	(1,332,206,650,910)	56,160,170,676	(131,083,398,919)	(69,355,181,912)	(215,074,318,328)	40,404,522,012	478,407,408,790

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of September 30, 2016, the terms of the Bank's assets and liabilities denominated in foreign currency, expressed in local currency, are matched as follows:

		Days							Total
		Past due	Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	
Cash and due from banks	¢	-	181,106,343,253	-	-	-	-	-	181,356,780,338
Minimum cash reserve in BCCR		-	142,952,378,295	11,972,317,213	11,906,142,224	11,886,566,068	16,219,401,529	9,150,974,558	247,611,813,575
Investments		-	-	25,569,763,072	78,151,909,057	19,253,051,668	18,468,548,695	120,840,035,456	516,061,892,996
Loan portfolio		69,620,980,192	-	40,522,235,190	21,056,537,000	25,531,287,166	54,068,065,686	66,529,393,307	1,509,698,000,478
Total recovery of assets	¢	69,620,980,192	324,058,721,548	78,064,315,475	111,114,588,281	56,670,904,902	88,756,015,910	196,520,403,321	2,454,728,487,387
Obligations with the public	¢	-	804,181,288,986	93,489,608,163	75,949,808,386	52,486,238,991	113,049,317,786	71,103,798,314	1,238,283,652,908
Obligations with financial entities		-	126,337,211,920	5,468,763,300	10,939,493,388	6,180,084,960	21,853,200	57,391,966,500	1,150,322,049,662
Charges payable		-	1,216,569,065	7,749,096,470	13,442,684,104	1,872,754,588	1,111,028,500	336,407,076	25,855,220,498
Total maturity of liabilities	¢	-	931,735,069,971	106,707,467,933	100,331,985,878	60,539,078,539	114,182,199,486	128,832,171,890	2,414,460,923,068
Difference	¢	69,620,980,192	(607,676,348,423)	(28,643,152,458)	10,782,602,403	(3,868,173,637)	(25,426,183,576)	67,688,231,431	40,267,564,319

As of September 30, 2015, the terms of the Bank's assets and liabilities denominated in foreign currency, expressed in local currency, are matched as follows:

		Days							Total
		Past due	Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	
Cash and due from banks	¢	-	138,298,911,848	-	-	-	-	-	138,384,136,797
Minimum cash reserve in BCCR		-	136,735,795,602	8,517,910,474	11,030,464,973	12,341,980,425	27,745,115,228	2,857,415,340	199,228,682,042
Investments		-	-	27,456,293,602	21,548,048,363	27,557,132,989	66,295,249,812	140,482,439,127	564,622,950,050
Loan portfolio		63,266,542,575	-	25,175,751,906	24,692,994,496	24,166,730,192	72,878,655,711	55,766,049,220	1,384,063,834,717
Total recovery of assets	¢	63,266,542,575	275,034,707,450	61,149,955,982	57,271,507,832	64,065,843,606	166,919,020,751	199,105,903,687	2,286,299,603,606
Obligations with the public	¢	-	753,405,687,286	80,549,766,774	90,491,410,989	81,018,023,209	128,907,020,148	66,366,066,480	1,206,391,076,533
Obligations with financial entities		-	149,716,663,028	4,905,533,337	2,648,386,200	5,286,200	56,073,366,500	94,116,297,730	1,020,083,141,264
Charges payable		-	677,914,941	581,389,549	12,787,530,293	1,944,063,014	690,859,006	156,375,940	16,856,416,484
Total maturity of liabilities	¢	-	903,800,265,255	86,036,689,660	105,927,327,482	82,967,372,423	185,671,245,654	160,638,740,150	2,243,330,634,281
Difference	¢	63,266,542,575	(628,765,557,805)	(24,886,733,678)	(48,655,819,650)	(18,901,528,817)	(18,752,224,903)	38,467,163,537	42,968,969,325

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BANCO NACIONAL DE COSTA RICA Y SUBSIDIARIAS

Notas a los Estados Financieros Consolidados

i. Banco Nacional de Costa Rica

To support liquidity risk management, the Market Risk Division monitors indicators such as liability structure, daily changes and trends in demand and term account balances, volatility of deposit-taking from the public (duration by liability and currency), VaR of liquidity, levels of concentration of the Bank's funding sources, liquidity coverage ratio (LCR), systemic liquidity indicators, and variables with the greatest impact on SUGEF's term matching indicators. Below is the ICL indicator, which increases with regard to September 2015, maintaining an appetite level.

Indicator	September 30, 2015	September 30, 2016	Variation	Level
LCR colones	99.70%	113.20%	↑ 13.50%	Appetite
LCR U.S. dollars	109.10%	163.50%	↑ 54.40%	Appetite

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

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

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

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

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

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

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.

BANCO NACIONAL DE COSTA RICA Y SUBSIDIARIAS

Notas a los Estados Financieros Consolidados

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

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

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

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

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

Marketability of local market investments 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.

BANCO NACIONAL DE COSTA RICA Y SUBSIDIARIAS

Notas a los Estados Financieros Consolidados

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

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

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

Set out below are the main results of the VaR of liquidity assessment. Such analysis is based on three scenarios: Scenario one includes all movements and scenario two includes data for which withdrawals are greater than contributions. For these two scenarios, observations with one or two deviations over the average were eliminated with the purpose of performing a comparative analysis. Scenario three includes extreme values; for example, the annual transfer of the FCL to ROP.

Fondo	All movements		Withdrawals> Contributions		Extreme values		Cash/Equity	
	2016	2015	2016	2015	2016	2015	2016	2015
ROP	0.53%	0.56%	0.29%	0.30%	0.73%	0.77%	1.83%	2.86%
FCL	0.86%	0.87%	1.47%	2.01%	15.21%	14.77%	5.98%	1.76%
NOT	0.09%	0.09%	0.17%	0.18%	0.31%	0.31%	2.68%	0.53%
FPC A	0.73%	0.74%	1.18%	1.19%	2.84%	2.89%	4.40%	1.78%
FPC B	0.49%	0.47%	1.29%	1.32%	2.03%	2.09%	3.68%	2.98%
FPD A	1.26%	1.34%	2.95%	2.99%	7.18%	7.34%	3.83%	4.06%
FPD B	0.78%	0.75%	1.83%	1.21%	3.29%	3.18%	3.43%	2.11%
FCL								
Erroneous	0.08%	-	0.08%	-	0.08%	-	4.09%	-
ROP								
Erroneous	0.05%	-	0.04%	-	0.05%	-	2.58%	-

According to the results, for the scenario that considers all movements, the VaR of funds at a 99% confidence level with two standard deviations would not exceed 1%, except for the FPD A fund, where the VaR at 99%, eliminating two standard deviations, would reach 1.26%. The voluntary fund FPD A and FCL show the highest liquidity risk exposure, while the VaR of NOT is quite low, 0.09%, which is in line with prior liquidity reports and the closed nature of this fund.

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BANCO NACIONAL DE COSTA RICA Y SUBSIDIARIAS

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The second scenario shows higher VaR levels for all funds since it only considers the variables where withdrawals are higher than contributions. FPD A and FCL are the funds with higher risk levels. In spite of presenting higher risk exposure, for all cases, risk levels are equivalent to or below 3%.

The third scenario shows higher liquidity needs to address extreme situations. However, as indicated above, the most extreme scenario is the transfer of the FCL to the ROP, which represents a VaR of 15.21% as of September 2016. The FPD A is in second place with a VaR of 7.18%.

Lastly, the liquidity risks are shown at the end of the month for each of the funds, as a proportion of the net asset. The liquidity levels can be seen by VaR calculated for each of the funds, without compromising their profitability. The FPD A fund stands out, with a level of 1.26%.

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 VaR of the Bank's market investments, measured through an internal methodology, which is determined for each currency in which the Bank holds positions. That indicator is complemented with the duration and profitability, which summarize the Bank's risk-return profile derived from holding an investment portfolio.

The Bank's Market Risk Division analyzes and follows-up on the investment portfolio on an ongoing basis through the Comprehensive Risk Assessment Report, which is submitted to the Corporate Risk Committee and the Board of Directors.

(Continúa)

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Below is the variation of the portfolios in each currency for September 2015 and September 2016.

Face value by currency				
Currency	September 30, 2015	September 30, 2016	Variation	
Colones	507,678,200,000	474,526,550,000	↓	(33,151,650,000.00)
Local U.S. dollars	540,368,000	437,503,064	↓	(102,864,935.98)
Intl U.S. dollars	420,148,562	388,768,923	↓	(31,379,638.41)
Euros	37,026,000	29,426,000	↓	(7,600,000.00)
DU	39,323,795	34,823,795	↓	(4,500,000.00)

The duration for each of the currencies has presented variations according to the portfolio management, showing a decrease during the previous year.

Duration	September 30, 2015	September 30, 2016	Variation	
Colones	0.78	0.63	↓	(0.16)
Local U.S. dollars	0.97	0.85	↓	(0.12)
Intl U.S. dollars	1.78	1.28	↓	(0.50)
Euros	0.84	0.77	↓	(0.07)
DU	2.76	2.12	↓	(0.64)

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 or its trading positions 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 the volatility and liquidity of markets.

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.

(Continúa)

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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 on 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 a portion of 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 a risk-free assets and the volatility of returns.

Market risk exposure – trading portfolio:

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

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

	September 2016	September 2015
VaR (99% confidence level)	0.34%	0.81%

(Continúa)

BANCO NACIONAL DE COSTA RICA Y SUBSIDIARIAS

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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 September 30, 2016 and 2015, 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, trading investments, and available-for-sale investments are recognized at fair value, and therefore, any changes in market conditions directly affect the Brokerage Firm's net income. Market risk is the risk that the fair value of those instruments will fluctuate as a result of changes in interest rates, foreign exchange rates, or equity prices.

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

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

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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 and its subsidiaries. VaR is determined by adjusting the portfolio and calculating its duration and price. The total portfolio duration is the average amount-weighted durations. The RiMeR methodology applies daily parameters (modeling rising volatility curves) and efficiently captures market movements. Such parameters are denominated G2++ and are an extension of the Hull-White model.

As of September 30, 2016, net assets managed by the Pension Fund Manager amount to a total of ¢1,121,276.73 million (September 30, 2015: ¢990,267.94 million). That amount is distributed among nine funds, i.e. ROP, FCL, FPC A, FPC B, FPD A, FPD B, NOT, ROP erroneous and FCL erroneous (related to erroneous data entry). The ROP represents 81.63% of the balance managed.

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

BANCO NACIONAL DE COSTA RICA Y SUBSIDIARIAS

Notas a los Estados Financieros Consolidados


v. BN Corredora de Seguros, S.A.

For the 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

Banco Nacional de Costa Rica

The Bank's consolidated VaR regarding market value is at the risk appetite limit, showing a decrease in the last year.

Type of risk	September 30, 2015	September 30, 2016	Variation	Level
Consolidated VaR	0.27%	0.14%	 -0.13%	Appetite

Furthermore, the individual VaR by currency is presented, along with the variation with regard to the last year.

VaR by currency				
Currency	September 30, 2015	September 30, 2016	Variation	
Colones	0.41%	0.09%	 -0.31%	
Local U.S. dollars	0.25%	0.20%	 -0.05%	
International U.S. dollars	0.19%	0.29%	 0.09%	
Euros	0.01%	0.04%	 0.04%	
DU	0.76%	0.31%	 -0.45%	

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

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• Interest rate risk

As of September 30, 2016, the interest rate terms for the Bank's assets and liabilities are matched as follows (differences between the recovery of assets and the maturity of liabilities):

		1 to 30 days	31 to 90 days	91 to 180 days	181 to 360 days	361 to 720 days	More than 720 days	Total
<i>Local currency (LC)</i>								
Investments	¢	169,989,641,877	12,888,557,259	130,059,272,750	88,071,999,581	123,776,443,664	30,358,714,652	555,144,629,783
Loan portfolio		142,142,100,859	47,947,807,260	76,599,795,023	95,741,393,780	169,476,858,410	1,865,745,370,609	2,397,653,325,941
Total recovery of rate-sensitive assets LC (A)	¢	312,131,742,736	60,836,364,519	206,659,067,773	183,813,393,361	293,253,302,074	1,896,104,085,261	2,952,797,955,724
Obligations with the public	¢	164,325,371,719	368,197,673,228	442,630,260,154	225,913,267,441	77,735,510,090	11,414,781,959	1,290,216,864,591
Obligations with BCCR		-	-	-	-	-	125,644,412	125,644,412
Obligations with financial entities LC		7,632,718,383	227,168,605	300,190,748	547,864,699	626,232,790	6,666,319,336	16,000,494,561
Total maturity of rate-sensitive liabilities LC (B)	¢	171,958,090,102	368,424,841,833	442,930,450,902	226,461,132,140	78,361,742,880	18,206,745,707	1,306,343,003,564
LC difference, recovery of assets less maturity of liabilities (A - B)	¢	140,173,652,634	(307,588,477,314)	(236,271,383,129)	(42,647,738,779)	214,891,559,194	1,877,897,339,554	1,646,454,952,160
<i>Foreign currency (FC)</i>								
Investments	¢	25,551,352,727	97,050,676,472	18,468,550,469	117,605,440,723	150,702,308,866	78,971,917,175	488,350,246,432
Loan portfolio		59,915,752,019	37,236,277,528	47,507,264,412	62,146,858,505	110,909,408,712	1,150,279,046,379	1,467,994,607,555
Total recovery of rate-sensitive assets FC (C)	¢	85,467,104,746	134,286,954,000	65,975,814,881	179,752,299,228	261,611,717,578	1,229,250,963,554	1,956,344,853,987
Obligations with the public	¢	106,874,938,899	144,637,150,560	113,861,976,100	70,303,752,577	19,216,825,295	852,558,097,027	1,307,452,740,458
Obligations with entities		2,348,428,532	16,404,899,545	1,359,780,815	61,006,259,168	6,234,103,044	89,216,791,144	176,570,262,248
Total maturity of rate-sensitive liabilities FC (D)	¢	109,223,367,431	161,042,050,105	115,221,756,915	131,310,011,745	25,450,928,339	941,774,888,171	1,484,023,002,706
FC difference, recovery of assets less maturity of liabilities (C - D)	¢	(23,756,262,685)	(26,755,096,105)	(49,245,942,034)	48,442,287,483	236,160,789,239	287,476,075,383	472,321,851,281
Total recovery of rate-sensitive assets 1/ (A + C)	¢	397,598,847,482	195,123,318,519	272,634,882,654	363,565,692,589	554,865,019,652	3,125,355,048,815	4,909,142,809,711
Total recovery of rate-sensitive liabilities 2/ (B + D)	¢	281,181,457,533	529,466,891,938	558,152,207,817	357,771,143,885	103,812,671,219	959,981,633,878	2,790,366,006,270
LC + FC difference, recovery of assets less maturity of liabilities (item 1 – item 2)	¢	116,417,389,949	(334,343,573,419)	(285,517,325,163)	5,794,548,704	451,052,348,433	2,165,373,414,937	2,118,776,803,441

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As of September 30, 2015, the interest rate terms for the Bank's assets and liabilities are matched as follows (differences between the recovery of assets and the maturity of liabilities):

		1 to 30 days	31 to 90 days	91 to 180 days	181 to 360 days	361 to 720 days	More than 720 days	Total
<i>Local currency (LC)</i>								
Investments	¢	194,551,788,072	12,722,907,949	50,931,400,181	93,077,812,761	176,705,053,898	67,669,077,846	595,658,040,707
Loan portfolio		131,945,907,772	47,590,177,240	61,365,630,834	85,968,801,592	146,235,240,824	1,621,690,886,218	2,094,796,644,480
Total recovery of rate-sensitive assets LC (A)	¢	326,497,695,844	60,313,085,189	112,297,031,015	179,046,614,353	322,940,294,722	1,689,359,964,064	2,690,454,685,187
Obligations with the public	¢	194,117,297,508	312,293,040,513	386,946,238,351	163,886,543,428	51,755,399,189	40,537,492,228	1,149,536,011,217
Obligations with BCCR		-	-	-	-	-	125,644,412	125,644,412
Obligations with financial entities LC		290,681,128	100,802,517	153,627,262	360,412,489	546,719,684	2,241,474,701	3,693,717,781
Total maturity of rate-sensitive liabilities LC (B)	¢	194,407,978,636	312,393,843,030	387,099,865,613	164,246,955,917	52,302,118,873	42,904,611,341	1,153,355,373,410
LC difference, recovery of assets less maturity of liabilities (A - B)	¢	132,089,717,208	(252,080,757,841)	(274,802,834,598)	14,799,658,436	270,638,175,849	1,646,455,352,723	1,537,099,311,777
<i>Foreign currency (FC)</i>								
Investments	¢	27,456,290,775	48,752,804,115	66,376,314,134	137,716,711,481	133,719,903,291	129,034,219,883	543,056,243,679
Loan portfolio		40,310,627,719	42,402,095,173	70,248,195,747	52,607,154,534	99,122,448,032	1,038,907,095,978	1,343,597,617,183
Total recovery of rate-sensitive assets FC (C)	¢	67,766,918,494	91,154,899,288	136,624,509,881	190,323,866,015	232,842,351,323	1,167,941,315,861	1,886,653,860,862
Obligations with the public	¢	86,041,686,173	187,028,580,250	145,736,896,628	66,771,326,231	4,593,076,006	543,907,688,863	1,034,079,254,151
Obligations with entities		2,463,226,346	1,297,465,301	40,421,871,152	122,651,701,826	59,902,431,332	79,733,804,800	306,470,500,757
Total maturity of rate-sensitive liabilities FC (D)	¢	88,504,912,519	188,326,045,551	186,158,767,780	189,423,028,057	64,495,507,338	623,641,493,663	1,340,549,754,908
FC difference, recovery of assets less maturity of liabilities (C - D)	¢	(20,737,994,025)	(97,171,146,263)	(49,534,257,899)	900,837,958	168,346,843,985	544,299,822,198	546,104,105,954
Total recovery of rate-sensitive assets 1/ (A + C)	¢	394,264,614,338	151,467,984,477	248,921,540,896	369,370,480,368	555,782,646,045	2,857,301,279,925	4,577,108,546,049
Total recovery of rate-sensitive liabilities 2/ (B + D)	¢	282,912,891,155	500,719,888,581	573,258,633,393	353,669,983,974	116,797,626,211	666,546,105,004	2,493,905,128,318
LC + FC difference, recovery of assets less maturity of liabilities (item 1 – item 2)	¢	111,351,723,183	(349,251,904,104)	(324,337,092,497)	15,700,496,394	438,985,019,834	2,190,755,174,921	2,083,203,417,731

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

i. Banco Nacional de Costa Rica

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

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

Type of risk	September 30, 2015	September 30, 2016	Variation	Level
Currency risk in colones	1.35%	1.79%	0.44%	 Normal
Currency risk FC	0.12%	0.74%	0.62%	 Normal

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

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

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

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

In general, the Pension Fund Manager sought to maintain the average term to maturity for investments in colones in order to receive the highest real returns with the lowest related risk.

In the case of the Pension Fund Manager's own funds, the consolidated VaR shows a decrease from September 30, 2015 to September 30, 2016, from 0.78% to 0.35%. This is due to the management's strategy of decreasing long-term positions, taking advantage of the rate scenario and the economic conditions of the period under analysis. In addition, the Bank's Risk Unit also changed the methodology applied, which is related to the optimization of parameters and the valuation of instruments with variable rates.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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 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.

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

Type of risk	September 30, 2015	September 30, 2016	Variation	Level
Currency risk	0.23%	0.03%	↓ -0.20%	Normal

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Assets and liabilities denominated in foreign currency are as follows:

		U.S. dollars	
		September 2016	September 2015
Assets:			
Cash and due from banks	US\$	759,252,564	622,118,242
Investments in financial instruments		909,996,852	1,024,365,811
Loan portfolio		2,715,341,801	2,584,401,174
Accounts and accrued interest receivable		663,618	458,929
Investments in other companies		105,025,602	100,308,587
Other assets		2,287,993	5,631,435
Total assets	US\$	4,492,568,430	4,337,284,178
Liabilities:			
Obligations with the public	US\$	2,217,932,018	2,228,720,432
Obligations with entities		2,144,587,169	1,956,050,148
Accounts payable and provisions		15,034,832	13,079,828
Other liabilities		28,028,372	22,333,611
Subordinated obligations		131,100,660	130,961,033
Total liabilities	US\$	4,536,683,051	4,351,145,052
Excess (deficit) of assets over liabilities in U.S. dollars	US\$	(44,114,621)	(13,860,874)
		Euros	
		September 2016	September 2015
Assets:			
Cash and due from banks	€	23,118,578	14,767,734
Investments in financial instruments		30,752,791	38,934,172
Total assets	€	53,871,369	53,701,906
Liabilities:			
Obligations with the public	€	49,767,549	51,532,476
Obligations with entities		963,269	1,094,395
Accounts payable and provisions		194,959	149,741
Total liabilities	€	50,925,777	52,776,612
Excess (deficit) of assets over liabilities in euros	€	2,945,592	925,294

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		DU	
		September 2016	September 2015
Assets:			
Investments in financial instruments	UD	34,775,118	39,242,695
Loan portfolio		25,183,690	34,171,390
Total assets	UD	59,958,808	73,414,085
Liabilities:			
Accounts payable and provisions	UD	860,289	947,163
Other liabilities		4,190	6,602
Total liabilities	UD	864,479	953,765
Excess of assets over liabilities in DU	UD	59,094,329	72,460,320

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 the Asset and Liability Committee.

The valuation in colones of monetary assets and liabilities in foreign currency gave rise to foreign exchange gains or losses, as follows:

	September 2016	September 2015
Foreign exchange gain	¢ 93,289,226,462	68,994,949,616
Foreign exchange loss	94,377,201,398	68,925,972,092
Net (loss) gain	¢ (1,087,974,936)	68,977,524

Additionally, the valuation of other assets and other liabilities for the year ended September 30 gave rise to gains and losses, respectively, which are booked in "Other operating income" and "Other operating expenses", respectively, as follows:

	September 2016	September 2015
Gain on net valuation of other assets	¢ 287,355,748	255,087,989
Loss on net valuation of other liabilities (note 36)	446,541,530	186,293,704
Net gain (loss)	¢ (159,185,782)	68,794,285

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

i. Banco Nacional de Costa Rica

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

ii. BN Corredora de Seguros, S.A.

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

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 income statement.

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

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

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

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

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

As of September 30, 2016, 1.03% of the Pension Fund Manager's assets of own funds is represented by investments in U.S. dollars (September 30, 2015: 1.66%). Within the managed funds, ROP has the highest exposure, with 16.84% of the portfolio's investments in U.S. dollars. FCL has 3.38%, FPC A 0.53%, FPC B 0.08%, FCL erroneous 7.52%, and ROP erroneous 6.13% of the total assets in U.S. dollars.

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.

d) Operational risk

i. Banco Nacional de Costa Rica.

Operational risk is the risk of economic losses resulting from failures or weaknesses in internal processes, persons, internal systems and technology, as well as unforeseen events. This definition includes information technology risk and 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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

That policy is implemented through a comprehensive model with three lines of defense:

- 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 upper 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, in conformity with SUGEF agreement 18-16, *Regulations on operating risk management*, are part of the scope of this risk.

One of the Bank's fundamental operational risk management principles is transparency, defined as the identification, documentation, and reporting of risk events 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.

Also, the main activity in operational risk management is to assess and analyze risk in institutional processes by applying a specific methodology that controls the frequency, impact, and quality of identified potential risks. The diagram below shows how such methodology is applied to institutional processes:



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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

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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.

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

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

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

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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

- Identification: Tools have been developed to accurately identify the different risks associated with each of the Investment Fund Manager's fundamental processes. Each process was analyzed together with any related processes to formulate a risk portfolio for the entire company. As a first step, the risks included in that portfolio were grouped by type and by class.
- Analysis: Using tools defined by international methods, the Investment Fund Manager analyzed the risks identified for each business unit and determined the degree of impact, the probability of occurrence, and the origin of each risk. In addition to this analysis, the Investment Fund Manager assesses aspects of the business that can affect risk such as its image, operations, income, human resources, etc.
- Measurement: Similar to the analysis mentioned above, each risk identified was assessed from two perspectives (its probability of occurrence and its potential impact) in order to determine which risks require the most attention and the formulation of action plans to be carried out in the event that the risk materializes. Such information is included in the Business Continuity Plan (PCN).
- 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: Upper management informs employees of risk management trends and strategies as well the results of assessments through meetings with employees or announcements.

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

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

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

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

Fair value of financial instruments

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

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

iv. BN Corredora de Seguros, S.A.

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.

The Insurance Brokerage Firm is in the process of purchasing information systems, which implies a risk since the current information system process is not appropriate.

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

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

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

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

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

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

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

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

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

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

As of September 30, 2016 the Bank's General Risk Division presented the results of the VaR by legal risk for the Pension Fund Manager, which indicates that the amount to be provisioned is the EL of ¢288.11 million. Furthermore, the Pension Fund Manager is a defendant in seven lawsuits, most of which are in first instance.

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).

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

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

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

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

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

As of September 30, 2016 and 2015, the Bank's risk rating is at a normal level since its capital adequacy ratio is above the required 10% ratio.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(43) Contingencies

As of September 30, 2016 and 2015, the Bank and Pension Fund Manager, are defendants in ordinary, labor, and criminal lawsuits. The legal actions filed are as follows:

	Number of cases		Stage of the proceedings		Total estimated amount	
	2016	2015			2016	2015
Banco Nacional de Costa Rica	210	228	First instance	¢	226,955,029,677	214,348,605,865
	19	21	Second instance		18,382,475,385	27,165,597,375
	3	4	Appeal		6,089,047,215	9,650,430,000
	232	253	Subtotal		251,426,552,277	251,164,633,240
BN Vital	-	4	Second instance		-	265,110,325
BN Valores	1	-	First instance		133,194,104	-
	233	257	Total (note 20)	¢	251,559,746,381	251,429,743,565

As of September 30, 2016 and 2015, the legal actions filed against the Bank and its subsidiaries are booked in memoranda accounts under “Other contingencies - pending litigation and lawsuits”.

As of September 30, 2016 and 2015, the Bank is a claimant in ordinary, labor, and criminal lawsuits, which outcome is uncertain and are not booked in the accounting records, as follows:

Number of cases		Stage of the proceedings		Total estimated amount	
2016	2015			2016	2015
136	134	First instance	¢	722,268,092,106	709,781,978,532
1	1	Second instance		375,839,600	375,839,600
1	-	Appeal		3,384,930,021	-
138	135	Total	¢	726,028,861,727	710,157,818,132

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(44) Significant events

a) Audit by Tax Authorities - 2010, 2011, 2012, and 2013 periods

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

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

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

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

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

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

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

b) Dividends paid to the Bank

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

Under article No. 2 of meeting No. 12,007 held on July 13, 2015, the Board of Directors agreed to authorize the distribution of dividends from retained earnings in the amount of ¢800 million.

Under article No. 2 of meeting No. 11,888 held on February 11, 2014, the Board of Directors agreed to authorize the distribution of dividends from retained earnings in accordance with Official letter SGRF-047-2014 dated February 6, 2014 in the amount of ¢250 million.

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

Under article No. 3 of meeting No. 11,989 held on May 25, 2015, the Board of Directors agreed to authorize the distribution of dividends from retained earnings in the amount of ¢600 million.

Under article No. 2 of meeting No. 11,887 held on February 11, 2014, the Board of Directors agreed to authorize the distribution of dividends from retained earnings in accordance with Official letter SGRF-047-2014 dated February 6, 2014 in the amount of ¢1 billion.

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

Under article No. 2 of meeting No. 11,885 held on February 11, 2014, the Board of Directors agreed to authorize the distribution of dividends from retained earnings in accordance with Official letter SGRF-047-2014 dated February 6, 2014 in the amount of ¢4 billion.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

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

Under article No. 3 of meeting No. 11,996 held on June 15, 2015, the Board of Directors agreed to authorize the distribution of dividends from retained earnings in accordance with Official letter SGRF-212-2015 in the amount of ¢21 million.

Under article No. 2 of meeting No. 11,886 held on February 11, 2014, the Board of Directors agreed to authorize the distribution of dividends from retained earnings in accordance with Official letter SGRF-047-2014 dated February 6, 2014 in the amount of ¢333 million.

c) Amendments to accounting regulations

Through Articles 8 and 5 of the minutes of meetings No. 1034-2013 and No. 1035-2013 held on April 2, 2013, CONASSIF upheld the amendments to SUGEF Directive 31-04 in respect of the financial statements and explanatory notes, SUGEF Directive 33-07 in respect of new accounts to be included in the financial reports, and SUGEF Directive 34-02 in respect of accounting regulations applicable to regulated entities. These amendments are effective starting January 1, 2014.

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

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

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

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

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

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

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

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

a) IAS 1: Presentation of Financial Statements

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

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

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

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b) IAS 7: Statement of Cash Flows

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

c) IAS 12: Income Taxes

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

d) IAS 16: Property, Plant and Equipment

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

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

Moreover, under IAS 16, depreciation continues on property, plant and equipment, even if the asset is idle. The Standard issued by the Board allows entities to suspend the depreciation of idle assets and reclassify them as foreclosed assets.

e) IAS 18: Revenue

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

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The Board has also allowed deferral of the net excess of loan fee and commission income minus expenses incurred for activities such as assessment of the borrower's financial position, evaluation and recognition of guarantees, sureties, or other collateral instruments, negotiation of the terms of the instrument, preparation and processing of documents, and settlement of the operation. This Standard does not allow deferral on a net basis of such income. Instead, it prescribes deferral of 100% of loan fee and commission income and permits the deferral of only certain incremental transaction costs, rather than all direct costs. Accordingly, when costs exceed income, loan fee and commission income may not be deferred in full, since the Board only allows the net excess of income over expenses to be deferred. This treatment does not conform to IAS 18 and IAS 39, which prescribe separate treatment for income and expenses (see comments on IAS 39). With the amendments to SUGEF Directive 31-04 and SUGEF Directive 34-02, the Board adopted the accounting treatment prescribed by IAS 18 and IAS 39 for fees and commissions and transaction costs. However, the following differences remain between the accounting standards issued by the Board and IAS 18 and IAS 39:

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

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

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

g) IAS 27: Consolidated and Separate Financial Statements

The Board requires that the financial statements of a parent be presented separately, measuring its investments by the equity method. Under this Standard, 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, in this case, this Standard requires that investments be accounted for at cost. With the amendments to IFRS effective as of 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 Board has not adopted the amendments to IAS 27.

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

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

With the modifications to SUGEF Directive 31-04 and SUGEF Directive 34-02, savings and credit cooperatives and the Education Savings and Loan Association, as parents, 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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h) IAS 28: Investments in Associates

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

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 changes have not been adopted by the Board.

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

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

l) IAS 38: Intangible Assets

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

m) IAS 39: Financial Instruments: Recognition and Measurement

The Board requires that the loan portfolio be classified pursuant to SUGEFE Directive 1-05 and that the allowance for loan losses be determined based on that classification. It also allows excess allowances to be booked. This Standard requires that the allowance for loan losses be determined based on a financial analysis of actual losses. This Standard also prohibits the booking of provisions for contingent accounts. Any excess allowance must be reversed in the income statement.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

a) Pooled portfolios

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

b) Own investments of regulated entities

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Banks regulated by SUGEF may not classify investments in financial instruments as held to maturity. The above classifications do not necessarily adhere to IAS 39.

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

n) IAS 40: Investment Property

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

o) Revised IFRS 3: Business Combinations

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

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

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

q) IFRS 9: Financial Instruments

IFRS 9 replaces IAS 39, "*Financial Instruments: Recognition and Measurement*". IFRS 9 amends the classification and measurement requirements for financial instruments, including a new financial instrument impairment model based on the premise of providing for expected credit losses and the new guidelines on hedge accounting. IFRS 9 does not change the principles for financial instrument recognition and derecognition provided for under IAS 39.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The Standard is effective for annual periods beginning on or after January 1, 2018. Early application is permitted. This Standard has not been adopted by the Board.

r) IFRS 10: Consolidated Financial Statements

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

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

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

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

s) IFRS 11: Joint Arrangements

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

t) IFRS 12: Disclosure of Interests in Other Entities

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

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

v) IFRS 14: Regulatory Deferral Accounts

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

w) IFRS 15: Revenue from Contracts with Customers

This Standard was approved by IASB 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 statement 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. It is effective for annual periods beginning on or after January 1, 2017. Early application is permitted. This Standard has not been adopted by the Board.

x) IFRIC 10: Interim Financial Reporting and Impairment

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

y) IFRIC 21: Levies

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(46) Disclosure of economic impact of departure from IFRSs

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

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

(47) 2016 figures

Certain 2015 figures have been reclassified for purposes of comparison with the 2016 figures, as explained below:

- Pursuant to article 8 of the minutes of meeting No. 1171-2015 held on June 1, 2015, CONASSIF informed through Notice C.N.S. 1171-08 dated June 2, 2015 of the agreement reached to amend the example statement of comprehensive income included in SUGEF Directive 31-04 "Regulations on the Financial Reporting of Financial Entities, Groups, and Conglomerates," requiring the following amendments:

As of September 30, 2016, foreign exchange gains and losses are presented on a net basis in the finance income section under "Gain on foreign exchange differences, net".