BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Financial information required by the
General Superintendency of Financial Entities

Consolidated Financial Statements

September 30, 2018
(With corresponding figures for 2017)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
AS OF SEPTEMBER 30, 2018 AND 2017 AND DECEMBER 31, 2017
(In colones)

	Nota	September 2018	December 2017	September 2017
ASSETS				
Cash and due from banks	4	**1,240,394,555,501**	**1,282,770,297,704**	**1,302,567,320,124**
Cash		95,224,152,190	67,739,161,550	71,985,533,823
BCCR		874,031,775,223	857,735,999,161	832,997,859,033
Local financial entities		7,181,279,416	16,722,017,718	6,569,411,578
Foreign financial entities		247,504,600,424	321,425,149,449	378,947,076,980
Other cash and due from banks		16,452,748,248	19,147,247,731	12,067,438,710
Accrued interest receivable		-	722,095	-
Investments in financial instruments	5	**1,184,531,514,889**	**1,097,332,342,386**	**1,027,780,330,144**
Available for sale		1,158,325,618,778	1,061,043,947,907	982,340,346,685
Held to maturity		18,811,098,378	18,562,535,348	27,613,265,554
Derivative financial instruments	6	24,175,802	6,321,903,607	10,347,678,522
Accrued interest receivable		7,370,621,931	11,477,429,720	7,541,028,173
(Allowance for impairment of investments in financial instruments)		-	(73,474,196)	(61,988,790)
Loan portfolio	7	**4,353,930,187,703**	**4,384,681,312,469**	**4,399,604,546,072**
Current		4,102,560,311,785	4,261,225,313,188	4,209,122,078,032
Past due		202,902,663,275	131,836,522,732	162,018,382,977
In legal collection		191,904,108,503	100,044,384,206	98,789,656,096
Accrued interest receivable		39,741,652,898	31,743,485,704	31,963,107,077
(Allowance for loan losses)		(183,178,548,758)	(140,168,393,361)	(102,288,678,110)
Accounts and fees and commissions receivable	8	**3,611,855,016**	**3,085,084,712**	**3,177,423,182**
Fees and commissions receivable		1,266,344,388	1,261,195,967	1,183,138,101
Accounts receivable for brokerage operations		64,290,113	-	58,572,629
Accounts receivable for transactions with related parties		58,160,746	26,675,994	37,076,658
Deferred tax and income tax receivable		2,187,298,661	1,508,835,870	1,597,761,958
Other receivables		4,156,364,033	3,879,229,636	3,982,986,573
Accrued interest receivable		1,517,374	1,724,156	1,732,262
(Allowance for impairment of accounts and fees and commissions receivable)		(4,122,120,299)	(3,592,576,911)	(3,683,844,999)
Foreclosed assets	9	**18,269,134,495**	**18,784,905,854**	**15,598,038,267**
Assets and securities acquired in lieu of payment		76,770,699,608	81,249,127,569	77,680,930,512
Other foreclosed assets		1,840,190	1,832,418	1,471,878
(Allowance for impairment of foreclosed assets and per legal requirements)		(58,503,405,303)	(62,466,054,133)	(62,084,364,123)
Investments in other companies	10	**63,001,987,881**	**61,782,698,467**	**61,321,809,645**
Property and equipment, net	11	**189,689,490,141**	**180,045,509,253**	**176,901,682,472**
Other assets	12	**39,063,901,715**	**51,681,058,910**	**45,120,000,275**
Deferred charges		7,107,632,422	8,915,121,031	9,642,372,793
Intangible assets		5,121,165,030	7,343,386,585	6,478,164,335
Other assets		26,835,104,263	35,422,551,294	28,999,463,147
TOTAL ASSETS		**7,092,492,627,341**	**7,080,163,209,755**	**7,032,071,150,181**

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
AS OF SEPTEMBER 30, 2018 AND 2017 AND DECEMBER 31, 2017
(In colones)

LIABILITIES AND EQUITY	Nota	September 2018	December 2017	September 2017
LIABILITIES				
Obligations with the public	13	**4,781,892,476,921**	**4,854,295,679,256**	**4,752,553,317,143**
Demand obligations		2,624,435,692,927	2,723,524,433,301	2,528,009,646,257
Term obligations		2,090,569,591,788	2,071,892,923,304	2,166,969,066,121
Other obligations		26,697,308,999	22,916,380,358	24,616,469,587
Finance charges payable		40,189,883,207	35,961,942,293	32,958,135,178
Obligations with BCCR	14	**6,128,644,412**	**125,644,412**	**28,134,588,856**
Term obligations		6,125,644,412	125,644,412	28,125,644,412
Finance charges payable		3,000,000	-	8,944,444
Obligations with entities	15	**1,396,873,476,765**	**1,325,520,882,251**	**1,372,575,930,100**
Demand obligations		224,117,176,995	206,588,859,907	199,758,647,631
Term obligations		1,148,289,072,674	1,109,107,522,604	1,149,315,888,464
Finance charges payable		24,467,227,096	9,824,499,740	23,501,394,005
Accounts payable and provisions		**121,105,544,235**	**102,307,155,957**	**122,783,568,817**
Accounts payable for brokerage services		2,538,959,996	1,257,574,677	521,281,031
Deferred tax	16-b	11,547,254,346	10,400,144,758	10,973,742,903
Provisions	17	26,524,334,915	20,863,416,068	25,200,323,960
Other sundry accounts payable	18	80,494,994,978	69,786,020,454	86,088,220,923
Other liabilities	19	**64,012,767,888**	**98,542,307,102**	**60,244,057,570**
Deferred income		31,900,876,645	32,055,196,858	30,108,795,361
Allowance for stand-by credit losses		289,910,495	265,681,489	266,234,864
Other liabilities		31,821,980,748	66,221,428,755	29,869,027,345
Subordinated obligations	20	**76,078,498,928**	**75,136,063,242**	**74,538,354,409**
Subordinated obligations		75,285,600,000	73,634,600,000	73,882,900,000
Finance charges payable		792,898,928	1,501,463,242	655,454,409
TOTAL LIABILITIES		**6,446,091,409,149**	**6,455,927,732,220**	**6,410,829,816,895**
EQUITY				
Share capital		**172,237,030,102**	**172,237,030,102**	**172,237,030,102**
Paid-in capital	21-a	172,237,030,102	172,237,030,102	172,237,030,102
Equity adjustments		**72,006,223,068**	**68,259,558,421**	**69,468,783,366**
Surplus from revaluation of property	21-b	70,239,809,918	61,425,174,760	62,042,199,833
Adjustment for valuation of available-for-sale investments	21-c	(5,030,180,943)	(1,998,318,958)	(1,529,002,618)
Adjustment for valuation of restricted financial instruments	21-c	(327,022,055)	(306,670,697)	(498,832,781)
Surplus from revaluation of other assets		43,748,630	43,748,630	43,748,630
Adjustment for valuation of investments in other companies	1-e (iv) y 21-d	7,079,867,518	9,095,624,686	9,410,670,302
Capital reserves	21-e	**332,576,862,852**	**311,121,806,369**	**309,800,596,676**
Prior period retained earnings		**20,793,465,503**	**12,741,841,466**	**13,238,583,625**
Income for the period		**17,815,642,220**	**32,763,283,164**	**29,384,381,504**
Equity of the Development Financing Fund	21-f	**30,971,994,447**	**27,111,958,013**	**27,111,958,013**
TOTAL EQUITY		**646,401,218,192**	**624,235,477,535**	**621,241,333,286**
TOTAL LIABILITIES AND EQUITY		**7,092,492,627,341**	**7,080,163,209,755**	**7,032,071,150,181**
DEBIT MEMORANDA ACCOUNTS	22	**656,796,914,208**	**657,366,663,011**	**662,909,331,668**
TRUST ASSETS	23	**1,859,310,428,855**	**1,640,112,224,019**	**1,441,291,625,906**
TRUST LIABILITIES		**138,913,803,465**	**122,035,907,919**	**40,138,524,079**
TRUST EQUITY		**1,720,396,625,390**	**1,518,076,316,100**	**1,401,153,101,827**
TRUST MEMORANDA ACCOUNTS		**83,197,626,468**	**50,624,717,665**	**40,302,914,757**
OTHER DEBIT MEMORANDA ACCOUNTS	24	**22,293,903,629,412**	**20,651,794,446,437**	**20,757,094,304,730**
Own debit memoranda accounts		7,288,206,903,730	7,064,476,982,966	7,156,771,585,104
Third-party debit memoranda accounts		2,862,002,231,512	2,542,913,153,061	2,525,868,720,930
Own debit memoranda accounts for custodial activities		259,572,074,256	371,296,353,570	314,275,146,823
Third-party debit memoranda accounts for custodial activities		11,884,122,419,914	10,673,107,956,840	10,760,178,851,873

Gustavo Vargas Fernández
General Manager a.i.

Alejandra Morales Centeno
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COSTA RICA
TIMBRE
COLEGIO DE CONTADORES PRIVADOS DE COSTA RICA
300 COLONES

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
NINE MONTHS ENDED AND THREE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017
(In colones)

	Nota	2018	2017	2018	2017
Finance income					
Cash and due from banks	28	3,958,665,051	2,058,166,675	925,936,510	1,008,891,222
Investments in financial instruments	28	46,381,282,584	36,855,688,286	16,211,870,040	11,989,122,460
Loan portfolio	29	331,820,569,573	295,839,255,941	112,451,490,131	105,534,053,012
Gain on foreign exchange differences and development units, net	46-c	-	-	(116,158,033)	-
Gain on available-for-sale financial instruments		48,576,984	1,279,197,037	28,184,671	114,539,689
Gain on derivative financial instruments, net	6	-	9,079,816,021	-	(1,955,814,860)
Other finance income	30	25,437,483,372	15,147,978,997	6,077,278,768	8,593,977,865
Total finance income		407,646,577,564	360,260,102,957	135,578,602,087	125,284,769,388
Finance costs					
Obligations with the public	31	138,673,588,629	107,283,225,378	46,697,092,391	40,975,183,051
Obligations with BCCR		993,000	-	-	-
Obligations with financial entities	32	54,538,175,123	52,235,702,669	18,681,302,395	19,073,613,593
Subordinated, convertible, and preferred obligations		3,825,545,745	3,377,556,508	1,324,615,158	1,161,142,538
Loss on foreign exchange differences and development units, net	46-c	326,152,150	1,513,064,399	326,152,150	(32,802,687)
Loss on available-for-sale financial instruments		362,006,915	162,539,688	102,588,282	87,115,310
Loss on derivative instruments	6	14,694,633,666	-	2,618,519,944	-
Other finance costs	33	7,521,062,242	14,924,431,444	2,804,347,533	4,680,097,893
Total finance costs		219,942,157,470	179,496,520,086	72,554,617,853	65,944,349,698
Allowance for impairment of assets	34	63,146,952,158	30,278,844,170	22,428,597,059	13,226,987,036
Recovery of assets and decrease in allowances	35	6,061,880,152	11,396,047,828	1,779,723,278	2,200,800,385
FINANCE INCOME		130,619,348,088	161,880,786,529	42,375,110,453	48,314,233,039
Other operating income					
Service fees and commissions	36	100,346,202,737	95,231,598,491	32,552,602,444	31,857,560,381
Foreclosed assets		7,313,549,247	3,152,513,813	2,551,491,988	1,927,803,924
Gain on investments in other foreign companies	1-a y 3	2,332,803,648	1,933,904,845	809,757,604	647,986,634
Gain on investments in other local companies		2,764,988	7,563,715	-	-
Foreign currency exchange and arbitrage		17,403,355,743	17,926,202,406	5,754,080,105	5,597,027,823
Other operating income	37	7,179,009,729	6,897,053,664	2,638,527,505	2,462,295,726
Total other operating income		134,577,686,092	125,148,836,934	44,306,459,646	42,492,674,488

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
NINE MONTHS ENDED AND THREE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017
(In colones)

		2018	2017	2018	2017
Other operating expenses					
Service fees and commissions		3,381,807,683	4,102,339,160	1,225,993,444	1,586,989,791
Foreclosed assets	38	14,935,389,967	17,106,167,766	4,959,695,642	6,260,330,712
Sundry assets		935,847,328	35,830,427	899,399,472	2,893,170
Provisions	39	14,035,040,618	11,401,548,720	6,197,116,073	3,777,418,474
Bonuses on fees and commissions of voluntary pension funds		87,392,582	61,916,067	29,133,190	20,005,408
Foreign currency exchange and arbitrage		5,002,037	1,156,574	1,303,334	91,855
Other operating expenses	40	51,312,101,080	54,283,183,557	17,115,503,772	17,782,662,016
Amortization of deferred direct costs related to credits		362,455,604	590,728,611	137,978,840	132,512,960
Total other operating expenses		85,055,036,899	87,582,870,882	30,566,123,767	29,562,904,386
GROSS OPERATING INCOME		180,141,997,281	199,446,752,581	56,115,446,332	61,244,003,141
Administrative expenses					
Personnel expenses	41	99,111,487,413	99,122,575,308	32,679,666,983	33,007,770,528
Other administrative expenses	42	54,086,895,180	50,601,053,888	18,885,548,335	17,119,008,521
Total administrative expenses		153,198,382,593	149,723,629,196	51,565,215,318	50,126,779,049
NET OPERATING INCOME BEFORE TAXES AND STATUTORY ALLOCATIONS		26,943,614,688	49,723,123,385	4,550,231,014	11,117,224,092
Current tax expense	16-a	1,951,387,562	8,912,045,614	672,417,451	1,129,003,178
Deferred tax expense	16-a	26,360,900	303,972,144	10,185,396	109,239,237
Decrease in current tax for the period	16-a	-	1,366,885,755	-	508,873,937
Decrease in prior period income tax	16-a	-	19,910,540	-	-
Deferred tax income	16-a	204,123,257	155,513,563	20,252,667	55,915,642
Statutory allocations	43	7,365,266,803	12,766,147,042	1,132,880,922	3,069,048,310
Decrease in statutory allocations	43	10,919,540	101,113,061	10,919,540	-
INCOME FOR THE PERIOD		17,815,642,220	29,384,381,504	2,765,919,452	7,374,722,946
OTHER COMPREHENSIVE INCOME, NET OF TAX					
Surplus from revaluation of property		9,418,068,948	2,003,550,735	8,375,003,979	2,003,550,735
Adjustment for valuation of available-for-sale investments, net of income tax		(3,031,861,986)	(1,688,200,613)	(1,827,197,117)	(494,934,937)
Adjustment for valuation of restricted financial instruments, net of income tax		(20,351,357)	1,118,385,983	44,319,882	347,998,334
Adjustment for valuation of investments in other companies		(2,015,757,168)	1,326,366,988	774,454,411	(497,775,118)
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX		4,350,098,437	2,760,103,093	7,366,581,155	1,358,839,014
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		22,165,740,657	32,144,484,597	10,132,500,607	8,733,561,960

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017
(In colones)

			Equity adjustments								
	Nota	**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**	**Total equity adjustments**	**Capital reserves**	**Retained earnings**	**Equity of the Development Financing Fund**	**Total**
Balance at January 1, 2017		**118,130,303,482**	**60,806,752,437**	**(1,458,020,769)**	**43,748,630**	**8,084,303,314**	**67,476,783,612**	**274,614,308,392**	**107,125,633,883**	**21,749,819,320**	**589,096,848,689**
Transactions with owners booked directly in equity:											
Legal reserves		-	-	-	-	-	-	33,747,928,879	(33,747,928,879)	-	-
Other statutory reserves		-	-	-	-	-	-	1,438,359,405	(1,438,359,405)	-	-
Capitalization of retained earnings for capital increases		54,106,726,620	-	-	-	-	-	-	(54,106,726,620)	-	-
Equity of the Development Financing Fund		-	-	-	-	-	-	-	(5,362,138,693)	5,362,138,693	-
Total transactions with owners booked directly in equity		54,106,726,620	-	-	-	-	-	35,186,288,284	(94,655,153,597)	5,362,138,693	-
Comprehensive income for the period:											
Income for the period		-	-	-	-	-	-	-	29,384,381,504	-	29,384,381,504
Adjustment for valuation of available-for-sale investments, net of income tax	5	-	-	(1,688,200,613)	-	-	(1,688,200,613)	-	-	-	(1,688,200,613)
Adjustment for valuation of restricted financial instruments, net of income tax	5	-	-	1,118,385,983	-	-	1,118,385,983	-	-	-	1,118,385,983
Adjustment for valuation of investments in other companies	1-e (iv)	-	-	-	-	1,326,366,988	1,326,366,988	-	-	-	1,326,366,988
Surplus from revaluation of property		-	1,235,447,396	-	-	-	1,235,447,396	-	768,103,339	-	2,003,550,735
Total comprehensive income for the period		-	1,235,447,396	(569,814,630)	-	1,326,366,988	1,991,999,754	-	30,152,484,843	-	32,144,484,597
Balance at September 30, 2017	21	172,237,030,102	62,042,199,833	(2,027,835,399)	43,748,630	9,410,670,302	69,468,783,366	309,800,596,676	42,622,965,129	27,111,958,013	621,241,333,286

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017
(In colones)

	Nota	Share capital	Equity adjustments: Surplus from revaluation of property	Equity adjustments: Adjustment for valuation of available-for-sale investments and restricted financial instruments	Equity adjustments: Surplus from revaluation of other assets	Equity adjustments: Adjustment for valuation of investments in other companies	Total equity adjustments	Capital reserves	Retained earnings	Equity of the Development Financing Fund	Total
Balance at January 1, 2018		172,237,030,102	61,425,174,760	(2,304,989,655)	43,748,630	9,095,624,686	68,259,558,421	311,121,806,369	45,505,124,630	27,111,958,013	624,235,477,535
Transactions with owners booked directly in equity:											
Legal reserves		-	-	-	-	-	-	22,903,111,490	(22,903,111,490)	-	-
Other statutory reserves		-	-	-	-	-	-	(1,448,055,007)	1,448,055,007	-	-
Equity of the Development Financing Fund		-	-	-	-	-	-	-	(3,860,036,434)	3,860,036,434	-
Total transactions with owners booked directly in equity		-	-	-	-	-	-	21,455,056,483	(25,315,092,917)	3,860,036,434	-
Comprehensive income for the period:											
Income for the period		-	-	-	-	-	-	-	17,815,642,220	-	17,815,642,220
Adjustment for valuation of available-for-sale investments, net of income tax	5	-	-	(3,031,861,986)	-	-	(3,031,861,986)	-	-	-	(3,031,861,986)
Adjustment for valuation of restricted financial instruments, net of income tax	5	-	-	(20,351,357)	-	-	(20,351,357)	-	-	-	(20,351,357)
Adjustment for valuation of investments in other companies	1-e (iv)	-	-	-	-	(2,015,757,168)	(2,015,757,168)	-	-	-	(2,015,757,168)
Surplus from revaluation of property		-	9,418,068,948	-	-	-	9,418,068,948	-	-	-	9,418,068,948
Realization of surplus from revaluation of property		-	(603,433,790)	-	-	-	(603,433,790)	-	603,433,790	-	-
Total comprehensive income for the period		-	8,814,635,158	(3,052,213,343)	-	(2,015,757,168)	3,746,664,647	-	18,419,076,010	-	22,165,740,657
Balance at September 30, 2018	21	172,237,030,102	70,239,809,918	(5,357,202,998)	43,748,630	7,079,867,518	72,006,223,068	332,576,862,852	38,609,107,723	30,971,994,447	646,401,218,192

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017
(In colones)

	Nota	September 2018	September 2017
Cash flows from operating activities			
Income for the period		17,815,642,220	29,384,381,504
Items not requiring cash			
Loss on foreign exchange differences and development units, net		12,475,851,963	28,846,363,442
Loss on allowance for loan losses, net		56,285,573,144	17,793,773,749
(Gain) loss on allowance for impairment of investments, net		(73,474,196)	370,451
Loss on allowance for other receivables, net		872,973,059	1,088,652,141
(Gain) loss on allowance for impairment of foreclosed assets, net		(3,111,992,340)	2,434,226,151
Loss on sale of foreclosed assets		8,068,100,620	7,630,770,495
Provision expense, net of payments		(9,378,162,144)	349,938,457
Depreciation and amortization		17,126,652,766	14,817,615,911
Share in net profit of foreign associate		(2,332,803,648)	(1,933,904,845)
Statutory allocations, net		7,354,347,263	12,665,033,981
Income tax expense, net	16-a	1,951,387,562	7,525,249,319
Deferred tax (income) expense, net		(177,762,357)	148,458,581
Finance income on loan portfolio and investments		(378,201,852,157)	(332,694,944,227)
Finance costs on term obligations with the public and financial entities		154,896,176,075	130,284,748,531
		(116,429,342,170)	**(81,659,266,359)**
(Increase) decrease in assets			
Credits and cash advances		(7,439,293,753)	(321,541,548,255)
Foreclosed assets		15,978,484,993	13,156,046,394
Accrued interest receivable on other receivables		206,782	68,661
Other assets		3,969,842,723	(4,669,304,869)
		(103,920,101,425)	**(394,714,004,428)**
Net increase (decrease) in liabilities			
Demand and term obligations		(73,309,300,695)	643,699,528,484
Other accounts payable and provisions		45,189,468,170	(9,577,396,665)
Other liabilities		(35,531,845,424)	12,195,006,870
		(167,571,779,374)	**251,603,134,261**
Interest received on loan portfolio and investments		374,310,492,752	331,351,481,883
Income tax paid		(13,580,939,743)	(14,399,592,691)
Interest paid on term obligations with the public and financial entities		(136,022,507,805)	(105,525,308,989)
Net cash from operating activities		**57,135,265,830**	**463,029,714,464**
Cash flows from investing activities			
Increase in financial instruments		(8,346,590,628,527)	(16,140,255,808,639)
Decrease in financial instruments		8,427,754,605,069	16,109,562,445,570
Acquisition of property and equipment		(24,362,560,244)	(31,515,010,556)
Sale of property and equipment		1,367,917,110	22,445,344,925
Cash investments in other companies		(8,953,888)	(41,901,035)
Net cash from (used in) investing activities		**58,160,379,520**	**(39,804,929,735)**
Cash flows from financing activities			
Other new financial obligations		306,595,205,265	36,515,483,791
Settlement of obligations		(303,884,881,982)	(68,236,730,424)
Net cash from (used in) financing activities		**2,710,323,283**	**(31,721,246,633)**
Net increase in cash and cash equivalents		**118,005,968,633**	**391,503,538,096**
Cash and cash equivalents at beginning of year		**1,501,089,253,239**	**1,019,158,980,617**
Cash and cash equivalents at end of year	4	**1,619,095,221,872**	**1,410,662,518,713**

Gustavo Vargas Fernández
General Manager a.i.

Alejandra Morales Centeno
General Accountant
CPI No.21119

Ricardo Araya Jiménez
General Auditor

(1) Summary of operations and significant accounting policies

(a) Operations

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

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

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

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

As of September 30, 2018, the Bank has 167 offices, 468 automated teller machines and a total of 5,746 employees (2017: 176 offices, 473 automated teller machines and 5,841 employees). Employees are distributed as follows: Banco Nacional de Costa Rica - 5,333 employees (2017: 5,440); BN Valores Puesto de Bolsa, S.A. - 71 employees (2017: 70); BN Vital Operadora de Planes de Pensiones Complementarias, S.A. - 173 employees (2017: 164); BN Sociedad Administradora de Fondos de Inversión, S.A. - 79 employees (2017: 78); and BN Corredora de Seguros, S.A. - 90 employees (2017: 89). The Bank's website is www.bncr.fi.cr.

(Continued)

The following subsidiaries are wholly owned by the Bank:

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

		September 2018				
		Brokerage Firm	Pension Fund Manager	Investment Fund Manager	Insurance Brokerage Firm	BICSA
Assets	¢	67,682,649,042	9,847,965,050	8,146,194,726	5,131,797,565	544,833,244,466
Liabilities		52,830,421,947	2,229,788,613	975,829,050	1,046,459,897	481,881,879,885
Equity		14,852,227,095	7,618,176,437	7,170,365,676	4,085,337,668	62,951,364,581
Income for the period		923,276,848	829,604,681	1,529,295,936	1,660,681,699	2,332,803,648
Memoranda accounts		1,072,608,092,778	1,409,563,154,728	441,355,031,339	-	-

		December 2017				
		Brokerage Firm	Pension Fund Manager	Investment Fund Manager	Insurance Brokerage Firm	BICSA
Assets	¢	56,683,024,910	9,191,299,287	7,431,925,822	3,869,500,100	499,021,964,567
Liabilities		41,150,960,632	1,843,306,812	815,002,349	1,164,963,271	437,289,889,400
Equity		15,532,064,278	7,347,992,475	6,616,923,473	2,704,536,829	61,732,075,167
Income for the year		1,776,740,964	726,185,040	1,741,738,330	2,260,896,827	2,615,822,520
Memoranda accounts		947,725,437,545	1,293,980,298,067	426,243,485,231	-	-

		September 2017				
		Brokerage Firm	Pension Fund Manager	Investment Fund Manager	Insurance Brokerage Firm	BICSA
Assets	¢	59,916,569,277	8,672,497,033	6,957,769,270	2,899,634,802	482,674,123,198
Liabilities		44,610,716,768	1,540,062,978	909,269,298	1,102,571,149	421,402,936,853
Equity		15,305,852,509	7,132,434,055	6,048,499,972	1,797,063,653	61,271,186,345
Income for the period		1,454,584,016	507,630,192	1,178,239,606	1,353,423,653	1,933,904,845
Memoranda accounts		936,857,724,682	1,260,434,157,890	412,390,017,410	-	-

(Continued)

(b) Basis of preparation of the consolidated financial statements

- Statement of compliance

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

- Basis of measurement applied to assets and liabilities

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

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

The accounting policies have been consistently applied.

(c) Functional and presentation currency

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

(d) Basis of consolidation

i. Subsidiaries

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

As of September 30, 2018 and 2017, the consolidated financial statements include the financial figures of the following subsidiaries:

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

Subsidiaries were consolidated based on the following accounting principles:

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

ii. Associates

Associates are those entities in which the Bank has significant influence, but not control. The Bank updates the value of its associates using the equity method from the date that significant influence commences until the date significant influence ceases. As of September 30, 2018 and 2017, the Bank holds 49% ownership interest in BICSA.

(e) Foreign currency

i. Foreign currency transactions

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

(Continued)

ii. Monetary unit and foreign exchange regulations

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

In accordance with the Chart of Accounts, assets and liabilities denominated in foreign currency should be expressed in colones using the reference buy rate published by BCCR. As of September 30, 2018, the exchange rate was ¢579.12 and ¢585.80 to US$1.00 (2017: (¢568.33 and ¢574.13 to US$1.00) for the purchase and sale of US dollars, respectively.

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

As of September 30, 2018, assets and liabilities denominated in US dollars were valued at the exchange rate of ¢579.12 to US$1.00 (2017: ¢568.33 to US$1.00), which is the reference buy rate published by BCCR for that date.

As of September 30, 2018, assets and liabilities denominated in euro were valued at the exchange rate of ¢671.37 to €1.00 (2017: ¢670.86 to €1.00). This exchange rate is calculated by multiplying the international exchange rate published by Reuters by the reference buy rate for US dollars published by BCCR on the last business day of the month.

As of September 30, 2018, assets and liabilities denominated in Development Units (DU) were valued at the exchange rate of ¢892.26 to DU1.00 (2017: ¢873.18 to DU1.00). This exchange rate is based on the DU value tables published by SUGEVAL.

iv. Financial statements of foreign operations (BICSA)

The financial statements of BICSA are presented in US dollars, which is the entity's functional currency. As of September 30, 2018 and 2017, the Bank holds 49% ownership interest in BICSA. Accordingly, the Bank should value its investment in that entity using the equity method rather than on a consolidated basis.

(Continued)

The translation of the financial statements of foreign operations was performed as follows:

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

For the nine months ended September 30, 2018, a foreign exchange loss in the amount of ¢2,015,757,168 arising from the translation of the financial statements of foreign operations is presented in equity (December and September 2017: foreign exchange gain of ¢1,011,321,372 and ¢1,326,366,988, respectively). As of September 30, 2018, the adjustment for valuation of investments in other companies amounted to ¢7,079,867,518 (December and September 2017: ¢9,095,624,686 and ¢9,410,670,302, respectively).

(f) Financial assets and financial liabilities

i. Recognition

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

ii. Classification

Cash and cash equivalents

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

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

Investments in financial instruments

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

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

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

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

As of September 30, 2018, the Bank no longer classifies financial instruments as held-to-maturity, except for the securities denominated in DU received from the Central Government to capitalize the Bank. Those securities were authorized by the Executive Branch of the Government of Costa Rica as a capital contribution and are funded under the *Amendment to Law No. 8627 on the Ordinary and Extraordinary Budget of the Republic for Tax Year 2008* (Law No. 8703).

Securities sold under repurchase agreements

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

Securities purchased under reverse repurchase agreements

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

(Continued)

Derivative financial instruments

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

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

Originated loans and other receivables

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

Deposits and debt securities issued

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

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

iii. *Derecognition*

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

iv. *Offsetting*

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

(Continued)

v. Amortized cost measurement

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

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

vi. Fair value measurement

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

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

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

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

<u>Investments in financial instruments</u>

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

(Continued)

Subsequent to initial recognition, all trading and available-for-sale investments are measured at fair value, except for any investment or instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured, which is stated at cost, including transaction costs, less impairment losses. As of September 30, 2018 and 2017, the market price valuation methodology established by VALMER Costa Rica, S.A. is used. This methodology has been duly approved by SUGEVAL.

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

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

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

Derivative financial instruments

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

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

(Continued)

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

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

vii. *Gains and losses on subsequent measurement*

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

viii. *Impairment of financial assets*

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

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

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

(Continued)

(g) Loan portfolio

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

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

(h) Allowance for loan losses

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

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

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

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

As of September 30, 2018 and 2017, increases in the allowance for loan losses are included in the accounting records in accordance with Article 10 of IRNBS.

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

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

(j) Other receivables

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

(k) Foreclosed assets

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

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

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

(Continued)

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

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

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

(l) Investments in other companies

Investments in the share capital of entities over which the Bank exercises control or significant influence are accounted for using the equity method. The Bank's investments in other companies are as follows:

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

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

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

As of September 30, 2018 and 2017, the Bank has no full or partial share or influence over the management of other companies, in accordance with Article 73 of IRNBS and Article 146 of the *Internal Regulations of the Central Bank of Costa Rica*.

(m) Property, furniture and equipment

i. Own assets

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

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

ii. Leased assets

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

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

iii. Subsequent expenditure

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

iv. Depreciation and amortization

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

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

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

(Continued)

(n) Intangible assets

i. Other intangible assets

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

ii. Subsequent expenditure

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

iii. Amortization

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

(o) Impairment of non-financial assets

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

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

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

(p) Accounts payable and other liabilities

Accounts payable and other liabilities are carried at cost.

(q) Provisions

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

(r) Employee benefits

i. Severance benefits

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

In the specific case of the Bank, that limit is 17 years for employees with more than 25 years of service. The Bank follows the policy of booking a provision to cover future disbursements related thereto for employees with more than 20 years of service, in compliance with Article 34 of the *Collective Bargaining Agreement*. As of September 30, 2018 and 2017, severance is included in the provisions account (see note 17), which meets the legal provisioning requirements in effect as of those dates.

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

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

(Continued)

ii. Short-term employee benefits

Statutory Christmas bonus

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

Vacation

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

Back-to-school bonus

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

Incentives and Performance Assessment System (SEDI)

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

- The Bank reports profits in its audited financial statements for the corresponding period.

- The employee eligible for the SEDI incentive has worked for at least six months for the Bank during the period and has obtained the required minimum score in the assessed areas.

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

(Continued)

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

iii. Employee Protection and Retirement Fund

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

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

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

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

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

(Continued)

(s) Deferred income

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

(t) Legal reserve

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

Other statutory reserves

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

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

(u) Revaluation surplus

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

(Continued)

(v) Income tax

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

i. Current tax

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

ii. Deferred tax

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

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

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

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

(w) Segment reporting

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

(x) Combination of financial statements of departments

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

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

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

(y) Use of estimates

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

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

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

(z) Recognition of income and costs

i. Finance income and finance costs

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

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

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

ii. Fee and commission income

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

iii. Income from foreign currency exchange and arbitrage

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

iv. Operating lease expenses

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

(Continued)

(aa) Statutory allocations

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

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

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

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

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

(Continued)

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

(bb) Development Financing Fund (FOFIDE)

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

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

(cc) Development Credit Fund (FCD)

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

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

(Continued)

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

a. Pursuant to Article 6 of Law No. 8634, the Managing Banks may offer first-tier banking services to the beneficiaries of the Development Banking System.

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

c. Pursuant to Article 35 of Law No. 8634, the Managing Banks may channel FCD funds through placements to: associations, cooperatives, foundations, non-governmental organizations, producer organizations, or other formal entities, provided that they perform loan operations through development financing programs that meet the objectives established in Law No. 8634 and are duly authorized by the Governing Board.

d. The term of the agreement is five years, renewable for equal and successive periods, unless a written order by the Governing Board provides otherwise and is notified at least three months in advance. If a lack of capacity and competence is proven by the Managing Banks, this agreement may be terminated under paragraph j), Article 12 of Law No. 8634 and the executive regulations thereto.

(dd) Trust operations

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

(Continued)

(2) Collateralized or restricted assets

Collateralized or restricted assets are as follows:

Restricted asset	Cause of restriction		September 2018 Carrying amount	December 2017 Carrying amount	September 2017 Carrying amount
Cash and due from banks:					
Checking account – colones (note 4)	Minimum legal deposit	¢	510,700,244,174	506,614,839,613	492,839,789,736
Checking account – US dollars (note 4)	Minimum legal deposit		267,240,441,965	277,771,308,370	278,373,232,901
Checking account – euro (note 4)	Minimum legal deposit		3,891,392,968	4,005,701,580	4,202,022,444
Other cash and due from banks (note 4)	Custody of liabilities of Banco Crédito Agrícola de Cartago		1,186,422,202	8,900,457,858	-
Other cash and due from banks (note 4)	Margin calls for tri-party repurchase agreements		180,353,853	112,717,628	-
Other cash and due from banks (note 4)	Contribution to FOGABONA		238,765,961	187,856,613	208,702,227
		¢	783,437,621,123	797,592,881,662	775,623,747,308
Investments in financial instruments:					
Investments in financial instruments	Guarantee for tri-party repurchase agreements		30,196,376,278	25,698,653,608	27,641,661,408
Investments in financial instruments	Liquidity market operations		27,053,419,231	22,382,659,573	23,398,822,842
Securities issued by BCCR and the Government	Investments securing repurchase agreements		610,384,000	203,162,716	203,640,000
External debt bonds	Nomura Bank guarantee		67,032,138,156	82,461,472,891	81,850,935,536
External debt bonds	JP-SWAPS guarantee		6,323,425,631	-	1,697,597,379
External debt bonds	Bank of America guarantee		-	-	3,395,483,138
External debt bonds	Merrill Lynch guarantee (SWAPS)		8,054,193,936	-	-
Central Bank bonds (global bond)	Interbank Electronic Payment System (SINPE) guarantee		33,578,082,124	-	44,517,354,218
		¢	172,848,019,356	130,745,948,788	182,705,494,521
Other assets:					
Other assets (note 12)	Security deposits	¢	598,822,545	573,576,820	646,888,306

As of September 30, 2018, the Brokerage Firm has restricted assets in the amount of ¢57,668,915,323 (December and September 2017: ¢48,381,887,422 and ¢51,249,186,477, respectively), corresponding to guarantees for tri-party repurchase agreements, operations in the liquidity market and contributions to the liquidation and compensation risk management fund.

(3) Balances and transactions with related parties

		September 2018	December 2017	September 2017
Assets:				
Checking accounts in foreign financial entities *(1)* (note 4)	¢	5,559,646,119	17,091,195,563	21,649,317,107
Allowance for impairment for transactions with related parties *(2)*		(42,052,677)	(18,809,848)	(20,764,514)
Investments in other companies *(3)* (note 10)		63,001,987,881	61,782,698,467	61,321,809,645
	¢	68,519,581,323	78,855,084,182	82,950,362,238
Liabilities:				
Demand obligations with entities *(4)*		101,840,518	15,795,754	19,734,900
	¢	101,840,518	15,795,754	19,734,900
Income:				
Finance		7,797,292	-	-
Gain on investments in foreign companies		2,332,803,648	2,615,822,520	1,933,904,845
Gain on investments in entities supervised by SUGEVAL		-	-	7,563,715
	¢	2,340,600,940	2,615,822,520	1,941,468,560

Balances and transactions with related parties are as follows:

1) Foreign checking accounts with BICSA
2) Accounts receivable associated with transactions with employees and related allowance for impairment in accordance with SUGEF Directive 1-05
3) Investments in the share capital of entities over which the Bank exercises control or significant influence (see note 1.l).
4) Subsidiaries’ checking accounts with the Bank.

For the nine months ended September 30, compensation to key personnel is as follows:

		September 2018	December 2017	September 2017
Short-term benefits	¢	1,465,995,322	1,977,961,998	1,487,685,207
Long-term benefits		190,579,392	257,135,059	193,399,078
Per diem – Board of directors		116,489,246	141,469,264	112,620,973
	¢	1,773,063,960	2,376,566,321	1,793,705,258

(4) Cash and cash equivalents

As of September 30, for reconciliation purposes of the consolidated statement of cash flows, cash and cash equivalents are as follows:

		September 2018	December 2017	September 2017
Cash and due from banks	¢	1,240,394,555,501	1,282,770,297,704	1,302,567,320,124
Investments with maturities of two months or less		378,700,666,371	218,318,955,535	108,095,198,589
	¢	1,619,095,221,872	1,501,089,253,239	1,410,662,518,713

Cash and due from banks is as follows:

		September 2018	December 2017	September 2017
Cash on hand and in vaults	¢	79,046,006,882	49,786,135,980	54,976,827,557
Cash in transit		16,178,145,308	17,953,025,570	17,008,706,266
Checking account in BCCR *(1)*		86,558,617,342	79,815,528,179	64,046,594,398
Minimum legal deposit in BCCR *(1)*		787,473,157,881	777,920,470,982	768,951,264,635
Checking accounts and demand deposits in State-owned commercial banks and banks created under special laws		152,734,860	71,384,980	363,737,723
Checking accounts and other demand accounts in private financial entities		6,428,544,556	15,710,632,738	5,505,673,855
Overnight deposits in local financial entities		600,000,000	940,000,000	700,000,000
Checking accounts in foreign financial entities		236,112,223,651	299,621,722,806	353,606,129,282
Deposits and other demand accounts in foreign financial entities		35,947,497	25,876,591	114,756,616
Checking accounts and demand deposits in related entities (note 3)		5,559,646,119	17,091,195,563	21,649,317,107
Overnight deposits in foreign financial entities		5,796,783,157	4,686,354,489	3,576,873,975
Transfers through the Interbank Electronic Payment System (SINPE)		12,083,071,189	4,178,591,648	9,063,183,399
Local notes receivable		2,310,944,501	4,357,069,947	2,412,500,980
Foreign notes receivable		453,190,541	1,410,554,037	383,052,104
Margin calls for tri-party repurchase agreements		180,353,853	112,717,628	208,702,227
Fondo de Garantía de la Bolsa Nacional de Valores (FOGABONA)		238,765,962	187,856,613	-
Other restricted cash and due from banks *(2)*		1,186,422,202	8,900,457,858	-
Accrued interest receivable		-	722,095	-
	¢	1,240,394,555,501	1,282,770,297,704	1,302,567,320,124

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

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

As of September 30, 2018 and 2017, the percentage for the minimum legal deposit is 15%. The corresponding amount must be deposited in cash in BCCR pursuant to current banking legislation. Such a deposit is calculated as a percentage of third-party deposits, which varies based on the term and form of deposit-taking used by the Bank.

(5) Investments in financial instruments

Investments in financial instruments are as follows:

		September 2018	December 2017	September 2017
Available for sale:				
Local issuers:				
Government of Costa Rica	¢	525,032,396,731	585,738,378,031	612,115,521,987
BCCR		126,277,487,581	99,282,603,047	78,735,127,262
State-owned banks		39,776,039,924	44,620,801,705	57,492,663,458
Private banks		-	-	234,547,819
Private issuers		25,850,306,489	7,859,915,398	7,988,613,368
		716,936,230,725	737,501,698,181	756,566,473,894
Foreign issuers:				
Governments		116,041,580,274	74,980,395,191	38,039,249,298
Private issuers		243,450,522,333	88,709,226,103	71,335,520,331
Private banks		81,897,285,446	159,852,628,432	116,399,103,162
		441,389,388,053	323,542,249,726	225,773,872,791
		1,158,325,618,778	1,061,043,947,907	982,340,346,685
Held to maturity:				
Government of Costa Rica		18,811,098,378	18,562,535,348	27,613,265,554
		18,811,098,378	18,562,535,348	27,613,265,554
Derivative financial instruments:				
Interest rate futures - Hedges (note 6)		4,433,887	6,179,274,814	10,234,656,622
Purchase of FX futures – Other than hedges (note 6)		19,512,651	22,730,053	21,653,945
Sale of FX futures – Other than hedges (note 6)		229,264	119,898,739	91,367,955
		24,175,802	6,321,903,607	10,347,678,522
Allowance for impairment:				
Allowance for impairment of investments		-	(58,720,473)	(61,618,339)
Allowance for impairment of derivative instruments		-	(14,753,724)	(370,452)
		-	(73,474,196)	(61,988,790)
Accrued interest receivable on investments		7,370,621,931	11,477,429,720	7,541,028,173
	¢	1,184,531,514,889	1,097,332,342,386	1,027,780,330,144

(Continued)

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

		September 2018	December 2017	September 2017
Opening balance	¢	73,474,196	59,433,676	59,433,676
Allowance expense (note 34)		16,534,564	29,794,522	14,102,866
Decrease in allowance (note 35)		(90,008,760)	(17,716,855)	(13,732,415)
Foreign exchange differences		-	1,962,854	2,184,663
Closing balance	¢	-	73,474,197	61,988,790

As of September 30, 2018, there is no allowance for impairment of investments in non-derivative financial instruments (December and September 2017: an allowance was booked in the amount of ¢58,720,473 and ¢61,618,339, respectively, for investments in Z Bonds related to the Mortgage Securitization Trust (impairment of 26% for both periods).

As of September 30, 2018, the Bank did not recognize an allowance for impairment of derivative instruments other than hedges, for sales of FX futures other than hedges, in accordance with SUGEF Directive 09-08 (December and September 2017: an allowance was booked for ¢14,753,724 and ¢370,452, respectively).

Annual returns on investments in financial instruments are as follows:

Currency	September 2018	December 2017	September 2017
Colones	4.88% to 9.87%	4.00% to 11.13%	4.23% to 11.13%
US dollars	0.75% to 6.85%	0.50% to 6.85%	0.63% to 6.85%
Euro	1.63% to 2.00%	1.10% to 2.00%	1.10% to 4.25%
DU	0.00%	0.00% to 0.74%	0.00% to 0.74%

As of September 30, 2018, the valuation of available-for-sale investments and restricted financial instruments gives rise to an unrealized loss, net of deferred tax, in the amount of ¢3,052,213,343 (December and September 2017: unrealized loss of ¢846,968,886 and ¢569,814,630, respectively). Accordingly, as of September 30, 2018, the cumulative balance of equity adjustments arising from valuation of these investments is an unrealized loss of ¢5,357,202,998 (December and September 2017: unrealized loss of ¢2,304,989,655 and ¢2,027,835,399, respectively).

(Continued)

(6) Derivative financial instruments

The Bank holds the following types of derivative financial instruments:

✓ *Derivatives as risk hedging instruments:*

Interest rate futures - hedges:

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

Derivative financial instruments are as follows:

		September 30, 2018			
Issuing bank		Notional amount		Valuation	Purpose
CitiBank	US$	100,000,000	US$	(1,859,869)	Swaps to hedge 10-year term obligations in issue (maturing in 2023)
JP Morgan		200,000,000		(3,719,738)	
Bank of America		200,000,000		(3,719,738)	
	US$	500,000,000	US$	(9,299,345)	
Amount in colones	¢	289,560,000,000	¢	(5,385,436,868)	
Bank of America		250,000,000		(11,529,029)	Swaps to hedge 5-year term obligations in issue (maturing in 2021)
JP Morgan		250,000,000		(11,529,029)	
	US$	500,000,000	US$	(23,058,058)	
Amount in colones	¢	289,560,000,000	¢	(13,353,382,039)	
Chicago Board of Trade	US$	5,800,000	US$	(672)	Standardized futures contracts (maturing in 2018)
Amount in colones	¢	3,358,896,000	¢	(389,094)	

	December 31, 2017				
Issuing bank		Notional amount		Valuation	Purpose
Citibank	US$	100,000,000	US$	2,175,372	Swaps to hedge 10-year term obligations in issue (maturing in 2023)
JP Morgan		200,000,000		4,349,026	
Bank of America		200,000,000		4,350,745	
	US$	500,000,000	US$	10,875,143	
Amount in colones	¢	283,210,000,000	¢	6,159,898,718	
Bank of America		250,000,000		(6,845,495)	Swaps to hedge 5-year term obligations in issue (maturing in 2021)
JP Morgan		250,000,000		(6,845,495)	
	US$	500,000,000	US$	(13,690,990)	
Amount in colones	¢	283,210,000,000	¢	(7,754,850,556)	
Chicago Board of Trade	US$	18,000,000	US$	(2,871)	Standardized futures contracts (maturing in 2018)
Amount in colones	¢	10,195,560,000	¢	(1,626,191)	

	September 30, 2017				
Issuing bank		Notional amount		Valuation	Purpose
CitiBank	US$	100,000,000	US$	3,576,874	Swaps to hedge 10-year term obligations in issue (maturing in 2023)
JP Morgan		200,000,000		7,180,933	
Bank of America		200,000,000		7,153,749	
	US$	500,000,000	US$	17,911,556	
Amount in colones	¢	284,165,000,000	¢	10,179,675,241	
Bank of America		250,000,000		(5,129,509)	Swaps to hedge 5-year term obligations in issue (maturing in 2021)
JP Morgan		250,000,000		(5,129,238)	
	US$	500,000,000	US$	(10,258,747)	
Amount in colones	¢	284,165,000,000	¢	(5,830,353,683)	
Chicago Board of Trade	US$	18,700,000	US$	90	Standardized futures contracts (maturing in 2017)
Amount in colones	¢	10,627,771,000	¢	51,150	

As of September 30, 2018, total notional amounts of US$1,005,800,000, equivalent to ¢582,478,896,000 (December and September 2017: US$1,018,000,000, equivalent to ¢576,615,560,000 and US$1,018,700,000, equivalent to ¢578,957,771,000, respectively) are booked under "Other debit memoranda accounts" (see note 24).

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

As of September 30, 2018, the Bank booked an increase in the fair value of these hedges in the amount of US$7,656 equivalent to ¢4,433,887 and a decrease in the fair value of these hedges in the amount of US$32,365,731 equivalent to ¢18,743,641,888 (see note 5).

As of December 31, 2017, the Bank booked an increase in the fair value of these hedges in the amount of US$10,909,351, equivalent to ¢6,179,274,814 (see note 5) and a decrease in the fair value of these hedges in the amount of US$13,728,069, equivalent to ¢7,775,852,843 (see note 5).

As of September 30, 2017, the Bank booked an increase in the fair value of these hedges in the amount of US$18,008,298, equivalent to ¢10,234,656,622 (see note 5) and a decrease in the fair value of these hedges in the amount of US$10,355,399, equivalent to ¢5,885,283,914 (see note 5).

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

As of September 30, the effectiveness of the valuation of derivative financial instruments is as follows:

	Effective rate		
	September 2018	December 2017	September 2017
10-year issue (maturing in 2023)	114.70%	105.40%	96.50%
5-year issue (maturing in 2021)	90.40%	84.60%	95.65%

(Continued)

A valuation was performed as of September 30, 2018 and 2017, to calculate the change in the fair value of the primary and derivative instruments based on the following inputs:

- a 5- or 10-year LIBOR rate at the issue of the bond
- discount rates from Bloomberg
- zero rates corresponding to the swap curve as of September 30, 2018 and 2017
- only a portion of the bond cash flows is hedged (corresponding to the 5- and 10-year LIBOR rate in effect at the issue of the bond) rather than the total interest amount
- accrued and earned interest were segregated from the instruments to obtain variations in clean prices
- forward rate to calculate variable interest.

As of September 30, 2018, standardized futures contracts are negotiated as part of the financial derivatives portfolio. The Bank booked a notional amount for the sale and purchase of these futures contracts in the amount of US$5,800,000, equivalent to ¢3,358,896,000 (December and September 2017: US$18,000,000 and US$18,700,000, equivalent to ¢10,195,560,000 and ¢10,627,771,000, respectively).

As of September 30, 2018, the Bank booked an increase in fair value due to the negotiation of these futures contracts in the amount of US$7,656, equivalent to ¢4,433,887 and a decrease in the fair value of these hedges in the amount of US$8,328, equivalent to ¢4,822,981, which is booked in "Other sundry accounts payable" (see note 18), establishing the net position of these instruments in the amount of US$672, equivalent to ¢389,094.

As of December 31, 2017, the Bank booked an increase in fair value due to the negotiation of these futures contracts in the amount of US$34,208, equivalent to ¢19,376,096 and a decrease in the fair value of these hedges in the amount of US$37,079, equivalent to ¢21,002,287, which is booked in "Other sundry accounts payable" (see note 18), establishing the net position of these instruments in the amount of US$2,871, equivalent to ¢1,626,191.

As of September 30, 2017, the Bank booked an increase in fair value due to the negotiation of these futures contracts in the amount of US$96,742, equivalent to ¢54,981,381 and a decrease in the fair value of these hedges in the amount of US$96,652, equivalent to ¢54,930,231, which is booked in "Other sundry accounts payable" (see note 18), establishing the net position of these instruments in the amount of US$90, equivalent to ¢51,150.

✓ *Derivatives for trading purposes:*

Currency forwards:

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

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

As of September 30, 2018, the total notional amount is US$13,837,425, equivalent to ¢8,013,529,653 (December and September 2017: US$27,906,944 and US$24,447,639, equivalent to ¢15,807,051,435 and ¢13,894,327,155, respectively) (see note 22).

As of September 30, 2018, the Bank booked an increase in the fair value of these forwards in the amount of ¢19,741,915 under an asset account and a decrease in the amount of ¢27,408,206 in the liability account (December and September 2017: increase in the amount of ¢142,628,793 and ¢113,021,900, respectively and decrease in the amount of ¢46,913,807 and ¢46,919,337, respectively) (see note 18).

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

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

		September 2018	December 2017	September 2017
Gain on derivative financial instruments	¢	9,419,964,670	24,217,078,104	22,596,673,595
Loss on derivative financial instruments		(24,114,598,336)	(18,859,030,471)	(13,516,857,574)
Net gain (loss)	¢	(14,694,633,666)	5,358,047,633	9,079,816,021

(7) Loan portfolio

(a) Loan portfolio by sector

The loan portfolio by sector is as follows:

		September 2018	December 2017	September 2017
Trade	¢	392,592,858,914	410,062,171,620	426,337,025,677
Services		923,697,224,869	925,588,456,250	915,237,800,834
Financial services		132,057,391,788	136,448,769,907	139,609,549,719
Mining		851,905,187	911,515,744	963,282,346
Manufacturing and quarrying		174,136,253,599	179,083,732,196	174,012,563,089
Construction		121,903,048,268	106,205,953,983	105,462,464,290
Agriculture and forestry		121,734,459,611	125,660,078,600	124,155,566,253
Livestock, hunting and fishing		82,798,477,882	83,621,737,863	84,073,338,152
Electricity, water, sanitation and other related sectors		455,142,986,522	438,885,802,997	433,215,475,449
Transportation and telecommunications		45,775,171,419	46,069,196,429	46,174,715,680
Housing		1,293,956,145,451	1,304,758,486,194	1,307,360,020,071
Personal or consumer loans		570,617,938,407	554,958,089,721	537,637,839,130
Tourism		182,103,221,646	180,852,228,622	175,690,476,415
		4,497,367,083,563	4,493,106,220,126	4,469,930,117,105
Accrued interest receivable		39,741,652,898	31,743,485,704	31,963,107,077
Allowance for loan losses		(183,178,548,758)	(140,168,393,361)	(102,288,678,110)
	¢	4,353,930,187,703	4,384,681,312,469	4,399,604,546,072

(Continued)

Annual interest rates on loans receivable are as follows:

	September 2018		December 2017		September 2017	
Currency	Rates	Average *(1)*	Rates	Average *(1)*	Rates	Average *(1)*
Colones	4.00% to 47.28%	14.97%	4.40% to 40.56%	14.96%	4.35% to 40.56%	14.93%
US dollars	3.00% to 38.40%	10.18%	3.00% to 34.92%	9.44%	3.00% to 34.92%	9.23%
DU	3.85% to 11.00%	6.52%	3.85% to 11.00%	6.57%	3.85% to 11.00%	6.57%

(1) Corresponds to the average of the minimum and maximum values of the portfolio as of September 30, 2018 and 2017.

(b) Loan portfolio by arrears

The loan portfolio by arrears is as follows:

	September 2018	December 2017	September 2017
Current	¢ 4,102,963,253,222	4,261,582,917,145	4,209,654,964,392
1 to 30 days	136,168,690,556	56,313,279,440	112,802,022,665
31 to 60 days	27,069,749,326	44,153,684,890	24,806,948,227
61 to 90 days	30,773,469,031	23,102,210,055	22,937,426,535
91 to 120 days	14,769,448,965	15,367,490,160	10,308,750,127
121 to 180 days	16,096,603,617	10,774,616,091	9,850,158,545
More than 180 days	169,525,868,846	81,812,022,345	79,569,846,614
	4,497,367,083,563	4,493,106,220,126	4,469,930,117,105
Accrued interest receivable	39,741,652,898	31,743,485,704	31,963,107,077
Allowance for loan losses	(183,178,548,758)	(140,168,393,361)	(102,288,678,110)
	¢ 4,353,930,187,703	4,384,681,312,469	4,399,604,546,072

(Continued)

(c) Allowance for loan losses

Movement in the allowance for loan losses is as follows:

		September 2018	December 2017	September 2017
Opening balance	¢	140,168,393,361	85,464,859,320	85,464,859,320
Expense for the period (note 34)		61,317,494,734	69,399,079,403	28,409,143,910
Write-offs		(20,595,347,879)	(14,982,163,099)	(11,975,795,398)
Decrease in allowance charged to profit or loss		-	(720,000,000)	(720,000,000)
Foreign exchange differences		2,288,008,542	1,006,617,737	1,110,470,278
Closing balance	¢	183,178,548,758	140,168,393,361	102,288,678,110

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

(8) Accounts and fees and commissions receivable

Accounts and fees and commissions receivable are as follows:

		September 2018	December 2017	September 2017
Fees and commissions	¢	1,266,344,388	1,261,195,967	1,183,138,101
Accounts receivable for brokerage operations		64,290,113	-	58,572,629
Accounts receivable for transactions with related parties (officers and employees)		58,160,746	26,675,994	37,076,658
Deferred tax (note 16-b)		2,006,085,968	1,268,629,877	1,426,492,780
Income tax receivable *(1)*		181,212,693	240,205,993	171,269,178
Other sundry accounts receivable		4,156,364,033	3,879,229,636	3,982,986,573
Accrued interest receivable on other sundry accounts receivable		1,517,374	1,724,156	1,732,262
Allowance for impairment of accounts receivable		(4,122,120,299)	(3,592,576,911)	(3,683,844,999)
	¢	3,611,855,016	3,085,084,712	3,177,423,182

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

		September 2018	December 2017	September 2017
Banco Nacional de Costa Rica	¢	101,895,459	134,516,249	97,690,188
BN Vital Operadora de Planes de Pensiones Complementarias, S.A.		45,253	-	-
BN Corredora de Seguros, S.A.		79,271,981	105,689,744	73,578,990
	¢	181,212,693	240,205,993	171,269,178

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

		September 2018	December 2017	September 2017
Opening balance	¢	3,592,576,911	3,451,027,735	3,451,027,735
Allowance expense (note 34)		1,792,982,861	2,026,114,296	1,779,690,994
Decrease in allowance (note 35)		(920,009,803)	(767,042,270)	(690,778,253)
Items settled against allowance		(345,879,667)	(1,120,015,549)	(858,462,498)
Foreign exchange differences		2,449,997	2,492,699	2,367,021
Closing balance	¢	4,122,120,299	3,592,576,911	3,683,844,999

(9) Foreclosed assets

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

		September 2018	December 2017	September 2017
Assets received in lieu of payment	¢	76,770,699,608	81,249,127,569	77,680,930,512
Idle property, furniture and equipment		1,840,190	1,832,418	1,471,878
Allowance for impairment		(58,503,405,303)	(62,466,054,133)	(62,084,364,123)
	¢	18,269,134,495	18,784,905,854	15,598,038,267

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

		September 2018	December 2017	September 2017
Opening balance	¢	62,466,054,133	59,644,951,072	59,644,951,072
Allowance expense (note 38)		2,978,602,552	6,059,997,296	5,008,013,572
Sale or disposal of foreclosed assets		(850,656,490)	-	-
Decrease in allowance		(6,090,594,892)	(3,238,894,235)	(2,568,600,521)
Closing balance	¢	58,503,405,303	62,466,054,133	62,084,364,123

(10) Investments in other companies

Investments in other companies are as follows:

		September 2018	December 2017	September 2017
Other financial and non-financial entities	¢	50,623,300	50,623,300	50,623,300
Banco Internacional de Costa Rica, S.A. and Subsidiary (BICSA) (note 3)		62,951,364,581	61,732,075,167	61,271,186,345
	¢	63,001,987,881	61,782,698,467	61,321,809,645

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

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

		September 2018	December 2017	September 2017	Concept
National Stock Exchange	¢	15,000,000	15,000,000	15,000,000	Investment to operate as custodian of electronic securities
Central de Valores de la Bolsa Nacional de Valores, S.A.		15,000,000	15,000,000	15,000,000	Investment to operate as custodian of electronic securities
Interclear Central de Valores		15,000,000	15,000,000	15,000,000	Investment to operate as custodian of electronic securities
Depósito Libre Comercial Golfito (Golfito Duty Free Shopping Center) as per Art. 24 of Law No. 7131		5,200,000	5,200,000	5,200,000	Investment in the Golfito Duty Free Shopping Center
Other financial entities		423,300	423,300	423,300	Investments in various cooperatives
	¢	50,623,300	50,623,300	50,623,300	

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Notes to the Consolidated Financial Statements

(11) Property and equipment

Property and equipment is as follows:

		September 2018					
		Land	Buildings	Furniture and equipment	Computer hardware	Vehicles	Total
Cost:							
Historical cost balance at beginning of period	¢	4,421,981,504	65,365,769,140	62,756,449,219	52,272,157,864	264,401,853	185,080,759,580
Revalued cost balance at beginning of period		43,400,145,058	61,920,804,416	(8,658,186)	(33,536,634)	-	105,278,754,654
Additions		-	4,910,536,054	5,177,623,960	1,478,117,521	2,200,000	11,568,477,535
Revaluation of assets		7,203,993,630	10,430,699,741	-	-	-	17,634,693,371
Disposals		-	(39,919,165)	(2,943,416,440)	(3,303,396,752)	(1,650,000)	(6,288,382,357)
Sales		(280,902,097)	(273,406,217)	(467,191)	-	-	(554,775,505)
Adjustments		(310,948,851)	186,211,303	27,170	(17,849,673)	-	(142,560,051)
Reclassifications		-	-	105,263	(105,263)	-	-
Balance at end of period		54,434,269,244	142,500,695,272	64,981,663,795	50,395,387,063	264,951,853	312,576,967,227
Accumulated depreciation:							
Balance at beginning of period		-	38,921,431,767	35,786,150,473	35,403,025,098	203,397,643	110,314,004,981
Depreciation expense on historical cost		-	1,050,743,864	4,633,896,647	4,811,374,700	13,512,197	10,509,527,408
Depreciation expense on revaluation		-	1,106,682,888	-	-	-	1,106,682,888
Disposals		-	(20,459,937)	(2,083,018,486)	(3,290,346,260)	(1,113,749)	(5,394,938,432)
Sales		-	(80,040,686)	(261,634)	-	-	(80,302,320)
Adjustments		-	6,454,403,918	(3,375,743)	(18,525,614)	-	6,432,502,561
Balance at end of period		-	47,432,761,814	38,333,391,257	36,905,527,924	215,796,091	122,887,477,086
Net balance at end of period	¢	54,434,269,244	95,067,933,458	26,648,272,538	13,489,859,139	49,155,762	189,689,490,141

(Continued)

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Notes to the Consolidated Financial Statements

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		September 2017					
		Land	Buildings	Furniture and equipment	Computer hardware	Vehicles	Total
Cost:							
Balance at beginning of period	¢	46,478,629,745	121,009,095,827	61,083,203,506	59,600,997,629	437,323,476	288,609,250,183
Additions		-	1,857,540,857	4,083,946,661	3,096,168,827	-	9,037,656,345
Revaluation of assets		1,011,670,990	3,851,382,934	-	-	-	4,863,053,924
Disposals		-	-	(4,040,240,512)	(15,357,891,378)	(20,576,060)	(19,418,707,950)
Adjustments		-	73,745,123	216,871,196	125,161,718	-	415,778,037
Balance at end of period		47,490,300,735	126,791,764,741	61,343,780,851	47,464,436,796	416,747,416	283,507,030,539
Accumulated depreciation:							
Balance at beginning of period		-	33,183,853,177	33,869,123,760	44,114,779,021	336,442,779	111,504,198,737
Depreciation expense on historical cost		-	1,118,778,605	4,242,676,501	4,945,994,099	19,042,684	10,326,491,889
Depreciation expense on revaluation		-	1,045,941,959	-	-	-	1,045,941,959
Disposals		-	-	(3,973,774,738)	(15,303,570,689)	(20,576,059)	(19,297,921,486)
Adjustments		-	2,747,891,280	186,931,420	91,814,268	-	3,026,636,968
Balance at end of period		-	38,096,465,021	34,324,956,943	33,849,016,699	334,909,404	106,605,348,067
Net balance at end of period	¢	47,490,300,735	88,695,299,720	27,018,823,908	13,615,420,097	81,838,012	176,901,682,472

(Continued)

As of the September close, appraisals of the Bank's land and buildings were performed by an independent appraiser, obtaining the net replacement cost, which was compared to the carrying amount to determine the equity increase, affecting related accounts such as accumulated depreciation due to revaluation, impairment, deferred tax and revaluation of buildings and facilities.

On June 25, 2018, a portion of the amount corresponding to buildings was booked. At that first cut-off the total net equity increase for buildings amounted to ¢1,000,967,108 (increase of ¢1,429,953,012 from a revaluation surplus and a decrease of ¢428,985,904 corresponding to deferred tax). The amounts corresponding to land were still under analysis.

In July and August 2018, a second and third cut-off of the amounts corresponding to land and to buildings were booked, equivalent to a total equity increase of ¢7,104,580,740, as detailed below:

	July	August	Total
Revaluation surplus - Buildings	¢ 1,351,374,186	1,040,652,377	2,392,026,563
Deferred tax	(405,412,256)	(312,195,713)	(717,607,969)
Revaluation surplus - Land	2,360,810,350	3,069,351,796	5,430,162,146
			7,104,580,740

(12) Other assets

Other assets are as follows:

		September 2018	December 2017	September 2017
Deferred charges:				
Leasehold improvements	¢	734,966,570	859,770,993	952,894,227
Cost of issue of financial instruments, net *(3)*		1,098,161,575	1,440,638,368	1,555,244,054
Cost of subordinated debt project		369,212,908	396,529,566	416,389,502
Costs prior to the issue of financial instruments		-	-	8,312,897
Deferred direct costs related to loans		4,605,505,893	4,957,012,106	5,105,566,838
Other deferred charges		299,785,476	1,261,169,998	1,603,965,275
		7,107,632,422	8,915,121,031	9,642,372,793
Intangible assets:				
Software *(2)*		5,118,504,827	6,520,658,430	5,304,182,698
Other intangible assets *(2)*		2,660,203	822,728,155	1,173,981,637
		5,121,165,030	7,343,386,585	6,478,164,335
Other assets:				
Prepaid interest and fees and commissions		210,206,696	178,093,731	205,144,550
Prepaid taxes		4,251,757,275	8,785,924,358	5,863,635,870
Prepaid insurance policy		155,487,730	196,153,628	202,774,718
Other prepaid expenses		585,620,838	593,292,402	433,743,282
Stationery, office supplies and other materials		585,685,695	631,381,590	782,753,023
Leased assets		98,685,410	99,453,445	99,797,219
Library and artwork		429,918,818	429,918,818	429,918,818
Construction work-in-progress		3,901,218,413	6,121,061,364	6,251,529,577
Software under development		15,522,916	6,694,166	419,768,645
Rights in social welfare and trade associations		600,000	600,000	600,000
Other sundry assets		7,378,305,363	7,107,623,251	5,140,006,960
Operations pending settlement		7,342,373,926	8,727,470,265	8,108,294,215
Other operations pending application		1,280,898,638	1,971,307,456	414,607,964
Guarantee deposits *(1)*		371,757,570	390,534,759	386,351,634
Legal and administrative deposits *(1)*		227,064,975	183,042,061	260,536,672
		26,835,104,263	35,422,551,294	28,999,463,147
	¢	39,063,901,715	51,681,058,910	45,120,000,275

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(1) As of September 30, 2018, guarantee deposits amount to ¢598,822,545 (December and September 2017: ¢573,576,820 and ¢646,888,306, respectively) (see note 2).

(2) As of September 30, 2018, net intangible assets are as follows:

		September 2018		
		Software	Other intangible assets	Total
Cost:				
Opening balance	¢	26,625,257,161	2,087,602,654	28,712,859,815
Additions		1,524,550,349	7,522,798	1,532,073,147
Disposals		(97,662,892)	-	(97,662,892)
Reclassifications		-	(7,999,295)	(7,999,295)
Adjustments		(364,902,613)	-	(364,902,613)
Closing balance		27,687,242,005	2,087,126,157	29,774,368,162
Accumulated amortization:				
Opening balance		20,104,598,731	1,264,874,499	21,369,473,230
Expense for the period		2,514,776,418	827,590,753	3,342,367,171
Disposals		(1,850,699)	-	(1,850,699)
Reclassifications		(48,787,273)	(7,999,295)	(56,786,568)
Adjustments		-	(2)	(2)
Closing balance		22,568,737,177	2,084,465,955	24,653,203,132
Net closing balance	¢	5,118,504,828	2,660,205	5,121,165,030

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

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		September 2017		
		Software	Other intangible assets	Total
Cost:				
Opening balance	¢	22,163,996,115	98,174,640	22,262,170,755
Additions		2,681,703,918	1,998,877,658	4,680,581,576
Disposals		(39,360,660)	(9,449,644)	(48,810,304)
Adjustments		(260,557,857)	-	(260,557,857)
Closing balance		24,545,781,516	2,087,602,654	26,633,384,170
Accumulated amortization:				
Opening balance		16,942,471,872	94,029,559	17,036,501,431
Expense for the period		2,321,821,497	829,041,102	3,150,862,599
Disposals		(22,694,551)	(9,449,644)	(32,144,195)
Closing balance		19,241,598,818	913,621,017	20,155,219,835
Net closing balance	¢	5,304,182,698	1,173,981,637	6,478,164,335

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

		September 2018			
		5-year issue (maturing in 2018)	10-year issue (maturing in 2023)	5-year issue (maturing in 2021)	Total
Commission - structuring banks	¢	289,560,000	289,560,000	492,252,000	1,071,372,000
Commission - Moody's Investors Service		144,780,000	144,780,000	-	289,560,000
Commission - Société de la Bourse de Luxembourg, S.A.		7,077,426	7,077,425	-	14,154,851
RR Donelley		6,339,627	6,339,603	3,795,133	16,474,363
BNY Mellon		2,289,261	2,289,261	3,339,786	7,918,308
Moody's - issuer rating		19,168,872	19,168,872	144,780,000	183,117,744
Fitch Ratings		144,780,000	144,780,000	144,780,000	434,340,000
Milbank		85,223,299	85,223,299	114,098,576	284,545,174
Shearman & Sterling		85,333,911	85,333,911	126,939,687	297,607,509
External audit		110,032,800	110,032,800	134,355,840	354,421,440
Perkins Cole (Broker)		-	-	7,596,346	7,596,346
Printing of documents		-	-	9,158,690	9,158,690
		894,585,196	894,585,171	1,181,096,058	2,970,266,425
Amortization		(877,930,492)	(427,911,740)	(566,262,618)	(1,872,104,850)
	¢	16,654,704	466,673,431	614,833,440	1,098,161,575

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

		September 2017			
		5-year issue (maturing in 2018)	10-year issue (maturing in 2023)	5-year issue (maturing in 2021)	Total
Commission - structuring banks	¢	284,165,000	284,165,000	483,080,500	1,051,410,500
Commission - Moody’s Investors Service		142,082,500	142,082,500	-	284,165,000
Commission - Société de la Bourse de Luxembourg, S.A.		6,945,561	6,945,561	-	13,891,122
RR Donelley		6,221,509	6,221,486	3,724,423	16,167,418
BNY Mellon		2,246,608	2,246,608	3,277,559	7,770,775
Moody’s - issuer rating		18,811,723	18,811,723	142,082,500	179,705,946
Fitch Ratings		142,082,500	142,082,500	142,082,500	426,247,500
Milbank		83,635,443	83,635,443	111,972,723	279,243,609
Shearman & Sterling		83,743,994	83,743,994	124,574,583	292,062,571
External audit		107,982,700	107,982,700	131,852,560	347,817,960
Perkins Cole (Broker)		-	-	7,454,813	7,454,813
Printing of documents		-	-	8,988,048	8,988,048
		877,917,538	877,917,515	1,159,090,209	2,914,925,262
Amortization		(682,104,007)	(318,229,886)	(359,347,315)	(1,359,681,208)
Airplane tickets		-	-	-	8,312,897
	¢	195,813,531	559,687,629	799,742,894	1,563,556,951

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

(Continued)

(13) Obligations with the public

Obligations with the public by cumulative amount are as follows:

		September 2018	December 2017	September 2017
Demand deposits:				
Checking accounts	¢	1,255,676,855,555	1,315,990,860,053	1,208,183,064,122
Certified checks		126,826,791	129,984,033	47,709,279
Savings deposits		1,327,550,877,226	1,356,884,997,468	1,280,643,579,268
Matured term deposits		23,930,070,951	23,250,148,019	23,553,676,902
Other demand deposits		326,428,617	504,652,034	510,938,371
Drafts and transfers payable		105,482,412	60,778,419	230,190,741
Cashier's checks		4,802,621,155	5,351,772,739	5,149,149,495
Advance collections from customers for credit cards		10,601,126,814	12,442,854,649	9,677,452,640
Banking mandates		1,186,045,414	8,900,457,858	-
Trust fund obligations		129,357,992	7,928,029	13,885,439
		2,624,435,692,927	2,723,524,433,301	2,528,009,646,257
Term deposits:				
Deposits from the public		1,964,913,652,301	1,918,015,501,978	1,994,280,691,382
Other term deposits		125,655,939,487	153,877,421,326	172,688,374,739
		2,090,569,591,788	2,071,892,923,304	2,166,969,066,121
Other obligations with the public:				
Obligations with third parties for third-party repurchase agreements		26,697,308,999	22,916,380,358	24,616,469,587
		26,697,308,999	22,916,380,358	24,616,469,587
Interest payable for obligations with the public		40,189,883,207	35,961,942,293	32,958,135,178
	¢	4,781,892,476,921	4,854,295,679,256	4,752,553,317,143

As of September 30, 2018, deposits in checking accounts denominated in colones bear interest at a maximum rate of 2.55% per annum (December and September 2017: 2.55% and 2.55% per annum, respectively) on balances and at a minimum rate of 0.00% per annum (December and September 2017: 0.00% and 1.65% per annum, respectively) on balances greater than or equal to ¢500,001. Deposits in checking accounts denominated in US dollars bear interest at a maximum rate of 0.45% per annum (December and September 2017: 0.45% and 0.45% per annum, respectively) on balances and at a minimum rate of 0.00% per annum (December and September 2017: 0.00% and 0.30% per annum, respectively) on balances greater than or equal to US$1,000.

(Continued)

Term obligations correspond to term certificates of deposit in colones, US dollars and euro. As of September 30, the annual interest rate on term certificates are as follows:

Currency	September 2018	December 2017	September 2017
Colones	4.00% to 8.20%	4.00% to 8.20%	4.00% to 8.20%
US dollars	0.50% to 5.10%	0.50% to 5.10%	0.50% to 5.10%

The Bank has term certificates of deposit that are restricted to secure certain loan operations. As of September 30, 2018, the balance of those term certificates of deposit is ¢45,894,654,108 (December and September 2017: ¢40,267,805,245 and ¢39,082,087,682, respectively). As of that date, the Bank has no inactive deposits with State-owned entities or other banks.

(14) Obligations with BCCR

Obligations with BCCR are as follows:

		September 2018	December 2017	September 2017
Financing for loans using internal funds (BCCR)		-	-	28,000,000,000
Financing for loans using external funds		125,644,412	125,644,412	125,644,412
Other term obligations with BCCR		6,000,000,000	-	-
Interest payable on obligations with BCCR		3,000,000	-	8,944,444
	¢	6,128,644,412	125,644,412	28,134,588,856

(15) Obligations with entities

Obligations with entities are as follows:

		September 2018	December 2017	September 2017
Demand:				
Checking accounts with local financial entities	¢	79,181,791,495	60,409,743,139	46,783,191,731
Savings deposits with local financial entities		48,558,633	67,571,081	61,133,512
Development Credit Fund (FCD) management		140,355,990,375	144,413,540,280	148,111,847,125
Outstanding checks		4,401,457,974	1,682,209,656	4,781,655,393
Matured term deposits		27,538,000	-	-
Checking accounts and obligations with related parties		101,840,518	15,795,751	19,734,896
Other demand obligations with financial entities		-	-	1,084,974
		224,117,176,995	206,588,859,907	199,758,647,631
Term:				
Term deposits with local financial entities		135,159,447,318	117,218,311,393	142,759,464,219
Term deposits with foreign financial entities		-	5,664,200,000	5,683,300,000
Term obligations with foreign financial entities *(2)*		839,364,066,907	841,601,971,462	849,877,433,454
Liquidity market obligations		22,678,560,000	16,022,595,002	18,349,461,002
Loans with local financial entities		35,270,808,097	30,494,577,677	23,117,105,393
Loans with foreign financial entities *(1)*		94,816,190,352	98,105,867,070	101,054,124,396
Obligations for liquidity market operations		21,000,000,000	-	8,475,000,000
		1,148,289,072,674	1,109,107,522,604	1,149,315,888,464
Interest payable on other demand and term obligations with financial entities – foreign currency		107,698,512	180,661,307	284,981,571
Interest payable on other demand and term obligations with financial entities – local currency		1,849,649,338	1,089,818,278	1,066,556,425
Interest payable on loans with foreign financial entities *(1)*		1,746,076,480	438,383,591	1,732,186,268
Interest payable on loans with local financial entities		95,878,646	91,353,129	57,444,770
Interest payable on term deposits with foreign financial entities *(2)*		20,667,924,120	8,024,283,435	20,360,224,971
		24,467,227,096	9,824,499,740	23,501,394,005
	¢	1,396,873,476,765	1,325,520,882,251	1,372,575,930,100

(1) As of September 30, loans due to foreign financial entities bear interest at rates ranging between 3.32% and 6.75% per annum (December and September 2017: between 2.76% and 6.65% and between 2.76% and 6.71% per annum, respectively).

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

Date of issue	Face value	Characteristics
01/11/2013	US$500 million	• Traded amount: 99.331% • Term: 5 years • Interest rate: 4.875% per coupon payment
01/11/2013	US$500 million	• Traded amount: 99.072% • Term: 10 years • Interest rate: 6.250% per coupon payment
25/04/2016	US$500 million	• Traded amount: 99.68% • Term: 5 years • Interest rate: 5.875% per coupon payment

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

		September 2018			
		5-year issue (maturing in 2018)	10-year issue (maturing in 2023)	5-year issue (maturing in 2021)	Total
Issue	¢	281,456,209,833	286,872,883,200	288,633,408,000	856,962,501,033
Adjustment to fair value of hedged item measured at cost of international issues		(648,533,590)	(7,096,673,813)	(13,779,044,898)	(21,524,252,301)
Amortization of discount in traded amount of issues		2,431,755,342	1,091,869,894	402,192,939	3,925,818,175
		283,239,431,585	280,868,079,281	275,256,556,041	839,364,066,907
Finance charges payable		5,755,584,120	7,540,624,998	7,371,715,002	20,667,924,120
	¢	288,995,015,705	288,408,704,279	282,628,271,043	860,031,991,027

(Continued)

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

		September 2017			
		5-year issue (maturing in 2018)	10-year issue (maturing in 2023)	5-year issue (maturing in 2021)	Total
Issue	¢	282,263,936,150	281,527,948,800	282,971,497,338	846,763,382,288
Adjustment to fair value of hedged item measured at cost of international issues		(423,536,355)	7,830,349,890	(6,814,535,461)	592,278,074
Amortization of discount in traded amount of issues		1,447,977,909	840,640,500	233,154,683	2,521,773,092
		283,288,377,704	290,198,939,190	276,390,116,560	849,877,433,454
Finance charges payable		5,772,101,534	7,400,130,218	7,187,993,219	20,360,224,971
	¢	289,060,479,238	297,599,069,408	283,578,109,779	870,237,658,425

On June 27, 2018, the Bank performed a partial repurchase of a 5-year issue of securities maturing in 2018, in the amount of US$10,720,000, corresponding to issue BNALCR 4 7/8 maturing on November 1, 2018, ISIN number USP14623AA33.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Maturities of loans due to entities

Loans due to entities mature as follows:

		September 2018		
		Local	Foreign	Total
Less than one year		27,011,695,834	-	27,011,695,834
Between 1 and 2 years		-	9,447,910	9,447,910
More than 5 years		35,483,635,321	157,291,742	35,640,927,063
	¢	62,495,331,155	166,739,652	62,662,070,807

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

		September 2017		
		Local	Foreign	Total
Less than one year	¢	36,486,235,278	2,853,205,645	39,339,440,923
Between 3 and 5 years		125,644,412	7,507,948,176	7,633,592,588
More than 5 years		23,172,259,329	92,425,156,843	115,597,416,172
	¢	59,784,139,019	102,786,310,664	162,570,449,683

As of September 30, 2018 and 2017, loans due to local entities correspond to obligations with Banco Crédito Agrícola de Cartago.

(16) Income tax

Pursuant to the *Costa Rican Income Tax Law*, the Bank is required to file income tax returns each year. As of September 30, income tax is as follows:

a) Current tax

For the nine months ended September 30, the income tax expense is as follows:

		September		Quarter from July 1 to September 30,	
		2018	2017	2018	2017
Income tax expense:					
Income tax expense for the period	¢	1,950,518,161	8,077,671,317	1,951,387,562	1,129,003,178
Income tax expense from prior periods		869,401	834,374,297	-	-
	¢	1,951,387,562	8,912,045,614	1,951,387,562	1,129,003,178

		September		Quarter from July 1 to September 30,	
		2018	2017	2018	2017
Current tax:					
Income tax expense for the period	¢	1,950,518,161	8,077,671,317	1,951,387,562	1,129,003,178
Decrease in current income tax for the period		-	(1,366,885,755)	-	(508,873,936)
		1,950,518,161	6,710,785,562	1,951,387,562	620,129,242
Income tax from prior periods:					
Income tax expense for prior periods		869,401	834,374,297	-	-
Decrease in income tax from prior periods		-	(19,910,540)	-	-
		869,401	814,463,757	-	-
		1,951,387,562	7,525,249,319	1,951,387,562	620,129,242
Deferred tax:					
Deferred tax expense		26,360,900	303,972,144	26,360,900	109,239,237
Deferred tax income		(204,123,257)	(155,513,563)	(204,123,257)	(55,915,642)
		(177,762,357)	148,458,581	(177,762,357)	53,323,595
Total income tax expense, net	¢	1,773,625,205	7,673,707,900	1,773,625,205	673,452,837

(Continued)

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

		September 2018	September 2017
Profit before tax	¢	26,943,614,688	49,723,123,385
Plus (less) tax effect of:			
Non-deductible expenses		38,025,053,257	30,411,664,225
Deductible expenses		(2,007,787,715)	(3,802,214,633)
Non-taxable income		(63,881,405,508)	(53,963,287,771)
Tax base		(920,525,278)	22,369,285,206
Tax rate		30%	30%
Subtotal - income tax expense		1,950,518,161	6,710,785,562
Prior-period income tax expense		869,401	834,374,297
Decrease in prior-period income tax		-	(19,910,540)
Subtotal prior-period income tax, net		869,401	814,463,757
Deferred tax expense		26,360,900	303,972,144
Deferred tax income		(204,123,257)	(155,513,563)
Subtotal - deferred tax, net		(177,762,357)	148,458,581
Total income tax expense, net	¢	1,773,625,205	7,673,707,900

b) Deferred tax

Deferred tax assets and liabilities are as follows:

		As of September 30, 2018		
		Assets	Liabilities	Net
Unrealized losses	¢	1,851,580,148	-	1,851,580,148
Provisions		154,505,820	-	154,505,820
Unrealized gains		-	(394,758,540)	(394,758,540)
Revaluation of assets		-	(11,152,495,806)	(11,152,495,806)
	¢	2,006,085,968	(11,547,254,346)	(9,541,168,378)

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

(Continued)

		As of September 30, 2017		
		Assets	Liabilities	Net
Unrealized losses	¢	1,223,876,030	-	1,223,876,030
Provisions		202,077,259	-	202,077,259
Tax base of furniture and equipment		539,491	-	539,491
Unrealized gains		-	(538,610,163)	(538,610,163)
Revaluation of assets		-	(10,435,132,740)	(10,435,132,740)
	¢	1,426,492,780	(10,973,742,903)	(9,547,250,123)

Deferred tax assets and liabilities are as follows:

		December 31, 2017	Included in the income statement	Included in equity	September 30, 2018
Unrealized losses	¢	986,501,498	-	865,078,650	1,851,580,148
Provisions		281,420,008	(126,914,188)	-	154,505,820
Tax base of furniture and equipment		708,371	(708,371)	-	-
Unrealized gains		(318,355,244)	(27,892,719)	(48,510,577)	(394,758,540)
Revaluation of assets		(10,081,789,514)	-	(1,070,706,292)	(11,152,495,806)
	¢	(9,131,514,881)	(155,515,278)	(254,138,219)	(9,541,168,378)

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

		December 31, 2016	Included in the income statement	Included in equity	September 30, 2017
Unrealized losses	¢	670,233,485	-	553,642,545	1,223,876,030
Provisions		346,244,582	(144,167,323)	-	202,077,259
Tax base of furniture and equipment		-	539,491	-	539,491
Unrealized gains		(1,271,998,447)	232,315,169	501,073,115	(538,610,163)
Revaluation of assets		(10,339,228,566)	-	(95,904,174)	(10,435,132,740)
	¢	(10,594,748,946)	88,687,337	958,811,486	(9,547,250,123)

(Continued)

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

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

(17) Provisions

Provisions are as follows:

		September 2018	December 2017	September 2017
Severance benefits	¢	517,163,866	1,208,537,980	2,704,376,915
Litigation		6,763,601,869	4,716,284,942	5,098,723,691
Inactive checking and savings accounts liquidated		745,902,221	742,975,900	749,204,081
Manager commissions		12,185,742,547	10,633,343,574	10,126,394,734
SEDI		1,373,490,549	-	2,677,515,237
Variation in RIVM methodology		1,626,618,479	2,917,407,494	2,903,778,042
Notice of deficiency		2,420,204,313	-	-
Other		891,611,071	644,866,178	940,331,260
	¢	26,524,334,915	20,863,416,068	25,200,323,960

Movement in provisions is as follows:

		Severance benefits	Litigation	Other	Total
Balance as of December 31, 2016		2,848,046,997	5,114,477,995	18,331,583,729	26,294,108,721
Increase in provision		1,136,835,024	789,026,382	9,475,687,315	11,401,548,721
Used		(1,262,545,256)	(788,167,931)	(9,594,299,929)	(11,645,013,116)
Decrease in provision		(17,959,851)	(16,612,755)	(815,747,760)	(850,320,366)
Balance as of September 30, 2017	¢	2,704,376,914	5,098,723,691	17,397,223,355	25,200,323,960
Balance as of December 31, 2016		2,848,046,997	5,114,477,995	18,331,583,729	26,294,108,721
Increase in provision		1,338,573,809	537,644,287	7,827,589,882	9,703,807,978
Used		(1,510,122,975)	(919,224,585)	(10,404,304,705)	(12,833,652,265)
Decrease in provision		(1,467,959,851)	(16,612,755)	(816,275,760)	(2,300,848,366)
Balance as of December 31, 2017	¢	1,208,537,980	4,716,284,942	14,938,593,146	20,863,416,068
Increase in provision		1,169,895,579	2,176,538,538	10,688,606,501	14,035,040,618
Used		(1,854,004,181)	(129,221,611)	(6,357,091,294)	(8,340,317,086)
Decrease in provision		(7,265,512)	-	(26,539,173)	(33,804,685)
Balance as of September 30, 2018	¢	517,163,866	6,763,601,869	19,243,569,180	26,524,334,915

(Continued)

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

	Claimed amount			Provision		
Type	September 2018	December 2017	September 2017	September 2018	December 2017	September 2017
Ordinary - in colones	65,972,567,535	64,839,814,231	64,839,814,231	4,239,034,815	3,430,405,879	3,492,571,427
Ordinary - in US dollars	205,247,765,944	194,802,842,755	197,773,368,246	1,747,989,507	452,922,717	436,205,329
Criminal - in colones	1,020,877,223	1,020,877,223	1,020,877,223	510,686,487	487,964,155	480,758,907
Criminal - in US dollars	-	856,520,335	-	-	344,992,191	-
Labor - in colones	832,133,394	-	748,230,103	265,891,060	-	276,288,114
Administrative	-	-	-	-	-	412,899,914
	273,073,344,096	261,520,054,544	264,382,289,803	6,763,601,869	4,716,284,942	5,098,723,691

(18) Other sundry accounts payable

Other sundry accounts payable are as follows:

		September 2018	December 2017	September 2017
Professional fees	¢	947,751	2,675,117	10,071,570
Creditors - goods and services		3,839,121,714	3,592,576,341	4,503,535,056
Current tax		1,950,518,161	4,118,343,568	6,710,785,562
Employer contributions		5,349,266,222	5,734,415,243	6,412,977,530
Court-ordered withholdings		3,764,515,379	3,541,023,002	3,449,920,964
Tax withholdings		3,329,693,939	4,010,652,312	3,313,005,060
Employee withholdings		613,972,637	708,613,111	731,407,103
Other third-party withholdings		429,888,643	3,632,240	431,565,166
Compensation		4,099,051,554	5,854,098,303	4,633,175,668
Statutory allocations		7,341,031,195	13,669,031,627	12,747,644,972
Obligations on loans with related parties		171,342	27,784	-
Clearing house operations		2,254,150,445	487,367,695	8,640,612,246
Accrued vacation		6,905,027,684	6,491,300,766	7,272,124,833
Accrued statutory Christmas bonus		6,337,388,569	1,156,780,715	6,956,565,385
Contributions to the Superintendencies’ budget		4,997,897	3,356,740	-
Foreclosed assets		366,201,508	398,477,384	493,448,357
Various creditors - Local currency		8,189,396,363	5,518,664,360	7,687,197,067
Various creditors - Foreign currency		6,948,603,881	6,672,217,496	6,161,981,133
Interest rate futures - Hedges (note 6)		18,743,641,888	7,775,852,843	5,885,283,914
Purchase of FX futures (Other than hedges) (note 6)		-	46,913,807	46,919,337
Sale of FX futures (Other than hedges) (note 6)		27,408,206	-	-
	¢	80,494,994,978	69,786,020,454	86,088,220,923

(Continued)

As of September 30, 2018, the “Various creditors” account includes ¢2,778 million (December and September 2017: ¢2,746 million and ¢2,674 million, respectively) corresponding to the operations of the Bank’s Electronic Processing of Payments Office (VISA). The remaining amount corresponds to the normal operations of other bank divisions.

(19) Other liabilities

Other liabilities are as follows:

		September 2018	December 2017	September 2017
Deferred income:				
Deferred finance income	¢	31,866,138,300	32,021,086,861	30,082,398,416
Deferred fees and commissions for trust management		34,738,345	34,109,997	26,396,945
		31,900,876,645	32,055,196,858	30,108,795,361
Allowance for stand-by credit losses *(1)*		289,910,495	265,681,489	266,234,864
Operations pending application:				
Operations pending settlement		6,242,418,930	56,259,287,267	12,522,286,550
Other operations pending application		25,579,561,818	9,962,141,488	17,346,740,795
		31,821,980,748	66,221,428,755	29,869,027,345
	¢	64,012,767,888	98,542,307,102	60,244,057,570

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

		September 2018	December 2017	September 2017
Opening balance	¢	265,681,489	540,840,567	540,840,567
Allowance expense (note 31)		19,940,000	76,257,000	76,167,000
Decrease in allowance (note 32)		-	(360,000,141)	(360,000,000)
Adjustment for foreign exchange differences		4,289,006	8,584,063	9,227,297
Closing balance	¢	289,910,495	265,681,489	266,234,864

(Continued)

(20) Subordinated obligations

The Bank's subordinated obligations are as follows:

Annual interest rate	Term	Maturity		September 2018	December 2017	September 2017
6-month LIBOR + 4.50% in the first 5 years and 6-month LIBOR + 5.00% thereafter	10 years	27/05/2024	US$	100,000,000	100,000,000	100,000,000
6-month LIBOR + 5.25% in the first 5 years and 6-month LIBOR + 5.75% thereafter	15 years	23/10/2029		30,000,000	30,000,000	30,000,000
			US$	130,000,000	130,000,000	130,000,000
		Total in colones	¢	75,285,600,000	73,634,600,000	73,882,900,000
		Finance charges payable		792,898,928	1,501,463,242	655,454,409
			¢	76,078,498,928	75,136,063,242	74,538,354,409

In accordance with IRNBS (Law No. 1644), the debt of State-owned commercial banks will be secured with guarantees issued by the Government and all its divisions and institutions. Government guarantees provided for in the aforementioned regulations apply to subordinated loans subscribed by State-owned commercial banks or rights and obligations derived therefrom. Subordinated financial instruments or loans (and the rights and obligations derived therefrom) may only be subscribed by multilateral development banks or bilateral development organizations.

Pursuant to SUGEF's prudential regulations on full unsubordinated debt prepayment by borrowers, if classified as Tier II capital, loans (including principal and interest) will be categorized as subordinated debt and ranked below other loans, such that borrowers will first fully repay any unsubordinated debt (existing on the effective date, or subsequently subscribed, assumed, or secured) in accordance with banking regulations.

(Continued)

(21) Equity

(a) Share capital

The Bank's share capital is as follows:

		September 2018	December 2017	September 2017
Capital under Law No. 1644	¢	144,618,072,265	144,618,072,265	144,618,072,265
Bank capitalization bonds		27,618,957,837	27,618,957,837	27,618,957,837
	¢	172,237,030,102	172,237,030,102	172,237,030,102

On December 23, 2008, the Executive Branch of the Costa Rican Government authorized a capital contribution with funds from the *Amendment to Law No. 8627 on the Ordinary and Extraordinary Budget of the Republic for Tax Year 2008* (Law No. 8703). This law grants funds to capitalize three State-owned banks, including the Bank, in order to stimulate productive sectors, particularly small and medium-sized enterprises. For such purposes, the Bank received a total of US$50,000,000 (equivalent to ¢27,619,000,002), by means of four securities denominated in DU and maturing in 2013, 2017, 2018 and 2019 (No. 4183, No. 4184, No. 4185 and No. 4190 for DU10,541,265.09 each, at a reference exchange rate of ¢655.02 to DU1.00). As of September 30, 2018, based on the exchange rate as of that date, the balance of those investments amounts to ¢18,811,098,378 (December and September 2017: ¢18,562,535,348 and ¢27,613,265,554, respectively) (see note 5).

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

(b) Revaluation surplus

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

As of September 30, 2018, the revaluation surplus amounts to ¢70,239,809,918 (December and September 2017: ¢61,425,174,760 and ¢62,042,199,833, respectively).

(Continued)

(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, 2018, the adjustment for the valuation of available-for-sale investments and restricted financial instruments results in an unrealized loss of ¢5,357,202,998 (December and September 2017: unrealized loss of ¢2,304,989,655 and ¢2,027,835,399, respectively).

(d) Adjustment for valuation of investments in other companies

As of September 30, 2018, the adjustment for valuation of investments in foreign associates using the equity method amounts to ¢7,079,867,518 (December and September 2017: ¢9,095,624,686 and ¢9,410,670,302). These investments correspond to the Bank's 49% ownership interest in BICSA and Subsidiary.

(e) Capital reserves

Capital reserves are as follows:

		September 2018	December 2017	September 2017
Legal reserve	¢	318,380,757,973	295,477,646,483	295,477,786,868
Statutory reserve for foreclosed assets		234,414,311	154,543,607	155,064,737
Excess of statutory reserve for loans		4,717,574,007	7,219,571,030	5,850,052,262
Statutory dynamic provision		9,244,116,561	8,270,045,249	8,317,692,809
	¢	332,576,862,852	311,121,806,369	309,800,596,676

(f) Equity of the Development Financing Fund

As of September 30, 2018, the allocation of the Bank's earnings for the creation of the Development Financing Fund (FOFIDE) amounts to ¢30,971,994,447 (December and September 2017: ¢27,111,958,013 and ¢27,111,958,013, respectively).

(Continued)

(22) Commitments and contingencies

The Bank has off-balance sheet commitments and contingencies that arise in the normal course of business and involve elements of credit and liquidity risk. As of September 30, the notional amounts of foreign exchange derivatives are as follows:

		September 2018	December 2017	September 2017
Performance bonds	¢	31,378,794,477	34,914,023,652	31,424,227,854
Bid bonds		5,419,811,748	2,380,121,728	3,249,130,221
Other guarantees		3,496,496,928	4,422,676,186	4,345,416,231
Letters of credit		17,136,989,657	19,229,683,722	21,369,342,642
Credits pending disbursement		213,033,968	224,551,326	235,417,926
		57,645,126,778	61,171,056,614	60,623,534,874
Pre-approved lines of credit		279,579,091,354	280,374,178,088	285,524,857,507
Other contingencies not related to credits		27,398,061	25,898,061	25,898,061
Other contingencies - pending litigation and lawsuits (note 47)		311,531,768,362	299,988,478,812	302,840,714,070
		591,138,257,777	580,388,554,961	588,391,469,638
Sale of FX futures - other than hedges (note 6)		8,013,529,653	15,807,051,436	13,894,327,156
	¢	656,796,914,208	657,366,663,011	662,909,331,668

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

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

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

(23) Trust assets

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

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

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

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Notes to the Consolidated Financial Statements

As of September 30, 2018, trust capital is invested in the following assets:

Nature of trust		Cash or property management	Securitization	Portfolio management	Guaranty	Testamentary	Custody of stock with testamentary clause	Custody of stock and management of funds	Cash guaranty and management	Custody of stock	Guaranty and custody of stock	Total
Trust assets												
Cash and due from banks	¢	259,446,379	2,773,414	3,530,801	7,147,206	-	-	8,633	-	-	-	272,906,433
Investments in financial instruments		311,915,010,370	26,467,285,570	772,753,600	1,310,407,376,088	1,263,617,323	-	2,175,583	-	-	-	1,650,828,218,534
Loan portfolio		2,782,759,214	-	1,497,672,007	-	-	-	-	-	-	-	4,280,431,221
Accounts and accrued interest receivable		28,887,667,606	22,780,905,136	1,682,417,463	27,612,580	152,465	-	-	53,555,466	-	3,011,424	53,435,322,140
Foreclosed assets		51,814,961	-	-	-	-	-	-	-	-	-	51,814,961
Investments in other companies		-	-	-	200,000,000	2,377,912	2,120,000	-	-	625,936,061	926,592,000	1,757,025,973
Property and equipment		790,533,781	51,116,138,365	-	60,269,233,095	93,224,756	-	-	1,544,041,161	-	1,738,460,805	115,551,631,963
Other assets		28,675,416,020	1,348,584,353	-	1,433,825,813	746,718	-	-	-	-	1,674,504,726	33,133,077,630
	¢	373,362,648,331	101,715,686,838	3,956,373,871	1,372,345,194,782	1,360,119,174	2,120,000	2,184,216	1,597,596,627	625,936,061	4,342,568,955	1,859,310,428,855

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of September 30, 2017, trust capital is invested in the following assets:

Nature of trust	Cash or property management	Securitization	Portfolio management	Guaranty	Testamentary	Custody of stock with testamentary clauses	Custody of stock and management of funds	Cash guaranty and management	Guaranty and custody of stock	Total
Trust assets										
Cash and due from banks	¢ 81,090,280	2,605,572	11,110,568	-	12,923	-	8,573	-	-	94,827,916
Investment securities and term deposits	203,751,069,824	2,060,051,355	2,370,463,445	1,057,201,129,423	1,159,627,187	-	2,036,393	-	-	1,266,544,377,627
Loan portfolio	2,547,668,573	-	1,460,113,072	-	-	-	-	-	-	4,007,781,645
Accounts and accrued interest receivable	16,153,825,033	17,162,654,762	1,661,527,558	25,719,804	20,414	-	-	43,373,525	1,591,324	35,048,712,420
Foreclosed assets	99,218,083	-	-	-	-	-	-	-	-	99,218,083
Investments in other companies	23,146,409	-	-	-	2,320,000	2,108,000	-	-	909,328,000	936,902,409
Property and equipment	4,533,745,100	46,281,471,199		72,486,157,419	-	-	-	1,544,041,161	1,454,901,292	126,300,316,171
Other assets	4,232,981,472	837,892,796	-	1,513,062,931	1,047,710	-	-	-	1,674,504,726	8,259,489,635
	¢ 231,422,744,774	66,344,675,684	5,503,214,643	1,131,226,069,577	1,163,028,234	2,108,000	2,044,966	1,587,414,686	4,040,325,342	1,441,291,625,906

(Continued)

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

a) Housing mortgage

These trusts are exclusively dedicated to managing housing loan portfolios.

b) Cash or property management

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

c) Securitization

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

d) Portfolio management

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

e) Special accounts

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

f) Guaranty

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

g) Testamentary

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

h) Custody of stock with testamentary clause

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

(24) Other debit memoranda accounts

Other debit memoranda accounts are as follows:

		September 2018	December 2017	September 2017
Pension Fund Manager's own investments in custody – Face value of principal	¢	7,147,636,000	6,393,826,000	5,094,399,000
Pension Fund Manager's own investments in custody – Coupons		1,283,027,959	1,103,393,148	936,312,646
Pension Fund Manager's own investments in custody – Number of shares		23	23	23
Guarantees received in the Bank's custody		411,942,099	1,323,290,684	1,327,469,709
Other guarantees received in the Bank's custody		5,263,338,293,326	5,214,227,292,003	5,258,412,435,116
Lines of credit granted but unused		366,952,172,504	400,321,411,495	431,877,626,450
Loans pending disbursement		202,118,794,701	233,983,980,165	267,829,992,623
Unused overdrafts		109,409,081	207,927,441	92,474,720
Loans settled		189,814,608,136	173,858,782,945	172,376,097,079
Other accounts receivable settled		10,315,010,756	9,765,571,761	9,520,293,815
Accrued interest receivable settled		18,513,159,474	16,739,182,013	16,521,774,635
Interest income on non-accrual loans of loan portfolio		20,855,205,470	16,099,998,875	14,750,720,487
Supporting documentation received in the Bank's custody		1,255	1,255	1,255
Securities issued pending placement		20,015,200,002	26,914,226,643	20,939,220,358
Notified letters of credit		15,132,652,444	14,877,914,261	15,235,759,427
Notional value subject to interest rate futures (note 6)		582,478,896,000	576,615,560,000	578,957,771,000
Reversals made to income accounts for the period		24,556,744,128	16,866,526,419	13,870,034,119
Reversals made to expense accounts for the period		268,137,013,996	43,316,609,467	27,202,541,506
Non-deductible expenses		36,298,578,684	36,206,722,661	36,186,987,331
Non-taxable income		74,813,855,403	74,388,367,866	78,826,408,960
Other memoranda accounts		185,914,702,289	201,266,397,841	206,813,264,845
		7,288,206,903,730	7,064,476,982,966	7,156,771,585,104
Third-party debit memoranda accounts		2,862,002,231,512	2,542,913,153,061	2,525,868,720,930
Own debit memoranda accounts for custodial activities		259,572,074,256	371,296,353,570	314,275,146,823
Third-party debit memoranda accounts for custodial activities		11,884,122,419,914	10,673,107,956,840	10,760,178,851,873
		15,005,696,725,682	13,587,317,463,471	13,600,322,719,626
	¢	22,293,903,629,412	20,651,794,446,437	20,757,094,304,730

(Continued)

Other memoranda accounts by entity are as follows:

		September 2018	September 2017
Banco Nacional de Costa Rica	¢	19,370,377,350,566	18,147,412,404,748
BN Valores Puesto de Bolsa, S.A. (note 25)		1,072,608,092,778	936,857,724,682
BN Sociedad Administradora de Fondos de Inversión, S.A. (note 26)		441,355,031,339	412,390,017,410
BN Vital Operadora de Planes de Pensiones Complementarias, S.A. (note 27)		1,409,563,154,729	1,260,434,157,890
	¢	22,293,903,629,412	20,757,094,304,730

Third-party debit memoranda accounts are as follows:

		September 2018	September 2017
Management of banking mandates	¢	1,019,662,929,527	859,233,101,455
"TUDES" securities received in custody from affiliates under Article 75 of Law No. 7531		503,920,133	689,927,462
Pension funds (note 27)		1,400,540,645,988	1,253,622,138,365
Investment funds (note 26)		441,294,735,864	412,323,553,648
	¢	2,862,002,231,512	2,525,868,720,930

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

Memoranda accounts for brokerage operations are summarized as follows:

		September 2018	September 2017
Own			
Trading securities in custody (note 25-a)	¢	3,593,908,953	4,895,412,267
Trading securities pledged as guarantees		-	27,297,145,807
Trading securities pending delivery		30,498,583,279	-
Confirmed cash agreements pending settlement		690,311,042	-
Repurchase agreements pending settlement (note 25-b)		26,908,001,475	24,788,587,968
Other own memoranda accounts		5,805,559,926	5,699,791,867
		67,496,364,675	62,680,937,909
Third-party			
Trading securities in custody (note 25-a)		663,377,667,519	633,544,856,071
Trading securities received as guarantees		94,294,887,600	54,571,461,912
Trading securities pledged as guarantees		97,220,832,720	77,850,812,070
Trading securities pending receipt		847,406,400	906,482,175
Signed agreements pending settlement		780,445,021	3,264,509,332
Repurchase agreements pending settlement (note 25-b)		145,987,238,410	103,458,812,480
Cash and accounts receivable		2,603,250,433	579,852,733
		1,005,111,728,103	874,176,786,773
	¢	1,072,608,092,778	936,857,724,682

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

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

(Continued)

a) Securities held in custody are as follows:

Location	Type of custody		September 2018	September 2017
Own custodial activities				
Local	At face value - available	¢	2,702,408,322	4,715,681,932
Local	At purchase value of shares - available		15,000,002	15,000,002
Local	At purchase value of investments - available		89,694	230,333
Local	At face value - pledged		59,000,000	164,500,000
Local	Amount of physical coupons - pledged		4,326,455	-
Local	At face value - pending delivery		813,084,480	-
			3,593,908,953	4,895,412,267
Custodial activities on behalf of third parties				
Local	At face value - available		621,975,706,163	594,961,651,568
Local	At purchase value of shares - available		20,147,904,752	23,495,434,037
Local	At purchase value of investments - available		18,972,450,224	10,558,485,738
Local	At face value - pledged		2,025,976,240	1,970,759,198
Local	At purchase value of shares - pledged		53,735,676	64,873,800
Local	At purchase value of investments - pledged		196,894,464	227,151,692
Local	At face value - pending delivery		5,000,000	2,266,500,038
			663,377,667,519	633,544,856,071
		¢	666,971,576,472	638,440,268,338

(Continued)

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

	September 2018							
	Term buyer				Term seller			
	Colones	US dollars	US dollars expressed in colones	Total	Colones	US dollars	US dollars expressed in colones	Total
Own	13,992,316,288	22,302,261	12,915,685,187	26,908,001,475	-	-	-	-
Third parties	14,563,767,175	101,053,162	58,521,907,345	73,085,674,520	15,658,273,603	98,845,300	57,243,290,287	72,901,563,890
	28,556,083,463	123,355,423	71,437,592,532	99,993,675,995	15,658,273,603	98,845,300	57,243,290,287	72,901,563,890

	September 2017							
	Term buyer				Term seller			
	Colones	US dollars	US dollars expressed in colones	Total	Colones	US dollars	US dollars expressed in colones	Total
Own	11,897,412,253	22,682,554	12,891,175,715	24,788,587,968	-	-	-	-
Third parties	11,981,571,230	83,906,178	47,686,398,312	59,667,969,542	7,727,173,367	63,455,509	36,063,669,571	43,790,842,938
	23,878,983,483	106,588,732	60,577,574,027	84,456,557,510	7,727,173,367	63,455,509	36,063,669,571	43,790,842,938

As of September 30, 2018, term buyer and seller positions in tri-party repurchase agreements in US dollars were valued at the exchange rate of ¢579.12 (September 2017: ¢568.33) to US$1.00.

(Continued)

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

		September 2018			
		Term buyer		Term seller	
		Colones	US dollars	Colones	US dollars
Own					
1 to 30 days	¢	251,266,781	5,692,540	-	-
31 to 60 days		9,775,048,137	4,832,322	-	-
61 to 90 days		3,966,001,370	7,924,732	-	-
More than 91 days		-	3,852,667	-	-
		13,992,316,288	22,302,261	-	-
Third parties					
1 to 30 days		40,490,993	2,211,394	40,490,993	9,085,647
31 to 60 days		9,721,749,782	22,746,401	8,331,688,674	27,053,736
61 to 90 days		4,636,950,147	69,549,927	7,121,517,683	50,681,392
More than 91 days		164,576,253	6,545,440	164,576,253	12,024,525
		14,563,767,175	101,053,162	15,658,273,603	98,845,300
	¢	28,556,083,463	123,355,423	15,658,273,603	98,845,300

		September 2017			
		Term buyer		Term seller	
		Colones	US dollars	Colones	US dollars
Own					
1 to 30 days	¢	-	3,482,708	-	-
31 to 60 days		6,071,273,770	8,253,294	-	-
61 to 90 days		5,826,138,483	10,946,552	-	-
		11,897,412,253	22,682,554	-	-
Third parties					
1 to 30 days		305,941,515	3,913,715	-	7,706,091
31 to 60 days		5,648,885,618	21,930,362	4,865,371,368	26,200,603
61 to 90 days		6,026,744,097	58,062,101	2,861,801,999	29,548,815
		11,981,571,230	83,906,178	7,727,173,367	63,455,509
	¢	23,878,983,483	106,588,732	7,727,173,367	63,455,509

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

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

(26) Investment fund management agreements

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

		September 2018		
Fund		Net carrying amount	Shares	Value per share
Funds in colones:				
Súper Fondo - colones	¢	129,628,529,122	31,757,268,387	4.08
Fon Depósito - colones		57,345,620,881	38,387,676,944	1.49
Creci Fondo - colones		3,118,191,564	595,448,313	5.24
Redi Fondo - colones		12,618,564,145	3,379,843,486	3.73
Diner Fondo - colones		45,564,058,133	16,583,596,137	2.75
	¢	248,274,963,845	90,703,833,267	
Funds in US dollars:				
Súper Fondo - US dollars	US$	20,156,720	13,456,676	1.50
Creci Fondo - US dollars		5,821,841	3,221,351	1.81
Redi Fondo - US dollars		32,208,645	21,196,726	1.52
Diner Fondo - US dollars		69,070,029	52,946,314	1.30
Fon Depósito - US dollars		50,629,859	45,802,051	1.11
Súper Fondo Plus - US dollars		133,898,930	124,068,268	1.08
Fondo Hipotecario - US dollars (mortgage fund)		137,708	136,425	155.25
BN Infraestructura Pública -1 – US dollars (public infrastructure)		21,374,673	21,750	982.74
	US$	333,298,405	260,849,561	
	¢	193,019,772,019	151,063,197,766	
Total assets of managed funds (note 24)	¢	441,294,735,864	241,767,031,033	
Guarantees:				
Performance bonds		58,320,170		
Outstanding checks		1,975,305		
		60,295,475		
Total memoranda accounts	¢	441,355,031,339		

(Continued)

		September 2017		
Fund		Net value	Shares	Value per share
Funds in colones:				
Súper Fondo - colones	¢	100,329,443,244	25,773,851,303	3.89
Fon Depósito - colones		54,731,883,250	38,283,097,400	1.43
Creci Fondo - colones		3,223,488,484	658,339,394	4.90
Redi Fondo - colones		12,341,697,924	3,537,858,135	3.49
Diner Fondo - colones		48,691,281,992	18,537,829,221	2.63
	¢	219,317,794,894	86,790,975,453	
Funds in U.S. dollars:				
Súper Fondo - U.S. dollars	US$	22,853,925	15,527,280	1.47
Creci Fondo - U.S. dollars		4,830,607	2,739,662	1.76
Redi Fondo - U.S. dollars		24,074,341	16,213,489	1.48
Diner Fondo - U.S. dollars		85,782,761	66,730,628	1.29
Fon Depósito - U.S. dollars		51,756,977	47,543,838	1.09
Súper Fondo Plus - U.S. dollars		149,871,729	141,592,553	1.06
Fondo Hipotecario - U.S. dollars (mortgage fund)		206,144	204,797	232.41
BN Infraestructura Pública -1 – U.S. dollars (public infrastructure)		225,084	250	900.33
	US$	339,601,568	290,552,497	
	¢	193,005,758,754	165,129,700,620	
Total assets of managed funds (note 24)	¢	412,323,553,648	251,920,676,073	
Guarantees:				
Performance bonds		64,488,458		
Outstanding checks		1,975,304		
Total memoranda accounts	¢	412,390,017,410		

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 market value of the assets.

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

- *BN DinerFondo - Dólares No Diversificado* (non-diversified - US dollars): This is an open-end (floating number of outstanding shares) money market fund with a fixed income portfolio. Returns on the investment portfolio are not distributed until the customer requests partial or full redemption of shares.
- *BN FonDepósito - Dólares No Diversificado* (non-diversified - US dollars): This is an open-end (floating number of outstanding shares) money market fund with a fixed income portfolio. Returns on the investment portfolio are not distributed until the customer requests partial or full redemption of shares.
- *BN Fondo de Inversión de Titularización Hipotecaria (FHIPO) - Dólares* (mortgage securitization - US dollars): This is mainly a closed-end mortgage investment fund, i.e. investor shares are listed and traded on a stock exchange.
- *BN SuperFondo Dólares Plus No Diversificado - Dólares* (non-diversified - US dollars): This fund is aimed at conservative investors looking for short-term investments. It allows obtaining reimbursement of the shares one business day and up to a maximum of three business days from the date of receipt of the withdrawal request. Since it is a short-term fund, it allows the investor to manage resources to address its present or future liquidity needs. The goal of the fund is to offer an investment mechanism that seeks to obtain higher returns than other investment alternatives under similar liquidity, term and risk parameters, taking advantage of the short-term part of the yield curve in the composition of its portfolio.
- *BN Inmobiliario CR-2 - Dólares* (real estate development – US dollars): This is a long-term, closed-end fund, in US dollars, which has the goal of investing in real estate for its exploitation through leasing and sale. It is aimed at investors interested in diversifying their investments portfolio by including real estate property located in national territory and mainly occupied by public institutions. As of September 30, 2018 and 2017, this fund does not have operations.
- *Fondo de Inversión de Desarrollo Inmobiliario BN-1 - Dólares* (real estate development - US dollars): This fund invests in the construction of buildings to be occupied by entities of the Banco Nacional Conglomerate (BNCR Conglomerate). Once the works are completed, the buildings will be sold to an entity of the BNCR Conglomerate or a real estate fund managed by BN Fondos and investors thus realize their potential gains. If the buildings are sold to a real estate fund, such a fund will lease the buildings to an entity of the BNCR Conglomerate. As of September 30, 2018 and 2017, this fund does not have operations.

- *Fondo de Inversión de Desarrollo Inmobiliario de Infraestructura Pública - 1 - Dólares* (real estate development - US dollars): This fund will invest in the construction of buildings to be occupied by the Maximum Deconcentration Organizations and other entities of BCCR. Once the works are completed, the buildings will be leased with a purchase option to BCCR or sold to BCCR or to a real estate fund managed by BN Fondos and investors thus realize their potential gains. If the buildings are sold to a real estate fund, such a fund will lease the buildings to BCCR. As of September 30, 2018 and 2017, this fund does not have operations.

(27) Pension fund management agreements

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

		September 2018	September 2017
Mandatory Pension Fund (ROP)	¢	1,150,557,980,375	1,026,021,982,208
ROP erroneous		14,939,945,685	13,962,712,568
Mandatory Retirement Savings Account (FCL)		96,401,806,861	87,065,993,683
FCL erroneous		3,493,215,612	3,259,745,338
Pension Fund in colones A (FPC A)		69,976,314,275	62,128,174,104
Pension Fund in colones B (FPC B)		17,176,679,453	15,798,162,914
Notary Fund (NOT)		27,709,058,560	25,314,539,340
Pension Fund in US dollars A (FPD A) (a)		13,216,136,976	11,405,408,670
Pension Fund in US dollars B (FPD B) (b)		7,069,508,191	8,665,419,540
Total assets of managed funds (note 24)		1,400,540,645,988	1,253,622,138,365
Securities and assets in own custody		8,430,663,982	6,030,711,670
Bid and performance bonds – colones		21,766,036	16,160,605
Bid and performance bonds – US dollars (c)		66,158,588	75,219,788
Securities in DU		503,920,135	689,927,462
Total memoranda accounts (note 24)	¢	1,409,563,154,729	1,260,434,157,890

(a) As of September 30, 2018, this fund amounts to US$22,821,068 and is valued at the exchange rate of ¢579.12 to US$1.00 (September 30, 2017: US$20,068,285 valued at the exchange rate of ¢568.33 to US$1.00).

(b) As of September 30, 2018, this fund amounts to US$12,207,329 and is valued at the exchange rate of ¢579.12 to US$1.00 (September 30, 2017: US$15,247,162 valued at the exchange rate of ¢568.33 to US$1.00).

(c) As of September 30, 2018, this fund amounts to US$114,240 and is valued at the exchange rate of ¢579.12 to US$1.00 (September 30, 2017: US$132,352 valued at the exchange rate of ¢568.33 to US$1.00).

(28) Income from financial instruments

For the nine months ended September 30, income from financial instruments is as follows:

	September		Quarter from July 1 to September 30	
	2018	2017	2018	2017
Cash and due from banks:				
Deposits in BCCR	¢ 19,136,754	15,980,197	7,038,518	10,226,764
Checking accounts and demand deposits in local entities	138,089,298	65,948,863	49,387,669	32,169,334
Checking accounts and demand deposits in foreign entities	3,801,438,999	1,976,237,615	869,510,323	966,495,124
	3,958,665,051	2,058,166,675	925,936,510	1,008,891,222
Financial instruments:				
Investments in available-for-sale securities	45,152,823,624	35,023,144,953	15,690,068,935	11,440,658,442
Investment in securities and restricted deposits	1,228,458,960	1,832,543,333	521,801,105	548,464,018
	46,381,282,584	36,855,688,286	16,211,870,040	11,989,122,460
	¢ 50,339,947,635	38,913,854,961	17,137,806,550	12,998,013,682

(Continued)

(29) Income from loan portfolio

For the nine months ended September 30, income from the loan portfolio is as follows:

		September		Quarter from July 1 to September 30	
		2018	2017	2018	2017
Current loans:					
Checking account overdrafts	¢	15,913,662	57,029,613	8,300,615	21,501,847
Loans granted with funds from BCCR		650,292,091	765,003,992	203,549,954	242,994,008
Loans granted with other funds		267,895,924,095	242,910,012,564	91,020,146,501	87,087,713,087
Credit cards		18,950,872,409	18,107,923,459	6,197,498,330	6,345,319,824
Issued letters of credit		352,985	577,534	36,867	95,067
Other loans		3,357,755	3,391,462	1,121,534	1,157,213
		287,516,712,997	261,843,938,624	97,430,653,801	93,698,781,046
Past due loans and loans in legal collection:					
Checking account overdrafts		1,315,310	1,746,482	501,712	411,625
Loans granted with funds from BCCR		109,278,656	97,754,054	36,313,063	35,732,042
Loans granted with other funds		41,762,043,270	32,029,395,018	14,244,113,028	11,089,741,747
Credit cards		2,422,342,619	1,866,187,590	739,777,049	709,386,552
Other loans		8,876,721	234,173	131,478	-
		44,303,856,576	33,995,317,317	15,020,836,330	11,835,271,966
	¢	331,820,569,573	295,839,255,941	112,451,490,131	105,534,053,012

(Continued)

(30) Other finance income

For the nine months ended September 30, other finance income is as follows:

		September		Quarter from July 1 to September 30	
		2018	2017	2018	2017
Fees and commissions on letters of credit	¢	18,419,703	63,076,741	5,092,581	5,811,639
Fees and commissions on guarantees granted		327,781,936	366,567,362	110,282,019	101,110,660
Fees and commissions on lines of credit		211,023,834	54,373,227	57,932,449	20,833,200
Gain on fair value hedge for item measured at cost		21,897,954,530	10,750,360,041	4,813,076,068	7,533,353,024
Other sundry finance income		2,982,303,369	3,913,601,626	1,090,895,651	932,869,342
	¢	25,437,483,372	15,147,978,997	6,077,278,768	8,593,977,865

(31) Finance expenses for obligations with the public

For the nine months ended September 30, finance expenses for obligations with the public are as follows:

		September		Quarter from July 1 to September 30	
		2018	2017	2018	2017
Demand deposits	¢	35,107,935,536	26,597,290,333	11,538,396,818	10,213,079,165
Term deposits		102,304,816,876	79,756,894,251	34,739,552,273	30,499,986,108
Third-party repurchase agreements and securities lending		1,260,836,217	929,040,794	419,143,300	262,117,778
	¢	138,673,588,629	107,283,225,378	46,697,092,391	40,975,183,051

(Continued)

(32) Finance expenses for obligations with financial entities

For the nine months ended September 30, finance expenses for obligations with financial entities are as follows:

		September		Quarter from July 1 to September 30	
		2018	2017	2018	2017
Demand obligations	¢	1,947,808,924	1,707,848,389	702,241,830	652,888,805
Term obligations		52,590,366,199	50,527,854,280	17,979,060,565	18,420,724,788
	¢	54,538,175,123	52,235,702,669	18,681,302,395	19,073,613,593

(33) Other finance expenses

For the nine months ended September 30, other finance expenses are as follows:

		September		Quarter from July 1 to September 30	
		2018	2017	2018	2017
Fees and commissions on letters of credit obtained	¢	140,896,379	58,812,729	47,017,751	19,930,689
Loss on hedged item measured at cost from fair value hedge on interest rate risk		6,153,236,118	14,664,767,883	2,324,022,598	4,622,855,037
Other sundry finance expenses		1,226,929,745	200,850,832	433,307,184	37,312,167
	¢	7,521,062,242	14,924,431,444	2,804,347,533	4,680,097,893

(34) Expenses for allowance for impairment of assets

For the nine months ended September 30, expenses for allowance for impairment of assets are as follows:

	September		Quarter from July 1 to September 30	
	2018	2017	2018	2017
Allowance for loan losses (note 7-c)	¢ 57,820,341,360	18,663,169,479	20,859,700,001	10,051,132,499
Allowance for impairment of other accounts receivable (note 8)	1,792,982,861	1,779,430,394	366,041,373	517,505,994
Allowance for stand-by credit losses (note 19)	16,340,000	18,000,000	12,200,000	-
General and counter-cyclical allowance for loan portfolio (note 7-c)	3,497,153,373	9,745,974,431	1,186,969,203	2,656,333,043
General and counter-cyclical allowance for stand-by credit losses (note 19)	3,600,000	58,167,000	-	20,000
Allowance for impairment of derivative financial instruments (note 5)	16,534,564	14,102,866	3,686,482	1,995,500
	¢ 63,146,952,158	30,278,844,170	22,428,597,059	13,226,987,036

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

For the nine months ended September 30, income from recovery of assets and decreases in allowances and provisions is as follows:

	September		Quarter from July 1 to September 30	
	2018	2017	2018	2017
Recovery of loan write-offs	¢ 5,049,877,327	9,610,291,531	1,120,782,324	1,714,015,088
Recovery of receivable write-offs	1,984,262	1,245,629	468,736	307,687
Decrease in allowance for loan losses (note 7)	-	720,000,000	-	-
Decrease in allowance for impairment of other accounts receivable (note 8)	920,009,803	690,778,253	653,592,817	393,044,788
Decrease in allowance for stand-by credit losses (note 19)	-	230,000,000	-	-
Decrease in general and counter-cyclical allowance for stand-by credit losses (note 19)	-	130,000,000	-	80,000,000
Decrease in allowance for impairment of investments in financial instruments (note 5)	90,008,760	13,732,415	4,879,401	13,432,822
	¢ 6,061,880,152	11,396,047,828	1,779,723,278	2,200,800,385

(Continued)

(36) Operating income from service fees and commissions

For the nine months ended September 30, operating income from service fees and commissions is as follows:

		September		Quarter from July 1 to September 30	
		2018	2017	2018	2017
Drafts and transfers	¢	6,553,792,400	6,243,133,186	2,179,196,135	2,076,577,813
Certified checks		2,957,988	4,886,879	857,568	1,591,046
Trusts		879,158,642	708,693,683	300,386,849	252,820,630
Custodial services		1,094,628,250	1,213,725,594	357,488,910	408,144,560
Banking mandates		157,293	164,843	91,248	50,746
Collections		21,157,190	24,209,997	6,486,464	7,493,507
Credit cards		43,059,373,912	39,710,611,367	14,033,449,178	13,348,134,678
Management services		2,364,694,881	2,574,039,842	704,152,180	841,718,091
Management of investment funds		4,153,741,734	3,636,821,754	1,452,218,271	1,188,552,201
Management of pension funds		6,233,113,870	5,397,467,975	2,158,024,552	1,861,774,130
Insurance underwriting		4,157,322,181	4,205,212,761	1,296,093,559	1,505,573,810
Brokerage operations (third parties in local market)		1,532,581,013	2,106,816,379	364,180,852	570,397,071
Brokerage operations (third parties in other markets)		51,125,889	58,394,802	22,854,580	8,789,015
Individual portfolio management		174,807	781,779	-	262,069
Operations with related parties		183,842,594	-	63,302,965	-
Other		30,058,380,093	29,346,637,650	9,613,819,133	9,785,681,014
	¢	100,346,202,737	95,231,598,491	32,552,602,444	31,857,560,381

(Continued)

(37) Other operating income

For the nine months ended September 30, other operating income is as follows:

		September		Quarter from July 1 to September 30	
		2018	2017	2018	2017
Leasing of assets	¢	26,466,340	35,996,925	-	5,700,000
Recovery of expenses		2,420,553,804	2,158,246,928	1,159,538,375	643,815,761
Net valuation of other assets (note 46-c)		208,237,728	216,573,653	59,831,388	129,885,654
Other income from accounts receivable		2,211,335	1,056,697	1,254,986	409,144
Sundry operating income		4,487,735,837	3,634,859,097	1,399,581,209	1,328,751,058
Other income from related parties		-	-	(5,324,527)	-
Decrease in provisions		33,804,685	850,320,364	23,646,074	353,734,109
	¢	7,179,009,729	6,897,053,664	2,638,527,505	2,462,295,726

(38) Expenses for foreclosed assets

For the nine months ended September 30, expenses for foreclosed assets are as follows:

		September		Quarter from July 1 to September 30	
		2018	2017	2018	2018
Loss on sale of assets acquired in lieu of payment	¢	946,583,592	1,488,697,250	946,583,592	1,319,010,484
Loss on sale of assets awarded in judicial auctions		7,121,517,029	6,142,073,245	1,328,733,767	1,877,260,324
Management of assets acquired in lieu of payment		33,320,920	-	6,320,535	-
Management of assets awarded in judicial auctions		3,771,482,578	4,169,872,225	1,178,782,545	1,629,867,983
Loss on impairment of foreclosed assets (note 9)		38,109,431	84,106,163	25,666,695	41,267,182
Loss on allowance for impairment of foreclosed assets and per legal requirements (note 9)		2,940,493,121	4,923,907,409	1,463,951,943	1,352,135,915
Other expenses		83,883,296	297,511,474	9,656,565	40,788,824
	¢	14,935,389,967	17,106,167,766	4,959,695,642	6,260,330,712

(Continued)

(39) Expenses for provisions

For the nine months ended September 30, expenses for provisions are as follows:

		September		Quarter from July 1 to September 30	
		2018	2017	2018	2017
Severance benefits	¢	1,169,895,580	1,136,835,023	552,653,706	520,934,978
Litigation		2,176,538,537	789,026,382	1,896,855,125	412,899,914
BN Premios points program		3,335,847,097	1,992,888,543	835,305,702	697,601,362
SEDI		1,373,490,549	2,677,515,237	188,131,741	641,822,897
Manager commissions		1,552,398,972	844,914,734	538,501,291	506,948,840
Variation in RIVM methodology		1,629,700,558	3,062,988,609	577,146,177	608,742,506
Notice of deficiency		2,420,204,313	-	1,516,191,740	-
Other		376,965,012	897,380,192	92,330,591	388,467,977
	¢	14,035,040,618	11,401,548,720	6,197,116,073	3,777,418,474

(40) Other operating expenses

For the nine months ended September 30, other operating expenses are as follows:

		September		Quarter from July 1 to September 30	
		2018	2017	2018	2017
Fines for noncompliance with legal regulatory provisions	¢	50,000	374,512,485	-	18,936
Net valuation of other liabilities (note 46-c)		511,907,845	689,166,497	407,429,425	131,086,829
Income tax on remittances		22,021,397	75,051,617	5,397,912	-
Income tax (8%) on interest on investments in financial instruments		2,035,027,766	2,258,393,061	672,704,156	726,969,774
Property tax		196,848,986	178,868,401	61,565,220	66,038,105
Licenses		622,309,466	448,474,093	228,424,820	120,912,938
Other local taxes		379,265,281	896,172,987	84,345,977	654,928
Transfer to FINADE		2,088,867,039	2,996,190,629	583,121,052	907,827,722
Sundry operating expenses		45,455,803,300	46,366,353,787	15,072,515,210	15,829,152,784
	¢	51,312,101,080	54,283,183,557	17,115,503,772	17,782,662,016

(Continued)

(41) Personnel expenses

For the nine months ended September 30, personnel expenses are as follows:

		September		Quarter from July 1 to September 30	
		2018	2017	2018	2017
Salaries and bonuses, permanent staff	¢	51,027,026,754	49,949,135,870	17,004,040,655	16,607,029,858
Salaries and bonuses, contractors		1,260,342,213	1,239,590,482	411,172,133	406,939,974
Compensation for directors and statutory examiners		159,185,821	142,487,012	50,773,054	50,871,744
Overtime		510,223,864	715,523,964	159,922,330	214,548,614
Travel expenses		406,122,862	460,168,148	139,243,031	166,492,544
Statutory Christmas bonus		5,432,955,585	5,467,515,706	1,775,192,985	1,812,999,113
Vacation		5,303,745,366	5,534,088,875	1,525,929,240	1,758,729,783
Other compensation		3,010,857,645	3,291,794,034	1,075,223,525	1,306,724,156
Severance benefits		3,310,022,224	3,331,759,324	1,088,026,675	1,096,686,267
Employer social security taxes		20,578,624,703	20,806,961,609	6,707,263,601	6,837,458,782
Refreshments		337,625,117	320,298,034	155,257,842	136,765,876
Uniforms		109,893,676	159,881,896	2,225,231	23,483,125
Training		329,291,714	444,263,654	153,729,299	213,273,710
Employee insurance		178,261,265	176,066,392	66,005,006	56,085,284
Back-to-school bonus		4,716,495,319	4,670,424,651	1,559,813,098	1,541,291,046
Mandatory retirement savings account		1,979,501,069	1,999,348,549	645,361,609	657,595,323
Other personnel expenses		461,312,216	413,267,108	160,487,669	120,795,329
	¢	99,111,487,413	99,122,575,308	32,679,666,983	33,007,770,528

(42) Other administrative expenses

For the nine months ended September 30, other administrative expenses are as follows:

		September		Quarter from July 1 to September 30	
		2018	2017	2018	2017
Outsourcing	¢	11,150,897,646	9,492,789,942	3,711,247,222	3,346,235,144
Transportation and communications		3,113,954,237	3,396,591,027	988,235,820	1,167,158,107
Infrastructure		26,557,151,556	26,763,486,025	9,042,709,906	8,914,046,879
Overhead		13,264,891,741	10,948,186,894	5,143,355,387	3,691,568,391
	¢	54,086,895,180	50,601,053,888	18,885,548,335	17,119,008,521

(Continued)

(43) Statutory allocations

For the nine months ended September 30, statutory allocations are as follows:

		September		Quarter from July 1 to September 30	
		2018	2017	2018	2017
CONAPE 5%	¢	1,199,527,161	2,380,038,427	175,568,823	519,159,931
CNE (3%)		821,624,522	1,502,122,268	139,527,186	333,492,680
INFOCOOP (10%)		2,231,923,312	3,851,250,090	328,157,000	938,092,353
Public capital pension operators		829,604,681	507,630,267	291,214,826	210,195,109
RIVM (15%)		2,282,587,127	4,525,105,990	198,413,087	1,068,108,237
	¢	7,365,266,803	12,766,147,042	1,132,880,922	3,069,048,310

For the nine months ended September 30, statutory allocations decrease as follows:

		September		Quarter from July 1 to September 30	
		2018	2017	2018	2017
CNE 3%	¢	10,919,540	6,857,889	10,919,540	-
INFOCOOP 10%		-	63,669,806	-	-
RIVM 15%		-	30,585,366	-	-
	¢	10,919,540	101,113,061	10,919,540	-

(44) Fair value of financial instruments

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

		September 2018	
		Carrying amount	Fair value
Financial assets:			
Cash and due from banks	¢	1,240,394,555,501	1,240,394,555,501
Investments in financial instruments		1,184,531,514,889	1,184,531,514,889
Loan portfolio		4,537,108,736,461	3,642,480,760,355
	¢	6,962,034,806,851	6,067,406,830,745
Financial liabilities:			
Demand deposits from the public and financial entities	¢	2,871,918,119,342	2,871,918,119,342
Other demand obligations with the public		16,824,633,787	16,824,633,787
Term deposits from the public and financial entities		3,320,272,908,874	3,327,866,095,501
Obligations for tri-party repurchase agreements		26,697,308,999	26,697,308,999
	¢	6,235,712,971,002	6,243,306,157,629

		September 2017	
		Carrying amount	Fair value
Financial assets:			
Cash and due from banks	¢	1,302,567,320,124	1,302,567,320,124
Investments in financial instruments		1,027,780,330,144	1,027,780,330,144
Loan portfolio		4,501,893,224,182	4,185,098,423,803
	¢	6,832,240,874,450	6,515,446,074,071
Financial liabilities:			
Demand deposits from the public and financial entities	¢	2,745,655,750,750	2,745,655,750,750
Other demand obligations with the public		15,070,678,316	15,070,678,316
Term deposits from the public and financial entities		3,418,302,443,441	2,558,036,842,139
Obligations for tri-party repurchase agreements		24,616,469,587	24,616,469,587
	¢	6,203,645,342,094	5,343,379,740,792

Fair value estimates

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

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

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

(b) Loan portfolio

The fair value of loans is calculated by discounting future cash flows expected for principal and interest. Loan payments are assumed to be made on the contractually agreed payment dates. Future expected cash flows for loans are discounted at the interest rates offered for similar loans to new borrowers as of September 30, 2018 and 2017.

(c) Term deposits

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

(d) Obligations with entities

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

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

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

		September 2018			
		Level 1	Level 2	Level 3	Total
Available for sale	¢	1,083,202,618,122	70,361,244,368	4,761,756,288	1,158,325,618,778
Held to maturity		-	18,811,098,378	-	18,811,098,378
Term obligations with foreign financial entities		-	-	839,364,066,907	839,364,066,907

		September 2017			
		Level 1	Level 2	Level 3	Total
Available for sale	¢	824,742,467,989	85,091,217,620	5,911,286,055	915,744,971,664
Held to maturity		-	27,613,265,554	-	27,613,265,554
Derivative financial instruments		-	-	10,179,675,167	10,179,675,167
Term obligations with foreign financial entities		-	-	849,877,433,454	849,877,433,454

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					
		2018			2017		
		Available for sale	Derivative financial instruments	Term obligations with foreign financial entities	Available for sale	Derivative financial instruments	Term obligations with foreign financial entities
Opening balance	¢	5,884,509,934	6,159,898,498	841,601,971,462	5,629,455,571	5,893,164,907	815,040,918,559
Purchases		-	-	-	-	-	269,968,328,000
Maturities		(1,194,835,544)	-	-	-	-	-
Valuation		(33,067,752)	(6,298,012,814)	(16,493,028,504)	110,604,168	4,090,670,546	45,434,984,643
Amortizations		-	-	1,210,267,587	-	-	669,415,281
Exchange differences		105,149,650	138,114,316	13,044,856,362	171,226,316	195,839,788	(281,236,213,029)
Closing balance	¢	4,761,756,288	-	839,364,066,907	5,911,286,055	10,179,675,241	849,877,433,454

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(45) Segments

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

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

		As of September 30, 2018							
		Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations	Consolidated
ASSETS									
Cash and due from banks	¢	1,234,767,045,148	3,979,085,964	168,480,084	320,336,630	4,009,787,649	1,243,244,735,475	2,850,179,974	1,240,394,555,501
Investments in financial instruments		1,107,408,960,139	62,533,931,237	7,005,516,391	7,641,268,736	12,238,387	1,184,601,914,890	70,400,000	1,184,531,514,890
Loan portfolio, net		4,353,930,187,702	-	-	-	-	4,353,930,187,702	-	4,353,930,187,702
Accounts and fees and commissions receivable, net		1,584,002,926	788,696,102	77,107,656	793,697,955	408,322,961	3,651,827,600	39,972,584	3,611,855,016
Fees and commissions		222,972,264	14,198,416	47,399,004	714,250,679	303,836,645	1,302,657,008	36,312,620	1,266,344,388
Brokerage services		-	64,290,113	-	-	-	64,290,113	-	64,290,113
Transactions with related parties		57,147,556	163,982	3,621,055	888,116	-	61,820,709	3,659,964	58,160,745
Deferred tax and income tax		1,281,433,740	709,531,522	24,956,927	66,903,411	104,473,061	2,187,298,661	-	2,187,298,661
Other		4,083,988,417	512,069	1,130,670	70,719,623	13,255	4,156,364,034	-	4,156,364,034
Accrued interest		1,517,374	-	-	-	-	1,517,374	-	1,517,374
Allowance for impairment of accounts and fees and commissions receivable		(4,063,056,425)	-	-	(59,063,874)	-	(4,122,120,299)	-	(4,122,120,299)
Foreclosed assets, net		18,269,134,496	-	-	-	-	18,269,134,496	-	18,269,134,496
Investments in other companies		96,698,094,759	30,000,000	-	-	-	96,728,094,759	33,726,106,875	63,001,987,884
Property and equipment, net		188,723,361,694	188,083,170	131,384,067	562,108,517	84,552,693	189,689,490,141	-	189,689,490,141
Other assets		36,989,893,527	162,852,569	763,706,528	530,553,212	616,895,875	39,063,901,711	-	39,063,901,711
TOTAL ASSETS	¢	7,038,370,680,391	67,682,649,042	8,146,194,726	9,847,965,050	5,131,797,565	7,129,179,286,774	36,686,659,433	7,092,492,627,341
LIABILITIES AND EQUITY									
LIABILITIES									
Obligations with the public	¢	4,755,131,945,665	26,790,031,256	-	-	-	4,781,921,976,921	29,500,000	4,781,892,476,921
Obligations with BCCR		6,128,644,412	-	-	-	-	6,128,644,412	-	6,128,644,412
Obligations with entities		1,375,984,136,150	22,729,395,673	-	-	-	1,398,713,531,823	1,840,055,059	1,396,873,476,764
Demand		225,916,332,053	-	-	-	-	225,916,332,053	1,799,155,059	224,117,176,994
Term		1,125,651,412,674	22,678,560,000	-	-	-	1,148,329,972,674	40,900,000	1,148,289,072,674
Finance charges payable		24,416,391,423	50,835,673	-	-	-	24,467,227,096	-	24,467,227,096
Accounts payable and provisions		113,582,444,235	3,310,995,018	975,829,050	2,229,788,613	1,046,459,897	121,145,516,813	39,972,579	121,105,544,234
Other liabilities		65,063,792,803	-	-	-	-	65,063,792,803	1,051,024,913	64,012,767,890
Subordinated obligations		76,078,498,928	-	-	-	-	76,078,498,928	-	76,078,498,928
TOTAL LIABILITIES	¢	6,391,969,462,193	52,830,421,947	975,829,050	2,229,788,613	1,046,459,897	6,449,051,961,700	2,960,552,551	6,446,091,409,149

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		As of September 30, 2018							
		Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations	Consolidated
EQUITY									
Share capital	¢	172,237,030,102	6,600,000,000	3,000,000,000	4,931,194,046	369,700,000	187,137,924,148	14,900,894,046	172,237,030,102
Non-capitalized capital contributions		-	-	-	63,730,962	-	63,730,962	63,730,962	-
Equity adjustments		72,006,223,069	(1,509,510,275)	(4,804,999)	(15,926,282)	-	70,475,981,513	(1,530,241,555)	72,006,223,068
Capital reserves		332,576,862,852	1,320,000,000	539,734,980	300,000,000	73,940,000	334,810,537,832	2,233,674,980	332,576,862,852
Prior-period retained earnings		20,793,465,507	7,518,460,522	2,106,139,759	1,509,573,030	1,981,015,969	33,908,654,787	13,115,189,279	20,793,465,508
Income for the period		17,815,642,221	923,276,848	1,529,295,936	829,604,681	1,660,681,699	22,758,501,385	4,942,859,170	17,815,642,215
FOFIDE		30,971,994,447	-	-	-	-	30,971,994,447	-	30,971,994,447
TOTAL EQUITY	¢	646,401,218,198	14,852,227,095	7,170,365,676	7,618,176,437	4,085,337,668	680,127,325,074	33,726,106,882	646,401,218,192
TOTAL LIABILITIES AND EQUITY	¢	7,038,370,680,391	67,682,649,042	8,146,194,726	9,847,965,050	5,131,797,565	7,129,179,286,774	36,686,659,433	7,092,492,627,341
Debit memoranda accounts	¢	656,640,689,502	133,004,706	-	23,220,000	-	656,796,914,208	-	656,796,914,208
Trust assets	¢	1,858,538,953,108	771,475,747	-	-	-	1,859,310,428,855	-	1,859,310,428,855
Trust liabilities	¢	138,906,940,390	6,863,075	-	-	-	138,913,803,465	-	138,913,803,465
Trust equity	¢	1,719,632,012,718	764,612,672	-	-	-	1,720,396,625,390	-	1,720,396,625,390
Other debit memoranda accounts	¢	19,370,377,350,566	1,072,608,092,778	441,355,031,339	1,409,563,154,729	-	22,293,903,629,412	-	22,293,903,629,412

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		For the period ended September 30, 2018							
		Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations	Consolidated
Finance income	¢	403,410,899,239	3,240,556,821	437,489,942	474,676,634	114,202,087	407,677,824,723	31,247,159	407,646,577,564
Finance costs		218,121,981,574	1,794,126,246	57,296,812	-	-	219,973,404,632	31,247,162	219,942,157,470
Allowance expense		63,146,952,158	-	-	-	-	63,146,952,158	-	63,146,952,158
Income from recovery of assets		6,061,880,152	-	-	-	-	6,061,880,152	-	6,061,880,152
FINANCE INCOME		128,203,845,659	1,446,430,575	380,193,130	474,676,634	114,202,087	130,619,348,085	(3)	130,619,348,088
Other operating income		123,896,213,338	2,323,414,689	4,158,904,876	6,262,556,090	3,921,331,027	140,562,420,020	5,984,733,928	134,577,686,092
Other operating expenses		84,168,189,719	347,329,503	401,384,310	979,659,797	101,879,525	85,998,442,854	943,405,955	85,055,036,899
GROSS OPERATING INCOME		167,931,869,278	3,422,515,761	4,137,713,696	5,757,572,927	3,933,653,589	185,183,325,251	5,041,327,970	180,141,997,281
Personnel expenses		91,753,730,480	1,876,676,227	1,503,503,393	2,636,305,286	1,341,272,027	99,111,487,413	-	99,111,487,413
Other administrative expenses		52,187,595,589	600,576,333	493,614,460	736,780,280	166,797,326	54,185,363,988	98,468,808	54,086,895,180
Total administrative expenses		143,941,326,069	2,477,252,560	1,997,117,853	3,373,085,566	1,508,069,353	153,296,851,401	98,468,808	153,198,382,593
NET OPERATING INCOME BEFORE STATUTORY ALLOCATIONS AND TAXES		23,990,543,209	945,263,201	2,140,595,843	2,384,487,361	2,425,584,236	31,886,473,850	4,942,859,162	26,943,614,688
Income tax		-	-	563,299,387	697,112,985	717,336,090	1,977,748,462	-	1,977,748,462
Decrease in income tax		99,647,590	19,687,625	16,217,355	43,369,607	25,201,080	204,123,257	-	204,123,257
Statutory allocations		6,285,468,119	41,673,978	64,217,875	901,139,302	72,767,527	7,365,266,801	(2)	7,365,266,803
Decrease in statutory allocations		10,919,540	-	-	-	-	10,919,540	-	10,919,540
INCOME FOR THE PERIOD	¢	17,815,642,220	923,276,848	1,529,295,936	829,604,681	1,660,681,699	22,758,501,384	4,942,859,164	17,815,642,220

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		As of September 30, 2017							
		Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations	Consolidated
ASSETS									
Cash and due from banks	¢	1,297,301,796,085	2,434,061,521	142,662,527	1,727,805,432	1,958,502,118	1,303,564,827,683	997,507,559	1,302,567,320,124
Investments in financial instruments		960,366,071,265	56,600,377,737	5,706,970,332	5,136,410,810	-	1,027,809,830,144	29,500,000	1,027,780,330,144
Loan portfolio, net		4,399,604,546,072	-	-	-	-	4,399,604,546,072	-	4,399,604,546,072
Accounts and fees and commissions receivable, net		1,624,548,868	394,694,655	88,795,754	676,581,689	453,576,398	3,238,197,364	60,774,182	3,177,423,182
Fees and commissions		216,775,587	26,577,321	27,733,725	618,765,885	326,292,583	1,216,145,101	33,007,000	1,183,138,101
Brokerage services		-	58,572,629	-	-	-	58,572,629	-	58,572,629
Transactions with related parties		61,140,539	-	2,722,455	980,778	-	64,843,772	27,767,114	37,076,658
Deferred tax and income tax		1,058,090,422	307,652,882	58,150,314	46,597,780	127,270,560	1,597,761,958	-	1,597,761,958
Other		3,911,718,084	1,891,823	189,260	69,174,219	13,255	3,982,986,641	68	3,982,986,573
Accrued interest		1,732,262	-	-	-	-	1,732,262	-	1,732,262
Allowance for impairment of accounts and fees and commissions receivable		(3,624,908,026)	-	-	(58,936,973)	-	(3,683,844,999)	-	(3,683,844,999)
Foreclosed assets, net		15,598,038,267	-	-	-	-	15,598,038,267	-	15,598,038,267
Investments in other companies		91,575,659,844	30,000,000	-	-	-	91,605,659,844	30,283,850,199	61,321,809,645
Property and equipment, net		175,884,588,870	297,383,940	155,573,492	519,346,015	44,790,155	176,901,682,472	-	176,901,682,472
Other assets		43,041,062,468	160,051,424	863,767,165	612,353,087	442,766,131	45,120,000,275	-	45,120,000,275
TOTAL ASSETS	¢	6,984,996,311,739	59,916,569,277	6,957,769,270	8,672,497,033	2,899,634,802	7,063,442,782,121	31,371,631,940	7,032,071,150,181
LIABILITIES AND EQUITY									
LIABILITIES									
Obligations with the public	¢	4,727,885,336,009	24,697,481,134	-	-	-	4,752,582,817,143	29,500,000	4,752,553,317,143
Obligations with BCCR		28,134,588,856	-	-	-	-	28,134,588,856	-	28,134,588,856
Obligations with entities		1,355,187,836,632	18,385,601,104	-	-	-	1,373,573,437,736	997,507,636	1,372,575,930,100
Demand		200,756,155,266	-	-	-	-	200,756,155,266	997,507,636	199,758,647,630
Term		1,130,966,427,462	18,349,461,003	-	-	-	1,149,315,888,465	-	1,149,315,888,465
Finance charges payable		23,465,253,904	36,140,101	-	-	-	23,501,394,005	-	23,501,394,005
Accounts payable and provisions		117,764,804,977	1,527,634,530	909,269,298	1,540,062,978	1,102,571,149	122,844,342,932	60,774,115	122,783,568,817
Other liabilities		60,244,057,570	-	-	-	-	60,244,057,570	-	60,244,057,570
Subordinated obligations		74,538,354,409	-	-	-	-	74,538,354,409	-	74,538,354,409
TOTAL LIABILITIES	¢	6,363,754,978,453	44,610,716,768	909,269,298	1,540,062,978	1,102,571,149	6,411,917,598,646	1,087,781,751	6,410,829,816,895

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		As of September 30, 2017							
		Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations	Consolidated
EQUITY									
Share capital	¢	172,237,030,102	6,600,000,000	3,000,000,000	4,570,768,998	369,700,000	186,777,499,100	14,540,468,998	172,237,030,102
Non-capitalized capital contributions		-	-	-	424,156,011	-	424,156,011	424,156,011	-
Equity adjustments		69,468,783,366	(485,656,915)	(33,876,042)	(14,448,913)	-	68,934,801,496	(533,981,870)	69,468,783,366
Capital reserves		309,800,596,676	1,262,017,386	452,648,063	300,000,000	73,940,000	311,889,202,125	2,088,605,449	309,800,596,676
Prior-period retained earnings		13,238,583,625	6,474,908,022	1,451,488,345	1,344,327,767	-	22,509,307,759	9,270,724,134	13,238,583,625
Income for the period		29,384,381,504	1,454,584,016	1,178,239,606	507,630,192	1,353,423,653	33,878,258,971	4,493,877,467	29,384,381,504
FOFIDE		27,111,958,013	-	-	-	-	27,111,958,013	-	27,111,958,013
TOTAL EQUITY	¢	621,241,333,286	15,305,852,509	6,048,499,972	7,132,434,055	1,797,063,653	651,525,183,475	30,283,850,189	621,241,333,286
TOTAL LIABILITIES AND EQUITY	¢	6,984,996,311,739	59,916,569,277	6,957,769,270	8,672,497,033	2,899,634,802	7,063,442,782,121	31,371,631,940	7,032,071,150,181
Debit memoranda accounts	¢	662,794,230,253	92,101,415	-	23,000,000	-	662,909,331,668	-	662,909,331,668
Trust assets	¢	1,438,905,009,657	2,386,616,249	-	-	-	1,441,291,625,906	-	1,441,291,625,906
Trust liabilities	¢	40,137,707,369	816,710	-	-	-	40,138,524,079	-	40,138,524,079
Trust equity	¢	1,398,767,302,288	2,385,799,539	-	-	-	1,401,153,101,827	-	1,401,153,101,827
Other debit memoranda accounts	¢	18,147,412,404,748	936,857,724,682	412,390,017,410	1,260,434,157,890	-	20,757,094,304,730	-	20,757,094,304,730

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		As of September 30, 2017							
		Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations	Consolidated
Finance income	¢	356,492,943,807	3,020,703,826	368,549,629	388,093,892	43,373,068	360,313,664,222	53,561,265	360,260,102,957
Finance costs		178,071,694,678	1,368,490,322	77,517,792	30,619,783	1,758,785	179,550,081,360	53,561,274	179,496,520,086
Allowance expense		11,396,047,828	-	-	-	-	11,396,047,828	-	11,396,047,828
Income from recovery of assets		30,278,844,170	-	-	-	-	30,278,844,170	-	30,278,844,170
FINANCE INCOME		159,538,452,787	1,652,213,504	291,031,837	357,474,109	41,614,283	161,880,786,520	(9)	161,880,786,529
Other operating income		114,850,327,061	2,913,886,312	3,660,172,138	5,446,332,443	3,635,780,592	130,506,498,546	5,357,661,612	125,148,836,934
Other operating expenses		86,331,719,984	375,184,139	463,419,483	924,508,293	234,096,566	88,328,928,465	746,057,583	87,582,870,882
GROSS OPERATING INCOME		188,057,059,864	4,190,915,677	3,487,784,492	4,879,298,259	3,443,298,309	204,058,356,601	4,611,604,020	199,446,752,581
Personnel expenses		91,921,614,721	2,044,105,260	1,413,123,113	2,480,865,799	1,262,866,415	99,122,575,308	-	99,122,575,308
Other administrative expenses		48,694,733,693	562,381,842	422,379,782	862,044,470	177,240,655	50,718,780,442	117,726,554	50,601,053,888
Total administrative expenses		140,616,348,414	2,606,487,102	1,835,502,895	3,342,910,269	1,440,107,070	149,841,355,750	117,726,554	149,723,629,196
NET OPERATING INCOME BEFORE STATUTORY ALLOCATIONS AND TAXES		47,440,711,450	1,584,428,575	1,652,281,597	1,536,387,990	2,003,191,239	54,217,000,851	4,493,877,466	49,723,123,385
Income tax		7,458,250,516	142,209,370	459,224,457	512,969,994	643,363,420	9,216,017,757	-	9,216,017,757
Decrease in income tax		1,356,106,263	59,897,668	34,680,251	37,934,106	53,691,569	1,542,309,857	-	1,542,309,857
Statutory allocations		12,055,298,754	47,532,857	49,497,785	553,721,910	60,095,736	12,766,147,042	-	12,766,147,042
Decrease in statutory allocations		101,113,061	-	-	-	-	101,113,061	-	101,113,061
INCOME FOR THE PERIOD	¢	29,384,381,504	1,454,584,016	1,178,239,606	507,630,192	1,353,423,652	33,878,258,970	4,493,877,466	29,384,381,504

(Continued)

(46) Risk management

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

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

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

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

The Bank manages the above risks as follows:

a) *Credit risk*

i. *Banco Nacional de Costa Rica*

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

(Continued)

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

The Bank has established the following credit risk management procedures:

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

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

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

			Direct			Stand-by	
	Note		September 2018	September 2017	Note	September 2018	September 2017
Loan portfolio							
Principal	7-a	¢	4,497,367,083,563	4,469,930,117,105		337,224,218,132	346,148,392,381
Accounts and accrued interest receivable			39,741,652,898	31,963,107,077		-	-
Carrying amount, gross			4,537,108,736,461	4,501,893,224,182		337,224,218,132	346,148,392,381
Allowance for loan losses (accounting records)			(174,474,355,653)	(96,180,981,939)		(289,910,495)	(266,234,864)
Carrying amount, net		¢	4,362,634,380,808	4,405,712,242,243		336,934,307,637	345,882,157,517

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		Direct			Stand-by	
		September 2018	September 2017	Note	September 2018	September 2017
Loan portfolio						
Total balances:						
0	¢	21,946,026,743	14,446,260,313		-	-
A1		3,476,129,019,301	3,602,694,013,574		319,464,403,918	336,511,736,709
A2		34,511,255,018	38,722,407,726		667,078,591	528,955,937
B1		412,885,240,217	340,317,625,861		11,159,932,194	3,528,414,708
B2		6,213,877,761	4,396,634,299		31,488,353	14,764,656
C1		117,862,266,861	157,303,301,753		2,424,254,870	2,380,337,560
C2		20,577,115,527	4,101,253,067		17,275,827	30,968,819
D		141,733,681,651	140,734,895,009		1,052,651,214	1,125,617,836
E		305,250,253,382	199,176,832,580		2,407,133,165	2,027,596,156
		4,537,108,736,461	4,501,893,224,182		337,224,218,132	346,148,392,381
Structural allowance (subledger – database)		(155,337,483,413)	(95,362,421,349)		(133,269,251)	(169,913,876)
Net carrying amount	¢	4,381,771,253,048	4,406,530,802,833		337,090,948,881	345,978,478,505
Individually assessed loans with allowance:						
0	¢	21,858,887,199	14,446,260,313		-	-
A1		3,475,099,301,623	3,602,694,013,574		36,904,085,203	50,841,567,154
A2		34,511,255,018	38,722,407,726		85,850,261	91,086,504
B1		412,885,240,217	340,317,625,861		8,054,682,323	1,697,430,227
B2		6,213,877,761	4,396,634,299		-	-
C1		117,853,031,514	157,303,301,753		79,037,381	132,700,660
C2		20,577,115,527	4,101,253,067		-	-
D		141,733,681,651	140,734,895,009		111,401,638	178,130,398
E		305,250,253,382	199,176,832,580		29,553,202	92,366,317
		4,535,982,643,892	4,501,893,224,182		45,264,610,008	53,033,281,260
Structural allowance (subledger – database)		(155,337,483,413)	(95,362,421,349)		(133,269,251)	(169,913,876)
Net carrying amount	¢	4,380,645,160,479	4,406,530,802,833		45,131,340,757	52,863,367,384

			Direct		Stand-by	
			Setiembre 2018	Setiembre 2017	Setiembre 2018	Setiembre 2017
Current loans without allowance:						
0		¢	87,139,543	-	-	-
A1			1,029,717,679	-	282,560,318,716	285,670,169,556
A2			-	-	581,228,330	437,869,433
B1			-	-	3,105,249,870	1,830,984,480
B2			-	-	31,488,353	14,764,656
C1			9,235,347	-	2,345,217,489	2,247,636,899
C2			-	-	17,275,827	30,968,819
D			-	-	941,249,576	947,487,439
E			-	-	2,377,579,963	1,935,229,839
Net carrying amount		¢	1,126,092,569	-	291,959,608,124	293,115,111,121
Gross carrying amount			4,537,108,736,461	4,501,893,224,182	337,224,218,132	346,148,392,381
Allowance for loan losses (database)			(155,337,483,413)	(95,362,421,350)	(133,269,251)	(169,913,876)
Excess of allowance over structural allowance			(19,136,872,240)	(818,560,589)	(156,641,244)	(96,320,988)
Net carrying amount	7-a	¢	4,362,634,380,808	4,405,712,242,243	336,934,307,637	345,882,157,517
Restructured loans		¢	109,454,662,758	39,136,689,791	-	-

(Continued)

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 2018	
		Loans to customers	
		Gross	Net
0	¢	21,946,026,743	21,663,831,591
A1		3,476,129,019,301	3,437,420,001,833
A2		34,511,255,018	34,330,478,406
B1		412,885,240,217	409,127,461,830
B2		6,213,877,761	6,132,497,053
C1		117,862,266,861	113,924,558,850
C2		20,577,115,527	19,044,744,130
D		141,733,681,651	130,618,965,162
E		305,250,253,382	190,371,841,953
	¢	4,537,108,736,461	4,362,634,380,808

		September 2017	
		Loans to customers	
		Gross	Net
0	¢	14,446,260,313	14,389,342,679
A1		3,602,694,013,574	3,583,229,990,137
A2		38,722,407,726	38,535,316,840
B1		340,317,625,861	337,481,482,186
B2		4,396,634,299	4,342,611,167
C1		157,303,301,753	153,931,123,836
C2		4,101,253,067	3,863,397,951
D		140,734,895,009	131,667,695,628
E		199,176,832,580	138,271,281,819
	¢	4,501,893,224,182	4,405,712,242,243

As shown above, as of September 30, 2018, the gross loan portfolio amounts to ¢4,537 billion. Of that amount, 87.10% is classified in risk ratings “A + B” and 12.90% in risk ratings “C + D + E” (2017: ¢4,501 billion, of which 88.86% is classified in risk ratings “A + B” and 11.14% in risk ratings “C + D + E”).

Individually assessed loans with allowance:

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

Past due loans without allowance:

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

Restructured loans:

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

a. Extended loan: Loan operation in which at least one full or partial payment of principal or interest due under the current contractual terms has been postponed.

b. Modified loan: Loan operation in which at least one of the current contractual repayment terms has been modified, excluding extensions, additional payments not included in the loan repayment schedule, additional payments to reduce the amount of installments and a change in the currency used while respecting the original loan maturity date.

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

Loan write-off policy:

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

Borrower classification

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

The loan portfolio by borrower classification is as follows:

		Direct		Stand-by	
Borrower classification		September 2018	September 2017	September 2018	September 2017
Group 1	¢	2,730,949,244,607	2,735,943,205,039	63,183,485,507	68,229,350,576
Group 2		1,806,159,491,854	1,765,950,019,143	274,040,732,625	277,919,041,805
	¢	4,537,108,736,461	4,501,893,224,182	337,224,218,132	346,148,392,381

Risk ratings

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

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

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

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

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

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

Analysis of creditworthiness

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

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

(Continued)

b. *Experience in the line of business and quality of management:* Analysis of the capacity of management to lead the business with appropriate controls and adequate support from the owners.

c. *Business environment:* Analysis of the main sector variables that affect the borrower's creditworthiness.

d. *Vulnerability to changes in interest rates and foreign exchange rates:* Analysis of the borrower's ability to confront unexpected adverse changes in interest rates and foreign exchange rates.

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

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

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

Analysis of historical payment behavior

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

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

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Structural allowance for loan losses

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

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

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

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

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

(Continued)

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

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

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

Allowance percentages based on borrower risk rating are as follows:

Risk rating	General allowance	Specific allowance percentage - Uncovered portion	Specific allowance percentage - Covered portion
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.

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

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

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

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

Pursuant to the provisions of SUGEF Directive 1-05, as of September 30, the Bank must maintain a structural allowance, as follows:

	September 2018		
	Allowance booked	Structural allowance	Excess of allowance
Direct	¢ 174,474,355,653	(155,337,483,413)	19,136,872,240
Stand-by	289,910,495	(133,269,251)	156,641,244
	174,764,266,148	(155,470,752,664)	19,293,513,484
Counter-cyclical - SUGEF 19-16	8,704,193,105	(8,704,193,105)	-
	¢ 183,468,459,253	(164,174,945,769)	19,293,513,484

	September 2017		
	Allowance booked	Structural allowance	Excess of allowance
Direct	¢ 96,180,981,939	(95,362,421,349)	818,560,590
Stand-by	266,234,864	(169,913,876)	96,320,988
	96,447,216,803	(95,532,335,225)	914,881,579
Counter-cyclical - SUGEF 19-16	6,107,696,171	(6,107,696,170)	-
	¢ 102,554,912,974	(101,640,031,395)	914,881,579

As of September 30, 2018, the balance of the Bank's allowance for loan losses (direct and stand-by), accrued interest receivable and other receivables amounts to ¢187,590,579,552 (2017: ¢106,238,757,973).

Counter-cyclical allowance

As of September 30, 2018, the counter-cyclical allowance is valued pursuant to the provisions set forth in SUGEF Directive 19-16 *Regulations to Determine and Book Counter-cyclical Allowances*, approved by CONASSIF through Article 6 of minutes of meeting No. 1258-2016 held on June 7, 2016, published in Alcance No. 100 of the Official Gazette No. 117, of June 17, 2016. Those provisions are summarized as follows:

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

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

Transition Provision II of SUGEF Directive 19-16 indicates that starting July 2016 each entity must perform the monthly booking of the expense for the counter-cyclical component equivalent to a minimum of 7% of the difference between the balance of income accounts less expenses plus taxes and monthly statutory allocations, until the balance of the analytical account reaches the amount corresponding to the counter-cyclical allowance provided in the regulations (¢29,189,340,618 based on the calculation of the counter-cyclical allowance made by management as of September 30, 2018). Once the entity reaches that level, it shall continue booking the counter-cyclical account as indicated by this Regulation.

(Continued)

The CONASSISF agreement reached in Article 13 of minutes of meeting No. 1416-2018 held on May 15, 2018, published in Official Gazette No. 97 on June 1, 2018, indicates that the percentage applicable for this concept shall be as follows:

Date of application	Percentage (%)
When the amendment enters into effect	5.00%
Starting June 1, 2019	6.00%
Starting June 1, 2020	7.00%

As of September 30, 2018, the counter-cyclical allowance booked amounts to ¢8,704,193,105 (2017: ¢6,107,696,171).

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:

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

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

As of September 30, 2018, the carrying amount of the allowance for impairment of foreclosed assets and per legal requirements amounts to ¢58,503,405,303 (2017: ¢62,084,364,123).

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

		Direct		Stand-by	
Sector		September 2018	September 2017	September 2018	September 2017
Trade	¢	395,069,409,772	428,422,504,389	2,343,096	2,803,642
Services		927,853,043,186	918,747,289,943	57,442,014,412	60,399,642,664
Financial services		132,786,937,418	140,334,739,056	-	-
Mining		855,645,527	965,670,400	-	-
Manufacturing and quarrying		174,829,495,932	174,431,395,278	-	-
Construction		122,811,773,321	106,072,398,344	-	-
Agriculture and forestry		123,516,354,249	125,612,012,260	759,632	-
Livestock, hunting and fishing		83,978,420,894	85,007,309,608	-	-
Electricity, water, sanitation and other related sectors		461,543,033,116	436,670,702,865	-	-
Transportation and telecommunications		46,012,417,563	46,322,750,187	-	-
Housing		1,306,265,246,808	1,318,853,611,522	18,970,516	16,505,373
Personal or consumer		578,419,332,194	543,815,254,840	279,579,091,353	285,524,857,513
Tourism		183,167,626,481	176,637,585,490	181,039,123	204,583,189
	¢	4,537,108,736,461	4,501,893,224,182	337,224,218,132	346,148,392,381

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

		Direct		Stand-by	
		September 2018	September 2017	September 2018	September 2017
Central America	¢	4,537,108,736,461	4,501,893,224,182	337,224,218,132	346,148,392,381

The loan portfolio by type of guarantee is as follows:

		Direct		Stand-by	
Type of guarantee		September 2018	September 2017	September 2018	September 2017
Back to back	¢	43,999,039,180	45,045,353,327	579,120	1,136,751
Mortgage bond		229,603,914	394,389,556	-	-
Assignment of loans		318,505,333,702	417,831,197,871	-	-
Mortgage		1,792,733,181,617	1,830,069,917,576	149,954,277	203,177,415
Surety		947,808,539,938	866,173,273,464	4,848,756	8,336,265
Trust		509,257,695,271	381,405,556,333	20,381,300	14,204,147
Securities		734,911,295	817,968,271	-	-
Chattel mortgage		258,766,818,234	237,972,816,085	-	-
Other		665,073,613,310	722,182,751,699	337,048,454,679	345,921,537,803
	¢	4,537,108,736,461	4,501,893,224,182	337,224,218,132	346,148,392,381

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 market 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 market 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, 2018 and 2017, 57.43% and 64.70%, respectively, of the loan portfolio is secured by collateral guarantees.

(Continued)

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

		Direct		Stand-by	
Loan portfolio concentration		September 2018	September 2017	September 2018	September 2017
¢1 to ¢3,000,000	¢	168,892,637,958	160,044,497,926	104,937,574,439	104,274,586,974
¢3,000,001 to ¢15,000,000		636,725,643,621	620,661,601,856	173,363,815,548	179,678,793,258
¢15,000,001 to ¢30,000,000		471,308,759,957	475,256,618,831	6,156,130,177	6,308,634,058
¢30,000,001 to ¢50,000,000		477,443,085,925	481,771,405,699	2,340,010,559	2,536,784,193
¢50,000,001 to ¢75,000,000		390,669,872,844	387,166,132,425	2,023,074,553	1,811,364,745
¢75,000,001 to ¢100,000,000		194,127,056,137	189,320,365,735	676,205,049	1,391,393,960
¢100,000,001 to ¢200,000,000		237,348,440,050	240,211,133,582	2,783,092,391	4,361,091,341
More than ¢200,000,000		1,960,593,239,969	1,947,461,468,128	44,944,315,416	45,785,743,852
	¢	4,537,108,736,461	4,501,893,224,182	337,224,218,132	346,148,392,381

As of September 30, 2018 and 2017, the portion of the loan portfolio (direct and stand-by loans) corresponding to economic interest groups amounts to ¢537,915,111,757 and ¢486,110,834,274, respectively.

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

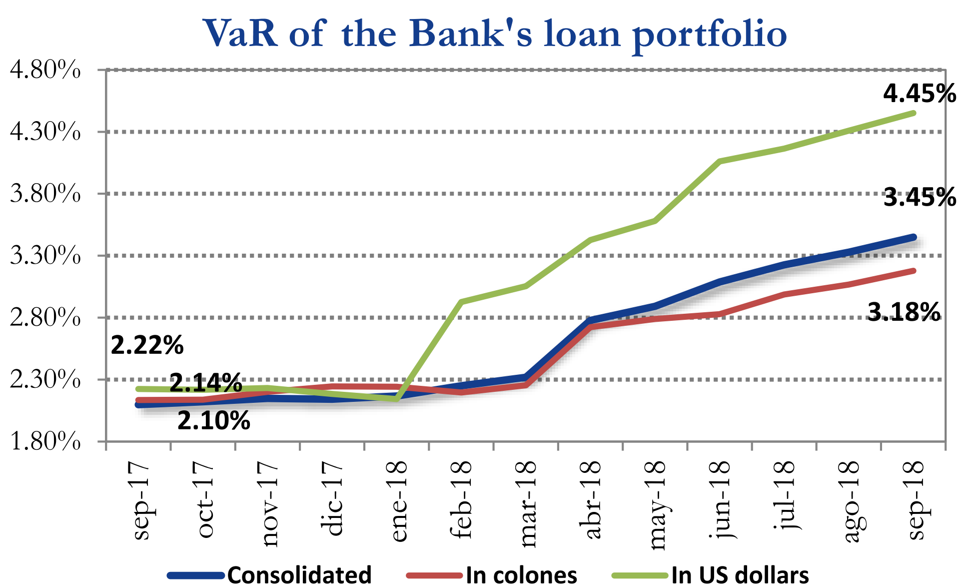
This approach is applied using a computational system developed in "Matlab" software. Also, the credit risk model takes into consideration the impact of changes in macroeconomic variables (endogenous and exogenous) on the loan portfolio when determining systemic factors. Results are compared with prior-month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

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

(Continued)

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

The quarterly increase of the VaR is due to the impairment of the arrears more than 90 days indicator for the entire loan portfolio between June 2018 and September 2018. Legal collection of the entire loan portfolio increased from 7.91% to 8.77% from June 2018 to September 2018, while arrears more than 90 days increased from 4.32% to 4.48%. For the same time period, by currency, portfolios showed a similar behavior to that of the arrears indicators. In colones, legal collection increased from 6.94% to 8.05% and arrears more than 90 days from 2.74% to 2.97%. In US dollars, legal collection increased from 9.73% to 10.06%, and arrears more than 90 days from 7.43% to 7.46%. On a year-on-year basis, the consolidated VaR of the loan portfolio also increased during the period from September 2017 to September 2018. By currency, the VaR of the portfolios in colones, in US dollars and in DU increased.



By economic activity, on a year-on-year basis, most activities show increases in the VaR. Only Services presented a decrease in the VaR. In consolidated terms, the VaR increased from 2.01% in September 2017 to 3.09% in September 2018.

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

Activity	September 2018	September 2017
Agriculture	5.96%	4.10%
Livestock	3.94%	3.07%
Mining	10.35%	10.40%
Industry	5.51%	3.61%
Energy	7.50%	4.36%
Housing	1.87%	1.51%
Construction	7.23%	4.78%
Trade	4.95%	2.51%
Transportation	1.78%	1.33%
Financial services	0.37%	0.26%
Consumer	8.57%	4.33%
Services	2.29%	2.06%
Tourism	6.03%	5.65%
BNCR	**3.45%**	**2.10%**

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

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

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

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

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

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

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

The Brokerage Firm may acquire the following instruments:

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

(Continued)

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

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

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

For the September 2018 close, the accounting records showed investments in colones, investments in instruments issued by local issuers in US dollars ($CR) and investments in instruments issued by foreign issuers in US dollars ($USA). The Brokerage Firm holds no investments in DU. By currency, most of the Brokerage Firm's financial instruments (68.64%) is concentrated in the portfolio denominated in colones.

With respect to the consolidated portfolio, the portfolio in colones comprises investments in instruments issued by the Government of Costa Rica (62.49%) and BCCR (6.15%), representing 68.64% of the consolidated portfolio. The portfolio in US dollars comprises investments in instruments issued by the Government of Costa Rica in that currency, representing 31.36% of the consolidated portfolio.

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

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

The Merton model uses the following three basic inputs: the market values of securities, the probability of default for each issuer and the percentage of expected losses for each issuer. Market 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 US dollars, using the Merton model based on the limits set by SUPEN for investments per issuer.

As of September 30, 2018, the net assets managed by the Pension Fund Manager amount to ¢1,400,541 million (September 30, 2017: ¢1,253,622 million), growing year-on-year by ¢146,919 million in nominal terms, equivalent to a growth rate of 11.72%. These data do not include the Pension Fund Manager's own assets.

(Continued)

The pension fund with the highest relative share is ROP, which represents 82.15%, growing year-on-year by ¢124,536 million, an increase of 12.14% with respect to the same period in 2017.

As of September 30, 2018, the Pension Fund Manager's portfolio of own funds is represented by available-for-sale investments in the amount of ¢7,482 million (September 30, 2017: ¢5,051 million).

As of September 30, 2018, the VaR of credit in absolute terms is ¢31.70 million, equivalent to 0.41% (September 30, 2017: ¢40.31 million, equivalent to 0.59%), indicating a year-on-year decrease of 0.18%.

Consolidated VaR - One year	As of September 30,		
Fund	2018	2017	Variation
FCL	1.27%	1.89%	(0.62%)
FPC A	0.02%	0.16%	(0.14%)
FPC B	3.96%	3.80%	0.16%
FPD A	29.36%	30.03%	(0.67%)
FPD B	31.50%	29.98%	1.52%
NOT	0.00%	0.00%	0.00%
ROP	6.17%	5.50%	0.67%
BN Vital (OPC)	0.41%	0.59%	(0.18%)
FCLE	4.48%	5.06%	(0.58%)
ROPE	3.76%	4.05%	(0.29%)

(Continued)

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, 2018 and 2017, exposure to credit risk is represented by the carrying amounts of cash and due from banks and available-for-sale investments. Cash and due from banks corresponds to checking account deposits with a State-owned bank. As of September 30, 2018, investments in financial instruments correspond to the non-diversified investment fund in colones *"Fondo de Inversión BN FonDepósito Colones, No Diversificado"*, which is secured by term certificates of deposit from BNCR.

b) *Liquidity risk*

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

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.

The LCR indicator as of the September 2018 close is presented below. With regard to September 2017, there is a slight decrease in colones and an increase in US dollars, remaining above the risk appetite level in both currencies.

The LCR in colones, in spite of the stagnation in credit during 2018, had a small drop year-on-year; this is because the growth of high-quality assets was less than the proportion of potential outflow obligations and the growth rate in deposit-taking diminished (decrease mainly in checking account and savings account balances). The LCR in US dollars increased significantly in relation to the September 2017 close. However, the indicator has remained at approximately 300% during the last year, considerably below the risk appetite above $700 million due to the international bonds issue, boom in deposit-taking through CDPs during 2017 and the contraction of the loan portfolio balance.

Indicator	September 2018	September 2017	Variation	Level
ICL colones	104.1%	114.8%	(10.7%)	Appetite
ICL US dollars	304.7%	251.1%	53.6%	Appetite

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

(Continued)

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

		Days								
		Past due	Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	More than 365	Total
Cash and due from banks	¢	-	66,362,719,284	-	-	-	-	-	-	66,362,719,284
Minimum legal deposit in BCCR		-	315,309,013,598	24,066,919,538	27,291,158,183	20,841,438,186	84,590,977,750	75,146,486,166	14,321,154,696	561,567,148,117
Investments		-	-	23,943,038,109	37,955,986,732	17,073,030,836	55,864,101,356	89,485,551,105	286,903,375,036	511,225,083,174
Loan portfolio		165,918,921,846	-	50,608,161,961	47,534,123,512	38,444,463,001	98,448,398,719	134,252,201,675	2,502,756,708,292	3,037,962,979,006
Total recovery of assets	¢	165,918,921,846	381,671,732,882	98,618,119,608	112,781,268,427	76,358,932,023	238,903,477,825	298,884,238,946	2,803,981,238,024	4,177,117,929,581
Obligations with the public	¢	-	1,721,601,536,922	167,722,078,387	159,606,980,159	161,348,579,880	535,758,882,297	439,069,153,365	51,263,276,563	3,236,370,487,573
Obligations with BCCR		-	-	6,000,000,000	-	-	-	-	125,644,412	6,125,644,412
Obligations with financial entities		-	104,580,857,083	57,335,631,099	4,776,981,851	1,908,975,419	31,325,216,458	57,172,851,854	34,537,237,533	291,637,751,297
Charges payable		-	10,438,227,136	10,393,306,553	3,654,924,123	2,565,930,863	5,268,579,225	1,635,860,350	848,488,353	34,805,316,603
Total maturity of liabilities	¢	-	1,836,620,621,141	241,451,016,039	168,038,886,133	165,823,486,162	572,352,677,980	497,877,865,569	86,774,646,861	3,568,939,199,885
Difference	¢	165,918,921,846	(1,454,948,888,259)	(142,832,896,431)	(55,257,617,706)	(89,464,554,139)	(333,449,200,155)	(198,993,626,623)	2,717,206,591,163	608,178,729,696

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of September 30, 2017, the terms of the Bank's assets and liabilities denominated in local currency are matched as follows:

		Days								
		Past due	Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	More than 365	Total
Cash and due from banks	¢	-	67,602,834,319	-	-	-	-	-	-	67,602,834,319
Minimum legal deposit in BCCR		-	290,556,414,614	28,504,081,927	27,989,795,140	33,714,752,184	72,523,862,519	47,875,841,749	21,427,948,168	522,592,696,301
Investments		-	-	6,472,349,054	16,327,555,200	72,746,462,760	90,841,110,175	75,714,591,962	241,901,077,091	504,003,146,242
Loan portfolio		117,143,322,048	-	46,404,421,709	45,576,075,133	42,423,454,724	93,336,789,272	129,536,916,442	2,483,319,872,148	2,957,740,851,476
Total recovery of assets	¢	117,143,322,048	358,159,248,933	81,380,852,690	89,893,425,473	148,884,669,668	256,701,761,966	253,127,350,153	2,746,648,897,407	4,051,939,528,338
Obligations with the public	¢	-	1,655,055,599,085	186,449,511,702	209,132,473,861	164,577,772,024	496,975,460,316	314,870,950,470	124,197,562,126	3,151,259,329,584
Obligations with BCCR		-	-	28,000,000,000	-	-	-	-	125,644,412	28,125,644,412
Obligations with financial entities		-	80,297,705,457	30,749,802,299	26,610,722,341	6,338,404,476	38,094,469,700	13,814,511,392	22,737,136,990	218,642,752,655
Charges payable		-	9,207,505,876	6,273,054,335	3,787,227,241	2,558,108,708	4,145,981,563	992,543,375	208,159,910	27,172,581,008
Total maturity of liabilities	¢	-	1,744,560,810,418	251,472,368,336	239,530,423,443	173,474,285,208	539,215,911,579	329,678,005,237	147,268,503,438	3,425,200,307,659
Difference	¢	117,143,322,048	(1,386,401,561,485)	(170,091,515,646)	(149,636,997,970)	(24,589,615,540)	(282,514,149,613)	(76,550,655,084)	2,599,380,393,969	626,739,220,679

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of September 30, 2018, the terms of the Bank's assets and liabilities denominated in foreign currency, expressed in local currency, are matched as follows:

		Days								
		Past due	Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	More than 365	Total
Cash and due from banks	¢	-	299,686,633,736	-	-	-	-	-	313,427,259	300,000,060,995
Minimum legal deposit in BCCR		-	183,915,184,490	7,778,238,191	13,401,358,886	11,074,968,946	31,280,365,588	16,866,722,583	48,147,788,421	312,464,627,105
Investments		-	-	270,874,200,752	45,927,440,778	8,873,692,755	34,025,471,003	77,595,959,683	236,009,666,743	673,306,431,714
Loan portfolio		169,340,432,865	-	29,137,056,603	23,966,217,724	21,518,954,886	57,474,726,642	64,574,054,836	1,133,134,313,899	1,499,145,757,455
Total recovery of assets	¢	169,340,432,865	483,601,818,226	307,789,495,546	83,295,017,388	41,467,616,587	122,780,563,233	159,036,737,102	1,417,605,196,322	2,784,916,877,269
Obligations with the public	¢	-	902,834,156,005	94,891,696,712	66,835,290,925	77,103,672,295	194,040,573,845	110,894,832,828	77,502,933,624	1,524,103,156,234
Obligations with financial entities		-	121,335,474,970	10,094,464,442	287,305,259,369	1,194,076,646	6,983,061,391	3,998,524,774	649,857,636,780	1,080,768,498,372
Charges payable		-	2,220,811,303	1,336,962,720	6,765,332,290	2,152,628,913	1,455,675,905	599,199,231	15,324,183,339	29,854,793,701
Total maturity of liabilities	¢	-	1,026,390,442,278	106,323,123,874	360,905,882,584	80,450,377,854	202,479,311,141	115,492,556,833	742,684,753,743	2,634,726,448,307
Difference	¢	169,340,432,865	(542,788,624,052)	201,466,371,672	(277,610,865,196)	(38,982,761,267)	(79,698,747,908)	43,544,180,269	674,920,442,579	150,190,428,962

As of September 30, 2017, the terms of the Bank's assets and liabilities denominated in foreign currency, expressed in local currency, are matched as follows:

		Days								
		Past due	Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	More than 365	Total
Cash and due from banks	¢	-	401,757,924,473	-	-	-	-	-	208,702,227	401,966,626,700
Minimum legal deposit in BCCR		-	158,589,874,549	11,088,468,298	15,913,335,276	15,576,974,065	35,623,384,787	23,175,249,049	50,437,876,707	310,405,162,731
Investments		-	-	18,179,828,095	67,115,466,239	31,170,123,907	29,111,431,441	59,557,300,166	318,705,022,844	523,839,172,692
Loan portfolio		97,816,750,975	-	33,249,401,764	33,895,153,693	31,388,638,797	63,408,989,868	64,785,021,764	1,219,608,415,844	1,544,152,372,705
Total recovery of assets	¢	97,816,750,975	560,347,799,022	62,517,698,157	116,923,955,208	78,135,736,769	128,143,806,096	147,517,570,979	1,588,960,017,622	2,780,363,334,828
Obligations with the public	¢	-	872,954,047,172	108,938,853,765	95,906,274,436	89,757,752,086	213,351,093,260	123,470,870,972	69,889,164,493	1,574,268,056,184
Obligations with financial entities		-	120,458,449,810	14,925,903,651	11,379,103,260	7,972,533,240	8,473,098,412	19,644,326,450	947,578,368,617	1,130,431,783,440
Charges payable		-	1,951,853,566	8,644,215,400	14,543,691,118	1,949,567,460	1,269,794,951	583,305,435	353,464,689	29,295,892,619
Total maturity of liabilities	¢	-	995,364,350,548	132,508,972,816	121,829,068,814	99,679,852,786	223,093,986,623	143,698,502,857	1,017,820,997,799	2,733,995,732,243
Difference	¢	97,816,750,975	(435,016,551,526)	(69,991,274,659)	(4,905,113,606)	(21,544,116,017)	(94,950,180,527)	3,819,068,122	571,139,019,823	46,367,602,585

(Continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Starting December 2017, there was a change in the methodology to calculate the liquidity risk level: a liquidity ratio is calculated, which shows the number of times that cash covers expected withdrawals. For the ROP, FCL, FPC B and NOT the methodology considers cash plus liquid investments (issued by BCCR and by the government, with maturities less than one month). Consequently, no comparison is made as of the same date for the prior period. As of the 2018 period close the liquidity ratio of the funds was as follows:

Liquidity ratio

Fund	September 2018	September 2017
ROP	25.43	10.21
FCL	6.38	14.50
NOT	30.78	76.97
FPC A	9.15	9.74
FPC B	6.30	10.07
FPD A	4.74	4.01
FPD B	2.57	4.85
FCL Erroneous	6.08	11.75
ROP Erroneous	18.93	68.27

As of September 30, 2017, the methodology consisted of calculating a single liquidity VAR, which did not exceed 1% for most of the funds except for FPD A. However, sufficient funds were maintained to address obligations, thus the risk was hedged.

Historical liquidity VaR

Fund	2017
ROP	0.04%
FCL	0.45%
NOT	0.07%
FPC A	0.42%
FPC B	0.55%
FPD A	1.09%
FPD B	0.89%
FCL-E	0.16%
ROP-E	0.04%

Liquidity risk management

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

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

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

Exposure to liquidity risk:

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

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

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

c) *Market risk*

i. *Banco Nacional de Costa Rica*

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

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

The Market Risk Division periodically analyzes and monitors the investment portfolio through the Comprehensive Risk Assessment Report, which is submitted to the Corporate Risk Committee and the board of directors.

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

	Face value of investments by currency		
Currency	September 2018	September 2017	Variation
Colones	434,669,915,733	419,453,750,000	15,216,165,733
US dollars - local	355,000,000	463,592,000	(108,592,000)
US dollars - intl	758,454,876	376,633,767	381,821,109
Euro	8,000,000	17,000,000	(9,000,000)
DU	21,082,530	34,823,795	(13,741,265)

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

Duration	September 2018	September 2017	Variation
Colones	0.59	0.49	0.10
US dollars - local	0.61	0.97	(0.36)
US dollars - intl	0.90	1.33	(0.43)
Euro	0.32	0.79	(0.48)
DU	0.74	1.14	(0.41)

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

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

Market risk management

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

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

For such purposes, the RiMeR methodology is used, which was internally developed by the Mathematical Modeling and Market Risk Divisions of the Bank. This methodology permits calculating the VaR of portfolios composed of fixed income instruments. The model considers yield curves, rate model parameter estimation, scenario simulations and calculation of the 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.

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

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

Market risk exposure – trading portfolio:

The Investment Fund Manager sets VaR limits for all identified market risks. The structure of those limits is subject to review and approval by the Investment Committee and the board of directors, respectively and is based on the local VaR limits of the trading portfolio. The 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 2018	September 2017
VaR (99% confidence level)	0.20%	0.28%

Fair values

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

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

As of September 30, 2018 and 2017, the carrying amount of the following financial instruments approximates fair value: cash, investments in financial instruments, interest receivable, obligations under repurchase agreements, interest payable, fees and commissions and other accounts payable. Investments are carried at the fair value determined using the method described above.

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

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

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

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

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

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Price risk exposure:

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

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

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

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

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

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

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

- *Market risk of investments*

i. *Banco Nacional de Costa Rica*

The Bank's consolidated VaR regarding the market value of investments is at the risk appetite level, showing a slight decrease during the last year.

Type of risk	September 2018	September 2017	Variation
VaR (consolidated)	0.24%	0.23%	(0.005) %

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

	VaR by currency		
Currency	September 2018	September 2017	Variation
Colones	0.32%	0.31%	0.02%
US dollars - local	0.41%	0.31%	0.10%
US dollars - intl	0.18%	0.25%	(0.07)%
Euro	0.003%	0.02%	(0.02)%
DU	0.61%	0.03%	0.58%

- *Interest rate risk*

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

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

Type of risk	September 2018	September 2017	Variation	Level
Interest rate risk in colones	0.05%	0.23%	(0.17) %	Normal
Interest rate risk in foreign currency	0.92%	0.42%	(0.50)%	Normal

Both indicators closed considerably below SUGEF's regulatory limits (5%, 20%, and 35%). The interest rate risk in colones remains at around 0.06%, resulting from a decrease in the duration of capital and the expected spread of the lending rate due to its stability during the last year. In US dollars, the increase corresponds to changes in the 3-month LIBOR rate.

As of September 30, 2018, the interest rate terms for the Bank’s assets and liabilities (differences between the recovery of assets and the maturity of liabilities) are matched as follows:

		1 to 30 days	31 to 90 days	91 to 180 days	181 to 360 days	361 to 720 days	More than 720 days	Total
Local currency (LC)								
Investments	¢	22,074,528,389	44,797,547,825	55,182,427,191	83,244,688,035	54,627,210,529	175,317,388,457	435,243,790,426
Loan portfolio		2,597,029,149,027	104,078,075,509	99,463,777,880	15,407,791,786	16,596,518,514	68,040,025,784	2,900,615,338,500
Total recovery of rate-sensitive assets in LC (A)	¢	2,619,103,677,416	148,875,623,334	154,646,205,071	98,652,479,821	71,223,729,043	243,357,414,241	3,335,859,128,926
Obligations with the public	¢	205,727,033,611	315,430,844,185	573,809,383,482	496,159,080,684	25,450,770,950	26,697,793,889	1,643,274,906,801
Obligations with BCCR		6,003,000,000	-	-	-	-	125,644,412	6,128,644,412
Obligations with financial entities in LC		21,095,878,646	-	-	-	-	35,270,808,097	56,366,686,743
Total maturity of rate-sensitive liabilities in LC (B)	¢	232,825,912,257	315,430,844,185	573,809,383,482	496,159,080,684	25,450,770,950	62,094,246,398	1,705,770,237,956
Difference in LC, recovery of assets less maturity of liabilities (A - B)	¢	2,386,277,765,159	(166,555,220,851)	(419,163,178,411)	(397,506,600,863)	45,772,958,093	181,263,167,843	1,630,088,890,970
Foreign currency (FC)								
Investments	¢	268,560,177,244	57,110,633,515	34,330,283,887	75,279,796,926	59,052,400,114	158,996,603,620	653,329,895,306
Loan portfolio		1,206,209,645,352	44,888,774,292	26,253,859,428	2,886,340,847	24,115,522,488	66,952,650,897	1,371,306,793,304
Total recovery of rate-sensitive assets in FC (C)	¢	1,474,769,822,596	101,999,407,807	60,584,143,315	78,166,137,773	83,167,922,602	225,949,254,517	2,024,636,688,610
Obligations with the public	¢	106,490,002,945	434,129,354,157	202,832,320,836	111,380,703,483	31,521,523,356	588,219,317,386	1,474,573,222,163
Obligations with entities		-	1,603,434,377	142,642,103	-	-	94,816,190,352	96,562,266,832
Total maturity of rate-sensitive liabilities in FC (D)	¢	106,490,002,945	435,732,788,534	202,974,962,939	111,380,703,483	31,521,523,356	683,035,507,738	1,571,135,488,995
Difference in FC, recovery of assets less maturity of liabilities (C - D)	¢	1,368,279,819,651	(333,733,380,727)	(142,390,819,624)	(33,214,565,710)	51,646,399,246	(457,086,253,221)	453,501,199,615
Total recovery of rate-sensitive assets 1/ (A + C)	¢	4,093,873,500,012	250,875,031,141	215,230,348,386	176,818,617,594	154,391,651,645	469,306,668,758	5,360,495,817,536
Total maturity of rate-sensitive liabilities 2/ (B + D)	¢	339,315,915,202	751,163,632,719	776,784,346,421	607,539,784,167	56,972,294,306	745,129,754,136	3,276,905,726,951
Difference in LC + FC, recovery of assets less maturity of liabilities (item 1 - item 2)	¢	3,754,557,584,810	(500,288,601,578)	(561,553,998,035)	(430,721,166,573)	97,419,357,339	(275,823,085,378)	2,083,590,090,585

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of September 30, 2017, the interest rate terms for the Bank's assets and liabilities (differences between the recovery of assets and the maturity of liabilities) are matched as follows:

		1 to 30 days	31 to 90 days	91 to 180 days	181 to 360 days	361 to 720 days	More than 720 days	Total
Local currency (LC)								
Investments	¢	6,407,989,115	79,794,543,844	90,791,459,446	58,382,749,792	83,397,402,514	157,148,006,464	475,922,151,175
Loan portfolio		2,555,035,529,653	102,843,667,978	98,470,623,734	16,497,144,237	18,211,236,184	69,344,638,077	2,860,402,839,863
Total recovery of rate-sensitive assets in LC (A)	¢	2,561,443,518,768	182,638,211,822	189,262,083,180	74,879,894,029	101,608,638,698	226,492,644,541	3,336,324,991,038
Obligations with the public	¢	214,380,021,548	401,320,606,360	539,879,267,873	327,980,889,016	114,891,171,830	13,318,518,393	1,611,770,475,020
Obligations with BCCR		28,008,944,444	-	-	-	-	125,644,412	28,134,588,856
Obligations with financial entities in LC		21,413,676,065	263,554,904	367,639,958	726,081,210	1,510,308,801	20,131,724,042	44,412,984,980
Total maturity of rate-sensitive liabilities in LC (B)	¢	263,802,642,057	401,584,161,264	540,246,907,831	328,706,970,226	116,401,480,631	33,575,886,847	1,684,318,048,856
Difference in LC, recovery of assets less maturity of liabilities (A - B)	¢	2,297,640,876,711	(218,945,949,442)	(350,984,824,651)	(253,827,076,197)	(14,792,841,933)	192,916,757,694	1,652,006,942,182
Foreign currency (FC)								
Investments	¢	18,179,829,891	98,134,539,510	29,056,449,449	58,728,828,898	193,760,098,729	115,390,939,247	513,250,685,724
Loan portfolio		1,312,349,962,419	48,856,846,974	28,574,645,060	3,141,487,272	26,247,283,658	72,871,123,594	1,492,041,348,977
Total recovery of rate-sensitive assets in FC (C)	¢	1,330,529,792,310	146,991,386,484	57,631,094,509	61,870,316,170	220,007,382,387	188,262,062,841	2,005,292,034,701
Obligations with the public	¢	133,283,453,180	216,925,284,713	220,418,357,239	140,650,008,372	37,992,390,286	880,005,870,416	1,629,275,364,206
Obligations with entities		4,101,566,580	2,614,749,380	2,815,885,828	2,653,533,986	5,477,767,212	87,492,187,996	105,155,690,982
Total maturity of rate-sensitive liabilities in FC (D)	¢	137,385,019,760	219,540,034,093	223,234,243,067	143,303,542,358	43,470,157,498	967,498,058,412	1,734,431,055,188
Difference in FC, recovery of assets less maturity of liabilities (C - D)	¢	1,193,144,772,550	(72,548,647,609)	(165,603,148,558)	(81,433,226,188)	176,537,224,889	(779,235,995,571)	270,860,979,513
Total recovery of rate-sensitive assets 1/ (A + C)	¢	3,891,973,311,078	329,629,598,306	246,893,177,689	136,750,210,199	321,616,021,085	414,754,707,382	5,341,617,025,739
Total maturity of rate-sensitive liabilities 2/ (B + D)	¢	401,187,661,817	621,124,195,357	763,481,150,898	472,010,512,584	159,871,638,129	1,001,073,945,259	3,418,749,104,044
Difference in LC + FC, recovery of assets less maturity of liabilities (item 1 - item 2)	¢	3,490,785,649,261	(291,494,597,051)	(516,587,973,209)	(335,260,302,385)	161,744,382,956	(586,319,237,877)	1,922,867,921,695

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

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

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

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

The consolidated VaR of the Pension Fund Manager’s own funds presents a downward trend with a maximum of 0.45% and a minimum of 0.04%, for an average of 0.29%, equivalent to ¢22.76 million. As of September 30, 2018, the indicator closed at 0.37% (2017: 0.22%). There is an increase in the indicator resulting from the proportion of the portfolio invested in fixed-rate instruments, given that this indicator shows the volatility of the portfolio in relation to market interest rates.

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

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

- *Currency risk*

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

Starting May 2009, the Bank's Asset and Liability Committee (ALCO) decided to take a neutral foreign exchange 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 exchange position is monitored daily by the Market Risk Division.

The Bank is exposed to this type of risk when the value of its assets and its liabilities denominated in US dollars is exposed to exchange rate variations, which is recognized in the statement of profit or loss.

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

The exchange rate risk indicator according to SUGEF is calculated monthly. An appetite level was maintained for both years, with an increase due to a higher foreign exchange position. The Bank's foreign exchange position increased from -2.47% to 1.07% in relation to its capital base, in compliance with the amendment to SUGEF Agreement 3-06 regarding the foreign exchange position of the capital adequacy ratio (CAR) for 2017, as detailed below.

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 2018	September 2017	Variation	Level
Currency risk	0.75%	0.03%	0.72%	Appetite

i. *Banco Nacional de Costa Rica*

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

Assets and liabilities denominated in foreign currency are as follows:

		US dollars	
		September 2018	September 2017
Assets:			
Cash and due from banks	US$	1,021,762,630	1,224,427,683
Investments in financial instruments		1,153,187,454	900,916,659
Loan portfolio		2,414,860,154	2,654,232,072
Accounts and accrued interest receivable		402,755	499,813
Investments in other companies		108,701,762	107,809,171
Other assets		4,331,565	3,026,275
	US$	4,703,246,320	4,890,911,673
Liabilities:			
Obligations with the public	US$	2,567,667,038	2,723,512,198
Obligations with entities		1,903,761,926	2,026,568,949
Accounts payable and provisions		131,369,144	26,236,397
Other liabilities		52,373,633	31,857,730
Subordinated obligations		25,236,827	131,153,299
	US$	4,680,408,568	4,939,328,573
Excess (deficit) of assets over liabilities in US dollars	US$	22,837,752	(48,416,900)

		Euro	
		September 2018	September 2017
Assets:			
Cash and due from banks	€	30,894,311	24,584,571
Investments in financial instruments		8,151,263	17,529,126
Other assets		292,486	7,256
	€	39,338,060	42,120,953
Liabilities:			
Obligations with the public	€	38,272,229	40,903,917
Obligations with entities		1,182,714	1,574,141
Accounts payable and provisions		156,012	339,838
Other liabilities		-	465,756
	€	39,610,955	43,283,652
Excess (deficit) of assets over liabilities in euro	€	(272,895)	(1,162,699)

		DU	
		September 2018	September 2017
Assets:			
Investments in financial instruments	UD	21,082,530	34,804,591
Loan portfolio		9,491,769	16,704,220
	UD	30,574,299	51,508,811
Liabilities:			
Accounts payable and provisions	UD	590,069	754,172
Other liabilities		1,876	2,946
	UD	591,945	757,118
Excess of assets over liabilities in DU	UD	29,982,354	50,751,693

The Bank's net position is not hedged. However, the Bank considers its position to be acceptable and in compliance with the internal policy limits established by ALCO.

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

		September 2018	September 2017
Foreign exchange gain	¢	116,296,040,139	149,489,160,541
Foreign exchange loss		(116,622,192,289)	(151,002,224,940)
Net gain (loss)	¢	(326,152,150)	(1,513,064,399)

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 2018	September 2017
Gain on net valuation of other assets (note 37)	¢	208,237,728	216,573,653
Loss on net valuation of other liabilities (note 40)		(511,907,845)	(689,166,497)
Net gain (loss)	¢	(303,670,117)	(472,592,844)

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

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

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

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

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

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

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

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

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

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

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

As of September 30, 2018, 2.74% of the Pension Fund Manager's portfolio of own funds is represented by investments in US dollars. By adding cash and due from banks denominated in foreign currency, the percentage increases to 3.89% (¢303.78 million) compared to the close as of September 30, 2017 at 3.60% (¢243.92 million), considering cash and due from banks and bonded debt, which is a relatively low currency risk for the size of the managed portfolio.

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

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

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

d) *Operational risk*

i. *Banco Nacional de Costa Rica*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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.

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

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

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

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

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

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

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

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, 2018, the Bank's General Risk Division presented the results of the VaR by legal risk for the Pension Fund Manager, indicating that the amount to be provisioned is the EL of ¢22.76 million that covers the main lawsuits against the Pension Fund Manager out of nine pending lawsuits, most of which are in first instance.

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

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

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

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

Capital management

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

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

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

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

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

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

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

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

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

As of September 30, 2018 and 2017, the Bank's risk rating is at a normal level since its CAR is above the required 10% ratio.

(47) Contingencies

As of September 30, the Bank and the Pension Fund Manager are defendants in ordinary, labor and criminal lawsuits, as follows:

	Number of cases				Total estimated amount	
	2018	2017	Phase		2018	2017
Bank	239	236	First instance	¢	248,277,142,373	240,145,996,197
	17	21	Second instance		18,913,281,340	20,506,192,192
	8	-	Appeal		5,726,695,677	3,615,000,000
	1	1	Administrative proceedings (note 48)		38,458,424,266	38,458,424,266
	265	258			311,375,543,656	302,725,612,655
Pension Fund Manager	7	1	First instance		23,220,000	23,000,000
	7	1			23,220,000	23,000,000
Investment Fund Manager	1	1	First instance		133,004,706	92,101,415
	1	1			133,004,706	92,101,415
	273	260	(note 22)	¢	311,531,768,362	302,840,714,070

As of September 30, 2018 and 2017, the legal actions filed against the Bank are booked in memoranda accounts under “Other contingencies - pending litigation and lawsuits”.

As of September 30, 2018 and 2017, the Bank is a claimant in ordinary, labor and criminal lawsuits for which the outcome is uncertain and are not booked in the accounting records, as follows:

Number of cases				Total estimated amount	
2018	2017	Phase		2018	2017
178	161	First instance	¢	94,920,892,507	720,598,517,697
-	1	Second instance		-	375,839,600
178	162		¢	94,920,892,507	720,974,357,297

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, 2018, the Bank booked a provision for ¢715,302,929 for lawsuit 15-008666-1027-CA. For the other two lawsuits no provision was booked, given that the legal counsel has indicated that the probability of a loss is low; therefore, they do not need to be included in the calculation of the provision.

The following lawsuits can also be mentioned:

- *File No. 14-003379-1027-CA*

    - ✓ Statement of facts: The plaintiffs seek that the Bank be ordered to pay damages caused to all the plaintiffs and to pay compensation for pain and suffering caused due to the inability to acquire decent housing, as a result of apparent anomalies regarding the management of credits to Grupo Zion, S.A. to build the Bariloche Real condominium. Additionally, it has had media coverage.
    - ✓ Current status: The resolution of April 10, 2018, at 17:15, ordered the separation of the case into separate files for each of the group members. This resolution was unsuccessfully challenged by the plaintiff's representatives. Currently, there are a number of documents on the separate complaints in the file, for which the Bank has not been granted a hearing.

- *File No. 08-000388-0419-AG*

  ✓ Court: Agrarian Court of Corredores

  ✓ Statement of facts: The proceedings seek to declare the liability of CORBANA, as Trustee of a banana plantation Management Trust, in which the Bank was the Trust Beneficiary.

  ✓ Current status: Vote No. 055-F-18 of January 31, 2018, at 11:55, denied the negative statute of limitations exception, in its commercial and decennial common modality. The judge of first instance must issue a ruling on the appeal concerning new facts and claims of the case, as applicable. Since the parties were not in conformity with the resolution, all parties filed appeals for review before the First Chamber.

- *File No. 08-000232-0419-AG*

  ✓ Court: Agrarian Court of Corredores

  ✓ Statement of facts: This process was filed by the Bank against Surcoop R.L. It seeks to nullify the auction, awarding and registration of lots of the Agrarian Court of Corredores processed through file No. 97-010656-1701 AG.

  ✓ Current status: Vote No. 000061-F-2018, of the Agrarian Court, ordinary proceedings file No. 08-000232-0419-AG against Cooperativa de Producción de Cacao y Palma de Finca Diez, Once y Doce de Palmar Sur R.L., in its operative paragraphs, rejects the motion for application filed by the plaintiff and confirms the judgment made at 15 hours of May 15, 2014. The Bank appeared before the First Chamber in relation to the appeal for review filed by the plaintiff.

- *File No. 08-001455-1027-CA*

  ✓ Court: Administrative Court and Civil Court of the Public Treasury

  ✓ Statement of facts: External notaries that filed a lawsuit against the Bank due to the termination of their contracts for professional services, since they consider that their contracts were for indefinite terms and they had an acquired right.

  ✓ Current status: The appeal for annulment filed by the Bank was admitted and the judgment of first instance sentencing the Bank was revoked. A decision was made on the merits of the case, rejecting the lawsuit against the Bank in all respects.

- *File No.: 11-001042-0612-PE*

  - ✓ Court: Public Prosecutor's Office for Economic, Tax and Customs Offenses
  - ✓ Statement of facts: Denunciation of irregularities related to Zion Company in the processing of loans granted to that company, misuse of funds, presentation of false documentation to the Bank to obtain approval of loans and alleged participation of some Bank employees in the events.
  - ✓ Current status: The final report on economic crimes was concluded. In a meeting with the prosecutor Andrina Guillen and the coordinating prosecutor Criss González, it was determined that it is difficult to demonstrate the embezzlement. Regarding injury, additional information was requested in order to determine whether any of the parties affected has sold the plot, to update this information. There is no conclusive document yet.

(48) Significant events

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

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

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

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

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

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

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

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

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

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

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

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

On February 5, 2015, in response to Official Letter SFGCN-020-15, management of the Bank filed Note SGR-044-2015 before the Large Taxpayer Division claiming that it is defenseless since it does not know the arguments and additional evidence provided and this infringes the right to defend oneself.

On August 31, 2016, the Constitutional Chamber resolved the constitutional motion filed against Article 144 of the CNPT, declaring unconstitutional Articles 144 and 192 of CNPT (Vote No. 12496-16).

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

On November 28, 2016, the Bank filed before the Large Taxpayer Administration Official Letter GG-395-16 “Administrative Claim and Appeal for Annulment” against Notice of Deficiency and Observations No. 1-10-15-14-009-041-03, presenting the considerations of fact and of law and its claims.

On March 28, 2017, the National Large Taxpayer Audit Area issued Determination Ruling DT10R-030-17 rejecting the annulment of the actions and rejecting the claim filed by the Bank against Notice of Deficiency and Observations No. 1-10-15-14-009-041-03, Regularization Proposal No. 1-10-015-14-091-341-03 and the official letter of the National Large Taxpayer Audit Area No. SFGCN 020-15. Additionally, taxes updated as of January 29, 2017 resulted in a tax liability of ¢29,089,100,723 and interest calculated as of that date in the amount of ¢10,453,749,273, for a total of ¢39,542,849,996.

On April 19, 2017, the National Large Taxpayer Audit Area issues "Sanctioning Ruling Based on Article 81 of the Tax Code of Standards and Procedures" No. 2-10-15-14-5178-03 and No. 2-10-15-14-03-582-03, applying to the tax assessment in the amount of ¢29,089,100,723 the corresponding fines: 25% for 2010-2011 and 50% for 2012-2013, for a total of ¢11,286,519,808.

On May 18, 2017, through file No. GC-02/10, management of the Bank filed an appeal for reversal against Ruling No. DT10R-030-17 before the Large Taxpayer Administration in accordance with Article 145 of the CNPT and in light of the considerations of fact and of law and claims filed, to admit the appeal and annul the aforementioned ruling and accept the claims for annulment due to procedural defects and statute of limitations described in the aforementioned file and declare the annulment of the administrative-tax procedure and the statute of limitations of tax periods already closed to the tax audit.

On May 23, 2017, through file No. 2-10-015-14 management of the Bank filed an appeal for reversal against Sanctioning Ruling No. 2-10-15-14-5178-03 and No. 2-10-15-14-03-582-03 to annul the sanction imposed to the Bank.

On June 7, 2017, as a supplement to file No. GC-02/100, management presented the documentation required according to DTR-030-17 to be analyzed together with the arguments developed by the Bank.

On July 26, 2017, by means of ruling AUR-066-17 of June 23, 2017, the objection of statute of limitations on the motion for dismissal and motion for reconsideration against determination ruling DT-R-030-17 filed by the Bank on May 18, 2017 was rejected.

On September 5, 2017, management of the Bank appeared before the authorities to file a formal appeal for reversal against Sanctioning Ruling No. 2-10-15-14-1-5178-03 and No. 2-10-15-14-03-582-03, dated April 5, 2017, notified to the Bank on April 19, 2017.

On September 29, 2017, through resolution No. AP10R-110-17 and AP10R-109-17 dated September 14, the Large Taxpayer Administration heard the formal filing of the appeal for reversal filed by the Bank on September 5, 2017 and resolution AUR-066-17 dated July 26, 2017 thus admitting and initiating the processing of the aforementioned appeal.

Official Letter SGF-1261-2018, dated May 2, 2018, addressed to entities supervised by SUGEF subject to income tax, set forth the following:

1. Prior to the entrance into effect of the "Regulations on financial information" scheduled for January 1, 2020, entities that have notices of deficiency notified by the Tax Authorities must book in their profit or loss for the year at least 50% of the principal of the correction to the self-assessment of the tax obligation.

2. That 50% of the principal can be booked in monthly installments on a straight-line basis for a maximum of 36 months from the cutoff date of the month following the notification of this official letter.

3. Entities must prevent these situations and create provisions so that their profit or loss is not significantly affected in future periods.

On June 4, 2018, the First Chamber of the Tax Court submits official communication No. TFA-No. 247-P-2018, in which it hears the appeal filed by the Bank against resolution AU10R-066-17, rejecting the preliminary objection of statute of limitations and appeal for annulment, thus rejecting the appeal filed by the Bank.

On June 20, 2018, the Bank filed a request for additional explanations and clarification of the principal amount for 2013 and asks that the resolution indicate the date as of which interest was suspended.

On June 26, 2018, by means of official communication TFA No. 329-P-2018, it was indicated that the mathematical error corresponding to the amount for fiscal year 2013 was corrected (incorrect amount ¢5,943,535,969; correct amount ¢5,534,592,485) in conformity with Article 157 of the *General Law of the Public Administration*, applicable in addition to that established in Article 155 of the *Tax Code*. Furthermore, the request for additional explanations and clarification was rejected.

Official Letter SGF-2193-2018 was received on July 17, 2018. It was sent to entities supervised by SUGEF that are subject to income tax. The document was a reminder to book a provision for the higher of: the best measurement of the estimated amount to be paid to the Tax Authorities for a notice of deficiency (principal, interest and penalties), in conformity with IAS 12, or 50% of the principal in the correction of the self-assessed tax obligation.

In addition, it indicates that the provision can be booked in monthly installments on a straight-line basis for up to a maximum of 36 months for notices of deficiency already communicated by the Tax Authorities to the entities.

On September 13, 2018, the Large Taxpayer Division sent Request for Payment No. SRCST-RP-47-2018, which includes interest as of August 22, 2018, and requested an update as of the payment date.

On September 14, 2018, the Bank filed a precautionary measure against the State, requesting the suspension of the effects of resolution No. DT10R-030-17 of March 28, 2017 at 9:00, issued by the National Large Taxpayer Division of the Tax Authorities, which rejected the appeal for annulment submitted and annulled the claim filed by the Bank against notice of deficiency and observations No. 1-10-15-14-009-041-03, requesting that the precautionary suspension be maintained until the legality of all of the actions of the Tax Authorities against the Bank is determined in the corresponding Contentious hearing.

On September 24, 2018, through Official Letter GG-375-18, the Bank requested the National Large Taxpayer Division to provide the formula for the calculation of the interest indicated in Request for Payment SRCST-RP-47-2018.

On September 27, 2018, in Official Letter SRCS-653-2018, the Large Taxpayer Division indicates that interest was calculated according to Articles 40, 57, 146 and 163 of the CNPT.

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

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

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

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

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

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

On January 30, 2018, the National Large Taxpayer Audit Area issued “Regularization Proposal” No. DGCN-SF-PD-18-2017-1-341-03, which provides the details of the tax adjustments or corrections to the tax base declared by the Bank for fiscal years 2014, 2015 and 2016, for a total tax amount of ¢35,999,804,522 and corresponding interest as of that date in the amount of ¢7,281,607,516.

On January 30, 2018, the National Large Taxpayer Administration issued the Minutes of Final Hearing No. DGCN-SF-PD-18-2017-1-361-03, whereby it communicated the determinations made regarding tax amounts not declared and the corresponding interest for fiscal years 2014, 2015 and 2016; the principal and interest add up to ¢9,971,946,319.82, ¢14,804,200,153.50 and ¢18,505,265,563.57, respectively.

On February 5, 2018, the Bank’s management indicates its FULL DISCONFORMITY with “Regularization Proposal” No. DGCN-SF-PD-18-2017-1-341-03 dated January 30, 2018, based on the arguments and the evidence presented. Furthermore, it requests the annulment due to lack of cause of the “Regularization Proposal” regarding the collection of principal, interest and fines and of the “Report on claims filed” presented along with “Provisional Regularization Proposal” No. DGCN-SF-PD-18-2017-1-33-03, accepting only the mathematical errors corrected and rejects the claims against “Proposed Sanctioning Ruling” No. DGCN-SF-PD-18-2017-1-513-03.

On February 7, 2018, the National Large Taxpayer Administration issued notice of deficiency and observations No. DGCN-SF-PD-18-2017-1-41-03, which provides details of the adjustments to the tax base declared by the Bank for fiscal years 2014, 2015 and 2016, for a total tax amount of ¢35,999,804,522 and corresponding interest as of that date in the amount of ¢7,382,604,248, for a total of ¢43,382,408,770.

On March 22, 2018, the Bank's management filed an appeal against notice of deficiency and observations No. DGCN-SF-PD-18-2017-1-41-03 indicating its claims and legal grounds.

c) *Dividends paid to the Bank*

As of September 30, dividends of the subsidiaries are as follows:

	Board of Directors' Agreement			Amount	
Subsidiary	2018	2017		2018	2017
BN Corredora de Seguros, S.A.	Article 5, Meeting No. 12,234, held on March 12, 2018	Article 4, Meeting No. 12,172, held on May 29, 2017	¢	279,880,852	1,376,131,467
BN SAFI S.A.	Article 5, Meeting No. 12,235, held on March 12, 2018	Article 4, Meeting No. 12,171, held on May 29, 2017		1,000,000,000	1,000,000,000
BN Valores S.A.	Article 2, Meeting No. 12,236, held on March 12, 2018	Article 2, Meeting No. 12,161, held on April 24, 2017		675,205,850	3,024,096,802
BN Vital S.A.	Article 2, Meeting No. 12,237, held on March 12, 2018	Article 2, Meeting No. 12,163, held on April 24, 2017		560,939,777	560,091,499
			¢	2,516,026,479	5,960,319,768

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

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

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

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

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

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

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

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

a) IAS 1: Presentation of Financial Statements

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

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

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

b) IAS 7: Statement of Cash Flows

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

c) IAS 12: Income Taxes

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

d) IAS 16: Property. Plant and Equipment

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

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 charged against equity. Under this Standard, impairment is charged to revaluation surplus and any difference is recognized in profit or loss. The amendments to SUGEF Directive 31-04 and SUGEF Directive 34-02 eliminate the option of capitalizing the surplus derived from revaluation of assets for financial statements as of December 31, 2014.

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

e) IAS 18: Revenue

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

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

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

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

f) <u>IAS 21: The Effects of Changes in Foreign Exchange Rates</u>

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

g) IAS 27: Consolidated and Separate Financial Statements

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

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

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

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

h) IAS 28: Investments in Associates

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

i) Revised IAS 32: Financial Instruments - Presentation

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

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

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

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

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

l) IAS 38: Intangible Assets

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

m) IAS 39: Financial Instruments: Recognition and Measurement

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

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

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

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

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

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

a) Pooled portfolios

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

b) Own investments of regulated entities

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

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

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

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

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

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

n) IAS 40: Investment Property

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

o) Revised IFRS 3: Business Combinations

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

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

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

q) IFRS 9: Financial Instruments

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

r) IFRS 10: Consolidated Financial Statements

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

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

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

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

s) IFRS 11: Joint Arrangements

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

t) IFRS 12: Disclosure of Interests in Other Entities

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

u) IFRS 13: Fair Value Measurement

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

a) IFRS 14: Regulatory Deferral Accounts

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

b) IFRS 15: Revenue from Contracts with Customers

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

c) IFRS 16: Leases

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

d) IFRS 17: Insurance Contracts

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

e) IFRIC 10: Interim Financial Reporting and Impairment

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

f) IFRIC 21: Levies

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

g) IFRIC 22: Foreign currency transactions and advance considerations

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

h) IFRIC 23: Uncertainty over Income Tax Treatments

The Interpretation clarifies application of recognition and measurement requirements in IAS 12 Income Taxes when there is uncertainty over income tax treatments. In these circumstances, an entity shall recognize and measure its current or deferred tax assets or liabilities applying the requirements of IAS 12 on the taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined applying this Interpretation. This Interpretation is effective for annual periods beginning on or after

January 1, 2019, with early adoption permitted. This Interpretation has not been adopted by CONASSIF.

(50) Disclosure of economic impact of departure from IFRSs

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

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