

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Financial information required by the
Superintendency General of Financial Entities

Consolidated Financial Statements

As of September 30, 2019
(With corresponding figures for 2018)

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

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
AS OF SEPTEMBER 30, 2019 AND 2018 AND DECEMBER 31, 2018
(In colones)

	Note	September 2019	December 2018	September 2018
ASSETS				
Cash and due from banks	4	1,067,803,066,707	1,025,465,414,007	1,240,394,555,501
Cash		93,525,279,707	79,721,131,128	95,224,152,190
BCCR		784,619,798,797	856,105,137,933	874,031,775,223
Local financial entities		6,473,775,556	6,683,469,272	7,181,279,416
Foreign financial entities		171,217,001,120	71,106,869,756	247,504,600,424
Other cash and due from banks		11,967,211,527	11,848,805,918	16,452,748,248
Investments in financial instruments	5	1,341,692,413,385	1,171,705,000,676	1,184,531,514,889
Held for trading		2,500,062,143	12,096,981,603	-
Available for sale		1,314,450,763,655	1,144,183,068,457	1,158,325,618,778
Held to maturity		-	-	18,811,098,378
Derivative financial instruments	6	13,137,207,715	678,813,152	24,175,802
Accrued interest receivable		11,604,901,587	14,756,839,149	7,370,621,931
(Allowance for impairment of investments in financial instruments)		(521,715)	(10,701,685)	-
Loan portfolio	7	4,253,379,436,380	4,416,292,531,288	4,353,930,187,703
Current		3,996,251,835,194	4,223,554,423,932	4,102,560,311,785
Past due		204,932,944,804	149,989,262,621	202,902,663,275
In legal collection		138,259,461,210	147,602,847,205	191,904,108,503
Accrued interest receivable		38,237,739,385	36,776,953,763	39,741,652,898
(Allowance for loan losses)		(124,302,544,213)	(141,630,956,233)	(183,178,548,758)
Accounts and fees and commissions receivable	8	3,182,454,448	3,986,324,592	3,611,855,016
Fees and commissions receivable		1,660,993,112	1,379,493,008	1,266,344,388
Accounts receivable for brokerage operations		33	56,675	64,290,113
Accounts receivable for transactions with related parties		49,282,883	23,953,056	58,160,746
Deferred tax and income tax receivable		1,334,724,773	2,486,073,653	2,187,298,661
Other receivables		4,340,688,132	4,009,191,298	4,156,364,033
Accrued interest receivable		5,647,014	2,082,892	1,517,374
(Allowance for impairment of accounts and fees and commissions receivable)		(4,208,881,499)	(3,914,525,990)	(4,122,120,299)
Foreclosed assets	9	28,752,432,778	20,074,903,998	18,269,134,495
Assets and securities acquired in lieu of payment		90,589,424,386	79,173,439,587	76,770,699,608
Other foreclosed assets		56,384,865	1,840,189	1,840,190
(Allowance for impairment of foreclosed assets and per legal requirements)		(61,893,376,473)	(59,100,375,778)	(58,503,405,303)
Investments in other companies	10	65,998,223,817	66,495,484,274	63,001,987,881
Property and equipment, net	11	181,476,105,789	185,735,321,962	189,689,490,141
Other assets	12	97,834,880,573	112,783,371,783	39,063,901,715
Deferred charges		66,095,609,454	77,656,451,038	7,107,632,422
Intangible assets		5,243,810,067	5,049,553,312	5,121,165,030
Other assets		26,495,461,052	30,077,367,433	26,835,104,263
TOTAL ASSETS		7,040,119,013,877	7,002,538,352,580	7,092,492,627,341

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
AS OF SEPTEMBER 30, 2019 AND 2018 AND DECEMBER 31, 2018
(In colones)

	Note	September 2019	December 2018	September 2018
LIABILITIES AND EQUITY				
LIABILITIES				
Obligations with the public	13	5,122,516,751,066	4,783,549,987,583	4,781,892,476,921
Demand obligations		2,735,266,776,088	2,741,094,583,154	2,624,435,692,927
Term obligations		2,322,305,107,656	1,989,376,199,821	2,090,569,591,788
Other obligations		16,066,402,210	12,135,686,821	26,697,308,999
Finance charges payable		48,878,465,112	40,943,517,787	40,189,883,207
Obligations with BCCR	14	125,644,412	150,630,088,856	6,128,644,412
Term obligations		125,644,412	150,525,644,412	6,125,644,412
Finance charges payable		-	104,444,444	3,000,000
Obligations with entities	15	961,147,956,049	1,168,782,406,639	1,396,873,476,765
Demand obligations		202,419,691,890	181,672,052,001	224,117,176,995
Term obligations		743,327,743,079	978,094,176,748	1,148,289,072,674
Finance charges payable		15,400,521,080	9,016,177,890	24,467,227,096
Accounts payable and provisions		128,084,056,540	104,573,300,619	121,105,544,235
Accounts payable for brokerage services		1,503,046,338	1,077,656,970	2,538,959,996
Deferred tax	16-b	12,601,703,817	10,009,306,802	11,547,254,346
Provisions	17	29,522,725,717	24,754,699,577	26,524,334,915
Other sundry accounts payable	18	84,456,580,668	68,731,637,270	80,494,994,978
Other liabilities	19	75,398,528,280	67,159,254,065	64,012,767,888
Deferred income		33,857,299,492	33,255,354,768	31,900,876,645
Allowance for stand-by credit losses		148,224,204	169,073,348	289,910,495
Other liabilities		41,393,004,584	33,734,825,949	31,821,980,748
Subordinated obligations	20	70,046,186,425	80,488,169,915	76,078,498,928
Subordinated obligations		69,351,600,000	78,570,700,000	75,285,600,000
Finance charges payable		694,586,425	1,917,469,915	792,898,928
TOTAL LIABILITIES		6,357,319,122,772	6,355,183,207,677	6,446,091,409,149
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		79,850,374,386	69,226,390,881	72,006,223,068
Surplus from revaluation of property	21-b	66,239,159,456	66,193,911,011	70,239,809,918
Adjustment for valuation of available-for-sale investments	21-c	4,933,931,549	(5,106,902,948)	(5,030,180,943)
Adjustment for valuation of restricted financial instruments	21-c	55,381,645	(1,053,043,002)	(327,022,055)
Surplus from revaluation of other assets		66,585,248	66,585,248	43,748,630
Adjustment for valuation of investments in other companies	1-e (iv), 21-d	8,555,316,488	9,125,840,572	7,079,867,518
Capital reserves	21-e	349,252,719,754	334,043,304,638	332,576,862,852
Prior period retained earnings		28,392,658,973	19,485,203,956	20,793,465,503
Income for the period		18,418,571,926	21,391,220,879	17,815,642,220
Equity of the Development Financing Fund	21-f	34,648,535,964	30,971,994,447	30,971,994,447
TOTAL EQUITY		682,799,891,105	647,355,144,903	646,401,218,192
TOTAL LIABILITIES AND EQUITY		7,040,119,013,877	7,002,538,352,580	7,092,492,627,341
DEBIT MEMORANDA ACCOUNTS				
TRUST ASSETS	22	605,008,140,068	635,962,468,859	656,796,914,208
TRUST LIABILITIES	23	2,073,684,789,266	2,277,259,672,045	1,859,310,428,855
TRUST EQUITY		139,924,072,520	209,981,156,957	138,913,803,465
TRUST MEMORANDA ACCOUNTS		1,933,760,716,746	2,067,278,515,088	1,720,396,625,390
OTHER DEBIT MEMORANDA ACCOUNTS	24	112,232,503,182	99,962,938,570	83,197,626,468
Own debit memoranda accounts		23,339,490,320,826	23,025,592,011,994	22,293,903,629,412
Third-party debit memoranda accounts		7,081,816,406,868	7,588,595,867,700	7,288,206,903,730
Own debit memoranda accounts for custodial activities		3,391,762,576,530	2,992,442,398,537	2,862,002,231,512
Third-party debit memoranda accounts for custodial activities		335,321,351,021	230,639,645,060	259,572,074,256
		12,530,589,986,407	12,213,914,100,697	11,884,122,419,914

Gustavo Vargas Fernández
General Manager

Alejandra Morales Centeno
General Accountant
CPI 21119

Ricardo Araya Jiménez
General Auditor

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



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018
(In colones)

	Note	For the nine months ended		For the three months ended	
		September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Finance income					
Cash and due from banks	28	3,190,797,378	3,958,665,051	1,274,924,864	925,936,510
Investments in financial instruments	28	56,622,245,365	46,381,282,584	20,897,426,356	16,211,870,040
Loan portfolio	29	339,501,509,549	331,820,569,573	113,042,498,565	112,451,490,131
Gain on foreign exchange differences and DU, net	46-c	3,511,069,566	-	22,507,752	(116,158,033)
Gain on available-for-sale financial instruments		821,275,273	48,576,984	471,266,045	28,184,671
Gain on derivative financial instruments, net	6	15,184,314,597	-	2,131,599,447	-
Other finance income	30	8,462,804,873	25,437,483,372	4,940,971,339	6,077,278,768
Total finance income		427,294,016,601	407,646,577,564	142,781,194,368	135,578,602,087
Finance costs					
Obligations with the public	31	156,470,041,140	138,673,588,629	55,691,611,765	46,697,092,391
Obligations with BCCR		427,413,535	993,000	-	-
Obligations with financial entities	32	41,117,003,507	54,538,175,123	12,577,357,886	18,681,302,395
Subordinated, convertible, and preferred obligations		4,226,057,795	3,825,545,745	1,309,350,745	1,324,615,158
Loss on foreign exchange differences and DU, net	46-c	-	326,152,150	-	326,152,150
Loss on available-for-sale financial instruments		478,482,289	362,006,915	22,083,763	102,588,282
Loss on derivative financial instruments	6	-	14,694,633,666	-	2,618,519,944
Other finance costs	33	27,342,284,591	7,521,062,242	6,675,125,712	2,804,347,533
Total finance costs		230,061,282,857	219,942,157,470	76,275,529,871	72,554,617,853
Allowance for impairment of assets	34	39,122,033,550	63,146,952,158	9,117,666,665	22,428,597,059
Recovery of assets and decrease in allowances	35	5,771,914,492	6,061,880,152	2,182,600,795	1,779,723,278
FINANCE INCOME		163,882,614,686	130,619,348,088	59,570,598,627	42,375,110,453
Other operating income					
Service fees and commissions	36	108,898,948,886	100,346,202,737	36,521,154,120	32,552,602,444
Foreclosed assets		4,239,698,075	7,313,549,247	327,212,059	2,551,491,988
Gain on investments in other foreign companies	1-n, 3	2,362,824,607	2,332,803,648	1,014,802,809	809,757,604
Gain on investments in other local companies		3,278,195	2,764,988	-	-
Foreign currency exchange and arbitrage		16,867,967,056	17,403,355,743	5,887,943,571	5,754,080,105
Other operating income	37	7,791,629,244	7,179,009,729	1,919,759,993	2,638,527,505
Total other operating income		140,164,346,063	134,577,686,092	45,670,872,552	44,306,459,646

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018
(In colones)

		For the nine months ended		For the three months ended	
		September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Other operating expenses					
Service fees and commissions		3,747,187,930	3,381,807,683	1,368,916,520	1,225,993,444
Foreclosed assets	38	15,709,039,786	14,935,389,967	5,255,690,218	4,959,695,642
Sundry assets		468,034,569	935,847,328	3,577,862	899,399,472
Provisions	39	10,685,691,433	14,035,040,618	4,519,476,604	6,197,116,073
Bonuses on fees and commissions of voluntary pension funds		142,324,557	87,392,582	55,518,947	29,133,190
Foreign currency exchange and arbitrage		7,485,078	5,002,037	3,784,002	1,303,334
Other operating expenses	40	63,849,976,280	51,312,101,080	22,076,817,181	17,115,503,772
Amortization of deferred direct costs related to credits		297,980,215	362,455,604	104,425,099	137,978,840
Total other operating expenses		94,907,719,848	85,055,036,899	33,388,206,433	30,566,123,767
GROSS OPERATING INCOME		209,139,240,901	180,141,997,281	71,853,264,746	56,115,446,332
Administrative expenses					
Personnel expenses	41	103,269,357,946	99,111,487,413	34,545,594,495	32,679,666,983
Other administrative expenses	42	48,813,636,170	54,086,895,180	16,141,144,341	18,885,548,335
Total administrative expenses		152,082,994,116	153,198,382,593	50,686,738,836	51,565,215,318
NET OPERATING INCOME BEFORE TAXES AND STATUTORY ALLOCATIONS		57,056,246,785	26,943,614,688	21,166,525,910	4,550,231,014
Current tax	16-a	14,915,095,937	1,950,518,161	7,910,633,755	672,417,451
Prior period income tax	16-a	10,642,632,904	869,401	3,547,309,483	-
Deferred tax	16-a	24,263,255	26,360,900	8,087,751	10,185,396
Deferred tax income	16-a	95,438,285	204,123,257	36,344,825	20,252,667
Statutory allocations	43	13,151,121,048	7,365,266,803	4,363,219,824	1,132,880,922
Decrease in statutory allocations	43	-	10,919,540	-	10,919,540
INCOME FOR THE PERIOD		18,418,571,926	17,815,642,220	5,373,619,922	2,765,919,452
OTHER COMPREHENSIVE INCOME, NET OF TAX					
Surplus from revaluation of property		45,248,445	9,418,068,948	45,248,445	8,375,003,979
Adjustment for valuation of available-for-sale investments, net of income tax		10,040,834,497	(3,031,861,986)	3,807,331,351	(1,827,197,117)
Adjustment for valuation of restricted financial instruments, net of income tax		1,108,424,647	(20,351,357)	10,851,669	44,319,882
Adjustment for valuation of investments in other companies		(570,524,084)	(2,015,757,168)	951,045,320	774,454,411
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX		10,623,983,505	4,350,098,437	4,814,476,785	7,366,581,155
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		29,042,555,431	22,165,740,657	10,188,096,707	10,132,500,607

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

Note	Equity adjustments					Total equity adjustments	Capital reserves	Retained earnings	Equity of the Development Financing Fund	Total
	Share capital	Surplus from revaluation of property	Adjustment for valuation of available-for-sale investments and restricted financial instruments	Surplus from revaluation of other assets	Adjustment for valuation of investments in other companies					
Balance at January 1, 2018	172,237,030,102	61,425,174,760	(2,304,989,655)	43,748,630	9,095,624,686	68,259,558,421	311,121,806,369	45,505,124,630	27,111,958,013	624,235,477,535
Transactions with owners booked directly in equity:										
Legal reserves	-	-	-	-	-	-	22,903,111,490	(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	21	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		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 CHANGES IN EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019
(In colones)

Note	Equity adjustments					Total equity adjustments	Capital reserves	Retained earnings	Equity of the Development Financing Fund	Total
	Share capital	Surplus from revaluation of property	Adjustment for valuation of available-for-sale investments and restricted financial instruments	Surplus from revaluation of other assets	Adjustment for valuation of investments in other companies					
Balance at December 31, 2018	172,237,030,102	66,193,911,011	(6,159,945,950)	66,585,248	9,125,840,572	69,226,390,881	334,043,304,638	40,876,424,835	30,971,994,447	647,355,144,903
Advance payment para-fiscal contribution (Amnesty Law)	-	-	-	-	-	-	-	6,402,190,771	-	6,402,190,771
Balance at January 1, 2019	172,237,030,102	66,193,911,011	(6,159,945,950)	66,585,248	9,125,840,572	69,226,390,881	334,043,304,638	47,278,615,606	30,971,994,447	653,757,335,674
Transactions with owners booked directly in equity:										
Legal reserves	-	-	-	-	-	-	14,380,216,417	(14,380,216,417)	-	-
Other statutory reserves	-	-	-	-	-	-	829,198,699	(829,198,699)	-	-
Equity of the Development Financing Fund	-	-	-	-	-	-	-	(3,676,541,517)	3,676,541,517	-
Total transactions with owners booked directly in equity	-	-	-	-	-	-	15,209,415,116	(18,885,956,633)	3,676,541,517	-
Comprehensive income for the period:										
Income for the period	-	-	-	-	-	-	-	18,418,571,926	-	18,418,571,926
Adjustment for valuation of available-for-sale investments, net of income tax	5	-	10,040,834,497	-	-	10,040,834,497	-	-	-	10,040,834,497
Adjustment for valuation of restricted financial instruments, net of income tax	5	-	1,108,424,647	-	-	1,108,424,647	-	-	-	1,108,424,647
Adjustment for valuation of investments in other companies	1-e (iv)	-	-	-	(570,524,084)	(570,524,084)	-	-	-	(570,524,084)
Surplus from revaluation of property	-	45,248,445	-	-	-	45,248,445	-	-	-	45,248,445
Total comprehensive income for the period	-	45,248,445	11,149,259,144	-	(570,524,084)	10,623,983,505	-	18,418,571,926	-	29,042,555,431
Balance at September 30, 2019	21	172,237,030,102	66,239,159,456	4,989,313,194	66,585,248	8,555,316,488	349,252,719,754	46,811,230,899	34,648,535,964	682,799,891,105

Gustavo Vargas Fernández
General Manager

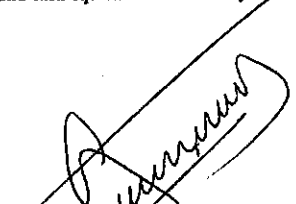
Alejandra Morales Centeno
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Ricardo Araya Jiménez
General Auditor


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

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018
(In colones)

	Note	September 2019	September 2018
Cash flows from operating activities			
Income for the period		18,418,571,926	17,815,642,220
Items not requiring cash			
Gain (loss) on foreign exchange differences and development units, net		(29,435,557,238)	12,475,851,963
Loss on allowance for loan losses, net		32,507,206,886	56,285,573,144
Gain on allowance for impairment of investments, net		(10,179,970)	(73,474,196)
Loss on allowance for other receivables, net		853,092,142	872,973,059
Loss (gain) on allowance for impairment of foreclosed assets, net		2,793,000,695	(3,111,992,340)
Loss on sale of foreclosed assets		6,008,397,472	8,068,100,620
Provision expense, net of payments		(4,661,918,587)	(9,378,162,144)
Depreciation and amortization		16,041,536,985	17,126,652,766
Share in net profit of foreign associate		(2,362,824,607)	(2,332,803,648)
Statutory allocations, net		13,151,121,048	7,354,347,263
Income tax expense, net	16-a	25,557,728,841	1,951,387,562
Deferred tax	16-a	(71,175,030)	(177,762,357)
Finance income on loan portfolio and investments		(396,123,754,914)	(378,201,852,157)
Finance costs on term obligations with the public and financial entities		157,423,902,444	154,896,176,075
		<u>(159,910,851,907)</u>	<u>(116,429,342,170)</u>
(Increase) decrease in assets			
Credits and cash advances		41,554,744,680	(7,439,293,753)
Foreclosed assets		13,228,278,546	15,978,484,993
Accrued interest receivable on other receivables		(3,564,122)	206,782
Other assets		19,639,332,469	5,501,915,870
		<u>(85,492,060,334)</u>	<u>(102,388,028,278)</u>
Net (increase) decrease in liabilities			
Demand and term obligations		229,938,119,092	(73,309,300,695)
Other accounts payable and provisions		21,809,467,562	58,775,888,805
Other liabilities		7,647,429,103	(35,531,845,424)
		<u>173,902,955,423</u>	<u>(152,453,285,592)</u>
Interest received on loan portfolio and investments		397,814,906,854	374,310,492,752
Income tax paid		(10,022,278,233)	(13,580,939,743)
Interest paid on term obligations with the public and financial entities		(143,209,056,374)	(136,022,507,805)
Statutory allocations paid		(8,985,023,395)	(13,586,420,635)
Net cash from operating activities		<u>409,501,504,275</u>	<u>58,667,338,977</u>
Cash flows from investing activities			
Increase in financial instruments		(3,344,091,116,606)	(8,346,599,582,415)
Decrease in financial instruments		3,287,049,510,428	8,427,754,605,069
Acquisition of property and equipment		(17,355,165,650)	(24,362,560,244)
Sale of property and equipment		189,744,555	1,367,917,110
Acquisition of intangible assets		(4,343,253,839)	(1,532,073,147)
Net cash (used in) from investing activities		<u>(78,550,281,112)</u>	<u>56,628,306,373</u>
Cash flows from financing activities			
Other new financial obligations		2,227,211,778	306,595,205,265
Settlement of obligations		(161,643,358,705)	(303,884,881,982)
Net cash (used in) from financing activities		<u>(159,416,146,927)</u>	<u>2,710,323,283</u>
Net increase in cash and cash equivalents		<u>171,535,076,236</u>	<u>118,005,968,633</u>
Cash and cash equivalents at beginning of year		<u>1,117,943,115,083</u>	<u>1,501,089,253,239</u>
Cash and cash equivalents at end of year	4	<u>1,289,478,191,319</u>	<u>1,619,095,221,872</u>


Gustavo Vargas Fernández
General Manager


Alejandra Morales Centeno
General Accountant
CPI 21119


Ricardo Araya Jiménez
General Auditor

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

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of September 30, 2019
(With corresponding figures for 2018)

(1) Summary of operations and significant accounting policies

(a) Operations

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of September 30, 2019, the Bank has 162 offices, 463 automated teller machines (ATMs) and along with its subsidiaries a total of 5,599 employees (2018: 167 offices, 468 ATMs and 5,746 employees). Employees are distributed as follows: Banco Nacional de Costa Rica - 5,160 employees (2018: 5,333); BN Valores Puesto de Bolsa, S.A. - 71 employees (2018: 71); BN Vital Operadora de Planes de Pensiones Complementarias, S.A. - 185 employees (2018: 173); BN Sociedad Administradora de Fondos de Inversión, S.A. - 86 employees (2018: 79); and BN Corredora de Seguros, S.A. - 97 employees (2018: 90). The Bank's website is www.bncr.fi.cr.

The following subsidiaries are wholly owned by the Bank:

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

September 2019						
	BN Valores Puesto de Bolsa, S.A.	BN Vital Operadora de Planes de Pensiones Complementarias S.A.	BN Sociedad Administradora de Fondos de Inversión, S.A.	BN Sociedad Corredora de Seguros, S.A.	BICSA	
Assets	¢ 65,024,652,094	11,881,338,382	9,293,446,392	6,324,971,817	555,804,500,614	
Liabilities	47,355,969,984	2,986,088,074	1,140,818,020	1,413,909,455	489,856,900,105	
Equity	17,668,682,110	8,895,250,308	8,152,628,372	4,911,062,362	65,947,600,509	
Income for the period	1,761,295,704	1,181,044,023	1,569,484,545	2,253,238,561	2,362,824,607	
Memoranda accounts	1,088,318,201,125	1,641,850,609,511	488,351,462,251	-	-	

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 2018

		BN Vital Operadora de Planes de Pensiones Complementarias S.A.	BN Sociedad Administradora de Fondos de Inversión, S.A.	BN Sociedad Corredora de Seguros, S.A.	BICSA
	BN Valores Puesto de Bolsa, S.A.				
Assets	¢ 66,647,192,065	9,751,692,412	8,222,761,263	3,769,728,920	570,074,944,344
Liabilities	51,635,210,085	1,826,600,775	551,313,311	776,043,817	503,630,083,370
Equity	15,011,981,980	7,925,091,637	7,671,447,952	2,993,685,103	66,444,860,974
Income for the period	1,684,605,746	1,146,194,956	2,038,605,185	2,550,045,103	3,160,852,893
Memoranda accounts	966,935,348,700	1,450,052,605,752	434,748,836,782	-	-

September 2018

		BN Vital Operadora de Planes de Pensiones Complementarias S.A.	BN Sociedad Administradora de Fondos de Inversión, S.A.	BN Sociedad Corredora de Seguros, S.A.	BICSA
	BN Valores Puesto de Bolsa, S.A.				
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	-	-

(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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- Basis of measurement of assets and liabilities

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

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

The accounting policies have been consistently applied.

- (c) Functional and presentation currency

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

- (d) Basis of consolidation

- i. Subsidiaries*

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

As of September 30, 2019 and 2018, the consolidated financial statements include the financial figures of the following subsidiaries:

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Subsidiaries were consolidated based on the following accounting principles:

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

ii. Associates

Associates are those entities in which the Bank has significant influence, but not control. The Bank updates the value of its associates using the equity method from the date that significant influence commences until the date significant influence ceases. As of September 30, 2019 and 2018, the Bank holds 49% ownership interest in BICSA.

(e) Foreign currency

i. Foreign currency transactions

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

ii. Monetary unit and foreign exchange regulations

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

In accordance with the Chart of Accounts, assets and liabilities denominated in foreign currency should be expressed in colones using the reference buy rate published by BCCR. As of September 30, 2019, the exchange rate was established at ¢577.93 and ¢586.00 to US\$1.00 (2018: ¢579.12 and ¢585.80 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, 2019, assets and liabilities denominated in US dollars are valued at the exchange rate of ¢577.93 to US\$1.00 (2018: ¢579.12 to US\$1.00), which is the reference buy rate published by BCCR for that date.

As of September 30, 2019, assets and liabilities denominated in euro are valued at the exchange rate of ¢630.12 to €1.00 (2018: ¢671.37 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, 2019, assets and liabilities denominated in Development Units (DU) are valued at the exchange rate of ¢917.80 to DU1.00 (2018: ¢892.26 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, 2019 and 2018, the Bank holds 49% ownership interest in BICSA. Accordingly, the Bank should value its investment in that entity by the equity method rather than on a consolidated basis.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The financial statements of foreign operations are translated as follows:

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

For the nine months ended September 30, 2019, a foreign exchange loss in the amount of ¢570,524,084 (December and September 2018: foreign exchange gain of ¢30,215,886 and foreign exchange loss of ¢2,015,757,168, respectively) is presented in equity for the translation of the consolidated financial statements of foreign operations. As of September 30, 2019, the adjustment for valuation of investments in other companies amounts to ¢8,555,316,488 (December and September 2018: ¢9,125,840,572 and ¢7,079,867,518, 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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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, 2019 and 2018, the Bank no longer classifies financial instruments as held-to-maturity, except for the securities denominated in DU received from the Central Government to capitalize the Bank. Those securities were authorized by the Executive Branch of the Government of Costa Rica as a capital contribution and are funded under the *Amendment to Law No. 8627 on the Ordinary and Extraordinary Budget of the Republic for Tax Year 2008* (Law No. 8703).

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Securities sold under repurchase agreements

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

Securities purchased under reverse repurchase agreements

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

Derivative financial instruments

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

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

Originated loans and other receivables

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Deposits and debt securities issued

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

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

iii. Derecognition

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

iv. Offsetting

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

v. Amortized cost measurement

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

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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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.

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

Investments in financial instruments

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

Subsequent to initial recognition, all trading and available-for-sale investments are measured at fair value, except for any investment or instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured, which is stated at cost, including transaction costs, less impairment losses. As of September 30, 2019 and 2018, the Bank uses the methodology established by Proveedor Integral de Precios Centroamérica (PIPCA) for this measurement.

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.

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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.

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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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 is reversed through the consolidated statement of comprehensive income or the consolidated statement of changes in equity, as appropriate.

(g) Loan portfolio

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

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(j) Other receivables

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

(k) Foreclosed assets

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

(1) Investments in other companies

Investments in the share capital of entities over which the Bank exercises control or significant influence are accounted for using the equity method. As of September 30, 2019 and 2018, the Bank's investments in other companies are as follows:

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

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

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

As of September 30, 2019 and 2018, the Bank has no full or partial share or influence over the management of other companies, in accordance with Article 73 of IRNBS and Article 146 of the Internal Regulations of the Central Bank of Costa Rica.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(m) Property and equipment

i. Own assets

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

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

ii. Leased assets

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

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

iii. Subsequent expenditure

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

iv. Depreciation and amortization

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

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

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

(n) Intangible assets

i. Other intangible assets

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

ii. Subsequent expenditure

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

iii. Amortization

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(o) Impairment of non-financial assets

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

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

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

(p) Accounts payable and other liabilities

Accounts payable and other liabilities are carried at amortized cost.

(q) Provisions

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(r) Employee benefits

i. *Severance benefits*

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

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

As of September 30, 2019 and 2018, severance is included in the provisions account (see Note 17), which meets the legal provisioning requirements in effect as of those dates.

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

ii. *Short-term employee benefits*

Statutory Christmas bonus

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

Vacation

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

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

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

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

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Back-to-school bonus

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

Incentives and Performance Assessment System (SEDI)

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

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

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

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

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

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

iii. Employee Protection and Retirement Fund

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

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(s) Deferred income

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

(t) Legal reserve

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

Other statutory reserves

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

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

(u) Revaluation surplus

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(v) Income tax

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

i. *Current tax*

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

ii. *Deferred tax*

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

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

iii. *Tax benefits - FOCREDE*

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

(w) Segment reporting

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

(x) Financial statements of the departments

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

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

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

(y) Use of estimates

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

(z) Recognition of income and costs

i. Interest income and interest expense

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

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

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

ii. Fee and commission income

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

iii. Income from foreign currency exchange and arbitrage

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

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

iv. *Operating lease expenses*

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

(aa) Statutory allocations

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

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

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

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

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.

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

(bb) Development Financing Fund (FOFIDE)

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

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

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(cc) Development Credit Fund (FOCREDE)

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

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

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

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

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

(dd) Trust operations

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(2) Collateralized or restricted assets

Collateralized or restricted assets are as follows:

Restricted asset	Cause of restriction		September 2019	December 2018	September 2018
<i>Cash and due from banks:</i>					
Checking account – colones (Note 4)	Minimum legal deposit	¢	442,699,408,633	490,472,341,154	510,700,244,174
Checking account – US dollars (Note 4)	Minimum legal deposit		258,902,951,541	283,010,610,003	267,240,441,965
Checking account – euro (Note 4)	Minimum legal deposit		3,508,524,077	4,152,775,150	3,891,392,968
Other cash and due from banks (Note 4)	Custody of liabilities of Banco Crédito Agrícola de Cartago		1,117,164,965	1,198,002,163	1,186,422,202
	Margin calls for derivative financial instruments		3,684,494	-	-
Other cash and due from banks (Note 4)	Margin calls for tri-party repurchase agreements		198,817,227	8,462,542	180,353,853
Other cash and due from banks (Note 4)	Contribution to FOGABONA		142,990,834	214,975,302	238,765,962
		¢	<u>706,573,541,771</u>	<u>779,057,166,314</u>	<u>783,437,621,124</u>
<i>Investments in financial instruments:</i>					
Investments in financial instruments	Guarantee for tri-party repurchase agreements	¢	17,301,145,634	13,392,509,848	30,196,376,278
Investments in financial instruments	Liquidity market operations		38,948,915,729	44,979,191,022	27,053,419,231
Securities issued by BCCR and the Government	Investments securing repurchase agreements		514,176,102	607,442,622	610,384,000
External debt bonds	Nomura Bank guarantee		57,087,693,171	45,173,015,838	67,032,138,156
External debt bonds	JP-SWAPS guarantee		1,396,904,301	-	6,323,425,631
	Interbank Electronic Payment System (SINPE) guarantee		-	96,089,536,625	-
Central Bank bonds (global bond)	SINPE guarantee		-	180,308,749,905	8,054,193,936
External debt bonds	SINPE guarantee		-	29,739,359,400	33,578,082,124
Monetary stabilization bonds	SINPE guarantee	¢	<u>115,248,834,937</u>	<u>410,289,805,260</u>	<u>172,848,019,356</u>
<i>Other assets:</i>					
Other assets (Note 12)	Security deposits	¢	<u>606,239,080</u>	<u>529,032,006</u>	<u>598,822,545</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of September 30, 2019, the Brokerage Firm has restricted assets in the amount of ¢56,266,823,438 (December and September 2018: ¢58,388,594,807 and ¢57,668,915,323, respectively), corresponding to guarantees for tri-party repurchase agreements, operations in the liquidity market and contributions to the Liquidation and Compensation Risk Management Fund.

(3) Balances and transactions with related parties

Balances and transactions with related parties are as follows:

	<u>September 2019</u>	<u>December 2018</u>	<u>September 2018</u>
<u>Assets:</u>			
Checking accounts in foreign financial entities (1) (Note 4)	¢ 17,803,750,087	17,945,463,302	5,559,646,119
Allowance for impairment for transactions with related parties	(32,061,069)	-	(42,052,677)
Investments in other companies (2)	65,896,977,217	66,444,860,974	63,001,987,881
	<u>¢ 83,668,666,235</u>	<u>84,390,324,276</u>	<u>68,519,581,323</u>
<u>Liabilities:</u>			
Demand obligations with entities (3)	30,568,656	510,449,626	101,840,518
Term obligations with entities (3)	5,779,299,999	-	-
Accounts payable	-	65,818	-
	<u>¢ 5,809,868,655</u>	<u>510,515,444</u>	<u>101,840,518</u>
<u>Income:</u>			
Finance	-	-	7,797,292
Due to gain in investments in other entities abroad	2,362,824,607	3,160,852,893	2,332,803,648
	<u>¢ 2,362,824,607</u>	<u>3,160,852,893</u>	<u>2,340,600,940</u>
<u>Expenses:</u>			
Operating	41,432,811	-	-

Balances and transactions with related parties are as follows:

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

		September 2019	December 2018	September 2018
Short-term benefits	¢	1,497,804,605	1,871,232,334	1,465,995,322
Long-term benefits		194,714,599	243,260,203	190,579,392
Per diem – Board of directors		136,524,944	160,987,264	116,489,246
	¢	<u>1,829,044,148</u>	<u>2,275,479,801</u>	<u>1,773,063,960</u>

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

(4) Cash and cash equivalents

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

		September 2019	December 2018	September 2018
Cash and due from banks	¢	1,067,803,066,707	1,025,465,414,007	1,240,394,555,501
Investments with maturities of two months or less		221,675,124,612	92,477,701,076	378,700,666,371
	¢	<u>1,289,478,191,319</u>	<u>1,117,943,115,083</u>	<u>1,619,095,221,872</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Cash and due from banks is as follows:

	September 2019	December 2018	September 2018
Cash on hand and in vaults	¢ 81,864,501,154	54,926,278,487	79,046,006,882
Cash in transit	11,660,778,553	24,794,852,641	16,178,145,308
Checking account in BCCR (1)	78,204,672,504	68,856,647,714	86,558,617,342
Minimum legal deposits in BCCR (1)	706,415,126,293	787,248,490,219	787,473,157,881
Checking accounts and demand deposits in State-owned commercial banks and banks created under special laws	135,213,493	231,548,826	152,734,860
Checking accounts and other demand accounts in private financial entities	5,738,562,063	6,451,920,446	6,428,544,556
Overnight deposits in local financial entities	600,000,000	-	600,000,000
Checking accounts in foreign financial entities	151,064,630,287	49,891,592,911	236,112,223,651
Deposits and other demand accounts in foreign financial entities	12,979,432	101,093,880	35,947,497
Checking accounts and demand deposits in related entities (Note 3)	17,803,750,087	17,945,463,302	5,559,646,119
Overnight deposits in foreign financial entities	2,335,641,314	3,168,719,663	5,796,783,157
Transfers through the Interbank Electronic Payment System (SINPE)	3,480,030,249	1,785,642,086	12,083,071,189
Local notes receivable	5,986,239,947	6,098,464,304	2,310,944,501
Foreign notes receivable	1,038,283,811	2,543,259,521	453,190,541
Margin calls for derivative financial instruments	3,684,494	-	-
Margin calls for tri-party repurchase agreements	198,817,227	8,462,542	180,353,853
Fondo de Garantía de la Bolsa Nacional de Valores (FOGABONA)	142,990,833	214,975,302	238,765,962
Other restricted cash and due from banks (2)	1,117,164,966	1,198,002,163	1,186,422,202
	¢ <u>1,067,803,066,707</u>	<u>1,025,465,414,007</u>	<u>1,240,394,555,501</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

As of June 16, 2019, the percentage for the minimum legal deposit was changed to 12%, according to note GD-5879/09 issued by BCCR on June 3, 2019 (2018: 15%). The corresponding amount must be deposited in cash in BCCR pursuant to current banking legislation. Such a deposit is calculated as a percentage of third-party deposits, which varies based on the term and form of deposit-taking used by the Bank.

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(5) Investments in financial instruments

Investments in financial instruments are as follows:

	September 2019	December 2018	September 2018
<u>Trading:</u>			
Open investment funds (1)	¢ -	12,096,981,603	-
	-	12,096,981,603	-
<u>Available for sale:</u>			
<u>Local issuers:</u>			
Government of Costa Rica	616,757,306,462	501,672,592,983	525,032,396,731
BCCR	132,126,217,750	123,888,398,241	126,277,487,581
State-owned banks	25,755,334,067	35,603,879,775	39,776,039,924
Private issuers (1)	114,946,291,593	5,374,960,833	25,850,306,489
	889,585,149,872	666,539,831,832	716,936,230,725
<u>Foreign issuers:</u>			
Governments	208,680,840,533	250,699,141,704	116,041,580,274
Private issuers	102,419,885,955	145,841,940,179	243,450,522,333
Private banks	116,264,949,438	81,102,154,742	81,897,285,446
	427,365,675,926	477,643,236,625	441,389,388,053
	1,316,950,825,798	1,156,280,050,060	1,158,325,618,778
<u>Held to maturity:</u>			
Government of Costa Rica	-	-	18,811,098,378
	-	-	18,811,098,378
<u>Derivative financial instruments:</u>			
Interest rate futures - Hedges (Note 6)	13,131,990,563	564,329,586	4,433,887
Purchase of FX futures – Other than hedges (Note 6)	1,369,095	106,663,896	19,512,651
Sale of FX futures – Other than hedges (Note 6)	3,848,057	7,819,670	229,264
	13,137,207,715	678,813,152	24,175,802
<u>Allowance for impairment:</u>			
Allowance for impairment of derivative instruments other than hedges	(521,715)	(10,701,685)	-
	(521,715)	(10,701,685)	-
Accrued interest receivable on investments	11,604,901,587	14,756,839,149	7,370,621,931
¢	1,341,692,413,385	1,171,705,000,676	1,184,531,514,889

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

	September 2019	December 2018	September 2018
Opening balance	¢ 10,701,685	73,474,196	73,474,196
Allowance expense (Note 34)	3,641,701	27,236,248	16,534,564
Decrease in allowance (Note 35)	(13,821,671)	(90,008,759)	(90,008,760)
Closing balance	¢ 521,715	10,701,685	-

As of September 30, 2019, the Bank recognizes an allowance for impairment of derivative instruments other than hedges in the amount of ¢521,715, for sales of FX futures other than hedges in accordance with SUGEF Directive 09-08 (December and September 2018: ¢10,701,685 and nil, respectively).

Annual returns on investments in financial instruments are as follows:

Currency	September 2019	December 2018	September 2018
Colones	4.88% to 9.87%	4.87% to 11.21%	4.88% to 9.87%
US dollars	0.75% to 6.85%	0.75% to 6.85%	0.75% to 6.85%
Euro	1.63% to 2.00%	1.62% to 2.00%	1.63% to 2.00%
DU	0.00%	0.00%	0.00%

As of September 30, 2019, the valuation of available-for-sale investments and restricted financial instruments gave rise to an unrealized gain, net of deferred tax, in the amount of ¢11,149,259,144 (December and September 2018: unrealized loss of ¢3,854,956,295 and unrealized loss of ¢3,052,213,343, respectively). Accordingly, as of September 30, 2019, the cumulative balance of equity adjustments arising from the valuation of these investments is an unrealized gain of ¢4,989,313,194 (December and September 2018: unrealized loss of ¢6,159,945,950 and unrealized loss of ¢5,357,202,998, respectively).

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(6) Derivative financial instruments

The Bank holds the following types of derivative financial instruments:

✓ Derivatives as risk hedging instruments:

Interest rate futures - hedges:

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

Derivative financial instruments are as follows:

Issuing bank	September 30, 2019				Purpose
		Notional amount		Valuation	
CitiBank	US\$	100,000,000	US\$	9,087,187	Swaps to hedge 10-year issues (maturing in 2023)
JP Morgan		200,000,000		4,543,593	
Bank of America		200,000,000		9,087,187	
	US\$	500,000,000	US\$	22,717,966	
Amount in colones	¢	288,965,000,000	¢	13,129,394,368	
Bank of America	US\$	100,200,000	US\$	(1,096,195)	Swaps to hedge 5-year issues (maturing in 2021)
JP Morgan		250,000,000		(2,688,170)	
	US\$	350,200,000	US\$	(3,784,365)	
Amount in colones	¢	202,391,086,000	¢	(2,187,098,105)	
Chicago Board of Trade	US\$	4,600,000	US\$	(18,992)	Standardized futures contracts (maturing in 2019)
Amount in colones	¢	2,658,478,000	¢	(10,976,156)	

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018				Purpose
Issuing bank		Notional amount	Valuation	
CitiBank	US\$	100,000,000	US\$ 169,937	Swaps to hedge 10-year issues (maturing in 2023)
JP Morgan		200,000,000	339,871	
Bank of America		200,000,000	339,871	
	US\$	500,000,000	849,679	
Amount in colones	¢	302,195,000,000	¢ 513,537,219	
Bank of America	US\$	250,000,000	US\$ (7,870,900)	Swaps to hedge 5-year issues (maturing in 2021)
JP Morgan		250,000,000	(7,870,900)	
	US\$	500,000,000	(15,741,800)	
Amount in colones	¢	302,195,000,000	¢ (9,514,186,508)	
Chicago Board of Trade	US\$	6,700,000	US\$ 84,039	Standardized futures contracts (maturing in 2019)
Amount in colones	¢	4,049,413,000	¢ 50,792,367	
September 30, 2018				Purpose
Issuing bank		Notional amount	Valuation	
CitiBank	US\$	100,000,000	US\$ (1,859,869)	Swaps to hedge 10-year issues (maturing in 2023)
JP Morgan		200,000,000	(3,719,738)	
Bank of America		200,000,000	(3,719,738)	
	US\$	500,000,000	(9,299,345)	
Amount in colones	¢	289,560,000,000	¢ (5,385,436,868)	
Bank of America	US\$	250,000,000	(11,529,029)	Swaps to hedge 5-year issues (maturing in 2021)
JP Morgan		250,000,000	(11,529,029)	
	US\$	500,000,000	(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 2019)
Amount in colones	¢	3,358,896,000	¢ (389,094)	

As of September 30, 2019, total notional amounts of US\$854,800,000, equivalent to ¢494,014,564,000 (December and September 2018: US\$1,006,700,000, equivalent to ¢608,439,413,000 and US\$1,005,800,000, equivalent to ¢582,478,896,000, respectively) are booked under “Other debit memoranda accounts” (see Note 24).

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of September 30, 2019, the Bank booked an increase in the fair value of swaps in the amount of US\$22,722,459, equivalent to ¢13,131,990,562 (December and September 2018: US\$51,642,046 equivalent to ¢564,329,586 and US\$7,656 equivalent to ¢4,433,887, respectively; see Note 5) and a decrease in the fair value of those hedges in the amount of US\$3,807,849, equivalent to ¢2,200,670,456 (December and September 2018: US\$15,741,800 equivalent to ¢9,514,186,508 and US\$32,365,731 equivalent to ¢18,743,641,888, respectively; see Note 18).

As of September 30, 2019, the Bank booked an increase in the fair value of futures contracts in the amount of US\$4,492, equivalent to ¢2,596,194 (December and September 2018: US\$84,039, equivalent to ¢50,792,367 and US\$7,656, equivalent to ¢4,433,887, respectively; see Note 5) and a decrease in the fair value of those contracts in the amount of US\$23,484, equivalent to ¢13,572,351 (December 2018: nil; September 2018: US\$8,328, equivalent to ¢4,822,981; see Note 18). The net position of those instruments is thus US\$18,992, equivalent to ¢10,976,156 (December and September 2018: US\$84,039, equivalent to ¢50,792,367 and US\$672, equivalent to ¢389,094, respectively).

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

A valuation was performed as of September 30, 2019 and 2018 to calculate the change in the fair value of the primary and derivative instruments based on the following inputs:

- a 5- or 10-year LIBOR rate at the issue of the bond
- discount rates from Bloomberg
- zero rates corresponding to the swap curve as of September 30, 2019 and 2018
- only a portion of the bond cash flows is hedged (corresponding to the 5- and 10-year LIBOR rate in effect at the issue of the bond) rather than the total interest amount
- accrued and earned interest were segregated from the instruments to obtain variations in clean prices
- forward rate to calculate variable interest.

✓ Derivatives for trading purposes:

Currency forwards:

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

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, 2019, the total notional amount is US\$2,555,070, equivalent to ¢1,476,651,634 (December and September 2018: US\$8,853,765, equivalent to ¢5,351,126,744 and US\$13,837,425, equivalent to ¢8,013,529,653, respectively; see Note 22).

As of September 30, 2019, the Bank booked an increase in the fair value of these forwards in the amount of ¢5,217,152 (December and September 2018: ¢114,483,566 and ¢19,741,915, respectively) under an asset account (see Note 5) and a decrease in the amount of ¢6,693,750 (December and September 2018: ¢760,675 and ¢27,408,206, respectively) under a liability account (see Note 18).

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

		<u>September 2019</u>	<u>December 2018</u>	<u>September 2018</u>
Gain on derivative financial instruments	¢	22,810,676,661	20,850,704,979	9,419,964,670
Loss on derivative financial instruments		<u>(7,626,362,064)</u>	<u>(26,913,712,578)</u>	<u>(24,114,598,336)</u>
Net gain (loss)	¢	<u>15,184,314,597</u>	<u>(6,063,007,599)</u>	<u>(14,694,633,666)</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(7) Loan portfolio

(a) Loan portfolio by sector

The loan portfolio by sector is as follows:

		<u>September 2019</u>	<u>Diciembre2018</u>	<u>September 2018</u>
Trade	¢	364,350,559,666	396,785,279,700	392,592,858,914
Services		911,938,667,883	939,030,870,995	923,697,224,869
Financial services		109,798,281,699	136,874,986,400	132,057,391,788
Mining		753,556,205	884,454,369	851,905,187
Manufacturing and quarrying		167,302,224,435	193,446,458,802	174,136,253,599
Construction		100,857,198,269	116,304,451,617	121,903,048,268
Agriculture and forestry		110,104,697,063	121,629,572,584	121,734,459,611
Livestock, hunting and fishing		78,315,171,068	81,952,751,313	82,798,477,882
Electricity, water, sanitation and other related sectors		399,508,619,609	412,573,611,859	455,142,986,522
Transportation and telecommunications		48,921,325,500	45,062,571,105	45,775,171,419
Housing		1,305,620,512,828	1,304,945,620,152	1,293,956,145,451
Personal or consumer loans		557,650,115,291	580,323,359,989	570,617,938,407
Tourism		184,323,311,692	191,332,544,873	182,103,221,646
		<u>4,339,444,241,208</u>	<u>4,521,146,533,758</u>	<u>4,497,367,083,563</u>
Accrued interest receivable		38,237,739,385	36,776,953,763	39,741,652,898
Allowance for loan losses		<u>(124,302,544,213)</u>	<u>(141,630,956,233)</u>	<u>(183,178,548,758)</u>
	¢	<u>4,253,379,436,380</u>	<u>4,416,292,531,288</u>	<u>4,353,930,187,703</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Annual interest rates on loans receivable are as follows:

Currency	September 2019		December 2018		September 2018	
	Rates	Average (1)	Rates	Average (1)	Rates	Average (1)
Colones	2.00% to 53.20%	15.72%	4.00% to 47.28%	15.28%	4.00% to 47.28%	14.97%
US dollars	2.01% to 34.92%	9.10%	2.89% to 38.40%	10.46%	3.00% to 38.40%	10.18%
DU	3.85% to 10.50%	6.35%	3.85% to 11.00%	6.53%	3.85% to 11.00%	6.52%

(1) Corresponds to the average of the minimum and maximum values of the portfolio as of September 30, 2019 and 2018.

(b) Loan portfolio by arrears

The loan portfolio by arrears is as follows:

	September 2019	December 2018	September 2018
Current	¢ 3,996,532,647,684	4,223,913,959,985	4,102,963,253,222
1 to 30 days	121,272,708,399	68,387,417,598	136,168,690,556
31 to 60 days	34,575,156,004	53,200,289,272	27,069,749,326
61 to 90 days	46,540,838,493	27,612,191,520	30,773,469,031
91 to 120 days	13,716,304,277	14,006,115,691	14,769,448,965
121 to 180 days	18,081,349,183	16,987,435,996	16,096,603,617
More than 180 days	108,725,237,168	117,039,123,696	169,525,868,846
	4,339,444,241,208	4,521,146,533,758	4,497,367,083,563
Accrued interest receivable	38,237,739,385	36,776,953,763	39,741,652,898
Allowance for loan losses	(124,302,544,213)	(141,630,956,233)	(183,178,548,758)
	¢ 4,253,379,436,380	4,416,292,531,288	4,353,930,187,703

(c) Allowance for loan losses

Movement in the allowance for loan losses is as follows:

	September 2019	December 2018	September 2018
Opening balance	¢ 141,630,956,233	140,168,393,361	140,168,393,361
Allowance expense for the period (Note 31)	38,065,480,637	86,529,016,148	61,317,494,734
Write-offs	(53,636,329,579)	(91,064,341,598)	(20,595,347,879)
Decrease in allowance	(175,919)	-	-
Foreign exchange differences	(1,757,387,159)	5,997,888,322	2,288,008,542
Closing balance	¢ 124,302,544,213	141,630,956,233	183,178,548,758

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

(8) Accounts and fees and commissions receivable

Accounts and fees and commissions receivable are as follows:

	September 2019	December 2018	September 2018
Fees and commissions	¢ 1,660,993,112	1,379,493,008	1,266,344,388
Accounts receivable for brokerage operations	33	56,675	64,290,113
Accounts due from officers	49,282,883	23,953,056	58,160,746
Deferred tax (Note 16-b)	1,141,337,525	2,217,534,051	2,006,085,968
Income tax receivable (1)	193,387,248	268,539,602	181,212,693
Sundry accounts receivable for credit cards	156,634,231	82,482,719	-
Advance payments to suppliers	-	-	-
Other recoverable expenses	133,368,300	21,163,480	-
Other accounts receivable (2)	4,050,685,601	3,905,545,099	4,156,364,033
Accrued interest receivable on other sundry accounts receivable	5,647,014	2,082,892	1,517,374
Allowance for impairment of accounts receivable	(4,208,881,499)	(3,914,525,990)	(4,122,120,299)
	¢ <u>3,182,454,448</u>	<u>3,986,324,592</u>	<u>3,611,855,016</u>

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

	September 2019	December 2018	September 2018
Banco Nacional de Costa Rica	¢ 102,834,779	156,399,541	101,895,459
BN Vital Operadora de Planes de Pensiones Complementarias, S.A.	55,860	80,512	45,253
BN Sociedad Corredora de Seguros, S.A.	90,496,609	112,059,549	79,271,981
	¢ <u>193,387,248</u>	<u>268,539,602</u>	<u>181,212,693</u>

(2) As of September 30, 2019, other accounts receivable include ¢2,311 million corresponding to theft and fraud (2018: ¢1,677 million corresponding to theft or misappropriation, malicious acts, scams and fraud).

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the nine months ended September 30, movement in the allowance for impairment of other accounts receivable is as follows:

	September 2019	December 2018	September 2018
Opening balance	¢ 3,914,525,990	3,592,576,911	3,592,576,911
Allowance expense (Note 34)	1,038,811,212	1,949,617,277	1,792,982,861
Decrease in allowance (Note 35)	(174,722,390)	(1,149,713,455)	(920,009,803)
Items settled against allowance	(568,226,642)	(483,865,137)	(345,879,667)
Foreign exchange differences	(1,506,671)	5,910,394	2,449,997
Closing balance	¢ 4,208,881,499	3,914,525,990	4,122,120,299

(9) Foreclosed assets

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

	September 2019	December 2018	September 2018
Assets received in lieu of payment	90,589,424,386	79,173,439,587	76,770,699,608
Idle property and equipment	56,384,865	1,840,189	1,840,190
Allowance for impairment	(61,893,376,473)	(59,100,375,778)	(58,503,405,303)
	28,752,432,778	20,074,903,998	18,269,134,495

For the nine months ended September 30, movement in the allowance for impairment of foreclosed assets is as follows:

	September 2019	December 2018	September 2018
Opening balance	59,100,375,778	62,466,054,133	62,466,054,133
Allowance expense (Note 38)	6,064,280,618	4,111,275,986	2,978,602,552
Disposal of foreclosed assets	-	(956,183,973)	(850,656,490)
Decrease in allowance	(3,271,279,923)	(6,520,770,368)	(6,090,594,892)
Closing balance	61,893,376,473	59,100,375,778	58,503,405,303

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(10) Investments in other companies

Investments in other companies are as follows:

		<u>September 2019</u>	<u>December 2018</u>	<u>September 2018</u>
Other financial and non-financial entities (1)	¢	50,623,300	50,623,300	50,623,300
Banco Internacional de Costa Rica, S.A. and Subsidiary (BICSA) (Note 3) (2)		65,947,600,517	66,444,860,974	62,951,364,581
	¢	<u>65,998,223,817</u>	<u>66,495,484,274</u>	<u>63,001,987,881</u>

(1) As of September 30, the Bank's investments in other entities are as follows:

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(11) Property and equipment, net

Property and equipment is as follows:

		September 2019					
		Land	Buildings	Furniture and equipment	Computer hardware	Vehicles	Total
<u>Cost:</u>							
Historical cost balance at beginning of the period	¢	4,281,149,677	69,580,863,035	65,263,465,984	50,713,063,855	264,951,853	190,103,494,404
Revalued cost balance at beginning of the period		49,234,856,453	65,881,300,846	(9,367,058)	(33,530,103)	-	115,073,260,138
Additions		-	734,718,525	5,190,273,124	1,763,218,260	-	7,688,209,909
Revaluation of assets		150,828,151	(204,594,177)	-	-	-	(53,766,026)
Disposals		-	-	(2,399,723,371)	(872,062,833)	-	(3,271,786,204)
Sales		-	-	(13,039,259)	-	-	(13,039,259)
Adjustments		-	(108,714,153)	149,932,918	(328,897,340)	-	(287,678,575)
Reclassifications (i)		-	-	(103,515)	103,515	-	-
Balance at end of the period		53,666,834,281	135,883,574,076	68,181,438,823	51,241,895,354	264,951,853	309,238,694,387
<u>Accumulated depreciation:</u>							
Balance at beginning of the period		-	43,897,512,315	38,877,680,176	36,445,870,666	220,369,424	119,441,432,581
Depreciation expense on historical cost		-	1,286,097,756	5,151,610,524	4,432,605,096	13,580,947	10,883,894,323
Depreciation expense on revalued cost		-	868,152,606	-	-	-	868,152,606
Disposals		-	-	(2,237,270,938)	(844,864,021)	-	(3,082,134,959)
Sales		-	-	(12,945,949)	-	-	(12,945,949)
Adjustments		-	(156,210,873)	149,183,014	(328,782,145)	-	(335,810,004)
Reclassifications (ii)		-	-	(103,515)	103,515	-	-
Balance at end of the period	¢	-	45,895,551,804	41,928,153,312	39,704,933,111	233,950,371	127,762,588,598
Net balance at end of the period	¢	53,666,834,281	89,988,022,272	26,253,285,511	11,536,962,243	31,001,482	181,476,105,789

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		September 2018					
		Land	Buildings	Furniture and equipment	Computer hardware	Vehicles	Total
<u>Cost:</u>							
Historical cost balance at beginning of the period	¢	4,421,981,504	65,365,769,140	62,756,449,219	52,272,157,864	264,401,853	185,080,759,580
Revalued cost balance at beginning of the period		43,400,145,058	61,920,804,416	(8,658,186)	(33,536,634)	-	105,278,754,654
Additions		-	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 (i)		-	-	105,263	(105,263)	-	-
Balance at end of the period		54,434,269,244	142,500,695,272	64,981,663,795	50,395,387,063	264,951,853	312,576,967,227
<u>Accumulated depreciation:</u>							
Balance at beginning of period		-	38,921,431,767	35,786,150,473	35,403,025,098	203,397,643	110,314,004,981
Depreciation expense on historical cost		-	1,050,743,864	4,633,896,647	4,811,374,700	13,512,197	10,509,527,408
Depreciation expense on revalued cost		-	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 the 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 the period	¢	54,434,269,244	95,067,933,458	26,648,272,538	13,489,859,139	49,155,762	189,689,490,141

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(12) Other assets

Other assets are as follows:

	September 2019	December 2018	September 2018
<i><u>Deferred charges:</u></i>			
Leasehold improvements (1)	¢ 416,940,960	690,513,572	734,966,570
Cost of issue of financial instruments, net (2)	831,107,072	1,020,486,226	1,098,161,575
Cost of subordinated debt project	254,534,215	340,742,718	369,212,908
Deferred direct costs related to loans	4,169,978,238	4,488,822,065	4,605,505,893
Other deferred charges (3)	60,423,048,969	71,115,886,457	299,785,476
	<u>66,095,609,454</u>	<u>77,656,451,038</u>	<u>7,107,632,422</u>
<i><u>Intangible assets:</u></i>			
Software (4)	5,240,940,008	5,046,893,109	5,118,504,827
Other intangible assets (4)	2,870,059	2,660,203	2,660,203
	<u>5,243,810,067</u>	<u>5,049,553,312</u>	<u>5,121,165,030</u>
<i><u>Other assets:</u></i>			
Prepaid interest and fees and commissions	183,633,813	365,324,853	210,206,696
Prepaid taxes	3,816,733,520	6,376,957,110	4,251,757,275
Prepaid insurance policy	81,157,461	144,379,676	155,487,730
Other prepaid expenses (5)	5,394,996,154	728,395,586	585,620,838
Stationery, office supplies and other materials	519,080,708	452,274,191	585,685,695
Leased assets	120,003,423	121,011,254	98,685,410
Library and artwork	429,429,183	429,918,818	429,918,818
Construction work-in-progress	1,056,923,320	2,471,766,478	3,901,218,413
Software under development	-	953,628	15,522,916
Rights in welfare and trade associations	600,000	600,000	600,000
Other sundry assets (6)	993,155,883	7,105,562,703	7,378,305,363
Operations pending settlement	13,118,093,519	11,126,219,515	7,342,373,926
Other operations pending application	175,414,987	224,971,615	1,280,898,638
Security deposits (Note 2)	361,166,030	368,859,948	371,757,570
Legal and administrative deposits (Note 2)	245,073,051	160,172,058	227,064,975
	<u>26,495,461,052</u>	<u>30,077,367,433</u>	<u>26,835,104,263</u>
	<u>¢ 97,834,880,573</u>	<u>112,783,371,783</u>	<u>39,063,901,715</u>

- (1) As of September 30, 2019, the expense for amortization of leasehold improvements amounts to ¢298,741,007 (December and September 2018: ¢332,162,531 and ¢598,822,545, respectively).

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

September 2019				
	5-year issue (maturing in 2018)	10-year issue (maturing in 2023)	5-year issue (maturing 2021)	Total
Commission - structuring banks	¢ 288,965,000	288,965,000	491,240,500	1,069,170,500
Commission - Moody's Investors Service	144,482,500	144,482,500	-	288,965,000
Commission - Société de la Bourse de Luxembourg, S.A.	7,062,883	7,062,883	-	14,125,766
RR Donelley	6,326,600	6,326,577	3,787,334	16,440,511
BNY Mellon	2,284,557	2,284,557	3,332,922	7,902,036
Moody's - issuer rating	19,129,483	19,129,483	144,482,500	182,741,466
Fitch Ratings	144,482,500	144,482,500	144,482,500	433,447,500
Milbank	85,048,179	85,048,179	113,864,121	283,960,479
Shearman & Sterling	85,158,563	85,158,563	126,678,846	296,995,972
External audit	109,806,700	109,806,700	134,079,760	353,693,160
Perkins Cole (Broker)	-	-	7,580,737	7,580,737
Printing of documents	-	-	9,139,871	9,139,871
	892,746,965	892,746,942	1,178,669,091	2,964,162,998
Amortization	(892,746,965)	(458,739,451)	(781,569,510)	(2,133,055,926)
¢	-	434,007,491	397,099,581	831,107,072
December 2018				
	5-year issue (maturing in 2018)	10-year issue (maturing in 2023)	5-year issue (maturing 2021)	Total
Commission - structuring banks	¢ 302,195,000	302,195,000	513,731,500	1,118,121,500
Commission - Moody's Investors Service	151,097,500	151,097,500	-	302,195,000
Commission - Société de la Bourse de Luxembourg, S.A.	7,386,250	7,386,250	-	14,772,500
RR Donelley	6,616,257	6,616,233	3,960,734	17,193,224
BNY Mellon	2,389,154	2,389,154	3,485,518	8,263,826
Moody's - issuer rating	20,005,309	20,005,309	151,097,500	191,108,118
Fitch Ratings	151,097,500	151,097,500	151,097,500	453,292,500
Milbank	88,942,032	88,942,032	119,077,286	296,961,350
Shearman & Sterling	89,057,471	89,057,471	132,478,722	310,593,664
External audit	114,834,100	114,834,100	140,218,480	369,886,680
Perkins Cole (Broker)	-	-	7,927,814	7,927,814
Printing of documents	-	-	9,558,331	9,558,331
	933,620,573	933,620,549	1,232,633,385	3,099,874,507
Amortization	(933,620,573)	(469,459,691)	(676,308,017)	(2,079,388,281)
¢	-	464,160,858	556,325,368	1,020,486,226

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	September 2018			
	5-year issue (maturing in 2018)	10-year issue (maturing in 2023)	5-year issue (maturing 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

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

		September 2019		
		Software	Other intangible assets	Total
<u>Cost:</u>				
Opening balance	¢	29,090,446,091	2,087,126,157	31,177,572,248
Additions		4,334,433,806	8,820,033	4,343,253,839
Disposals		(2,793,119,654)	-	(2,793,119,654)
Reclassifications		-	(8,610,177)	(8,610,177)
Adjustments		(498,360,401)	-	(498,360,401)
Closing balance		30,133,399,842	2,087,336,013	32,220,735,855
<u>Accumulated amortization:</u>				
Opening balance		24,043,552,981	2,084,465,954	26,128,018,935
Expense for the period		3,807,142,141	8,610,177	3,815,752,318
Disposals		(2,760,182,747)	-	(2,760,182,747)
Reclassifications		(27,876,949)	(8,610,177)	(36,487,126)
Adjustments		(170,175,592)	-	(170,175,592)
Closing balance		24,892,459,834	2,084,465,954	26,976,925,788
Net closing balance	¢	5,240,940,008	2,870,059	5,243,810,067
		December 2018		
		Software	Other intangible assets	Total
<u>Cost:</u>				
Opening balance	¢	26,625,257,162	2,087,602,654	28,712,859,816
Additions		2,303,398,073	10,183,001	2,313,581,074
Disposals		(157,923,350)	-	(157,923,350)
Reclassifications		-	(10,659,498)	(10,659,498)
Adjustments		319,714,207	-	319,714,207
Closing balance		29,090,446,092	2,087,126,157	31,177,572,249
<u>Accumulated amortization:</u>				
Opening balance		20,104,598,731	1,264,874,499	21,369,473,230
Expense for the period		6,005,104,580	830,250,953	6,835,355,533
Disposals		(9,548,115)	-	(9,548,115)
Reclassifications		(79,589,410)	(10,659,498)	(90,248,908)
Adjustments		(1,977,012,803)	-	(1,977,012,803)
Closing balance		24,043,552,983	2,084,465,954	26,128,018,937
Net closing balance	¢	5,046,893,109	2,660,203	5,049,553,312

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	September 2018		
	Software	Other intangible assets	Total
<i><u>Cost:</u></i>			
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
<i><u>Accumulated amortization:</u></i>			
Opening balance	20,104,598,731	1,264,874,499	21,369,473,230
Expense for the year	2,514,776,418	827,590,753	3,342,367,171
Disposals	(1,850,699)	-	(1,850,699)
Reclassifications	(48,787,273)	(7,999,297)	(56,786,570)
Closing balance	22,568,737,177	2,084,465,955	24,653,203,132
Net closing balance	¢ 5,118,504,828	2,660,202	5,121,165,030

- (5) As of September 30, 2019, other prepaid expenses include the recording of amounts paid due to the recalculation of the parafiscal contributions for fiscal years 2010-2016, due to the notice of deficiency and pursuant to the *Amnesty Law* of the Ministry of Finance, corresponding to software developed by the Bank during the year.
- (6) The decrease in the “Other sundry assets” account corresponds to partial software payments made during the year.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(13) Obligations with the public

Obligations with the public by cumulative amount are as follows:

	September 2019	December 2018	September 2018
<i><u>Demand deposits:</u></i>			
Checking accounts	¢ 1,355,015,156,953	1,266,981,098,817	1,255,676,855,555
Certified checks	49,614,398	73,507,572	126,826,791
Savings deposits	1,347,546,073,719	1,429,099,932,052	1,327,550,877,226
Matured-term deposits	16,576,017,294	26,930,306,912	23,930,070,951
Other demand deposits	227,208,609	331,158,380	326,428,617
Drafts and transfers payable	64,921,387	210,113,339	105,482,412
Cashier's checks	3,205,006,320	3,573,252,271	4,802,621,155
Advance collections from customers for credit cards	11,350,747,187	12,462,263,255	10,601,126,814
Banking mandates	1,117,164,965	1,198,002,163	1,186,045,414
Trust fund obligations	114,865,256	234,948,393	129,357,992
	<u>2,735,266,776,088</u>	<u>2,741,094,583,154</u>	<u>2,624,435,692,927</u>
<i><u>Term deposits:</u></i>			
Deposits from the public	2,179,312,336,239	1,862,962,601,087	1,964,913,652,301
Other term deposits	142,992,771,417	126,413,598,734	125,655,939,487
	<u>2,322,305,107,656</u>	<u>1,989,376,199,821</u>	<u>2,090,569,591,788</u>
<i><u>Other obligations with the public:</u></i>			
Obligations with third parties for third-party repurchase agreements	16,066,402,210	12,135,686,821	26,697,308,999
Finance charges payable	48,878,465,112	40,943,517,787	40,189,883,207
	<u>¢ 5,122,516,751,066</u>	<u>4,783,549,987,583</u>	<u>4,781,892,476,921</u>

As of September 30, 2019, deposits in checking accounts denominated in colones bear interest at a maximum rate of 3.05% per annum (December and September 2018: 3.05% and 2.55% per annum, respectively) on balances and at a minimum rate of 0.00% per annum (December and September 2018: 0.00% per annum) on balances greater than or equal to ¢500,001. Deposits in checking accounts denominated in US dollars bear interest at a maximum rate of 0.45% per annum (December and September 2018: 0.45% per annum) on balances and at a minimum rate of 0.00% per annum (December and September 2018: 0.00% per annum) on balances greater than or equal to US\$1,000.

Term obligations correspond to term certificates of deposit in colones, US dollars and euro. As of September 30, term certificates bear annual interest at the following rates:

Currency	September 2019	December 2018	September 2018
Colones	3.80% to 8.35%	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%

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The Bank has term certificates of deposit that are restricted to secure certain loan operations. As of September 30, 2019, the balance of those term certificates of deposit is ¢45,261,710,515 (December and September 2018: ¢45,565,025,114 and ¢45,894,654,108, respectively). As of that date, the Bank has no inactive deposits with State-owned entities or other banks.

(14) Obligations with BCCR

Obligations with BCCR are as follows:

		<u>September 2019</u>	<u>December 2018</u>	<u>September 2018</u>
Financing for loans using external funds (i)	¢	125,644,412	125,644,412	125,644,412
Other term obligations with BCCR (ii)		-	150,400,000,000	6,000,000,000
Finance charges payable		-	104,444,444	3,000,000
	¢	<u>125,644,412</u>	<u>150,630,088,856</u>	<u>6,128,644,412</u>

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(15) Obligations with financial entities

Obligations with financial entities are as follows:

	September 2019	December 2018	September 2018
<i><u>Demand:</u></i>			
Checking accounts with local financial entities	¢ 61,751,482,306	46,734,855,631	79,181,791,495
Savings deposits with local financial entities	112,496,541	77,408,367	48,558,633
Development Credit Fund (FOCREDE) management	135,834,411,721	132,343,259,393	140,355,990,375
Outstanding checks	3,776,198,563	1,912,750,821	4,401,457,974
Matured-term deposits	914,534,102	93,328,163	27,538,000
Checking accounts and obligations with related parties	30,568,657	510,449,626	101,840,518
	<u>202,419,691,890</u>	<u>181,672,052,001</u>	<u>224,117,176,995</u>
<i><u>Term:</u></i>			
Term deposits from local financial entities	93,507,795,482	111,103,688,102	135,159,447,318
Term obligations with foreign financial entities (1)	498,823,864,982	590,621,555,713	839,364,066,907
Liquidity market obligations	22,692,710,900	37,631,699,999	22,678,560,000
Loans from local financial entities (2)	33,153,323,273	34,750,337,565	35,270,808,097
Loans from foreign financial entities (2)(3)	89,370,748,442	98,386,895,369	94,816,190,352
Obligations with related financial entities	5,779,300,000	-	-
Deferred liquidity operations (2)	-	105,600,000,000	21,000,000,000
	<u>743,327,743,079</u>	<u>978,094,176,748</u>	<u>1,148,289,072,674</u>
Interest payable on other demand and term obligations with financial entities – foreign currency	65,621,339	96,502,933	107,698,512
Interest payable on other demand and term obligations with financial entities – local currency	877,882,779	1,632,784,606	1,849,649,338
Interest payable on loans with foreign financial entities (2)(3)	1,697,943,337	731,444,521	1,746,076,480
Interest payable on loans with local financial entities (2)	81,403,684	152,689,267	95,878,646
Interest payable on term deposits from foreign financial entities (1)	12,677,669,941	6,402,756,563	20,667,924,120
	<u>15,400,521,080</u>	<u>9,016,177,890</u>	<u>24,467,227,096</u>
¢	<u>961,147,956,049</u>	<u>1,168,782,406,639</u>	<u>1,396,873,476,765</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

	September 2019		
	10-year issue (maturing in 2023)	5-year issue (maturing in 2021)	Total
Issue	¢ 286,283,404,800	201,743,434,525	488,026,839,325
Adjustment to fair value of hedged item measured at cost of international issues	11,815,538,217	(2,792,761,717)	9,022,776,500
Amortization of discount in traded amount of issues	1,360,603,764	413,645,393	1,774,249,157
	299,459,546,781	199,364,318,201	498,823,864,982
Finance charges payable	7,525,130,212	5,152,539,729	12,677,669,941
	¢ 306,984,676,993	204,516,857,930	511,501,534,923

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

		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

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

September 2019			
	Local	Foreign	Total
1 to 2 years	-	5,665,607	5,665,607
3 to 5 years	-	75,249,268	75,249,268
More than 5 years	33,234,726,957	76,662,500	33,311,389,457
¢	<u>33,234,726,957</u>	<u>157,577,375</u>	<u>33,392,304,332</u>
December 2018			
	Local	Foreign	Total
Less than 1 year	256,171,857,332	-	256,171,857,332
1 to 2 years	-	5,141,281,219	5,141,281,219
2 to 5 years	34,835,613,944	93,977,058,672	128,812,672,616
¢	<u>291,007,471,276</u>	<u>99,118,339,891</u>	<u>390,125,811,167</u>
September 2018			
	Local	Foreign	Total
Less than 1 year	27,011,695,834	-	27,011,695,834
3 to 5 years	-	9,447,910	9,447,910
More than 5 years	35,483,635,321	157,291,742	35,640,927,063
¢	<u>62,495,331,155</u>	<u>166,739,652</u>	<u>62,662,070,807</u>

- (3) As of September 30, 2019, loans due to foreign financial entities bear interest at rates ranging between 3.32% and 6.65% per annum (December and September 2018: between 3.32% and 7.11% and 3.32% and 6.65% per annum, respectively).

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(16) Income tax

Pursuant to the *Costa Rican Income Tax Law*, the Bank is required to file income tax returns each year. As of 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	
		2019	2018	2019	2018
<u>Income tax expense:</u>					
Income tax expense for the period	¢	14,915,095,937	1,950,518,161	11,146,236,194	1,951,387,562
Income tax expense for prior periods		10,642,632,904	869,401	7,094,618,966	-
	¢	<u>25,557,728,841</u>	<u>1,951,387,562</u>	<u>18,240,855,160</u>	<u>1,951,387,562</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	September		Quarter from July 1 to September 30	
	2019	2018	2019	2018
<i><u>Current tax:</u></i>				
Income tax expense for the period	¢ 14,915,095,937	1,950,518,161	11,146,236,194	1,951,387,562
<i><u>Prior-period income tax:</u></i>				
Prior-period income tax expense	10,642,632,904	869,401	7,094,618,966	-
	<u>25,557,728,841</u>	<u>1,951,387,562</u>	<u>18,240,855,160</u>	<u>1,951,387,562</u>
<i><u>Deferred tax:</u></i>				
Deferred tax expense	24,263,255	26,360,900	16,175,503	26,360,900
Deferred tax income	(95,438,285)	(204,123,257)	(55,853,283)	(204,123,257)
	<u>(71,175,030)</u>	<u>(177,762,357)</u>	<u>(39,677,780)</u>	<u>(177,762,357)</u>
Income tax expense, net	¢ <u>25,486,553,811</u>	<u>1,773,625,205</u>	<u>18,201,177,380</u>	<u>1,773,625,205</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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 2019	September 2018
Profit before tax	¢ 57,056,246,785	26,943,614,688
Plus (less) tax effect of:		
Non-deductible expenses	58,416,702,071	38,025,053,257
Deductible expenses	(3,273,464,216)	(2,007,787,715)
Non-taxable income	(62,482,498,183)	(63,881,405,508)
Tax base	49,716,986,457	(920,525,278)
Tax rate	30%	30%
Subtotal - income tax expense	14,915,095,937	1,950,518,161
Prior-period income tax expense	10,642,632,904	869,401
Deferred tax expense	24,263,255	26,360,900
Deferred tax income	(95,438,285)	(204,123,257)
Income tax expense, net	¢ 25,486,553,811	1,773,625,205

a) Deferred tax

Deferred tax assets and liabilities are as follows:

	September 2019		
	Assets	Liabilities	Net
Unrealized losses	¢ 992,600,565	-	992,600,565
Provisions	148,736,960	-	148,736,960
Unrealized gains	-	(2,883,865,031)	(2,883,865,031)
Revaluation of assets	-	(9,717,838,786)	(9,717,838,786)
	¢ 1,141,337,525	(12,601,703,817)	(11,460,366,292)
	December 2018		
	Assets	Liabilities	Net
Unrealized losses	¢ 2,172,375,621	-	2,172,375,621
Provisions	45,158,430	-	45,158,430
Unrealized gains	-	(246,219,571)	(246,219,571)
Revaluation of assets	-	(9,763,087,231)	(9,763,087,231)
	¢ 2,217,534,051	(10,009,306,802)	(7,791,772,751)

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

September 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)
	¢ <u>2,006,085,968</u>	<u>(11,547,254,346)</u>	<u>(9,541,168,378)</u>

Deferred tax assets and liabilities are as follows:

	December 31, 2018	Included in the income statement	Included in equity	September 30, 2019
Unrealized losses	¢ 2,171,066,820	(6,066,520)	(1,172,399,735)	992,600,565
Provisions	46,467,232	102,269,728	-	148,736,960
Unrealized gains	(246,219,570)	(31,768,959)	(2,605,876,502)	(2,883,865,031)
Revaluation of assets	(9,763,087,232)	-	45,248,446	(9,717,838,786)
	¢ <u>(7,791,772,750)</u>	<u>64,434,249</u>	<u>(3,733,027,791)</u>	<u>(11,460,366,292)</u>

	December 31, 2017	Included in the income statement	Included in equity	December 31, 2018
Unrealized losses	¢ 986,501,498	-	1,184,565,322	2,171,066,820
Provisions	281,420,008	(234,952,776)	-	46,467,232
Unrealized gains	(317,646,873)	(34,351,319)	105,778,622	(246,219,570)
Revaluation of assets	(10,081,789,514)	-	318,702,282	(9,763,087,232)
	¢ <u>(9,131,514,881)</u>	<u>(269,304,095)</u>	<u>1,609,046,226</u>	<u>(7,791,772,750)</u>

	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)
	¢ <u>(9,131,514,881)</u>	<u>(155,515,278)</u>	<u>(254,138,219)</u>	<u>(9,541,168,378)</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

As of September 30, 2019, the Bank has not recognized a deferred tax liability in the amount of ¢4,195,075,995 (2018: ¢2,276,401,619), given that the Bank controls the moment when the subsidiaries pay dividends.

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

(17) Provisions

Provisions are as follows:

	September 2019	December 2018	September 2018
Severance benefits (1)	¢ 544,156,169	610,346,000	517,163,866
Litigation (2)	7,488,529,009	6,949,309,790	6,763,601,869
Checking and savings accounts liquidated	730,082,779	772,565,219	745,902,221
Manager commissions	14,481,958,074	12,787,348,741	12,185,742,547
Incentives and Performance Evaluation System (SEDI)	-	-	1,373,490,549
Variation in RIVM methodology	4,610,021,806	2,852,491,877	1,626,618,479
Notice of deficiency	1,292,039,573	782,637,950	2,420,204,313
BN Premios points program	287,708,153	-	552,041,050
Other	88,230,154	-	339,570,021
	¢ <u>29,522,725,717</u>	<u>24,754,699,577</u>	<u>26,524,334,915</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Movement in provisions is as follows:

		Severance benefits (1)	Litigation (2)	Other	Total
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
Balance as of December 31, 2017	¢	1,208,537,980	4,716,284,942	14,938,593,146	20,863,416,068
Increase in provision (Note 39)		1,549,587,597	2,441,577,318	11,662,198,229	15,653,363,144
Used		(1,876,145,392)	(187,552,470)	(7,254,785,037)	(9,318,482,899)
Decrease in provision (Note 37)		(271,634,185)	(21,000,000)	(2,150,962,551)	(2,443,596,736)
Balance as of December 31, 2018	¢	610,346,000	6,949,309,790	17,195,043,787	24,754,699,577
Increase in provision		298,946,765	695,190,168	9,691,554,500	10,685,691,433
Used		(260,227,216)	(155,970,949)	(5,391,027,729)	(5,807,225,894)
Decrease in provision		(104,909,380)	-	(5,530,019)	(110,439,399)
Balance as of September 30, 2019	¢	544,156,169	7,488,529,009	21,490,040,539	29,522,725,717

As of September 30, the Bank and its subsidiaries are defendants in pending litigations and management considers that an outflow of economic benefits will be required. The Bank and its subsidiaries have estimated future outflows and made the following provisions:

Type	Claimed amount			Provision		
	September 2019	December 2018	September 2018	September 2019	December 2018	September 2018
Ordinary - in colones	67,238,972,386	65,950,513,209	65,972,567,535	4,568,584,858	4,296,568,066	4,239,034,815
Ordinary - in US dollars	218,696,467,596	214,868,706,304	205,247,765,944	1,934,872,943	1,877,804,885	1,747,989,507
Criminal - in colones	1,020,877,223	1,020,877,223	1,020,877,223	587,861,784	506,644,203	510,686,487
Labor - in colones	931,345,992	864,333,394	832,133,394	397,209,424	268,292,636	265,891,060
	<u>287,887,663,197</u>	<u>282,704,430,130</u>	<u>273,073,344,096</u>	<u>7,488,529,009</u>	<u>6,949,309,790</u>	<u>6,763,601,869</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(18) Other sundry accounts payable

Other sundry accounts payable are as follows:

	September 2019	December 2018	September 2018
Professional fees	¢ 4,663,000	-	947,751
Creditors - goods and services	5,459,940,504	3,602,343,718	3,839,121,714
Income tax	14,915,095,937	6,263,277,755	1,950,518,161
Value-added tax	135,189,292	-	-
Employer contributions	6,335,971,277	5,518,675,886	5,349,266,222
Court-ordered withholdings	3,362,936,138	3,697,873,283	3,764,515,379
Tax withholdings	1,859,211,395	3,781,589,858	3,329,693,939
Employee withholdings	646,240,947	614,833,686	613,972,637
Other third-party withholdings	366,752,620	13,160,925	429,888,643
Compensation	7,587,886,082	5,599,261,127	4,099,051,554
Statutory allocations	13,151,121,062	8,971,707,328	7,341,031,195
Obligations on loans with related parties	636,957	237,161	171,342
Clearing house operations	1,186,087,267	173,998,387	2,254,150,445
Accrued vacation	5,211,245,849	6,499,439,265	6,905,027,684
Accrued statutory Christmas bonus	6,249,733,883	995,517,307	6,337,388,569
Contributions to the Superintendencies' budget	4,997,897	8,078,817	4,997,897
Foreclosed assets	768,816,311	783,217,563	366,201,508
Commissions payable to the Centralized Collection System of the CCSS (SICERE)	2,116,652	-	-
Temporary deposits for the payment of premiums	3,511,090,615	3,525,879,600	4,686,314,047
Direct contracts with the Government Purchases department – various (1)	895,353,146	1,172,877,958	1,389,405,943
Paypal transactions	424,517,724	254,442,509	282,606,147
Accounts due to customers	4,114,951,704	1,804,936,443	1,710,687,939
Fees due to international organizations	574,425,000	-	722,250,000
Amounts received for partial sales of foreclosed assets	599,568,228	674,480,585	1,279,280,136
Visa and Mastercard payments	1,159,451,118	1,270,064,536	1,119,026,181
Various creditors (2)	3,721,215,857	3,990,796,390	3,948,429,851
Interest rate futures – Hedges (Note 6)	2,200,670,456	9,514,186,508	18,743,641,888
Purchase of FX futures (Other than hedges) (Note 6)	6,693,750	-	-
Sale of FX futures (other than hedges) (Note 6)	-	760,675	27,408,206
	¢ <u>84,456,580,668</u>	<u>68,731,637,270</u>	<u>80,494,994,978</u>

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

(2) As of September 30, 2019, the “Various creditors” account includes ¢1,584 million (December and September 2018: ¢1,190 million and ¢1,580 million, respectively) corresponding to international operations, bid and performance bonds and security deposits. The remaining amount corresponds to the normal operations of other divisions.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(19) Other liabilities

As of September 30, other liabilities are as follows:

	<u>September 2019</u>	<u>December 2018</u>	<u>September 2018</u>
<i><u>Deferred income:</u></i>			
Deferred finance income	¢ 33,820,533,204	33,218,566,310	31,866,138,300
Deferred fees and commissions for trust management	36,766,288	36,788,458	34,738,345
	<u>33,857,299,492</u>	<u>33,255,354,768</u>	<u>31,900,876,645</u>
Allowance for stand-by credit losses (1)	<u>148,224,204</u>	<u>169,073,348</u>	<u>289,910,495</u>
<i><u>Operations pending application:</u></i>			
Operations pending settlement	4,649,944,089	19,899,787,694	6,242,418,930
Other operations pending application	36,743,060,495	13,835,038,255	25,579,561,818
	<u>41,393,004,584</u>	<u>33,734,825,949</u>	<u>31,821,980,748</u>
	¢ <u><u>75,398,528,280</u></u>	<u><u>67,159,254,065</u></u>	<u><u>64,012,767,888</u></u>

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

	<u>September 2019</u>	<u>December 2018</u>	<u>September 2018</u>
Opening balance	¢ 169,073,348	265,681,489	265,681,489
Allowance expense (Note 34)	14,100,000	20,750,000	19,940,000
Decrease in allowance (Note 35)	(30,000,000)	(130,000,000)	-
Adjustment for foreign exchange differences	(4,949,144)	12,641,859	4,289,006
Closing balance	¢ <u><u>148,224,204</u></u>	<u><u>169,073,348</u></u>	<u><u>289,910,495</u></u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(20) Subordinated obligations

The Bank's subordinated obligations are as follows:

<u>Annual interest rate</u>	<u>Term</u>	<u>Maturity</u>		<u>September 2019</u>	<u>December 2018</u>	<u>September 2018</u>
6-month LIBOR + 4.50% in the first 5 years and 6-month LIBOR + 5.00% thereafter	10 years	27/05/2024	US\$	90,000,000	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\$	120,000,000	130,000,000	130,000,000
	Equivalent in colones		¢	69,351,600,000	78,570,700,000	75,285,600,000
	Finance charges payable			694,586,425	1,917,469,915	792,898,928
			¢	70,046,186,425	80,488,169,915	76,078,498,928

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(21) Equity

(a) Share capital

The Bank's share capital is as follows:

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

(b) Revaluation surplus

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

As of September 30, 2019, revaluation surplus amounts to ¢66,239,159,456 (December and September 2018: ¢66,193,911,011 and ¢70,239,809,918, respectively).

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

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

As of September 30, 2019, the adjustment for the valuation of available-for-sale investments and restricted financial instruments resulted in an unrealized gain of ¢4,989,313,194 (December and September 2018: unrealized loss of ¢6,159,945,950 and ¢5,357,202,998, respectively).

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(d) Adjustment for valuation of investments in other companies

As of September 30, 2019, the adjustment for valuation of investments in foreign associates using the equity method amounts to ¢8,555,316,488 (December and September 2018: ¢9,125,840,572 and ¢7,079,867,518, respectively). These investments correspond to the Bank's 49% ownership interest in BICSA.

(e) Capital reserves

Capital reserves are as follows:

	September 2019	December 2018	September 2018
Legal reserve	¢ 332,762,831,735	318,382,615,318	318,380,757,973
Statutory reserve for foreclosed assets	702,117,315	247,445,202	234,414,311
Excess of statutory reserve for loans	5,768,006,479	5,739,879,198	4,717,574,007
Statutory dynamic provision	10,019,764,225	9,673,364,920	9,244,116,561
	¢ <u>349,252,719,754</u>	<u>334,043,304,638</u>	<u>332,576,862,852</u>

(f) Equity of the Development Financing Fund

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(22) Commitments and contingencies

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

	September 2019	December 2018	September 2018
Performance bonds	¢ 32,187,587,955	32,794,951,309	31,378,794,477
Bid bonds	4,474,030,983	5,632,858,532	5,419,811,748
Other guarantees	153,729,322	3,517,184,123	3,496,496,928
Letters of credit	6,827,858,253	17,288,986,781	17,136,989,657
Credits pending disbursement	168,672,616	212,097,543	213,033,968
	<u>43,811,879,129</u>	<u>59,446,078,288</u>	<u>57,645,126,778</u>
Pre-approved lines of credit	271,804,322,098	288,433,381,312	279,579,091,354
Other contingencies not related to credits	27,398,061	27,398,060	27,398,061
Other contingencies - Pending litigation and lawsuits (Note 47)	<u>287,887,889,146</u>	<u>282,704,484,455</u>	<u>311,531,768,362</u>
	<u>559,719,609,305</u>	<u>571,165,263,827</u>	<u>591,138,257,777</u>
Sale of FX futures - Other than hedges (Note 6)	1,476,651,634	5,351,126,744	8,013,529,653
	<u>¢ 605,008,140,068</u>	<u>635,962,468,859</u>	<u>656,796,914,208</u>

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

(23) Trust assets

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of September 30, 2019, trust capital is invested in the following assets:

Nature of trust	Cash or property management	Securitization	Portfolio management	Guaranty	Testamentary	Custody of stock with testamentary clauses	Custody of stock and management of funds	Cash guaranty and management	Custody of stock	Management custody and guaranty of stock	Guaranty and custody of stock	Total
<i>Trust assets</i>												
Cash and due from banks	267,199,632	6,063,735	15,659,362	36,074,767	33,959	-	8,864	63,622,256	-	-	-	388,662,575
Investments in financial instruments	259,142,785,238	18,490,827,918	1,426,361,159	1,474,348,950,888	1,257,335,750	-	2,390,479	-	-	34,684,805	-	1,754,703,336,237
Loan portfolio	2,830,743,774	-	1,468,873,480	-	-	-	-	-	-	-	-	4,299,617,254
Accounts and accrued interest receivable	45,313,669,748	26,705,350,422	1,769,601,026	29,648,437	-	-	-	123,754,007	-	-	4,407,449	73,946,431,089
Foreclosed assets	183,546,609	-	-	-	-	-	-	-	-	-	-	183,546,609
Investments in other companies	-	-	-	200,000,000	3,377,793	164,000	-	-	36,000	-	924,688,000	1,128,265,793
Property and equipment	799,647,956	44,967,603,267	-	98,802,967,146	93,224,756	-	-	8,719,375,327	-	-	1,738,460,805	155,121,279,257
Other assets	77,164,262,688	4,838,700,392	-	235,000,000	1,182,646	-	-	-	-	-	1,674,504,726	83,913,650,452
	385,701,855,645	95,008,545,734	4,680,495,027	1,573,652,641,238	1,355,154,904	164,000	2,399,343	8,906,751,590	36,000	34,684,805	4,342,060,980	2,073,684,789,266

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

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

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

a) Housing mortgage

These trusts are exclusively dedicated to managing housing loan portfolios.

b) Cash or property management

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

c) Securitization

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

d) Portfolio management

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

e) Special accounts

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

f) Guaranty

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

g) Testamentary

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

h) Custody of stock with testamentary clause

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

(24) Other debit memoranda accounts

Other debit memoranda accounts are as follows:

	September 2019	September 2018
Pension Fund Manager's own investments in custody		
– Face value of principal	¢ 8,861,058,000	7,147,636,000
Pension Fund Manager's own investments in custody		
– Coupons	5,695,485,459	1,283,027,959
Pension Fund Manager's own investments in custody		
– Number of shares	23	23
Guarantees received in the Bank's custody	332,348,296	411,942,099
Other guarantees received in the Bank's custody	5,241,256,575,699	5,263,338,293,326
Lines of credit granted but unused	359,416,532,658	366,952,172,504
Loans pending disbursement	183,511,670,764	202,118,794,701
Unused overdrafts	127,238,489	109,409,081
Loans settled	299,994,273,439	189,814,608,136
Other accounts receivable settled	12,350,943,370	10,315,010,756
Accrued interest receivable settled	26,603,790,656	18,513,159,474
Interest income on non-accrual loans of loan portfolio	23,479,951,771	20,855,205,470
Supporting documentation received in the Bank's custody	1,255	1,255
Securities issued pending placement	-	20,015,200,002
Lines of credit or overdrafts obtained but unused	5,779,299,999	-
Notified letters of credit	15,112,536,888	15,132,652,444
Notional value subject to interest rate futures (Note 6)	494,014,564,000	582,478,896,000
Reversals made to income accounts for the year	19,227,229,426	24,556,744,128
Reversals made to expense accounts for the year	52,637,397,469	268,137,013,996
Non-deductible expenses	60,426,069,492	36,298,578,684
Non-taxable income	78,925,461,561	74,813,855,403
Other memoranda accounts	194,063,978,154	185,914,702,289
	<u>7,081,816,406,868</u>	<u>7,288,206,903,730</u>
Third-party debit memoranda accounts (1)	3,391,762,576,530	2,862,002,231,512
Own debit memoranda accounts for custodial activities	335,321,351,021	259,572,074,256
Third-party debit memoranda accounts for custodial activities	12,530,589,986,407	11,884,122,419,914
	<u>16,257,673,913,958</u>	<u>15,005,696,725,682</u>
¢	<u>23,339,490,320,826</u>	<u>22,293,903,629,412</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Other memoranda accounts by entity are as follows:

	September 2019	September 2018
Banco Nacional de Costa Rica	¢ 20,120,970,047,939	19,370,377,350,566
BN Valores Puesto de Bolsa, S.A. (Note 25)	1,088,318,201,125	1,072,608,092,778
BN Sociedad Administradora de Fondos de Inversión, S.A. (Note 26)	488,351,462,251	441,355,031,339
BN Vital Operadora de Planes de Pensiones Complementarias, S.A. (Note 27)	1,641,850,609,511	1,409,563,154,729
	¢ <u>23,339,490,320,826</u>	<u>22,293,903,629,412</u>

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

	September 2019	September 2018
Management of banking mandates	¢ 1,276,313,824,477	1,019,662,929,527
“TUDES” securities received in custody from affiliates under Article 75 of Law No. 7531	518,464,452	503,920,133
Pension funds (Note 27)	1,626,659,579,131	1,400,540,645,988
Investment funds (Note 26)	488,270,708,470	441,294,735,864
	¢ <u>3,391,762,576,530</u>	<u>2,862,002,231,512</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

Memoranda accounts for brokerage operations are summarized as follows:

	<u>September 2019</u>	<u>September 2018</u>
<i>Own</i>		
Trading securities in custody (Note 25-a) ¢	-	3,593,908,953
Trading securities pending delivery	-	30,498,583,279
Confirmed cash agreements pending settlement	585,311,564	690,311,042
Repurchase agreements pending settlement (Note 25-b)	45,312,478,976	26,908,001,475
Own trading securities	27,103,413,674	-
Other own memoranda accounts	5,798,673,096	5,805,559,926
	<u>78,799,877,310</u>	<u>67,496,364,675</u>
<i>Third-party</i>		
Trading securities in custody (Note 25-a)	-	663,377,667,519
Trading securities received as guarantees	43,122,717,483	94,294,887,600
Trading securities pledged as guarantees	-	97,220,832,720
Trading securities pending receipt	2,686,279,673	847,406,400
Signed agreements pending settlement	2,889,612,075	780,445,021
Repurchase agreements pending settlement (Note 25-b)	98,732,056,986	145,987,238,410
Third-party trading securities	860,584,611,430	-
Cash and accounts receivable	1,503,046,168	2,603,250,433
	<u>1,009,518,323,815</u>	<u>1,005,111,728,103</u>
¢	<u>1,088,318,201,125</u>	<u>1,072,608,092,778</u>

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

a) Securities held in custody are as follows:

Location	Type of custody	September 2019	September 2018
<i>Own custodial activities</i>			
Local	At face value - available	¢ -	2,702,408,322
Local	At purchase value of shares - available	-	15,000,002
Local	At purchase value of investments - available	-	89,694
Local	At face value - pledged	-	59,000,000
Local	Amount of physical coupons - pledged	-	4,326,455
Local	Central de Valores (CEVAL) - private	17,944,442,248	-
Local	CEVAL - public	9,114,471,424	-
Local	At face value - pending delivery	-	813,084,480
Local	Vault	44,500,002	-
		<u>27,103,413,674</u>	<u>3,593,908,953</u>
<i>Custodial activities on behalf of third parties</i>			
Local	At face value - available	-	621,975,706,163
Local	At purchase value of shares - available	-	20,147,904,752
Local	At purchase value of investments - available	-	18,972,450,224
Local	At face value - pledged	-	2,025,976,240
Local	At purchase value of shares - pledged	-	53,735,676
Local	At purchase value of investments - pledged	-	196,894,464
Local	At face value - pending delivery	-	5,000,000
Local	CEVAL - private	206,734,535,468	-
Foreign	CEVAL - private	20,498,611,916	-
Local	CEVAL - public	613,171,807,235	-
Foreign	International custody	19,771,299,085	-
Local	Vault	8,024,829	-
Local - Foreign	Securities that are doubtful, in arrears or in litigation	400,332,897	-
		<u>860,584,611,430</u>	<u>663,377,667,519</u>
		¢ <u>887,688,025,104</u>	<u>666,971,576,472</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

September 2019								
Own Third parties	Term buyer				Term seller			
			US dollars expressed in	Total			US dollars expressed in	Total
	Colones	US dollars	colones		Colones	US dollars	colones	
	23,407,317,323	37,150,024	21,470,113,320	44,877,430,643	435,048,333	-	-	435,048,333
	<u>11,861,685,043</u>	<u>90,170,524</u>	<u>52,112,250,813</u>	<u>63,973,935,856</u>	<u>12,810,957,513</u>	<u>37,975,470</u>	<u>21,947,163,617</u>	<u>34,758,121,130</u>
	<u>35,269,002,366</u>	<u>127,320,548</u>	<u>73,582,364,133</u>	<u>108,851,366,499</u>	<u>13,246,005,846</u>	<u>37,975,470</u>	<u>21,947,163,617</u>	<u>35,193,169,463</u>
September 2018								
Own Third parties	Term buyer				Term seller			
			US dollars expressed in	Total			US dollars expressed in	Total
	Colones	US dollars	colones		Colones	US dollars	colones	
	13,992,316,288	22,302,261	12,915,685,187	26,908,001,475	-	-	-	-
	<u>14,563,767,175</u>	<u>101,053,162</u>	<u>58,521,907,345</u>	<u>73,085,674,520</u>	<u>15,658,273,603</u>	<u>98,845,300</u>	<u>57,243,290,287</u>	<u>72,901,563,890</u>
	<u>28,556,083,463</u>	<u>123,355,423</u>	<u>71,437,592,532</u>	<u>99,993,675,995</u>	<u>15,658,273,603</u>	<u>98,845,300</u>	<u>57,243,290,287</u>	<u>72,901,563,890</u>

As of September 30, 2019, term buyer and seller positions in tri-party repurchase agreements in US dollars were valued at the exchange rate of ¢577.93 (2018: ¢579.12) to US\$1.00.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

September 2019				
	Term buyer		Term seller	
	Colones	US dollars	Colones	US dollars
<i>Own</i>				
1 to 30 days	¢ 2,407,959,444	6,145,398	-	-
31 to 60 days	12,845,714,654	3,181,408	435,048,333	-
61 to 90 days	8,153,643,225	17,720,996	-	-
More than 91 days	-	10,102,222	-	-
	<u>23,407,317,323</u>	<u>37,150,024</u>	<u>435,048,333</u>	<u>-</u>
<i>Third parties</i>				
1 to 30 days	628,216,568	2,881,341	286,319,027	160,342
31 to 60 days	9,119,745,732	42,651,070	8,094,209,596	11,545,666
61 to 90 days	1,535,817,485	44,638,113	1,681,628,521	26,269,462
More than 91 days	577,905,258	-	2,748,800,369	-
	<u>11,861,685,043</u>	<u>90,170,524</u>	<u>12,810,957,513</u>	<u>37,975,470</u>
¢	<u>35,269,002,366</u>	<u>127,320,548</u>	<u>13,246,005,846</u>	<u>37,975,470</u>
September 2018				
	Term buyer		Term seller	
	Colones	US dollars	Colones	US dollars
<i>Own</i>				
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	-	-
	<u>13,992,316,288</u>	<u>22,302,261</u>	<u>-</u>	<u>-</u>
<i>Third parties</i>				
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
	<u>14,563,767,175</u>	<u>101,053,162</u>	<u>15,658,273,603</u>	<u>98,845,300</u>
¢	<u>28,556,083,463</u>	<u>123,355,423</u>	<u>15,658,273,603</u>	<u>98,845,300</u>

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

(26) Investment fund management agreements

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

		September 2019		
Fund		Net value	Shares	Value per share
<i>Funds in colones:</i>				
Súper Fondo - colones	¢	115,197,188,076	26,804,658,754	4.30
Fon Depósito - colones		51,649,563,859	33,072,743,972	1.56
Creci Fondo - colones		3,319,125,426	578,847,132	5.73
Redi Fondo - colones		18,555,822,713	4,541,959,826	4.09
Diner Fondo - colones		60,991,646,716	21,174,245,034	2.88
	¢	<u>249,713,346,790</u>	<u>86,172,454,718</u>	
<i>Funds in US dollars:</i>				
Súper Fondo - US dollars	US\$	16,482,700	10,809,820	1.52
Creci Fondo - US dollars		8,485,547	4,321,207	1.96
Redi Fondo - US dollars		30,144,722	18,439,037	1.63
Diner Fondo - US dollars		85,023,095	63,776,491	1.33
Fon Depósito - US dollars		55,397,661	49,011,367	1.13
Súper Fondo Plus - US dollars		188,315,821	170,130,453	1.11
Fondo Hipotecario - US dollars (mortgage fund)		63,154	63,143	71.20
BN Infraestructura Pública -1 – US dollars (public infrastructure)		28,866,290	21,750	1,327.19
	US\$	<u>412,778,990</u>	<u>316,573,268</u>	
	¢	<u>238,557,361,680</u>	<u>182,957,188,775</u>	
Assets of managed funds	¢	<u>488,270,708,470</u>	<u>269,129,643,493</u>	
<i>Guarantees:</i>				
Performance bonds		78,778,476		
Outstanding checks		1,975,305		
		<u>80,753,781</u>		
Memoranda accounts (Note 24)	¢	<u>488,351,462,251</u>		

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Fund	September 2018		
	Net value	Shares	Value per share
<i>Funds in colones:</i>			
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	
<i>Funds in US dollars:</i>			
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	
Assets of managed funds	¢ 441,294,735,864	241,767,031,033	
<i>Guarantees:</i>			
Performance bonds	58,320,170		
Outstanding checks	1,975,305		
	60,295,475		
Memoranda accounts (Note 24)	¢ 441,355,031,339		

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- *BN DinerFondo - US dólares No Diversificado* (non-diversified - US dollars): This is an open-end (floating number of outstanding shares) money market fund with a fixed income portfolio. Returns on the investment portfolio are not distributed until the customer requests partial or full redemption of shares.
- *BN FonDepósito - US dólares No Diversificado* (non-diversified - US dollars): This is an open-end (floating number of outstanding shares) money market fund with a fixed income portfolio. Returns on the investment portfolio are not distributed until the customer requests partial or full redemption of shares.
- *BN Fondo de Inversión de Titularización Hipotecaria (FHIPO) - US dólares* (mortgage securitization - US dollars): This is mainly a closed-end mortgage investment fund, i.e. investor shares are listed and traded on a stock exchange.
- *BN SuperFondo Dólares Plus No Diversificado - Dólares* (non-diversified - US dollars): This fund is aimed at conservative investors looking for short-term investments. It allows obtaining reimbursement of the shares one business day and up to a maximum of three business days from the date of receipt of the withdrawal request. Since it is a short-term fund, it allows the investor to manage resources to address its present or future liquidity needs. The goal of the fund is to offer an investment mechanism that seeks to obtain higher returns than other investment alternatives under similar liquidity, term and risk parameters, taking advantage of the short-term part of the yield curve in the composition of its portfolio.
- *BN Inmobiliario CR-2 - US dólares* (real estate development – US dollars): This is a long-term, closed-end fund, in US dollars, which has the goal of investing in real estate for its exploitation through leasing and sale. It is aimed at investors interested in diversifying their investments portfolio by including real estate property located in national territory and mainly occupied by public institutions. As of September 30, 2019 and 2018, this fund does not have operations.
- *Fondo de Inversión de Desarrollo Inmobiliario BN-1* (real estate development): This fund invests in the construction of buildings to be occupied by entities of the Banco Nacional Conglomerate (BNCR Conglomerate). Once the works are completed, the buildings will be sold to an entity of the BNCR Conglomerate or a real estate fund managed by BN Fondos and investors thus realize their potential gains. If the buildings are sold to a real estate fund, such fund will lease the buildings to an entity of the BNCR Conglomerate. As of September 30, 2019 and 2018, this fund does not have operations.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- *Fondo de Inversión de Desarrollo Inmobiliario de Infraestructura Pública - I - Dólares* (real estate development - US dollars): This fund will invest in the construction of buildings to be occupied by the Maximum Deconcentration Organizations and other entities of BCCR. Once the works are completed, the buildings will be leased with a purchase option to BCCR or sold to BCCR or to a real estate fund managed by BN Fondos and investors thus realize their potential gains. If the buildings are sold to a real estate fund, such fund will lease the buildings to BCCR. As of September 30, 2019 and 2018, this fund does not have operations.

(27) Pension fund management agreements

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

		September 2019	September 2018
Mandatory Pension Fund (ROP)	¢	1,339,333,412,058	1,150,557,980,375
ROP erroneous		16,453,533,854	14,939,945,685
Mandatory Retirement Savings Account (FCL)		112,175,528,596	96,401,806,861
FCL erroneous		3,829,820,052	3,493,215,612
Pension Fund in Colones A (FPC A)		79,983,818,515	69,976,314,275
Pension Fund in Colones B (FPC B)		20,538,333,327	17,176,679,453
Notary Fund (NOT)		31,968,835,048	27,709,058,560
Pension Fund in US dollars A (FPD A) (i)		14,762,788,564	13,216,136,976
Pension Fund in US dollars B (FPD B) (ii)		7,613,509,117	7,069,508,191
Assets of managed funds (Note 24)		1,626,659,579,131	1,400,540,645,988
Securities and assets in own custody		14,556,543,482	8,430,663,982
Bid and performance bonds – colones		35,208,246	21,766,036
Bid and performance bonds – US dollars (iii)		80,814,200	66,158,588
Securities in DU		518,464,452	503,920,135
Memoranda accounts (Note 24)	¢	1,641,850,609,511	1,409,563,154,729

- As of September 30, 2019, this fund amounts to US\$25,544,250 and is valued at the exchange rate of ¢577.93 to US\$1.00 (2018: US\$22,821,068 valued at the exchange rate of ¢579.12 to US\$1.00).
- As of September 30, 2019, this fund amounts to US\$13,173,757 and is valued at the exchange rate of ¢577.93 to US\$1.00 (2018: US\$12,207,329 valued at the exchange rate of ¢579.12 to US\$1.00).

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- iii. As of September 30, 2019, bid and performance bonds amount to US\$139,834 and are valued at the exchange rate of ¢577.93 to US\$1.00 (2018: US\$114,240 valued at the exchange rate of ¢579.12 to US\$1.00).

(28) Finance income on financial instruments

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

	September		Quarter from July 1 to September 30	
	2019	2018	2019	2018
<u>Cash and due from banks:</u>				
Deposits in BCCR	¢ 28,566,484	19,136,754	10,080,337	7,038,518
Checking accounts and demand deposits in local entities	91,400,234	138,089,298	23,049,350	49,387,669
Checking accounts and demand deposits in foreign entities	3,070,830,660	3,801,438,999	1,241,795,177	869,510,323
	<u>3,190,797,378</u>	<u>3,958,665,051</u>	<u>1,274,924,864</u>	<u>925,936,510</u>
<u>Financial instruments:</u>				
Investments in available-for-sale securities	55,128,465,990	45,152,823,624	20,554,308,634	15,690,068,935
Investment in securities and restricted deposits	1,493,779,375	1,228,458,960	343,117,722	521,801,105
	<u>56,622,245,365</u>	<u>46,381,282,584</u>	<u>20,897,426,356</u>	<u>16,211,870,040</u>
¢	<u>59,813,042,743</u>	<u>50,339,947,635</u>	<u>22,172,351,220</u>	<u>17,137,806,550</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(29) Finance income on loan portfolio

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

	September		Quarter from July 1 to September 30	
	2019	2018	2019	2018
<u><i>Current loans:</i></u>				
Checking account overdrafts	¢ 73,101,305	15,913,662	25,318,650	8,300,615
Loans granted with funds from BCCR	563,551,785	650,292,091	176,193,770	203,549,954
Loans granted with other funds	271,684,335,226	267,895,924,095	90,409,792,134	91,020,146,501
Credit cards	18,491,017,994	18,950,872,409	6,094,581,183	6,197,498,330
Issued letters of credit	472,995	352,985	5,783	36,867
Loan portfolio due to sales	58,751,313	-	32,951,117	-
Other loans	3,351,365	3,357,755	1,072,558	1,121,534
	<u>290,874,581,983</u>	<u>287,516,712,997</u>	<u>96,739,915,195</u>	<u>97,430,653,801</u>
<u><i>Past due loans and loans in legal collection:</i></u>				
Checking account overdrafts	1,546,895	1,315,310	231,154	501,712
Loans granted with funds from BCCR	120,190,956	109,278,656	36,747,428	36,313,063
Loans granted with other funds	45,733,961,176	41,762,043,270	15,253,265,174	14,244,113,028
Credit cards	2,767,894,205	2,422,342,619	1,010,793,577	739,777,049
Term sale of foreclosed assets	3,308,140	-	1,545,675	-
Other loans	26,194	8,876,721	362	131,478
	<u>48,626,927,566</u>	<u>44,303,856,576</u>	<u>16,302,583,370</u>	<u>15,020,836,330</u>
¢	<u>339,501,509,549</u>	<u>331,820,569,573</u>	<u>113,042,498,565</u>	<u>112,451,490,131</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(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	
	2019	2018	2019	2018
Fees and commissions on letters of credit	¢ 15,737,390	18,419,703	5,264,083	5,092,581
Fees and commissions on guarantees granted	322,593,150	327,781,936	103,668,169	110,282,019
Fees and commissions on lines of credit	164,085,403	211,023,834	48,366,515	57,932,449
Valuation of financial instruments held for trading	110,874,164	-	184,871	-
Gain on fair value hedge for item measured at cost	4,005,535,596	21,897,954,530	3,552,395,553	4,813,076,068
Other sundry finance income	3,843,979,170	2,982,303,369	1,231,092,148	1,090,895,651
	<u>¢ 8,462,804,873</u>	<u>25,437,483,372</u>	<u>4,940,971,339</u>	<u>6,077,278,768</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(31) Finance costs for obligations with the public

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

		September		Quarter from July 1 to September 30	
		2019	2018	2019	2018
Demand deposits	¢	37,842,781,495	35,107,935,536	13,135,052,677	11,538,396,818
Term deposits		118,084,246,102	102,304,816,876	42,361,132,452	34,739,552,273
Tri-party repurchase agreements and securities lending		543,013,543	1,260,836,217	195,426,636	419,143,300
	¢	<u>156,470,041,140</u>	<u>138,673,588,629</u>	<u>55,691,611,765</u>	<u>46,697,092,391</u>

(32) Finance costs for obligations with financial entities

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

		September		Quarter from July 1 to September 30	
		2019	2018	2019	2018
Demand obligations	¢	2,204,760,699	1,947,808,924	747,715,773	702,241,830
Term obligations		38,912,242,808	52,590,366,199	11,829,642,113	17,979,060,565
	¢	<u>41,117,003,507</u>	<u>54,538,175,123</u>	<u>12,577,357,886</u>	<u>18,681,302,395</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(33) Other finance costs

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

	September		Quarter from July 1 to September 30	
	2019	2018	2019	2018
Fees and commissions on letters of credit obtained	¢ 148,521,927	140,896,379	47,943,815	47,017,751
Loss on valuation of financial instruments held for trading	122,728	-	122,728	-
Loss on hedged item measured at cost from fair value hedge on interest rate risk	26,170,697,101	6,153,236,118	6,410,278,552	2,324,022,598
Other sundry finance costs	1,022,942,835	1,226,929,745	216,780,617	433,307,184
	¢ 27,342,284,591	7,521,062,242	6,675,125,712	2,804,347,533

(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	
	2019	2018	2019	2018
Allowance for loan losses (Note 7-c)	¢ 34,335,850,369	57,820,341,360	6,936,943,369	20,859,700,001
Allowance for impairment of other accounts receivable (Note 8)	1,038,811,212	1,792,982,861	360,742,836	366,041,373
Allowance for stand-by credit losses (Note 19)	8,500,000	16,340,000	5,500,000	12,200,000
General and counter-cyclical allowance for loan portfolio (Note 7-c)	3,729,630,268	3,497,153,373	1,812,012,360	1,186,969,203
General and counter-cyclical allowance for stand-by credit losses (Note 19)	5,600,000	3,600,000	1,500,000	-
Allowance for impairment of derivative financial instruments (Note 5)	3,641,701	16,534,564	968,100	3,686,482
	¢ 39,122,033,550	63,146,952,158	9,117,666,665	22,428,597,059

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

For the 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	
	2019	2018	2019	2018
Recovery of loan write-offs	¢ 5,542,197,832	5,049,877,327	2,151,330,917	1,120,782,324
Recovery of receivable write-offs	10,996,680	1,984,262	912,476	468,736
Decrease in allowance for loan losses (Note 6)	175,919	-	-	-
Decrease in allowance for impairment of other accounts receivable (Note 8)	174,722,390	920,009,803	29,057,654	653,592,817
Decrease in allowance for stand-by credit losses (Note 18)	30,000,000	-	-	-
Decrease in allowance for impairment of investments in financial instruments (Note 5)	13,821,671	90,008,760	1,299,748	4,879,401
	<u>¢ 5,771,914,492</u>	<u>6,061,880,152</u>	<u>2,182,600,795</u>	<u>1,779,723,278</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(36) Operating income from service fees and commissions

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

		September		Quarter from July 1 to September 30	
		2019	2018	2019	2018
Drafts and transfers	¢	6,890,038,642	6,553,792,400	2,187,431,918	2,179,196,135
Certified checks		2,387,467	2,957,988	712,873	857,568
Trusts		1,113,513,652	879,158,642	373,175,047	300,386,849
Custodial services		1,472,936,524	1,094,628,250	523,893,906	357,488,910
Banking mandates		126,711	157,293	40,135	91,248
Collections		17,489,210	21,157,190	5,191,156	6,486,464
Credit cards		46,401,368,463	43,059,373,912	15,395,255,116	14,033,449,178
Management services		2,651,263,760	2,364,694,881	869,375,957	704,152,180
Management of investment funds		4,201,199,790	4,153,741,734	1,482,088,459	1,452,218,271
Management of pension funds		7,548,272,888	6,233,113,870	2,713,126,902	2,158,024,552
Insurance underwriting		5,178,372,738	4,157,322,181	1,702,772,505	1,296,093,559
Brokerage operations (third parties in local market)		2,337,166,124	1,532,581,013	881,349,957	364,180,852
Brokerage operations (third parties in other markets)		38,396,794	51,125,889	7,746,942	22,854,580
Individual portfolio management		-	174,807	-	-
Operations with related parties		206,887,284	183,842,594	71,497,006	63,302,965
Other service fees and commissions (1)		30,839,528,839	30,058,380,093	10,307,496,241	9,613,819,133
	¢	<u>108,898,948,886</u>	<u>100,346,202,737</u>	<u>36,521,154,120</u>	<u>32,552,602,444</u>

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(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	
	2019	2018	2019	2018
Leasing of assets	¢ 21,746,925	26,466,340	-	-
Recovery of expenses	2,838,047,504	2,420,553,804	444,326,257	1,159,538,375
Net valuation of other assets (Note 46-c)	1,050,891,343	208,237,728	260,619,013	59,831,388
Other income from accounts receivable	4,457,895	2,211,335	1,571,353	1,254,986
Liquidation of term certificate of deposit not claimed	293,439,794	572,088,557	61,066,314	138,748,413
Withholdings from vendors	331,907,325	523,849,741	85,836,322	181,787,321
Administrative charges for electronic payment systems	1,211,537,884	919,949,289	404,280,978	320,136,954
Various operations	1,929,161,175	2,471,848,250	600,289,792	758,908,521
Other income from related parties	-	-	(5,116,976)	(5,324,527)
Decrease in provisions	110,439,399	33,804,685	66,886,940	23,646,074
	¢ <u>7,791,629,244</u>	<u>7,179,009,729</u>	<u>1,919,759,993</u>	<u>2,638,527,505</u>

(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	
	2019	2018	2019	2018
Loss on sale of assets received in lieu of payment	¢ 545,899,905	946,583,592	462,933,879	946,583,592
Loss on sale of assets awarded in judicial auctions	5,462,497,567	7,121,517,029	715,417,917	1,328,733,767
Management of assets received in lieu of payment	12,528,024	33,320,920	7,365,428	6,320,535
Management of assets awarded in judicial auctions	3,612,584,541	3,771,482,578	1,321,380,655	1,178,782,545
Loss on impairment of foreclosed assets (Note 9)	44,943,622	38,109,431	9,186,035	25,666,695
Loss on allowance for impairment and per legal requirements (Note 9)	6,019,336,996	2,940,493,121	2,737,119,862	1,463,951,943
Other expenses	11,249,131	83,883,296	2,286,442	9,656,565
	¢ <u>15,709,039,786</u>	<u>14,935,389,967</u>	<u>5,255,690,218</u>	<u>4,959,695,642</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(39) Provision expenses

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

		September		Quarter from July 1 to September 30	
		2019	2018	2019	2018
Severance benefits	¢	298,946,765	1,169,895,580	44,344,988	552,653,706
Pending litigation		695,190,168	2,176,538,537	526,506,108	1,896,855,125
“BN Premios” points program		1,925,536,624	3,335,847,097	814,558,208	835,305,702
Incentives and Performance Evaluation System (SEDI)		-	1,373,490,549	-	188,131,741
Case on the manager commissions with CCSS		1,694,609,333	1,552,398,972	491,396,944	538,501,291
Case on the RIVM contribution		4,778,386,169	1,629,700,558	2,112,141,421	577,146,177
Notice of deficiency		1,241,616,172	2,420,204,313	488,901,159	1,516,191,740
Other provisions		51,406,202	376,965,012	41,627,776	92,330,591
	¢	<u>10,685,691,433</u>	<u>14,035,040,618</u>	<u>4,519,476,604</u>	<u>6,197,116,073</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(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	
	2019	2018	2019	2018
Penalties for noncompliance with legal regulatory provisions	¢ 66,726	50,000	28,834	-
Net valuation of other liabilities (Note 46-c)	570,781,352	511,907,845	287,016,843	407,429,425
Income tax on foreign remittances	5,246,263	22,021,397	1,614,631	5,397,912
Income tax (8%) on interest on investments in financial instruments	2,904,205,864	2,035,027,766	1,101,890,775	672,704,156
Property tax	185,619,878	196,848,986	60,964,175	61,565,220
Licenses	651,883,062	622,309,466	195,795,924	228,424,820
Other local taxes	564,251,574	379,265,281	108,540,046	84,345,977
Transfer to FINADE	2,566,868,974	2,088,867,039	865,352,351	583,121,052
Local and international currency exchange	17,466,290,258	15,852,401,939	5,757,803,260	5,177,108,616
Costs related to microloan policies	1,577,594,801	2,700,858,751	536,028,346	750,356,518
Authorization abroad	3,507,975,524	3,371,427,098	1,172,648,926	1,087,748,407
Servibanca interchange fees	3,408,850,133	3,161,600,962	1,147,031,411	1,019,737,059
Disbursement of base funds I & II	11,072,289,939	10,461,373,396	3,949,560,991	3,696,126,832
Life insurance payable balance	5,915,121,445	4,994,106,662	2,036,260,613	1,890,494,986
Software and license maintenance	8,136,347,618	-	3,273,153,643	-
Sundry operating expenses	5,316,582,869	4,914,034,492	1,583,126,412	1,450,942,792
¢	<u>63,849,976,280</u>	<u>51,312,101,080</u>	<u>22,076,817,181</u>	<u>17,115,503,772</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(41) Personnel expenses

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

	September		Quarter from July 1 to September 30	
	2019	2018	2019	2018
Salaries and bonuses, permanent staff	¢ 50,925,912,371	51,027,026,754	16,995,419,007	17,004,040,655
Salaries and bonuses, contractors	1,216,388,423	1,260,342,213	405,090,574	411,172,133
Compensation for directors and statutory examiners	182,430,629	159,185,821	60,211,778	50,773,054
Overtime	506,851,499	510,223,864	155,746,749	159,922,330
Travel expenses	298,237,376	406,122,862	104,861,697	139,243,031
Statutory Christmas bonus	5,485,004,747	5,432,955,585	1,833,189,510	1,775,192,985
Vacation	5,612,241,841	5,303,745,366	2,000,192,731	1,525,929,240
Incentives	2,875,742,945	-	912,706,488	-
Other compensation	2,925,925,206	3,010,857,645	883,520,638	1,075,223,525
Severance benefits	3,339,873,409	3,310,022,224	1,076,899,550	1,088,026,675
Employer social security taxes	20,756,420,694	20,578,624,703	6,937,069,275	6,707,263,601
Refreshments	311,806,197	337,625,117	121,011,556	155,257,842
Uniforms	8,598,287	109,893,676	665,130	2,225,231
Training	518,875,749	329,291,714	242,486,206	153,729,299
Employee insurance	151,503,374	178,261,265	51,072,373	66,005,006
Back-to-school bonus	5,408,348,789	4,716,495,319	1,587,919,474	1,559,813,098
Mandatory retirement savings account	2,000,678,684	1,979,501,069	670,277,255	645,361,609
Other personnel expenses	744,517,726	461,312,216	507,254,504	160,487,669
	¢ <u>103,269,357,946</u>	<u>99,111,487,413</u>	<u>34,545,594,495</u>	<u>32,679,666,983</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(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	
	2019	2018	2019	2018
Outsourcing	¢ 13,071,225,007	11,150,897,646	4,295,307,679	3,711,247,222
Transportation and communications	2,710,957,608	3,113,954,237	917,485,551	988,235,820
Infrastructure	22,150,666,817	26,557,151,556	7,351,993,922	9,042,709,906
Overhead	10,880,786,738	13,264,891,741	3,576,357,189	5,143,355,387
	¢ 48,813,636,170	54,086,895,180	16,141,144,341	18,885,548,335

(43) Statutory allocations

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

	September		Quarter from July 1 to September 30	
	2019	2018	2019	2018
CONAPE 5%	¢ 2,657,790,717	1,199,527,161	987,917,022	175,568,823
CNE (3%)	1,711,687,404	821,624,522	634,995,778	139,527,186
INFOCOOP (10%)	3,666,109,928	2,231,923,312	1,117,356,727	328,157,000
Public capital pension operators	1,181,044,023	829,604,681	487,669,161	291,214,826
RIVM (15%)	3,934,488,976	2,282,587,127	1,135,281,136	198,413,087
	¢ 13,151,121,048	7,365,266,803	4,363,219,824	1,132,880,922

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(44) Fair value of financial instruments

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

		September 2019	
		Carrying amount	Fair value
<i><u>Financial assets:</u></i>			
Cash and due from banks	¢	1,067,803,066,707	1,067,803,066,707
Loan portfolio		4,377,681,980,593	4,296,504,697,844
	¢	<u>5,445,485,047,300</u>	<u>5,364,307,764,551</u>
<i><u>Financial liabilities:</u></i>			
Demand deposits from the public and financial entities	¢	2,970,712,227,974	2,970,712,227,974
Other demand obligations with the public		15,852,705,116	15,852,705,116
Term deposits from the public and financial entities		3,065,758,495,147	3,065,429,280,784
Obligations for tri-party repurchase agreements		16,066,402,210	16,066,402,210
	¢	<u>6,068,389,830,447</u>	<u>6,068,060,616,084</u>
		September 2018	
		Carrying amount	Fair value
<i><u>Financial assets:</u></i>			
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
	¢	<u>6,962,034,806,851</u>	<u>6,067,406,830,745</u>
<i><u>Financial liabilities:</u></i>			
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
	¢	<u>6,235,712,971,002</u>	<u>6,243,306,157,629</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Fair value estimates

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

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

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, 2019 and 2018.

- (c) Term deposits

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

- (d) Obligations with entities

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

		September 2019			
		Level 1	Level 2	Level 3	Total
Available for sale	¢	1,251,420,960,402	55,978,408,273	7,051,394,973	1,314,450,763,648
Held for trading		2,500,062,143	-	-	2,500,062,143
Derivative financial instruments		-	-	13,134,611,520	13,134,611,520
Term obligations with foreign financial entities		-	-	498,823,864,982	498,823,864,982
		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

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).

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

September 30, 2019			
	Available for sale	Derivative financial instruments	Term obligations with foreign financial entities
Opening balance	¢ 4,760,401,682	576,258,774	590,621,555,713
Repurchases	2,500,000,000	-	(86,296,877,475)
Valuation	(597,853)	12,589,770,949	20,669,351,045
Amortizations	-	-	124,725,298
Foreign exchange differences	(208,408,856)	(31,418,203)	(26,294,889,599)
Closing balance	¢ 7,051,394,973	13,134,611,520	498,823,864,982

September 30, 2018			
	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
Repurchases	(1,194,835,544)	-	-
Valuation	(33,067,752)	(6,298,012,814)	(16,493,028,504)
Amortizations	-	-	1,210,267,587
Foreign exchange differences	105,149,650	138,114,316	13,044,856,362
Closing balance	¢ 4,761,756,288	-	839,364,066,907

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(45) Segments

The Bank has defined its business segments based on the administrative and reporting structure and on the structure of banking, stock brokerage, investment and pension fund management and insurance brokerage services it provides. Profit or loss, assets and liabilities of each segment are as follows:

		As of September 30, 2019							
		Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations	Consolidated
ASSETS									
Cash and due from banks	¢	1,062,652,295,223	3,109,231,763	296,982,739	434,261,728	1,903,916,539	1,068,396,687,992	593,621,286	1,067,803,066,706
Investments in financial instruments		1,260,138,662,253	61,366,293,117	7,814,081,845	9,374,070,777	3,051,605,393	1,341,744,713,385	52,300,000	1,341,692,413,385
Loan portfolio, net		4,253,379,436,382	-	-	-	-	4,253,379,436,382	-	4,253,379,436,382
Accounts and fees and commissions receivable, net		1,461,141,894	221,415,048	55,848,692	956,714,419	559,459,398	3,254,579,451	72,125,003	3,182,454,448
Fees and commissions		357,533,452	16,482,144	19,556,381	873,738,807	438,373,647	1,705,684,431	44,691,318	1,660,993,113
Brokerage services		-	33	-	-	-	33	-	33
Transactions with related parties		64,962,973	2,616,161	3,346,561	1,584,488	4,206,385	76,716,568	27,433,685	49,282,883
Deferred tax and income tax		929,303,586	196,178,787	23,981,215	75,863,766	109,397,419	1,334,724,773	-	1,334,724,773
Other		4,253,526,490	6,137,923	8,964,535	64,577,236	7,481,947	4,340,688,131	-	4,340,688,131
Accrued interest		5,647,014	-	-	-	-	5,647,014	-	5,647,014
Allowance for impairment of accounts and fees and commissions receivable		(4,149,831,621)	-	-	(59,049,878)	-	(4,208,881,499)	-	(4,208,881,499)
Foreclosed assets, net		28,752,432,778	-	-	-	-	28,752,432,778	-	28,752,432,778
Investments in other companies		105,595,846,961	30,000,000	-	-	-	105,625,846,961	39,627,623,152	65,998,223,809
Property and equipment, net		180,462,785,792	143,944,475	240,118,616	492,793,118	136,463,795	181,476,105,796	-	181,476,105,796
Other assets		95,497,673,351	153,767,690	886,414,500	623,498,340	673,526,692	97,834,880,573	-	97,834,880,573
TOTAL ASSETS	¢	6,987,940,274,634	65,024,652,093	9,293,446,392	11,881,338,382	6,324,971,817	7,080,464,683,318	40,345,669,441	7,040,119,013,877
LIABILITIES AND EQUITY									
LIABILITIES									
Obligations with the public	¢	5,106,372,877,962	16,143,873,104	-	-	-	5,122,516,751,066	-	5,122,516,751,066
Obligations with BCCR		125,644,412	-	-	-	-	125,644,412	-	125,644,412
Obligations with entities		933,184,047,067	28,609,830,268	-	-	-	961,793,877,335	645,921,286	961,147,956,049
Demand		203,013,313,176	-	-	-	-	203,013,313,176	593,621,286	202,419,691,890
Term		714,908,032,179	28,472,010,899	-	-	-	743,380,043,078	52,300,000	743,327,743,078
Finance charges payable		15,262,701,712	137,819,369	-	-	-	15,400,521,081	-	15,400,521,081
Accounts payable and provisions		120,013,099,374	2,602,266,611	1,140,818,020	2,986,088,074	1,413,909,455	128,156,181,534	72,124,995	128,084,056,539
Other liabilities		75,398,528,281	-	-	-	-	75,398,528,281	-	75,398,528,281
Subordinated obligations		70,046,186,425	-	-	-	-	70,046,186,425	-	70,046,186,425
TOTAL LIABILITIES	¢	6,305,140,383,521	47,355,969,983	1,140,818,020	2,986,088,074	1,413,909,455	6,358,037,169,053	718,046,281	6,357,319,122,772

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of September 30, 2019								
	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations	Consolidated
EQUITY								
Share capital	¢ 172,237,030,102	6,600,000,000	3,000,000,000	5,485,841,938	369,700,000	187,692,572,040	15,455,541,938	172,237,030,102
Non-capitalized capital contributions	-	-	-	709,083,071	-	709,083,071	709,083,071	-
Equity adjustments	79,850,374,387	64,883,437	98,663,937	241,132,803	15,728,486	80,270,783,050	420,408,661	79,850,374,389
Capital reserves	349,252,719,754	1,320,000,000	600,000,000	300,000,000	73,940,000	351,546,659,754	2,293,940,000	349,252,719,754
Prior-period retained earnings	28,392,658,973	7,922,502,969	2,884,479,890	978,148,475	2,198,455,315	42,376,245,622	13,983,586,649	28,392,658,973
Income for the period	18,418,571,926	1,761,295,704	1,569,484,546	1,181,044,023	2,253,238,561	25,183,634,760	6,765,062,841	18,418,571,919
FOFIDE	34,648,535,964	-	-	-	-	34,648,535,964	(4)	34,648,535,968
TOTAL EQUITY	¢ 682,799,891,106	17,668,682,110	8,152,628,373	8,895,250,310	4,911,062,362	722,427,514,261	39,627,623,156	682,799,891,105
TOTAL LIABILITIES AND EQUITY	¢ 6,987,940,274,627	65,024,652,093	9,293,446,393	11,881,338,384	6,324,971,817	7,080,464,683,314	40,345,669,437	7,040,119,013,877
Debit memoranda accounts	¢ 604,866,970,872	133,004,706	100,000	8,064,490	-	605,008,140,068	-	605,008,140,068
Trust assets	¢ 2,072,231,833,948	1,452,955,318	-	-	-	2,073,684,789,266	-	2,073,684,789,266
Trust liabilities	¢ 139,923,544,520	528,000	-	-	-	139,924,072,520	-	139,924,072,520
Trust equity	¢ 1,932,308,289,428	1,452,427,318	-	-	-	1,933,760,716,746	-	1,933,760,716,746
Other debit memoranda accounts	¢ 20,120,970,047,939	1,088,318,201,126	488,351,462,251	1,641,850,609,510	-	23,339,490,320,826	-	23,339,490,320,826

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the period ended September 30, 2019

	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations	Consolidated
Finance income	421,983,800,323	3,983,552,516	517,733,620	683,099,546	185,596,643	427,353,782,648	59,766,047	427,294,016,601
Finance costs	227,929,134,589	2,112,213,579	27,777,524	44,343,525	7,579,689	230,121,048,906	59,766,049	230,061,282,857
Allowance expense	39,122,033,550	-	-	-	-	39,122,033,550	-	39,122,033,550
Income from recovery of assets	5,771,914,492	-	-	-	-	5,771,914,492	-	5,771,914,492
FINANCE INCOME	160,704,546,676	1,871,338,937	489,956,096	638,756,021	178,016,954	163,882,614,684	(2)	163,882,614,686
Other operating income	128,081,347,861	3,373,390,133	4,216,819,372	7,555,330,335	4,898,312,942	148,125,200,643	7,960,854,580	140,164,346,063
Other operating expenses	94,087,381,522	389,415,402	353,054,918	1,045,880,669	68,359,693	95,944,092,204	1,036,372,356	94,907,719,848
GROSS OPERATING INCOME	194,698,513,015	4,855,313,668	4,353,720,550	7,148,205,687	5,007,970,203	216,063,723,123	6,924,482,222	209,139,240,901
Personnel expenses	94,664,005,939	2,364,858,278	1,613,242,481	3,098,796,673	1,528,454,575	103,269,357,946	-	103,269,357,946
Other administrative expenses	46,878,692,741	540,744,485	568,233,333	787,216,469	198,168,532	48,973,055,560	159,419,390	48,813,636,170
Total administrative expenses	141,542,698,680	2,905,602,763	2,181,475,814	3,886,013,142	1,726,623,107	152,242,413,506	159,419,390	152,082,994,116
NET OPERATING INCOME BEFORE STATUTORY ALLOCATIONS AND TAXES	53,155,814,335	1,949,710,905	2,172,244,736	3,262,192,545	3,281,347,096	63,821,309,617	6,765,062,832	57,056,246,785
Income tax	23,087,130,244	129,923,874	554,742,620	861,626,426	948,568,932	25,581,992,096	-	25,581,992,096
Decrease in income tax	-	-	17,149,772	59,387,703	18,900,810	95,438,285	-	95,438,285
Statutory allocations	11,650,112,165	58,491,327	65,167,344	1,278,909,799	98,440,413	13,151,121,048	-	13,151,121,048
INCOME FOR THE PERIOD	18,418,571,926	1,761,295,704	1,569,484,544	1,181,044,023	2,253,238,561	25,183,634,758	6,765,062,832	18,418,571,926

(Continued)

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
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

(Continued)

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

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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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(46) Risk management

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

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

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

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

The Bank manages the above risks as follows:

a) Credit risk

i. Banco Nacional de Costa Rica

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

The Bank has established the following credit risk management procedures:

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

	Note	Direct		Stand-by	
		September 2019	September 2018	September 2019	September 2018
Loan portfolio					
Principal	7-a	¢ 4,339,444,241,208	4,497,367,083,563	315,616,201,227	337,224,218,132
Accounts and accrued interest receivable		38,237,739,385	39,741,652,898	-	-
Carrying amount, gross		4,377,681,980,593	4,537,108,736,461	315,616,201,227	337,224,218,132
Allowance for loan losses (accounting records)		(106,134,437,372)	(174,474,355,653)	(148,224,204)	(289,910,495)
Carrying amount, net	¢	<u>4,271,547,543,221</u>	<u>4,362,634,380,808</u>	<u>315,467,977,023</u>	<u>336,934,307,637</u>
		Direct		Stand-by	
		September 2019	September 2018	September 2019	September 2018
Loan portfolio					
Total balances:					
0	¢	37,947,181,356	21,946,026,743	-	-
A1		3,292,795,058,369	3,476,129,019,301	303,377,142,372	319,464,403,918
A2		49,402,415,579	34,511,255,018	887,776,374	667,078,591
B1		450,564,501,899	412,885,240,217	5,776,724,957	11,159,932,194
B2		10,987,774,525	6,213,877,761	37,199,091	31,488,353
C1		122,993,721,243	117,862,266,861	2,832,663,750	2,424,254,870
C2		8,938,069,151	20,577,115,527	26,741,981	17,275,827
D		209,602,297,114	141,733,681,651	1,213,385,687	1,052,651,214
E		194,450,961,357	305,250,253,382	1,464,567,015	2,407,133,165
		4,377,681,980,593	4,537,108,736,461	315,616,201,227	337,224,218,132
Structural allowance (subledger – database)		(105,766,533,275)	(155,337,483,413)	(99,308,391)	(133,269,251)
Carrying amount, net	¢	<u>4,271,915,447,318</u>	<u>4,381,771,253,048</u>	<u>315,516,892,836</u>	<u>337,090,948,881</u>
Individually assessed loans with allowance:					
0	¢	37,947,181,356	21,858,887,199	-	-
A1		3,292,795,058,369	3,475,099,301,623	31,358,669,620	36,904,085,203
A2		49,402,415,579	34,511,255,018	77,127,485	85,850,261
B1		450,564,501,899	412,885,240,217	1,173,527,429	8,054,682,323
B2		10,987,774,525	6,213,877,761	-	-
C1		122,993,721,243	117,853,031,514	631,056,331	79,037,381
C2		8,938,069,151	20,577,115,527	-	-
D		209,602,297,114	141,733,681,651	93,422,838	111,401,638
E		194,450,961,357	305,250,253,382	23,999,601	29,553,202
		4,377,681,980,593	4,535,982,643,892	33,357,803,304	45,264,610,008
Structural allowance (subledger – database)		(105,766,533,275)	(155,337,483,413)	(99,308,391)	(133,269,251)
Carrying amount, net	¢	<u>4,271,915,447,318</u>	<u>4,380,645,160,479</u>	<u>33,258,494,913</u>	<u>45,131,340,757</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		Direct		Stand-by	
		September 2019	September 2018	September 2019	September 2018
Current loans without allowance:					
0	¢	-	87,139,543	-	-
A1		-	1,029,717,679	272,018,472,751	282,560,318,716
A2		-	-	810,648,889	581,228,330
B1		-	-	4,603,197,528	3,105,249,870
B2		-	-	37,199,091	31,488,353
C1		-	9,235,347	2,201,607,419	2,345,217,489
C2		-	-	26,741,981	17,275,827
D		-	-	1,119,962,850	941,249,576
E		-	-	1,440,567,414	2,377,579,963
Carrying amount	¢	-	1,126,092,569	282,258,397,923	291,959,608,124
Carrying amount, gross	¢	4,377,681,980,593	4,537,108,736,461	315,616,201,227	337,224,218,132
Allowance for loan losses (database)		(105,766,533,275)	(155,337,483,413)	(99,308,391)	(133,269,251)
Excess of allowance over structural allowance		(367,904,097)	(19,136,872,240)	(48,915,813)	(156,641,244)
Carrying amount, net	¢	4,271,547,543,221	4,362,634,380,808	315,467,977,023	336,934,307,637
Restructured loans	¢	85,422,645,157	109,454,662,758	-	-

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 2019	
		Loans to customers	
		Gross	Net
0	¢	37,947,181,356	36,963,432,358
A1		3,292,795,058,369	3,274,721,975,022
A2		49,402,415,579	49,153,750,164
B1		450,564,501,899	446,252,076,805
B2		10,987,774,525	10,837,210,830
C1		122,993,721,243	118,661,064,041
C2		8,938,069,151	8,366,027,384
D		209,602,297,114	195,422,750,989
E		194,450,961,357	131,169,255,628
	¢	4,377,681,980,593	4,271,547,543,221

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		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
	¢	<u>4,537,108,736,461</u>	<u>4,362,634,380,808</u>

As shown above, as of September 30, 2019, the gross loan portfolio amounts to ¢4,378 billion.

Of that amount, 87.76% is classified in risk ratings “A + B” and 12.24% in risk ratings “C + D + E” (2018: ¢4,537 billion, of which 87.10% is classified in risk ratings “A + B” and 12.90% 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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Restructured loans:

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

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

Loan write-off policy:

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Borrower classification

Pursuant to SUGEF Directive 1-05, borrowers are classified in two groups: Group 1, borrowers whose total outstanding balance exceeds ₡100,000,000 according to note SGF-1514-2019 (2018: ₡65,000,000); and Group 2, borrowers whose total outstanding balance is less than that amount.

The loan portfolio by borrower classification is as follows:

Borrower classification	Direct		Stand-by	
	September 2019	September 2018	September 2019	September 2018
Group 1	₡ 2,244,266,357,681	2,730,949,244,607	39,188,055,998	63,183,485,507
Group 2	2,133,415,622,912	1,806,159,491,854	276,428,145,229	274,040,732,625
	₡ 4,377,681,980,593	4,537,108,736,461	315,616,201,227	337,224,218,132

Risk ratings

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

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

Analysis of creditworthiness

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

Analysis of historical payment behavior

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

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

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Structural allowance for loan losses

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

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

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

September 2019			
	<u>Allowance booked</u>	<u>Structural allowance</u>	<u>Excess of allowance</u>
Allowance for direct loans	¢ 106,134,437,372	(105,766,533,275)	367,904,097
Allowance for stand-by credit losses	148,224,204	(99,308,391)	48,915,813
	<u>106,282,661,576</u>	<u>(105,865,841,666)</u>	<u>416,819,910</u>
Counter-cyclical allowance per SUGEF Directive 19-16	<u>18,168,106,841</u>	<u>(18,168,106,841)</u>	<u>-</u>
	<u>¢ 124,450,768,417</u>	<u>(124,033,948,507)</u>	<u>416,819,910</u>
September 2018			
	<u>Allowance booked</u>	<u>Structural allowance</u>	<u>Excess of allowance</u>
Allowance for direct loans	¢ 174,474,355,653	(155,337,483,413)	19,136,872,240
Allowance for stand-by credit losses	289,910,495	(133,269,251)	156,641,244
	<u>174,764,266,148</u>	<u>(155,470,752,664)</u>	<u>19,293,513,484</u>
Counter-cyclical allowance per SUGEF Directive 19-16	<u>8,704,193,105</u>	<u>(8,704,193,105)</u>	<u>-</u>
	<u>¢ 183,468,459,253</u>	<u>(164,174,945,769)</u>	<u>19,293,513,484</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Counter-cyclical allowance

As of September 30, 2019, the counter-cyclical allowance is valued pursuant to the provisions set forth in SUGEF Directive 19-16 *Regulations to Determine and Book Counter-cyclical Allowances*, approved by CONASSIF through Article 6 of minutes of meeting No. 1258-2016 held on September 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 (¢26,020,797,897 based on the calculation of the counter-cyclical allowance made by management as of September 30, 2019). Once the entity reaches that level, it shall continue booking the counter-cyclical account as indicated by this regulation.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

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

Date of application	Percentage
Starting on the effective date	5.00%
Starting on June 1, 2019	6.00%
Starting on June 1, 2020	7.00%

On August 1, 2019, through note SGF-2336-2019, SUGEF communicated to the banks the amendment of Section II "Analysis of historical payment behavior" of the document "General Guidelines on the Regulation for Borrower Classification", SUGEF Directive 1-05 and Section VI "Historical payment behavior in the DBS" of the document "General Guidelines on the Regulations on Credit Risk Management and Evaluation for the Development Banking System," SUGEF Directive 15-16, in which it requests, according to the document, to modify the classification of debtors with a Level 3 historical payment behavior with a balance greater than ₡25,000 colones; the accounting effect of this change is defined in subsections c) and d), as follows:

... c) First, with cutoff date as of August 31, 2019, the amount determined in point b) above shall be reclassified to account "139.02.M.02 (Counter-cyclical component)" until reaching the amount corresponding to Pcc_{it} as per Article 4 of SUGEF Directive 19-16 *Regulations to Determine and Book Counter-cyclical Allowances*. This applies to entities who are still under Transition Provision II of SUGEF Directive 19-16 and the Superintendency's resolution SGF-0077-2019 SGF-PUBLICO dated January 14, 2019.

d) Second, with cutoff date as of August 31, 2019, the remaining amount of the change in the allowances, after applying the reclassification indicated in point c) above, shall be reclassified to a general allowance account within the group of general allowances created.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

e) The amount booked in the analytical account mentioned in point d) above may be gradually reversed, at a maximum rate of 1/24 per month, starting as of the September 30, 2019 close. The reversal rate of 1/24 per month must be considered a maximum; each entity can establish a lower rate or decide to not reverse it.

As of September 30, 2019, the counter-cyclical allowance booked amounts to ¢18,168,106,841 (2018: ¢8,704,193,105).

Credit equivalent

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

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

Allowance for other assets

Allowances should be established for the following assets:

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

As of September 30, 2019, the carrying amount of the allowance for impairment of foreclosed assets and per legal requirements amounts to ¢61,893,376,473 (2018: ¢58,503,405,303).

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

Sector	Direct		Stand-by	
	September 2019	September 2018	September 2019	September 2018
Trade	¢ 367,314,152,849	395,069,409,772	2,665,721	2,343,096
Services	916,641,301,890	927,853,043,186	43,643,206,380	57,442,014,412
Financial services	110,434,933,455	132,786,937,418	-	-
Mining	764,514,680	855,645,527	-	-
Manufacturing and quarrying	167,950,174,071	174,829,495,932	-	-
Construction	101,258,168,898	122,811,773,321	-	-
Agriculture and forestry	112,127,873,349	123,516,354,249	1,137,792	759,632
Livestock, hunting and fishing	79,651,219,252	83,978,420,894	-	-
Electricity, water, sanitation and other related sectors	402,693,810,001	461,543,033,116	-	-
Transportation and telecommunications	49,300,989,358	46,012,417,563	-	-
Housing	1,318,684,577,113	1,306,265,246,808	2,237,905	18,970,516
Personal or consumer	565,426,497,483	578,419,332,194	271,804,322,098	279,579,091,353
Tourism	185,433,768,194	183,167,626,481	162,631,331	181,039,123
	¢ <u>4,377,681,980,593</u>	<u>4,537,108,736,461</u>	<u>315,616,201,227</u>	<u>337,224,218,132</u>

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

		Direct		Stand-by	
		September 2019	September 2018	September 2019	September 2018
Central America	¢	<u>4,377,681,980,593</u>	<u>4,537,108,736,461</u>	<u>315,616,201,227</u>	<u>337,224,218,132</u>

The loan portfolio by type of guarantee is as follows:

Guarantee		Direct		Stand-by	
		September 2019	September 2018	September 2019	September 2018
Back to back	¢	17,679,308,376	43,999,039,180	577,930	579,120
Letters of credit		129,544,133	-	-	-
Mortgage bond		326,838,552,549	229,603,914	430,385	-
Assignment of loans		16,335,354,235	318,505,333,702	-	-
Mortgage		2,106,230,099,178	1,792,733,181,617	17,612,399	149,954,277
Surety		472,794,704,076	947,808,539,938	-	4,848,756
Trust		502,491,970,989	509,257,695,271	-	20,381,300
Securities		28,120,960,967	734,911,295	-	-
Chattel mortgage		263,541,135,143	258,766,818,234	-	-
Other		643,520,350,947	665,073,613,310	315,597,580,513	337,048,454,679
	¢	<u>4,377,681,980,593</u>	<u>4,537,108,736,461</u>	<u>315,616,201,227</u>	<u>337,224,218,132</u>

Guarantees:

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

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

The Bank conducts strict credit analyses before granting loans and requires guarantees from its borrowers before disbursing loans. As of September 30, 2019 and 2018, 58.00% and 57.43% of the loan portfolio is secured by collateral guarantees, respectively.

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Notes to the Consolidated Financial Statements

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

Loan portfolio concentration	Direct		Stand-by	
	September 2019	September 2018	September 2019	September 2018
¢1 to ¢3,000,000	¢ 163,160,810,239	168,892,637,958	104,890,251,891	104,937,574,439
¢3,000,001 to ¢15,000,000	620,247,519,032	636,725,643,621	165,849,089,259	173,363,815,548
¢15,000,001 to ¢30,000,000	464,249,526,030	471,308,759,957	6,312,322,067	6,156,130,177
¢30,000,001 to ¢50,000,000	477,586,115,353	477,443,085,925	2,143,154,596	2,340,010,559
¢50,000,001 to ¢75,000,000	401,633,181,531	390,669,872,844	1,815,413,122	2,023,074,553
¢75,000,001 to ¢100,000,000	203,213,722,220	194,127,056,137	577,702,642	676,205,049
¢100,000,001 to ¢200,000,000	237,511,947,368	237,348,440,050	3,808,561,741	2,783,092,391
More than ¢200,000,000	1,810,079,158,820	1,960,593,239,969	30,219,705,909	44,944,315,416
	¢ 4,377,681,980,593	4,537,108,736,461	315,616,201,227	337,224,218,132

As of September 30, 2019 and 2018, the portion of the loan portfolio (direct and stand-by loans) corresponding to economic interest groups amounts to ¢625,424,112,647 and ¢537,915,111,757, respectively.

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

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

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

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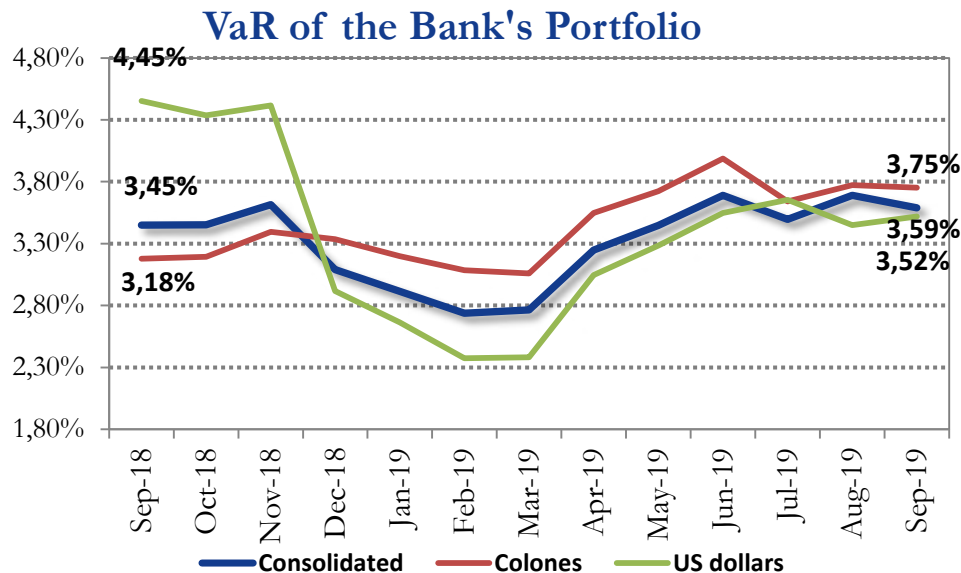
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Various technical tools are used to provide other angles for the analysis. Other types of estimates are made in addition to those obtained using the VaR methodology, such as the performance of the portfolio in legal collection, concentration of the 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 decrease observed in this quarter in the VaR of the entire loan portfolio is due to the decrease in legal collection and arrears over 90 days. The legal collection indicator decreased from 8.58% to 7.90%, while arrears over 90 days decreased from 3.36% to 3.26% during the aforementioned period.

By currency, the VaR of the portfolio in colones decreased by 0.23% due to the decrease in arrears. A similar behavior was observed in the portfolio in US dollars, with a decrease of 0.03% in the VaR due to a decrease (an improvement) in arrears. Regarding the portfolio in DU, the VAR increased by 2.24% mainly due to an increase in arrears over 90 days between the previous and the current quarter.



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Notes to the Consolidated Financial Statements

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

As of September 30, the VaR of the Bank's loan portfolio by economic activity is as follows:

Activity	September 2019	September 2018
Agriculture	8.91%	5.96%
Livestock	5.87%	3.94%
Mining	16.14%	10.35%
Industry	4.96%	5.51%
Energy	4.70%	7.50%
Housing	2.55%	1.87%
Construction	4.29%	7.23%
Trade	6.17%	4.95%
Transportation	2.73%	1.78%
Financial services	0.66%	0.37%
Consumer	9.33%	8.57%
Services	3.04%	2.29%
Tourism	7.68%	6.03%
BNCR	3.59%	3.45%

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

The Brokerage Firm may acquire the following instruments:

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

For the September 2019 close, the accounting records showed investments in colones, investments in instruments issued by local issuers in US dollars (\$CR) and investments in instruments issued by foreign issuers in US dollars (\$USA). The Brokerage Firm holds no investments in DU. By currency, most of the Brokerage Firm's financial instruments (65.89%) is concentrated in the portfolio denominated in colones.

With respect to the consolidated portfolio, investments in instruments issued by the Government of Costa Rica (61.88%) and BCCR (3.97%) comprise the portfolio in colones, representing 65.89% of the consolidated portfolio. Investments in instruments issued by the Government of Costa Rica comprise the portfolio in US dollars, representing 34.11% of the consolidated portfolio.

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

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

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

VaR is calculated through a procedure prepared by the Mathematical Modelling Risk Unit using the Matlab software. The results are communicated monthly in the consolidated risk report.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of September 30, 2019, the net assets managed by the Pension Fund Manager amount to ¢1,627,533 million (2018: ¢1,401,254 million), growing year-on-year by ¢226,279 million in nominal terms, equivalent to a growth rate of 16.15%. These data do not include the Pension Fund Manager's own assets.

As of September 30, 2019, the pension fund with the highest relative share is ROP, which represents 82.34%, growing year-on-year by ¢188,851 million, an increase of 16.41% with respect to 2018.

As of September 30, 2019, the Pension Fund Manager's portfolio of own funds is represented by available-for-sale investments in the amount of ¢9,254 million (2018: ¢7,482 million).

As of September 30, 2019, the credit risk methodology is different from that used as of September 30, 2018, given that the VaR of credit is calculated using the financial copulas model. Consequently, it is not compared. As of September 30, 2019, the VaR of credit was 0.32% (¢29 million).

Consolidated VaR - One year Fund	As of September 30,	
	2019	2018
FCL	0.74%	1.27%
FPC A	1.20%	0.02%
FPC B	0.91%	3.96%
FPD A	3.86%	29.36%
FPD B	4.48%	31.50%
NOT	0.68%	0.00%
ROP	0.73%	6.17%
BN Vital (OPC)	0.32%	0.41%
FCLE	0.98%	4.48%
ROPE	0.74%	3.76%

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

v. BN Corredora de Seguros, S.A.

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

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

As of September 30, 2019, exposure to credit risk is represented by the carrying amounts of cash and due from banks and available-for-sale investments. Cash and due from banks correspond to checking account deposits at BNCR and participation in open investment funds managed by BN SAFI.

As of September 30, 2019, investments in financial instruments correspond to the non-diversified investment fund in colones “*Fondo de Inversión BN FonDepósito Colones, No Diversificado*,” which is secured by term certificates of deposit from BNCR. In addition, an investment was made in Monetary Stabilization Bonds issued by BCCR, which mature between November 2019 and April 2020.

b) Liquidity risk

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

i. Banco Nacional de Costa Rica

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Below is the LCR indicator as of September 2019 and 2018, period during which it increased in colones and remained stable in US dollars, remaining above the risk appetite level in both currencies during the last year. This means that commitments and net cash outflows for 30 days can be met in an adverse scenario.

Year on year, the LCR indicator in colones shows a significant increase due to recovery in the rhythm of placements during 2019, while the loan portfolio increases slowly. This has led to an accrual of liquid assets in the amount of approximately ¢400 billion. The methodological adjustment considers a higher percentage of minimum legal deposit, which has a positive effect on the LCR; in addition, the LCR requirement was recently changed from 15% to 12%.

In US dollars, the LCR was above 250% during the last quarter, considerably above risk appetite, due to the lack of dynamism in foreign currency. We continue to see a contraction of the loans market, which has been occurring since over a year ago.

The LCR indicator according to the SUGEF methodology is as follows:

<u>Indicator</u>	<u>September 2019</u>	<u>September 2018</u>	<u>Varication</u>	<u>Level</u>
ICL colones	199.00%	104.1%	94.9%	Appetite
ICL US dollars	298.00%	304.7%	(6.7)%	Appetite

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of September 30, 2019, the terms of the Bank and its Subsidiaries' 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	¢	-	62,857,268,943	-	-	-	-	-	-
Minimum legal deposit in BCCR		-	266,140,365,857	17,939,494,300	13,696,773,621	15,458,365,844	66,232,909,732	66,238,564,142	40,606,479,671
Investments		-	-	109,401,015,576	24,753,130,043	16,223,820,673	48,474,131,290	61,016,378,924	509,328,871,304
Loan portfolio		192,394,026,190	-	52,011,724,794	40,730,969,000	38,573,309,455	95,045,128,521	139,360,283,753	2,557,637,878,875
Recovery of assets	¢	192,394,026,190	328,997,634,800	179,352,234,670	79,180,872,664	70,255,495,972	209,752,169,543	266,615,226,819	3,107,573,229,850
Obligations with the public	¢	-	1,838,542,829,771	113,831,053,243	126,405,360,341	121,099,015,037	541,642,308,519	474,639,432,293	317,735,330,198
Obligations with BCCR		-	-	-	-	-	-	-	125,644,412
Obligations with financial entities		-	103,978,988,091	26,689,241,333	13,574,402,335	19,933,577,280	32,771,622,401	792,386,608	32,986,326,970
Charges payable		-	10,882,132,275	12,186,775,861	4,701,006,326	3,385,032,234	7,557,546,557	2,123,385,435	1,074,010,215
Maturity of liabilities		-	1,953,403,950,137	152,707,070,437	144,680,769,002	144,417,624,551	581,971,477,477	477,555,204,336	351,921,311,795
Difference	¢	192,394,026,190	(1,624,406,315,337)	26,645,164,233	(65,499,896,338)	(74,162,128,579)	(372,219,307,934)	(210,939,977,517)	2,755,651,918,055

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

		Days							Total
		Past Due	Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	
Cash and due from banks	¢	-	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	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	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	3,037,962,979,006
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	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	3,236,370,487,573
Obligations with BCCR		-	-	6,000,000,000	-	-	-	-	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	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	34,805,316,603
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	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)	608,178,729,696

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of September 30, 2019, the terms of the Bank and its Subsidiaries' assets and liabilities denominated in foreign currency, expressed in local currency, are matched as follows:

		Days							Total
		Past Due	Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	
Cash and due from banks	¢	-	220,138,144,475	-	-	-	-	-	220,325,998,967
Minimum legal deposit in BCCR		-	175,255,055,920	7,767,174,209	14,069,260,064	10,491,584,323	22,241,457,603	21,718,120,266	298,306,845,630
Investments		-	-	45,285,830,115	42,235,148,878	9,540,461,014	66,269,953,557	140,686,555,040	572,495,587,290
Loan portfolio		120,633,034,045	-	35,204,596,915	24,752,723,976	28,828,782,744	45,847,105,685	61,588,685,924	1,261,928,660,007
Recovery of assets	¢	120,633,034,045	395,393,200,395	88,257,601,239	81,057,132,918	48,860,828,081	134,358,516,845	223,993,361,230	2,353,057,091,894
Obligations with the public	¢	-	896,723,946,317	106,287,761,684	77,554,375,468	52,903,741,589	150,702,397,784	133,280,460,242	1,541,950,320,759
Obligations with financial entities		-	99,034,325,085	8,466,674,500	6,363,009,300	1,739,569,300	11,017,111,954	269,111,371	715,020,889,951
Charges payable		-	2,340,697,372	6,565,706,414	8,389,004,339	2,020,428,174	1,124,654,479	1,054,300,818	22,369,097,289
Maturity of liabilities	¢	-	998,098,968,774	121,320,142,598	92,306,389,107	56,663,739,063	162,844,164,217	134,603,872,431	2,279,340,307,999
Difference	¢	120,633,034,045	(602,705,768,379)	(33,062,541,359)	(11,249,256,189)	(7,802,910,982)	(28,485,647,372)	89,389,488,799	73,716,783,895

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

		Days								Total
		Past Due	Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	More than 365	
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
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
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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

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

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Liquidity ratio Fund	As of September 30,		Variation
	2019	2018	
FCL	8.08	6.38	1.70
FPC A	5.74	9.15	(3.41)
FPC B	3.92	6.30	(2.38)
FPD A	2.19	4.74	(2.55)
FPD B	1.91	2.57	(0.66)
NOT	15.74	30.78	(15.04)
ROP	3.82	25.43	(21.61)
FCL Erroneous	13.24	6.08	7.16
ROP Erroneous	22.67	18.93	3.74

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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

v. BN Corredora de Seguros, S.A.

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

c) Market risks

i. Banco Nacional de Costa Rica.

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

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

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

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

<u>Currency</u>	<u>Face value of investments by currency</u>		<u>Variation</u>
	<u>September 2019</u>	<u>September 2018</u>	
Colones	689,261,100,000	434,669,915,733	254,591,184,267
US dollars - local issuers	176,398,889	355,000,000	(178,601,111)
US dollars - intl issuers	736,128,000	758,454,876	(22,326,876)
Euro	-	8,000,000	(8,000,000)
DU	-	21,082,530	(21,082,530)

The duration for each currency has presented variations according to portfolio management, with an increase during the last year in colones and local US dollars and a decrease in international US dollars and euro. Starting November 2018 and April 2019, there are no investment securities in DU and euro, respectively.

<u>Duration</u>	<u>September 2019</u>	<u>September 2018</u>	<u>Variation</u>
Colones	0.92	0.59	0.32
US dollars - local issuers	0.63	0.61	0.02
US dollars - intl issuers	1.10	0.90	0.20
Euro	-	0.32	(0.32)
DU	-	0.74	(0.74)

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Market risk management

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

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

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

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

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

Market risk exposure – trading portfolio:

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

	<u>September 2019</u>	<u>September 2018</u>
VaR (99% confidence level)	0.71%	0.42%

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

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

Price risk exposure:

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

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

i. 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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

iv. BN Corredora de Seguros, S.A.

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

• Market risk of investments

i. Banco Nacional de Costa Rica

The Bank's consolidated VaR regarding the market value of investments is at the risk appetite level. There was an increase during the last year, mainly caused by the increase in portfolio durations.

<u>Type of risk</u>	<u>September 2019</u>	<u>September 2018</u>	<u>Variation</u>
Consolidated VaR	0.39%	0.24%	0.15%

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

<u>Currency</u>	<u>VaR by currency</u>		<u>Variation</u>
	<u>September 2019</u>	<u>September 2018</u>	
Colones	0.52%	0.32%	0.20%
US dollars - local issuers	0.46%	0.41%	0.05%
US dollars - intl issuers	0.35%	0.18%	0.17%
DU	0.00%	0.61%	(0.61)%

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- Interest rate risk

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

The Market Risk Division monitors this risk regularly, using the indicators suggested by SUGEF Directive 24-00 and reports on its performance monthly to the Bank's Corporate Risk Committee.

<u>Type of risk</u>	<u>September 2019</u>	<u>September 2018</u>	<u>Variation</u>	<u>Level</u>
Interest rate risk in colones	0.13%	0.05%	(0.08)%	Normal
Interest rate risk in foreign currency	0.49%	0.92%	(0.42)%	Normal

For the Bank, both indicators closed considerably below the regulatory limits required by SUGEF and the risk appetite level approved by the board of directors.

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of September 30, 2019, the interest rate terms for the Bank's assets and liabilities (differences between the recovery of assets and the maturity of liabilities) are matched as follows:

		1 to 30 days	31 to 90 days	91 to 180 days	181 to 360 days	361 to 720 days	More than 720 days	Total
<i>Local currency (LC)</i>								
Investments	¢	109,305,247,806	40,947,447,026	48,456,816,623	60,926,762,975	161,797,308,721	347,370,594,242	768,804,177,393
Loan portfolio		2,648,733,250,121	105,945,617,377	101,144,785,783	14,976,787,362	15,886,820,877	68,086,548,294	2,954,773,809,814
Recovery of rate-sensitive assets in LC (A)	¢	2,758,038,497,927	146,893,064,403	149,601,602,406	75,903,550,337	177,684,129,598	415,457,142,536	3,723,577,987,207
Obligations with the public	¢	140,988,894,767	282,553,883,833	581,964,783,727	476,126,832,929	227,815,525,898	92,840,651,595	1,802,290,572,749
Obligations with BCCR		-	-	-	-	-	125,644,412	125,644,412
Obligations with financial entities in LC		12,776,252,472	6,500,000,000	-	-	-	33,153,323,273	52,429,575,745
Maturity of rate-sensitive liabilities in LC (B)	¢	153,765,147,239	289,053,883,833	581,964,783,727	476,126,832,929	227,815,525,898	126,119,619,280	1,854,845,792,906
Difference in LC, recovery of assets less maturity of liabilities (A - B)	¢	2,604,273,350,688	(142,160,819,430)	(432,363,181,321)	(400,223,282,592)	(50,131,396,300)	289,337,523,256	1,868,732,194,301
<i>Foreign currency (FC)</i>								
Investments	¢	45,278,099,964	51,499,337,052	66,269,887,664	139,321,428,213	145,429,476,514	111,190,379,844	558,988,609,251
Loan portfolio		1,052,183,779,143	39,163,192,893	22,905,168,992	2,518,186,899	21,039,577,797	58,412,813,073	1,196,222,718,797
Recovery of rate-sensitive assets in FC (C)	¢	1,097,461,879,107	90,662,529,945	89,175,056,656	141,839,615,112	166,469,054,311	169,603,192,917	1,755,211,328,048
Obligations with the public	¢	118,145,480,250	140,363,786,815	163,905,246,257	131,992,679,674	271,884,354,242	352,832,620,808	1,179,124,168,046
Obligations with financial entities		3,542,710,906	7,360,770,683	116,472,654	-	3,250,856,250	86,119,892,192	100,390,702,685
Maturity of rate-sensitive liabilities in FC (D)	¢	121,688,191,156	147,724,557,498	164,021,718,911	131,992,679,674	275,135,210,492	438,952,513,000	1,279,514,870,731
Difference in FC, recovery of assets less maturity of liabilities (C - D)	¢	975,773,687,951	(57,062,027,553)	(74,846,662,255)	9,846,935,438	(108,666,156,181)	(269,349,320,083)	475,696,457,317
Recovery of rate-sensitive assets 1/ (A + C)	¢	3,855,500,377,034	237,555,594,348	238,776,659,062	217,743,165,449	344,153,183,909	585,060,335,453	5,478,789,315,255
Maturity of rate-sensitive liabilities 2/ (B + D)	¢	275,453,338,395	436,778,441,331	745,986,502,638	608,119,512,603	502,950,736,390	565,072,132,280	3,134,360,663,637
LC + FC difference, recovery of assets less maturity of liabilities (item 1 - item 2)	¢	3,580,047,038,639	(199,222,846,983)	(507,209,843,576)	(390,376,347,154)	(158,797,552,481)	19,988,203,173	2,344,428,651,618

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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
<i>Local currency (LC)</i>								
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
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
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
<i>Foreign currency (FC)</i>								
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
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 financial entities		-	1,603,434,377	142,642,103	-	-	94,816,190,352	96,562,266,832
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
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
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
LC + FC difference, 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

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 period (due to relatively low inflation).

The consolidated VaR of the Pension Fund Manager's own funds presented a maximum of 1.49% and a minimum of 0.13%, for an average of 0.74%, equivalent to ¢68 million. As of September 30, 2019, the indicator closed at 1.07% (2018: 0.37%). There is an increase in the indicator due to the proportion of the portfolio in fixed-rate instruments, given that this indicator shows volatility in the portfolio of investments with market interest rates.

iv. BN Corredora de Seguros, S.A.

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

• Currency risk

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

i. Banco Nacional de Costa Rica

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

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

<u>Type of risk</u>	<u>September 2019</u>	<u>September 2018</u>	<u>Variation</u>	<u>Level</u>
Currency risk	0.49%	0.75%	(0.25) %	Normal

Assets and liabilities denominated in foreign currency are as follows:

		US dollars	
		<u>September 2019</u>	<u>September 2018</u>
<u>Assets:</u>			
Cash and due from banks	US\$	855,061,722	1,021,762,630
Investments in financial instruments		990,596,763	1,153,187,454
Loan portfolio		2,114,375,186	2,414,860,154
Accounts and accrued interest receivable		390,831	402,755
Investments in other companies		114,110,014	108,701,762
Other assets		6,242,027	4,331,565
	US\$	<u>4,080,776,543</u>	<u>4,703,246,320</u>
<u>Liabilities:</u>			
Obligations with the public	US\$	2,637,600,133	2,567,667,038
Obligations with entities		1,261,421,808	1,903,761,926
Accounts payable and provisions		121,201,852	131,369,144
Other liabilities		23,920,944	52,373,633
Subordinated obligations		23,751,084	25,236,827
	US\$	<u>4,067,895,821</u>	<u>4,680,408,568</u>
Excess of assets over liabilities in US dollars	US\$	<u>12,880,722</u>	<u>22,837,752</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		Euro	
		September 2019	September 2018
<u>Assets:</u>			
Cash and due from banks	€	38,829,150	30,894,311
Investments in financial instruments		-	8,151,263
Other assets		-	292,486
	€	<u>38,829,150</u>	<u>39,338,060</u>
<u>Liabilities:</u>			
Obligations with the public	€	36,951,469	38,272,229
Obligations with entities		784,022	1,182,714
Accounts payable and provisions		194,562	156,012
Other liabilities		914,845	-
	€	<u>38,844,898</u>	<u>39,610,955</u>
(Deficit) of assets over liabilities in euro	€	<u>(15,748)</u>	<u>(272,895)</u>
		DU	
		September 2019	September 2018
<u>Assets:</u>			
Investments in financial instruments	UD	-	21,082,530
Loan portfolio		5,106,840	9,491,769
	UD	<u>5,106,840</u>	<u>30,574,299</u>
<u>Liabilities:</u>			
Accounts payable and provisions	UD	334,875	590,069
Other liabilities		1,314	1,876
	UD	<u>336,189</u>	<u>591,945</u>
Excess of assets over liabilities in DU	UD	<u>4,770,651</u>	<u>29,982,354</u>

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 2019	September 2018
Foreign exchange gain	¢ 236,543,418,373	116,296,040,139
Foreign exchange loss	(233,032,348,807)	(116,622,192,289)
Net gain (loss)	¢ <u>3,511,069,566</u>	<u>(326,152,150)</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

	September 2019	September 2018
Gain on net valuation of other assets (Note 37)	¢ 1,050,891,343	208,237,728
Loss on net valuation of other liabilities (Note 40)	(570,781,352)	(511,907,845)
Net gain (loss)	¢ 480,109,991	(303,670,117)

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

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

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

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

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

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The Brokerage Firm incurs currency risk mainly on cash and investments in 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, 2019, 4.17% 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 5.10% (¢493.71 million) compared to the close as of September 30, 2018 at 3.89% (¢303.78 million), considering cash and due from banks and bonded debt, which is a relatively low currency risk for the size of the managed portfolio

v. BN Corredora de Seguros, S.A.

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

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

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

d) Operational risk

i. Banco Nacional de Costa Rica

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

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

That policy is implemented through a management framework that includes:

- defining operating risk and best practices
- goals of the operating risk function
- institutional principles to manage operating risk
- roles and relationships
- specific framework to manage legal risk.

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*.

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

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One of the Bank's fundamental operational risk management principles is transparency, meaning that all events must 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 applicable.

Additionally, operational risk management entails the assessment of risk in institutional processes through the application of a specific methodology that controls the frequency, impact and quality of control of identified risk events. The diagram below shows how such a methodology is applied to institutional processes:



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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

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

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

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

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

Fair value of financial instruments

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

Regulatory compliance risk: This risk refers to the scope and adoption of regulations in effect of the Pension Fund Manager. For such purposes, a Compliance Area is in charge of reviewing in a systematic and comprehensive manner any departure from regulations.

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, 2019, the Bank's General Risk Division presented the results of the VaR by legal risk for the Pension Fund Manager, indicating that the amount to be provisioned is the EL of ¢7,855,622 million that covers the main lawsuits against the Pension Fund Manager out of seven pending lawsuits, most of which are in first instance.

v. BN Corredora de Seguros, S.A.

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

Capital management

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

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

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

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

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

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

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

As of September 30, 2019 and 2018, the Bank's risk rating is at a normal level since its capital adequacy ratio is above the required 10% ratio.

(47) Contingencies

As of September 30, Banco Nacional de Costa Rica (the Bank), BN Vital Operadora de Planes de Pensiones Complementarias, S.A. (the Pension Fund Manager), BN Valores Puesto de Bolsa, S.A. (the Brokerage Firm) and BN Sociedad Administradora de Fondos de Inversión, S.A. (the Investment Fund Manager) are defendants in ordinary, labor and criminal lawsuits, as follows:

	Number of cases		Phase	Total estimated amount	
	2019	2018		2019	2018
Banco Nacional de Costa Rica	347	239	First instance	¢ 263,100,146,254	248,277,142,373
	16	17	Second instance	18,894,463,683	18,913,281,340
	9	8	Appeal	5,752,110,012	5,726,695,677
	-	1	Administrative proceedings (Note 48)	-	38,458,424,266
	<u>372</u>	<u>265</u>		<u>287,746,719,949</u>	<u>311,375,543,656</u>
BN Vital	<u>7</u>	<u>7</u>	First instance	<u>8,064,491</u>	<u>23,220,000</u>
BN Valores	<u>1</u>	<u>1</u>	First instance	<u>133,004,706</u>	<u>133,004,706</u>
BN SAFI	<u>1</u>	<u>-</u>		<u>100,000</u>	<u>-</u>
	<u>381</u>	<u>273</u>	(Note 22)	¢ <u>287,887,889,146</u>	<u>311,531,768,362</u>

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

Number of cases		Phase	Total estimated amount	
2019	2018		2019	2018
290	178	First instance	¢ 204,486,796,326	94,920,892,507
1	-	Second instance	375,839,600	-
291	178		¢ 204,862,635,926	94,920,892,507

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 September 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, 2019, the Bank has a provision in the amount of ¢847,421,676 for lawsuit No. 15-008666-1027-CA. It has not booked a provision for the other two lawsuits, given that the legal counsel indicated that such proceedings do not need to be included in the calculation of the provision since the probability of a loss is low.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The following lawsuits are also worth noting:

- File No.: 14-003379-1027-CA
 - ✓ Statement of facts: The plaintiffs seek that the Bank be ordered to pay damages caused to all the plaintiffs and to pay compensation for pain and suffering caused due to the inability to acquire decent housing, as a result of apparent anomalies regarding the management of credits to Grupo Zion, S.A. to build the Bariloche Real condominium. Additionally, it has had media coverage.
 - ✓ Current status: The resolution of April 10, 2018, at 17:15, ordered the separation of the case into separate files for each of the group members. This resolution was unsuccessfully challenged by the plaintiff's representatives. A number of separate lawsuits were presented to the Bank, which is in the process of filing the corresponding responses and some preliminary hearings have been summoned. The plaintiff's attorney resigned from its legal representation; therefore, the processes are currently suspended while a new attorney is appointed.
- 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. In resolution No. 92-2015 of first instance the Agrarian Court ruled in favor of the Bank. The Agrarian Court accepted the objection of statute of limitations, since the lawsuit was filed four years after negative prescription, as per Article 968 of the Code of Commerce.
 - ✓ Current status: Vote No. 055-F-18 of January 31, 2018, at 11:55, denied the negative statute of limitations exception, in its commercial and decennial common modality. The judge of first instance must issue a ruling on the appeal concerning new facts and claims of the case, as applicable. Since the parties did not agree with the resolution, all parties filed appeals for review before the First Chamber. No activity to date.

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Notes to the Consolidated Financial Statements

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

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

- File No.: 11-001042-0612-PE
 - ✓ Court: Office of Economic, Tax and Customs Crimes
 - ✓ Statement of facts: Irregularities were reported with respect to the company Zion and the process to grant credits to that company, misuse of resources, presentation of fake documents to the Bank to obtain credit approval and the apparent participation of some of the employees of Bank.
 - ✓ Current status: The public prosecutor's office filed an accusation, but it was not communicated to the Bank since it is not considered a victim. A motion for declaration of procedural defects was filed, so that the accusation can be brought to the Bank's attention. In a hearing scheduled for September 12, 2019, the declaration of procedural defects filed by BNCR will be heard. There is a civil lawsuit against the Bank, but it does not hold because the accused (bank employees) were summoned to a testimony. Until the legal status of those individuals is defined they cannot be part of a civil lawsuit.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- File No.: 18-003281-1027-CA
 - ✓ Court: Administrative Court and Civil Litigation Court of the Public Treasury
 - ✓ Statement of facts: The plaintiff Hidrotárcoles S.A. sues the Bank and ICE for the Capulín San Pablo Hydroelectric Project. It claims from ICE the resolution of the contract and from the Bank the collection of debt and suspension of the money transfers to conclude the works.
 - ✓ Current status: Through resolution No. 420-2018-T of the Administrative Court and Civil Litigation Court of the Public Treasury dated July 18, 2018, the provisional measure requested by Hidrotárcoles S.A. was dismissed. Hidrotárcoles S.A. appealed the decision and was summoned to a hearing on September 24, 2018 at 1400 hrs. The hearing was suspended until the plaintiff decides what to do with the other provisional measures filed. To date, Hidrotárcoles S.A. has not defined its position.
- File No.: 08-000350-0419-AG
 - ✓ Statement of facts: This proceeding seeks annulment of the judicial auction, award and registration of plots No. 79045-000, No. 79046-000 and No.134130-000.
 - ✓ Current status: Vote No. 001581-F-S1-2019 made at 11:36 hrs of July 24, 2019 by the First Chamber of the Supreme Court of Justice rejected the appeal, thus confirming the resolution which had rejected the lawsuit in all respects.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(48) Significant events

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

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

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

Since the Bank opted for the tax amnesty, the tax debts previously determined by the National Large Taxpayer Division were deemed settled by Ministry of Finance, thus setting aside the administrative processes pending before the Tax Administration.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

a) Dividends paid to the Bank

Dividends of the subsidiaries are as follows:

Subsidiary	Amount	
	September 2019	September 2018
BN Corredora de Seguros, S.A.	¢ 351,589,787	279,880,852
BN Sociedad Administradora de Fondos de Inversión, S.A.	1,200,000,000	1,000,000,000
BN Valores Puesto de Bolsa, S.A.	1,000,000,000	675,205,850
BN Vital Operadora de Planes de Pensiones Complementarias, S.A.	477,619,511	560,939,777
	¢ 3,029,209,298	2,516,026,479

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

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

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

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

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

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

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

On September 11, 2018, CONASSIF issued the *Regulation on Financial Information* (RFI) in SUGEF Directive 30-18, which seeks to regulate the application of IFRS and its interpretations (SIC and IFRIC) issued by the International Accounting Standards (IASB), considering prudential or regulatory accounting treatments, as well as the definition of a specific treatment or methodology when IFRS suggest two or more alternatives for application. Moreover, RFI establishes the content, preparation, referral, presentation and publication of the financial statements of individual financial entities, groups and conglomerates regulated by the four superintendencies.

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

a) IAS 1: Presentation of Financial Statements

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

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

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

b) IAS 7: Statement of Cash Flows

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

c) IAS 12: Income Taxes

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

d) IAS 16: Property, Plant and Equipment

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

e) IAS 18: Revenue

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

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

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:

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- 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 period.

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

g) IAS 27: Consolidated and Separate Financial Statements

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

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

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

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

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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

i) Revised IAS 32: Financial Instruments - Presentation

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

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

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

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

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

l) IAS 38: Intangible Assets

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

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

m) IAS 39: Financial Instruments: Recognition and Measurement

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

v) IFRS 14: Regulatory Deferral Accounts

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

w) IFRS 15: Revenue from Contracts with Customers

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

x) IFRS 16: Leases

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

y) IFRS 17: Insurance Contracts

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

z) IFRIC 10: Interim Financial Reporting and Impairment

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

aa) IFRIC 21: Levies

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

bb) IFRIC 22: Foreign currency transactions and advance considerations

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

This interpretation has not been adopted by the CONASSIF. However, Article 10 of the *Regulations on Financial Information* provides that in the event of a dispute of a specific tax treatment by the Tax Authorities, which begins with a notice of deficiency, the entity must:

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

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(50) Disclosure of economic impact of departure from IFRS

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

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