BANCO NACIONAL DE COSTA RICA
AND SUBSIDIARIES

Consolidated Interim Financial Statements

September 30, 2017 and 2016

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED INTERIM BALANCE SHEET
AS OF SEPTEMBER 30, 2017 AND 2016 AND DECEMBER 31, 2016
(In colones)

	Note	September 2017	December 2016	September 2016
ASSETS				
Cash and due from banks	4	**1,302,567,320,124**	**937,810,182,994**	**1,003,880,473,885**
Cash		71,985,533,823	56,192,345,858	67,682,875,136
Demand deposits in BCCR		832,997,859,033	689,309,617,609	707,004,566,932
Demand deposits in local financial entities		6,569,411,578	7,462,507,464	5,943,959,835
Demand deposits in foreign financial entities		378,947,076,980	178,157,371,306	160,263,357,653
Other cash and due from banks		12,067,438,710	6,688,245,083	62,985,684,035
Accrued interest receivable		-	95,674	30,294
Investments in financial instruments	5	**1,027,780,330,144**	**956,600,207,359**	**1,094,732,400,650**
Available-for-sale		982,340,346,685	912,646,019,784	1,032,354,330,727
Held-to-maturity		27,613,265,554	27,181,284,510	27,339,403,487
Derivative financial instruments	6	10,347,678,522	5,893,164,907	27,534,312,647
Accrued interest receivable		7,541,028,173	10,939,171,834	7,563,586,888
(Allowance for impairment of investments in financial instruments)		(61,988,790)	(59,433,676)	(59,233,099)
Loan portfolio	7	**4,399,604,546,072**	**4,057,363,892,824**	**3,915,853,074,728**
Current		4,209,122,078,032	3,922,221,361,522	3,745,526,329,529
Past due		162,018,382,977	105,532,644,255	133,976,992,371
Legal collections		98,789,656,096	87,853,245,295	90,058,289,060
Accrued interest receivable		31,963,107,077	27,221,501,072	28,068,739,498
(Allowance for loan impairment)		(102,288,678,110)	(85,464,859,320)	(81,777,275,730)
Accounts and fees and commissions receivable	8	**3,177,423,182**	**3,095,011,680**	**2,996,580,836**
Fees and commissions receivable		1,183,138,101	1,292,023,911	1,138,547,880
Accounts receivable for brokerage operations		58,572,629	3,828,079	10,982,311
Accounts receivable for transactions with related parties		37,076,658	20,707,083	167,647,533
Deferred tax and income tax receivable		1,597,761,958	1,234,343,863	1,181,620,326
Other receivables		3,982,986,573	3,993,335,555	4,128,419,648
Accrued interest receivable		1,732,262	1,800,923	2,203,805
(Allowance for impairment of accounts and fees and commissions receivable)		(3,683,844,999)	(3,451,027,734)	(3,632,840,667)
Foreclosed assets	9	**15,598,038,267**	**17,751,098,959**	**17,285,648,387**
Assets and securities received in lieu of payment		77,680,930,512	77,394,578,153	78,922,759,508
Other foreclosed assets		1,471,878	1,471,878	627,277
(Allowance for impairment of foreclosed assets and per legal requirements)		(62,084,364,123)	(59,644,951,072)	(61,637,738,398)
Investments in other companies	10	**61,321,809,645**	**57,191,201,983**	**57,429,260,382**
Property and equipment, net	11	**176,901,682,472**	**177,105,051,446**	**174,660,028,604**
Other assets	12	**45,120,000,275**	**45,275,551,284**	**37,594,927,486**
Deferred charges		9,642,372,793	11,899,941,334	12,309,294,210
Intangible assets		6,478,164,335	5,225,669,321	3,286,491,867
Other assets		28,999,463,147	28,149,940,629	21,999,141,409
TOTAL ASSETS		**7,032,071,150,181**	**6,252,192,198,529**	**6,304,432,394,958**

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED INTERIM BALANCE SHEET
AS OF SEPTEMBER 30, 2017 AND 2016 AND DECEMBER 31, 2016
(In colones)

LIABILITIES AND EQUITY	Note	September 2017	December 2016	September 2016
LIABILITIES				
Obligations with the public	13	**4,752,553,317,143**	**4,190,136,402,593**	**4,135,068,475,728**
Demand obligations		2,528,009,646,257	2,606,807,068,581	2,414,667,091,792
Term obligations		2,166,969,066,121	1,534,747,038,588	1,658,317,442,086
Other obligations		24,616,469,587	26,448,255,041	38,787,798,303
Finance charges payable		32,958,135,178	22,134,040,383	23,296,143,547
Obligations with BCCR	14	**28,134,588,856**	**125,644,412**	**125,644,412**
Term obligations		28,125,644,412	125,644,412	125,644,412
Finance charges payable		8,944,444	-	-
Obligations with entities	15	**1,372,575,930,100**	**1,224,853,283,638**	**1,285,231,164,160**
Demand obligations		199,758,647,631	215,439,288,466	213,109,082,323
Term obligations		1,149,315,888,464	999,839,001,470	1,049,901,747,201
Finance charges payable		23,501,394,005	9,574,993,702	22,220,334,636
Accounts payable and provisions		**122,783,568,817**	**128,526,344,473**	**127,246,174,542**
Accounts payable for brokerage services		521,281,031	1,434,466,447	797,343,903
Deferred tax	16-b	10,973,742,903	11,611,227,013	12,120,539,810
Provisions	17	25,200,323,960	26,294,108,721	29,635,106,319
Other sundry accounts payable	18	86,088,220,923	89,186,542,292	84,693,184,510
Other liabilities	19	**60,244,057,570**	**46,777,896,327**	**103,559,008,874**
Deferred income		30,108,795,361	24,745,614,291	21,311,103,866
Allowance for stand-by credit losses		266,234,864	540,840,567	1,769,455,707
Other liabilities		29,869,027,345	21,491,441,469	80,478,449,301
Subordinated obligations	20	**74,538,354,409**	**72,675,778,397**	**71,624,223,687**
Subordinated obligations		73,882,900,000	71,263,400,000	71,022,900,000
Finance charges payable		655,454,409	1,412,378,397	601,323,687
TOTAL LIABILITIES		**6,410,829,816,895**	**5,663,095,349,840**	**5,722,854,691,403**
EQUITY				
Share capital		**172,237,030,102**	**118,130,303,482**	**118,130,303,482**
Paid-in capital	21-a	172,237,030,102	118,130,303,482	118,130,303,482
Equity adjustments		**69,468,783,366**	**67,476,783,612**	**69,154,961,916**
Surplus from revaluation of property and equipment	21-b	62,042,199,833	60,806,752,437	60,806,752,437
Adjustment for valuation of available-for-sale investments	21-c	(1,529,002,618)	159,197,995	2,545,359,828
Adjustment for valuation of restricted financial instruments	21-c	(498,832,781)	(1,617,218,764)	(2,451,884,702)
Surplus from revaluation of other assets		43,748,630	43,748,630	69,678,787
Adjustment for valuation of investments in other companies	1-e (iv) y 21-d	9,410,670,302	8,084,303,314	8,185,055,566
Equity reserves	21-e	**309,800,596,676**	**274,614,308,392**	**273,305,122,640**
Prior period retained earnings		**13,238,583,625**	**54,106,726,619**	**55,415,912,371**
Income for the year		**29,384,381,504**	**53,018,907,264**	**43,821,583,826**
Equity of the Development Financing Fund	21-f	**27,111,958,013**	**21,749,819,320**	**21,749,819,320**
TOTAL EQUITY		**621,241,333,286**	**589,096,848,689**	**581,577,703,555**
TOTAL LIABILITIES AND EQUITY		**7,032,071,150,181**	**6,252,192,198,529**	**6,304,432,394,958**
DEBIT MEMORANDA ACCOUNTS	22	**662,909,331,668**	**607,278,057,097**	**555,140,039,908**
TRUST ASSETS	23	**1,441,291,625,906**	**1,395,438,209,356**	**1,059,937,685,102**
TRUST LIABILITIES		**40,138,524,079**	**51,558,918,092**	**43,765,666,157**
TRUST EQUITY		**1,401,153,101,827**	**1,343,879,291,264**	**1,016,172,018,945**
TRUST MEMORANDA ACCOUNTS		**40,302,914,757**	**27,200,220,639**	**28,753,445,596**
OTHER DEBIT MEMORANDA ACCOUNTS	24	**20,757,094,304,730**	**19,573,797,402,675**	**19,305,550,195,361**
Own debit memoranda accounts		7,156,771,585,104	7,280,944,022,035	7,261,272,097,964
Third-party debit memoranda accounts		2,525,868,720,930	2,268,532,958,984	2,279,212,041,378
Own debit memoranda accounts for custodial activities		314,275,146,823	231,082,070,315	384,671,728,050
Third-party debit memoranda accounts for custodial activities		10,760,178,851,873	9,793,238,351,341	9,380,394,327,969

Juan Carlos Corrales Salas
General Manager

Gerardo Gómez Solís
General Accountant

Ricardo Araya Jiménez
General Auditor

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

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016
(In colones)

	Note	Nine months ended September 30		Three months ended September 30	
		2017	2016	2017	2016
Finance income					
Cash and due from banks	28	2,058,166,675	566,397,932	1,008,891,222	154,432,631
Investments in financial instruments	28	36,855,688,286	36,742,268,977	11,989,122,460	13,810,445,975
Loan portfolio	29	295,839,255,941	260,482,132,337	105,534,053,012	89,362,039,564
Gain on available-for-sale financial instruments		1,279,197,037	1,003,024,972	114,539,689	267,530,590
Gain on derivative financial instruments, net	6	9,079,816,021	17,902,526,330	(1,955,814,860)	(5,392,780,826)
Other finance income	30	15,147,978,997	16,662,057,004	8,593,977,865	9,369,306,545
Total finance income		**360,260,102,957**	**333,358,407,552**	**125,284,769,388**	**107,570,974,479**
Finance expense					
Obligations with the public	31	107,283,225,378	80,137,373,670	40,975,183,051	26,946,847,897
Obligations with financial entities	32	52,235,702,669	40,980,110,780	19,073,613,593	15,308,292,642
Subordinated, convertible, and preferred obligations		3,377,556,508	2,990,174,694	1,161,142,538	1,117,665,342
Loss on foreign exchange differences and development units, net	46-c	1,513,064,399	1,087,974,936	(32,802,687)	122,436,135
Loss on available-for-sale financial instruments		162,539,688	32,056,062	87,115,310	672,920
Other finance expense	33	14,924,431,444	28,371,618,003	4,680,097,893	1,738,195,992
Total finance expense		**179,496,520,086**	**153,599,308,145**	**65,944,349,698**	**45,234,110,928**
Allowance for impairment of assets	34	30,278,844,170	28,072,655,143	13,226,987,036	9,939,823,121
Recovery of assets and decrease in allowances	35	11,396,047,828	9,418,618,029	2,200,800,385	4,598,771,615
FINANCE INCOME		**161,880,786,529**	**161,105,062,293**	**48,314,233,039**	**56,995,812,045**
Other operating income					
Service fees and commissions	36	95,231,598,491	88,870,222,766	31,857,560,381	29,631,600,199
Foreclosed assets		3,152,513,813	5,901,134,127	1,927,803,924	3,273,112,525
Gain on investments in other foreign companies	1-a, 3	1,933,904,845	2,072,446,755	647,986,634	494,885,964
Gain on investments in other local companies		7,563,715	16,313,452	-	-
Foreign currency exchange and arbitrage		17,926,202,406	18,317,334,312	5,597,027,823	5,932,796,525
Other operating income	37	6,897,053,664	19,571,128,659	2,462,295,726	2,773,565,031
Total other operating income		**125,148,836,934**	**134,748,580,071**	**42,492,674,488**	**42,105,960,244**

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016
(In colones)

		Nine months ended September 30,		Three months ended September 30,	
		2017	2016	2017	2016
Other operating expenses					
Service fees and commissions		4,102,339,160	4,867,752,351	1,586,989,791	1,221,518,181
Foreclosed assets	38	17,106,167,766	15,853,887,969	6,260,330,712	4,813,695,049
Sundry assets		35,830,427	958,493,970	2,893,170	234,285,187
Provisions	39	11,401,548,720	17,651,528,811	3,777,418,474	7,018,765,861
Discounts on fees and commissions of voluntary pension funds		61,916,067	57,350,283	20,005,408	17,111,422
Foreign currency exchange and arbitrage		1,156,574	1,363,435	91,855	377,687
Other operating expenses	40	54,283,183,557	42,819,019,063	17,782,662,016	14,406,992,079
Amortization of direct deferred costs related to loans		590,728,611	311,784,895	132,512,960	86,002,471
Total other operating expenses		**87,582,870,882**	**82,521,180,777**	**29,562,904,386**	**27,798,747,937**
GROSS OPERATING INCOME		**199,446,752,581**	**213,332,461,587**	**61,244,003,141**	**71,303,024,352**
Administrative expenses					
Personnel expenses	41	99,122,575,308	100,125,251,052	33,007,770,528	33,466,687,686
Other administrative expenses	42	50,601,053,888	47,960,085,627	17,119,008,521	16,210,709,944
Total administrative expenses		**149,723,629,196**	**148,085,336,679**	**50,126,779,049**	**49,677,397,630**
NET OPERATING INCOME BEFORE TAXES AND STATUTORY ALLOCATIONS		**49,723,123,385**	**65,247,124,908**	11,117,224,092	**21,625,626,722**
Current tax expense	16-a	8,912,045,614	9,892,686,964	1,129,003,178	3,480,517,574
Deferred tax expense	16-a	303,972,144	209,484,830	109,239,237	93,686,576
Decrease in current tax for the period	16-a	1,366,885,755	1,334,895,134	508,873,937	-
Decrease in prior period income tax	16-a	19,910,540	16,380,331	-	-
Deferred tax income	16-a	155,513,563	1,395,608,218	55,915,642	79,905,384
Statutory allocations	43	12,766,147,042	14,070,252,971	3,069,048,310	4,482,535,762
Decrease in statutory allocations	43	101,113,061	-	-	-
INCOME FOR THE PERIOD		**29,384,381,504**	**43,821,583,826**	**7,374,722,946**	**13,648,792,194**
OTHER COMPREHENSIVE INCOME, NET OF TAX					
Surplus from revaluation of property		2,003,550,735	537,766,102	2,003,550,735	-
Adjustment for valuation of available-for-sale investments, net of income tax		(1,688,200,613)	(757,865,041)	(494,934,937)	(337,014,071)
Adjustment for valuation of restricted financial instruments, net of income tax		1,118,385,983	(2,016,469,453)	347,998,334	(492,405,267)
Adjustment for valuation of investments in other companies		1,326,366,988	1,100,428,915	(497,775,118)	378,244,897
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX		**2,760,103,093**	**(1,136,139,477)**	**1,358,839,014**	**(451,174,441)**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**32,144,484,597**	**42,685,444,349**	**8,733,561,960**	**13,197,617,753**

Juan Carlos Corrales Salas
General Manager

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

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

	Note	Share capital	Equity adjustments: Surplus from revaluation of property	Equity adjustments: Adjustment for valuation of available-for-sale investments and restricted financial instruments	Equity adjustments: Surplus from revaluation of other assets	Equity adjustments: Adjustment for valuation of investments in other companies	Total equity adjustments	Equity reserves	Retained earnings	Equity of the Development Financing Fund	Total
Balance at January 1, 2016		118,130,303,482	63,572,929,305	2,867,809,620	69,678,787	7,084,626,651	73,595,044,363	247,784,553,250	81,237,495,076	18,144,863,035	538,892,259,206
Transactions with owners booked directly in equity:											
Legal reserves		-	-	-	-	-	-	23,820,568,736	(23,820,568,736)	-	-
Other statutory reserves		-	-	-	-	-	-	1,700,000,654	(1,700,000,654)	-	-
Equity of the Development Financing Fund		-	-	-	-	-	-	-	(3,604,956,285)	3,604,956,285	-
Total transactions with owners booked directly in equity		-	-	-	-	-	-	25,520,569,390	(29,125,525,675)	3,604,956,285	-
Comprehensive income for the period:											
Income for the period		-	-	-	-	-	-	-	43,821,583,826	-	43,821,583,826
Adjustment for valuation of available-for-sale investments, net of income tax	5	-	-	(757,865,041)	-	-	(757,865,041)	-	-	-	(757,865,041)
Adjustment for valuation of restricted financial instruments, net of income tax	5	-	-	(2,016,469,453)	-	-	(2,016,469,453)	-	-	-	(2,016,469,453)
Adjustment for revaluation of investments in other companies	1-e (iv)	-	-	-	-	1,100,428,915	1,100,428,915	-	-	-	1,100,428,915
Surplus from revaluation of property		-	(2,766,176,868)	-	-	-	(2,766,176,868)	-	3,303,942,970	-	537,766,102
Total comprehensive income for the period		-	(2,766,176,868)	(2,774,334,494)	-	1,100,428,915	(4,440,082,447)	-	47,125,526,796	-	42,685,444,349
Balance at September 30, 2016	21	118,130,303,482	60,806,752,437	93,475,126	69,678,787	8,185,055,566	69,154,961,916	273,305,122,640	99,237,496,197	21,749,819,320	581,577,703,555

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General Manager

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

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

Juan Carlos Corrales Salas
General Manager

Gerardo Gómez Solis
General Accountant

Ricardo Araya Jiménez
General Auditor

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

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016

(In colones)

	Note	2017	2016
Net cash flows from operating activities			
Income for the period		29,384,381,504	43,821,583,826
Items not requiring cash			
Gain on sale of idle property, furniture and equipment		(990)	(578,151)
Loss on foreign exchange differences and DU, net		28,846,363,442	14,635,880,567
Loss on allowance for loan impairment, net		17,793,773,749	20,621,298,305
Expense (income) for allowance on impairment of investments, net		370,451	(76,967,726)
Loss (gain) on allowance for other receivables, net		1,088,652,141	(1,890,293,465)
Loss on allowance for foreclosed assets, net		2,434,226,151	476,715,483
Loss on sale of foreclosed assets		7,630,770,495	4,831,800,198
Expense for severance accrual, net of payments		349,938,457	4,705,850,758
Depreciation and amortization		14,817,615,911	11,814,485,612
Share in net profit of foreign associate		(1,933,904,845)	(2,072,446,755)
Statutory allocations, net		12,665,033,981	14,070,252,971
Deferred tax expense (income), net	16-a	148,458,581	(1,186,123,388)
Current tax expense, net	16-a	7,525,249,319	8,541,411,499
Finance income from loan portfolio and investments		(332,694,944,227)	(297,224,401,314)
Finance expense for term obligations with the public and financial entities		130,284,748,531	97,588,340,408
		(81,659,267,349)	**(81,343,191,172)**
(Increase) decrease in assets			
Loans and cash advances		(321,541,548,255)	(247,045,252,621)
Foreclosed assets		13,156,046,394	11,778,857,050
Accrued interest receivable on other receivables		68,661	(213,667)
Other assets		(4,669,304,869)	(3,970,190,418)
		(394,714,005,418)	**(320,579,990,828)**
Net increase (decrease) in liabilities			
Demand and term obligations		643,699,528,484	307,344,842,172
Other accounts payable and provisions		(9,577,396,665)	(446,178,607)
Other liabilities		12,195,006,870	60,324,472,071
		251,603,133,271	**46,643,144,808**
Interest received on loan portfolio and investments		331,351,481,883	297,087,555,228
Income tax paid		(14,399,592,691)	(11,444,023,856)
Interest paid on term obligations with the public and financial entities		(105,525,308,989)	(79,606,936,621)
Net cash from operating activities		**463,029,713,474**	**252,679,739,559**
Cash flows from investing activities			
Increase in financial instruments		(16,140,255,808,639)	(11,824,769,115,530)
Decrease in financial instruments		16,109,562,445,570	12,017,074,985,391
Acquisition of property, furniture and equipment		(31,515,010,556)	(8,460,885,606)
Sale of property and equipment		22,445,345,915	1,206,121,947
Cash investments in other companies		(41,901,035)	2,068
Net cash (used in) from investing activities		**(39,804,928,745)**	**185,051,108,270**
Cash flows from financing activities			
Other new financial obligations		36,515,483,791	103,575,447,114
Settlement of obligations		(68,236,730,424)	(257,583,668,818)
Net cash (used in) financing activities		**(31,721,246,633)**	**(154,008,221,704)**
Net increase in cash and cash equivalents		**391,503,538,096**	**283,722,626,125**
Cash and cash equivalents at beginning of period		**1,019,158,980,617**	**1,001,004,712,154**
Cash and cash equivalents at end of period	4	**1,410,662,518,713**	**1,284,727,338,279**

Juan Carlos Corrales Salas
General Manager

Gerardo Gómez Solís
General Accountant

Ricardo Araya Jiménez
General Auditor

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

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

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

As of September 30, 2017, the Bank has 176 offices, 473 automated teller machines, and a total of 5,841 employees (2016: 174 offices, 478 automated teller machines, and 5,882 employees). Employees are distributed as follows: Banco Nacional de Costa Rica - 5,440 employees (2016: 5,464); BN Valores Puesto de Bolsa, S.A. - 70 employees (2016: 70); BN Vital Operadora de Planes de Pensiones Complementarias, S.A. - 164 employees (2016: 175); BN Sociedad Administradora de Fondos de Inversión, S.A. - 78 employees (2016: 85); and BN Corredora de Seguros, S.A. - 89 employees (2016: 88). The Bank's website is www.bncr.fi.cr.

(Continued)

The following subsidiaries are wholly owned by the Bank:

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

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

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

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

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

		December 2016				
		Brokerage Firm	Pension Fund Manager	Investment Fund Manager	Insurance Brokerage Firm	BICSA
Assets	¢	55,432,733,834	9,691,092,683	6,622,494,603	2,479,076,938	463,178,771,141
Liabilities		37,872,113,554	2,396,687,260	676,663,523	659,305,471	406,038,192,458
Equity		17,560,620,280	7,294,405,423	5,945,831,080	1,819,771,467	57,140,578,683
Income for the period		2,423,490,098	1,172,980,254	1,614,887,969	1,376,131,467	1,690,868,660
Memoranda accounts		939,715,141,870	1,156,846,965,515	358,238,446,450	-	-

(Continued)

		September 2016				
		Brokerage Firm	Pension Fund Manager	Investment Fund Manager	Insurance Brokerage Firm	BICSA
Assets	¢	68,113,220,472	10,128,962,706	7,683,221,872	2,793,613,471	479,004,305,134
Liabilities		48,344,732,407	2,573,712,823	1,070,648,133	708,127,235	421,625,668,052
Equity		19,768,488,065	7,555,249,883	6,612,573,739	2,085,486,236	57,378,637,082
Income for the period		2,022,867,707	866,870,392	1,257,647,888	815,818,573	2,072,446,755
Memoranda accounts		989,484,874,166	1,132,056,595,759	399,017,949,415	-	-

(b) Basis of preparation of the consolidated interim financial statements

- Statement of compliance

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

- Basis of measurement applied to assets and liabilities

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

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

The accounting policies have been consistently applied.

(c) Functional and presentation currency

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

(d) Basis of consolidation

i. Subsidiaries

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

As of September 30, 2017 and 2016, the consolidated interim financial statements include the financial figures of the following subsidiaries:

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

Subsidiaries were consolidated based on the following accounting principles:

- All subsidiaries which the Bank controls, whether directly or indirectly, are consolidated.
- For cases in which there are long-term financial or legal restrictions on the transfer of resources or for cases in which the Bank controls the subsidiary temporarily, the subsidiary is not consolidated.
- 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 interim financial statements does not differ from profit or loss presented in the parent company's unconsolidated financial statements since the subsidiaries were measured by the equity method when preparing the parent company's unconsolidated financial statements.

(Continued)

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, 2017 and 2016, the Bank holds 49% ownership interest in BICSA.

(e) Foreign currency

i. Foreign currency transactions

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

ii. Monetary unit and foreign exchange regulations

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

In accordance with the Chart of Accounts, assets and liabilities denominated in foreign currency should be expressed in colones using the reference buy rate published by BCCR. As of September 30, 2017, the exchange rate was established at ¢568.33 and ¢574.13 (2016: ¢546.33 and ¢558.80) to US$1.00 for the purchase and sale of U.S. dollars, respectively.

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

As of September 30, 2017, assets and liabilities denominated in U.S. dollars were valued at the exchange rate of ¢568.33 to US$1.00 (2016: ¢546.33 to US$1.00), which is the reference buy rate published by BCCR for that date.

As of September 30, 2017, assets and liabilities denominated in euros were valued at the exchange rate of ¢670.86 to €1.00 (2016: ¢612.76 to €1.00). This exchange rate was calculated by multiplying the international exchange rate published by Reuters by the reference buy rate for U.S. dollars published by BCCR on the last business day of the month.

As of September 30, 2017, assets and liabilities denominated in Development Units (DU) were valued at the exchange rate of ¢873.18 to DU1.00 (2016: ¢864.52 to DU1.00). This exchange rate is based on the DU value tables published by SUGEVAL.

iv. Financial statements of foreign operations (BICSA)

The financial statements of BICSA are presented in U.S. dollars, which is the entity's functional currency. As of September 30, 2017 and 2016, the Bank holds 49% ownership interest in BICSA. Accordingly, the Bank should value its investment in that entity by the equity method rather than on a consolidated basis.

The financial statements of foreign operations are translated as follows:

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

For the period ended September 30, 2017, a foreign exchange gain in the amount of ¢1,326,366,988 (December and September 2016: foreign exchange gain of ¢999,676,663 and ¢1,100,428,915, respectively) is presented in equity for the translation of the consolidated interim financial statements of foreign operations. As of September 30, 2017, the adjustment for valuation of investments in other companies amounts to ¢9,410,670,302 (December and September 2016: (¢8,084,303,314 and ¢8,185,055,566, respectively).

(Continued)

(f) Financial assets and financial liabilities

i. Recognition

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

ii. Classification

Cash and cash equivalents

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

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

Investments in financial instruments

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

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

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

(Continued)

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, 2017, the Bank no longer classifies financial instruments as held-to-maturity, except for the securities denominated in DU received from the Central Government to capitalize the Bank. Those securities were authorized by the Executive Branch of the Government of Costa Rica as a capital contribution and are funded under the Amendment to Law No. 8627 on the Ordinary and Extraordinary Budget of the Republic for Tax Year 2008 (Law No. 8703).

Securities sold under repurchase agreements

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

Securities purchased under reverse repurchase agreements

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

Derivative financial instruments

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

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

Originated loans and other receivables

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

Deposits and debt securities issued

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

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

iii. Derecognition

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

iv. Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the consolidated interim 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 interim financial statements, without any deduction for transaction costs.

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

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

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

Investments in financial instruments

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

(Continued)

Subsequent to initial recognition, all trading and available-for-sale investments are measured at fair value, except for any investment or instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured, which is stated at cost, including transaction costs, less impairment losses. As of September 30, 2017 and 2016, the market price valuation methodology established by VALMER Costa Rica, S.A. is used. This methodology has been duly approved by SUGEVAL.

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

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

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

Derivative financial instruments

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

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

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

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

vii. Gains and losses on subsequent measurement

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

viii. Impairment of financial assets

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

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

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

(Continued)

(g) Loan portfolio

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

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

(h) Allowance for loan losses

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

Additionally, the collectibility of the loan portfolio is assessed in conformity with the provisions of SUGEF Directive 1-05, “Regulations for Borrower Classification”, which was approved by CONASSIF on November 24, 2005, was published in Official Gazette No. 238 dated December 9, 2005, and is effective as of October 9, 2006. That assessment considers parameters including borrower payment history, creditworthiness, the 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, 2017 and 2016, increases in the allowance for loan losses are included in the accounting records in accordance with Article 10 of IRNBS.

(Continued)

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

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

(j) Other receivables

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

(k) Foreclosed assets

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

Foreclosed assets are valued at the lower of cost and 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.

(Continued)

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 performed the appraisals and those reports shall be updated at least annually.

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

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

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

(l) Investments in other companies

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

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

(Continued)

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

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

As of September 30, 2017 and 2016, the Bank has no full or partial share or influence over the management of other companies, in accordance with Article 73 of IRNBS and Article 146 of the Internal Regulations of the Central Bank of Costa Rica.

(m) Property, furniture and equipment

i. Own assets

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

Pursuant to the requirements established by the regulating entity SUGEF in Article 8 of Directive 34-02, the Bank must have its real property appraised at least once every five years by an independent appraiser, authorized by the corresponding institute, in order to determine its net realizable value (NRV). If the net realizable value is less or more than the carrying amount, the carrying amount must be adjusted to the appraisal value. As of the date of this report no appraisals were performed by independent appraisers on the Bank's buildings and land. Based on the valuation techniques used, those items are classified as Level 3 of the fair value hierarchy.

ii. Leased assets

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

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

(Continued)

iii. Subsequent expenditure

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

iv. Depreciation and amortization

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

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

(n) Intangible assets

i. Other intangible assets

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

ii. Subsequent expenditure

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

iii. Amortization

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

(o) Impairment of non-financial assets

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

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

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

(p) Accounts payable and other liabilities

Accounts payable and other liabilities are carried at cost.

(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)

(r) Employee benefits

i. Severance benefits

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

In the specific case of the Bank, that limit is 17 years for employees with more than 25 years of service. The Bank follows the policy of booking a provision to cover future disbursements related therewith for employees with more than 20 years of service, in compliance with Article 34 of the Collective Bargaining Agreement. As of September 30, 2017 and 2016, severance is included in the provisions account (see note 17), which meets the legal provisioning requirements in effect as of those dates.

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

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

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.

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 therewith.

Incentives and Performance Assessment System (SEDI)

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

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

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

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

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

(Continued)

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

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

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

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

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

(Continued)

(s) Deferred income

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

(t) Legal reserve

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

Other statutory reserves

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

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

(u) Revaluation surplus

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

(Continued)

(v) Income tax

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

i. Current tax

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

ii. Deferred tax

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

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

(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, which is subject to risks and returns that are different from those of other business segments.

(x) Combination of financial statements of departments

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

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

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

(y) Use of estimates

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

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

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

(z) Recognition of income and costs

i. Finance income and finance costs

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

(Continued)

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

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

ii. Fee and commission income

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

iii. Income from foreign currency exchange and arbitrage

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

iv. Operating lease expenses

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

(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.

(Continued)

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

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

Article 78 of the Employee Protection Law (Law No. 7983) establishes a contribution of up to 15% of the earnings of State-owned public companies, with the purpose of strengthening the funding base for the RIVM of CCSS and to provide universal CCSS coverage for impoverished non-salaried workers. Accordingly, through Executive Order No. 37127-MTSS, published in Official Gazette No. 103 dated May 29, 2012, this contribution is established gradually as follows:

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

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

(Continued)

(bb) Development Financing Fund (FOFIDE)

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

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

(cc) Development Credit Fund (FCD)

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

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

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

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

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

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

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

(dd) Trust operations

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

(Continued)

(2) Collateralized or restricted assets

Collateralized or restricted assets are as follows:

Restricted asset	Cause of restriction		September 2017 Carrying amount	December 2016 Carrying amount	September 2016 Carrying amount
Cash and due from banks:					
Checking account – colones (note 4)	Minimum legal deposit	¢	492,839,789,736	435,159,276,456	434,761,332,079
Checking account – U.S. dollars (note 4)	Minimum legal deposit		278,373,232,901	221,712,351,226	222,637,455,882
Checking account – euros (note 4)	Minimum legal deposit		4,202,022,444	4,350,556,378	4,604,275,729
Checking account – colones	Liquidation and compensation risk management fund		-	-	250,437,081
Other cash and due from banks (see note 4)	Contribution to FOGABONA		208,702,227	248,795,209	-
		¢	775,623,747,308	661,470,979,269	662,253,500,771
Investments in financial instruments:					
Investments in financial instruments	Guarantee for tri-party repurchase agreements		27,641,661,408	26,849,711,867	37,309,764,101
Investments in financial instruments	Liquidity market operations		23,398,822,842	14,875,504,659	15,320,700,065
Securities issued by BCCR and the Government	Investments securing repurchase agreements		203,640,000	1,054,894,475	459,113,578
External debt bonds	Nomura Bank guarantee		81,850,935,536	71,767,100,042	57,983,483,459
External debt bonds	JP Morgan guarantee (SWAPS)		1,697,597,379	-	-
External debt bonds	Bank of America guarantee		3,395,483,138	-	-
External debt bonds	Credit Suisse guarantee		-	57,001,678,155	69,870,374,838
Central Bank bonds (global bonds)	SINPE guarantee		44,517,354,218	-	-
		¢	182,705,494,521	171,548,889,198	180,943,436,041
Other assets:					
Other assets (note 12)	Guarantee deposits	¢	646,888,306	529,333,103	453,596,807

As of September 30, 2017, the Brokerage Firm has restricted assets in the amount of ¢51,249,186,477 (December and September 2016: ¢41,974,011,735 and ¢52,880,901,247, respectively), corresponding to guarantees for tri-party repurchase agreements, operations in the liquidity market, and contributions to the liquidation and compensation risk management fund.

(Continued)

(3) Balances and transactions with related parties

Balances and transactions with related parties are as follows:

		September 2017	December 2016	September 2016
Assets:				
Checking accounts in foreign financial entities (1) (note 4)	¢	21,649,317,107	9,738,754,875	9,997,467,539
Investments in financial instruments and accrued interest receivable (2)		-	5,481,827,848	8,194,950,000
Accounts receivable (3)		-	20,707,083	-
Allowance for impairment for transactions with related parties (3)		(20,764,514)	(12,179,982)	(55,019,477)
Investments in other companies (4) (note 10)		61,321,809,645	57,191,201,983	57,429,260,382
	¢	82,950,362,238	72,420,311,807	75,566,658,444
Liabilities:				
Demand obligations with entities (5)		19,734,900	36,789,117	197,133,738
	¢	19,734,900	36,789,117	197,133,738
Income:				
Gain on investments in foreign companies		1,933,904,845	1,690,868,660	2,072,446,755
Gain on investments in entities supervised by SUGEVAL		7,563,715	-	16,313,452
	¢	1,941,468,560	1,690,868,660	2,088,760,207
Expenses:				
Operating		-	-	313,720
	¢	-	-	313,720

(Continued)

The aforementioned balances are related to:

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

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

		September 2017	December 2016	September 2016
Short-term benefits	¢	1,487,685,207	1,790,244,979	1,274,322,848
Long-term benefits		193,399,078	232,731,848	165,661,971
Per diem – Board of Directors		112,620,973	137,406,012	98,913,309
	¢	1,793,705,258	2,160,382,839	1,538,898,128

(4) Cash and cash equivalents

For purposes of the reconciliation of the consolidated statement of cash flows, cash and cash equivalents are as follows:

		September 2017	December 2016	September 2016
Cash and due from banks	¢	1,302,567,320,124	937,810,182,994	1,003,880,473,885
Investments with maturities of two months or less		108,095,198,589	81,348,797,623	280,846,864,394
	¢	1,410,662,518,713	1,019,158,980,617	1,284,727,338,279

Cash and due from banks is as follows:

		September 2017	December 2016	September 2016
Cash on hand and in vaults	¢	54,976,827,557	45,605,575,176	53,383,465,423
Cash in transit		17,008,706,266	10,586,770,682	14,299,409,713
Checking account in BCCR (1)		64,046,594,398	32,873,027,519	43,912,359,745
Minimum legal deposits in BCCR (1)		768,951,264,635	656,436,590,090	663,092,207,187
Checking accounts and demand deposits in State-owned commercial banks and banks created under special laws		363,737,723	4,706,195,026	1,624,800,594

(Continued)

Checking accounts and other demand accounts in private financial entities	5,505,673,855	2,756,312,438	3,774,159,241
Overnight deposits in local financial entities	700,000,000	-	545,000,000
Checking accounts in foreign financial entities	353,606,129,282	162,549,650,880	143,593,757,013
Deposits and other demand accounts in foreign financial entities	114,756,616	20,654,470	44,235,840
Checking accounts and demand deposits in related entities (note 3)	21,649,317,107	9,738,754,875	9,997,467,539
Overnight deposits in foreign financial entities	3,576,873,975	5,848,311,081	6,627,897,261
Transfers through the Interbank Electronic Payment System (SINPE)	9,063,183,399	3,477,754,224	60,157,086,213
Local notes receivable	2,412,500,980	2,154,613,317	2,128,778,332
Foreign notes receivable	383,052,104	807,082,333	449,382,409
Fondo de Garantía de la Bolsa Nacional de Valores (FOGABONA)	208,702,227	248,795,209	250,437,081
Accrued interest receivable	-	95,674	30,294
	¢ 1,302,567,320,124	937,810,182,994	1,003,880,473,885

(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 September 30, 2017 and 2016, the percentage for the minimum legal deposit is 15%. The corresponding amount must be deposited in cash in BCCR pursuant to current banking legislation. Such deposit is calculated as a percentage of third-party deposits, which varies based on the term and form of deposit-taking used by the Bank.

(5) Investments in financial instruments

Investments in financial instruments are as follows:

		September 2017	December 2016	September 2016
Available-for-sale:				
Local issuers:				
Government of Costa Rica	¢	612,115,521,987	421,249,348,757	489,980,944,109
BCCR		78,735,127,262	160,717,002,649	106,397,913,024
State-owned banks		57,492,663,458	85,495,879,525	105,867,317,207
Private banks		234,547,819	7,932,586,072	22,333,787,134
Private issuers		7,988,613,368	9,550,559,893	77,389,782,848
		756,566,473,894	684,945,376,896	801,969,744,322
Foreign issuers:				
Governments		38,039,249,298	37,716,583,192	31,404,215,255
Private issuers		71,335,520,331	124,832,201,140	63,615,779,563
Private banks		116,399,103,162	65,151,858,556	135,364,591,587
		225,773,872,791	227,700,642,888	230,384,586,405
		982,340,346,685	912,646,019,784	1,032,354,330,727
Held-to-maturity:				
Local issuers		27,613,265,554	27,181,284,510	27,339,403,487
		27,613,265,554	27,181,284,510	27,339,403,487
Derivative financial instruments:				
Interest rate futures - Hedges (note 6)		10,234,656,622	5,893,164,907	27,534,312,647
Purchase of FX futures – Other than hedges (note 6)		21,653,945	-	-
Sale of FX futures – Other than hedges (note 6)		91,367,955	-	-
		10,347,678,522	5,893,164,907	27,534,312,647
Allowance for impairment:				
Allowance for impairment of investments		(61,618,339)	(59,433,676)	(59,233,099)
Allowance for impairment of derivative instruments other than hedges		(370,452)	-	-
		(61,988,790)	(59,433,676)	(59,233,099)
Accrued interest receivable on investments		7,541,028,173	10,939,171,834	7,563,586,888
	¢	1,027,780,330,144	956,600,207,359	1,094,732,400,650

(Continued)

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

		September 2017	December 2016	September 2016
Opening balance	¢	59,433,676	134,640,661	134,640,661
Allowance expense (note 31)		14,102,866	20,527,703	20,527,703
Decrease in allowance (note 32)		(13,732,415)	(97,495,429)	(97,495,429)
Foreign exchange differences		2,184,663	1,760,741	1,560,164
Closing balance	¢	61,988,790	59,433,676	59,233,099

As of September 30, 2017, the allowance for impairment of investments in non-derivative financial instruments amounts to ¢61,618,339 (December and September 2016: ¢59,433,676 and ¢59,233,099, respectively) and is booked for investments in Z Bonds related to the Mortgage Securitization Trust (impairment of 26% for both years).

As of September 30, 2017, the Bank recognized an allowance for impairment of derivative instruments other than hedges in the amount of ¢370,452, for FX futures sales other than hedges in accordance with SUGEF Directive 09-08 (2016: nil).

Annual returns on investments in financial instruments are as follows:

Currency	September 2017	December 2016	September 2016
Colones	4.23% to 11.13%	0.75% to 11.13%	1.50% to 12.00%
U.S. dollars	0.63% to 6.85%	0.63% to 6.55%	0.3% to 7.63%
Euros	1.10% to 4.25%	1.10% to 5.50%	1.10% to 5.50%
DU	0.00% to 0.74%	0.00% to 0.74%	0.00% to 0.80%

As of September 30, 2017, the valuation of available-for-sale investments and restricted financial instruments gave rise to an unrealized loss, net of deferred tax, in the amount of ¢569,814,630 (December and September 2016: unrealized loss of ¢4,325,830,389 and ¢2,774,334,494). Accordingly, as of September 30, 2017, the cumulative balance of equity adjustments arising from valuation of these investments is an unrealized loss of ¢2,027,835,399 (December and September 2016: unrealized gain of ¢1,458,020,769 and ¢93,475,127, respectively).

(Continued)

(6) Derivative financial instruments

The Bank holds the following types of derivative financial instruments:

✓ ***Derivatives as risk hedging instruments:***

Interest rate futures - hedges:

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

Derivative financial instruments are as follows:

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

Issuing bank		December 2016 Notional amount		December 2016 Valuation	Purpose
Citibank	US$	100,000,000	US$	2,150,085	Swaps to hedge 10-year term obligations in issue (maturing in 2023)
JP Morgan		200,000,000		4,300,167	
Bank of America		200,000,000		4,300,167	
	US$	500,000,000	US$	10,750,419	
Amount in colones	¢	274,090,000,000	¢	5,893,164,907	
Citibank		100,000,000		(325,520)	Swaps to hedge 5-year term obligations in issue (maturing in 2018)
JP Morgan		150,000,000		(488,281)	
	US$	250,000,000	US$	(813,801)	
Amount in colones	¢	137,045,000,000	¢	(446,109,432)	
Bank of America		250,000,000		(7,963,964)	Swaps to hedge 5-year term obligations in issue (maturing in 2021)
JP Morgan		250,000,000		(7,963,964)	
	US$	500,000,000	US$	(15,927,928)	
Amount in colones	¢	274,090,000,000	¢	(8,731,371,571)	
Citibank	US$	5,964,211	US$	(36,656)	Standardized futures contracts (maturing in 2017)
Amount in colones	¢	3,269,461,186	¢	(20,094,448)	

Issuing bank		September 2016 Notional amount		September 2016 Valuation	Purpose
Citibank	US$	100,000,000	US$	9,271,561	Swaps to hedge 10-year term obligations in issue (maturing in 2023)
JP Morgan		200,000,000		18,543,123	
Bank of America		200,000,000		18,543,123	
	US$	500,000,000	US$	46,357,807	
Amount in colones	¢	273,165,000,000	¢	25,326,661,954	
Citibank		100,000,000		716,975	Swaps to hedge 5-year term obligations in issue (maturing in 2018)
JP Morgan		150,000,000		1,075,463	
	US$	250,000,000	US$	1,792,438	
Amount in colones	¢	136,582,500,000	¢	979,262,653	
Citibank		250,000,000		1,124,218	Swaps to hedge 5-year term obligations in issue (maturing in 2021)
JP Morgan		250,000,000		1,124,218	
	US$	500,000,000	US$	2,248,436	
Amount in colones	¢	273,165,000,000	¢	1,228,388,040	

(Continued)

As of September 30, 2017, total notional amounts of US$1,018,700,000, equivalent to ¢578,957,771,000 (December and September 2016: US$1,255,964,211 US$1,250,000,000, equivalent to ¢688,494,461,186 and ¢682,912,500.000, respectively) are booked under “Other debit memoranda accounts” (see note 24).

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

As of September 30, 2017, the Bank books an increase in the fair value of these hedges in the amount of US$17,911,556, equivalent to ¢10,179,675,241 (see note 5) and a decrease in the fair value of these hedges in the amount of US$10,258,747, equivalent to ¢5,830,353,683 (see note 5).

As of December 31, 2016, the Bank books an increase in the fair value of these hedges in the amount of US$10,750,419, equivalent to ¢5,893,164,907 (see note 5) and a decrease in the fair value of these hedges in the amount of US$16,778,385, equivalent to ¢9,197,575,451 (see note 5).

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

For purposes of the valuation the aforementioned interest rate swaps, the Bank elected 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%.

(Continued)

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

	Effective rate		
	September 2017	December 2016	September 2016
5-year issue (maturing in 2018)	-	83.62%	92.98%
10-year issue (maturing in 2023)	96.50%	98.00%	91.54%
5-year issue (maturing 2021)	95.65%	93.97%	93.97%

A valuation was performed as of September 30, 2017 and 2016 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, 2017 and 2016
- only a portion of the bond cash flows is hedged (corresponding to the 5- and 10-year LIBOR rate in effect at the issue of the bond) rather than the total interest amount
- accrued and earned interest were segregated from the instruments to obtain variations in clean prices
- forward rate to calculate variable interest.

As of September 30, 2017, standardized futures contracts were negotiated as part of the financial derivatives portfolio. The Bank booked a notional amount for the sale and purchase of these futures contracts in the amount of US$18,700,000, equivalent to ¢10,627,771,000.

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

✓ *Derivatives for trading purposes:*

Currency forwards:

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

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

As of September 30, 2017, the total notional amount is US$24,447,639, equivalent to ¢13,894,327,155. As of December and September 2016, the Bank had no currency forwards (see note 22).

As of September 30, 2017, the Bank booked an increase in the fair value of these forwards in the amount of ¢113,021,900 under an asset account, and a decrease in the liability account in the amount of ¢46,919,337 (December and September 2016: nil; see note 5).

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

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

		September 2017	December 2016	September 2016
Gain on derivative financial instruments	¢	22,596,673,595	32,487,947,468	31,185,619,210
Loss on derivative financial instruments		(13,516,857,574)	(41,961,019,227)	(13,283,092,880)
Gain (loss), net	¢	9,079,816,021	(9,473,071,759)	17,902,526,330

(7) Loan portfolio

(a) Loan portfolio by sector

The loan portfolio by sector is as follows:

		September 2017	December 2016	September 2016
Trade	¢	426,337,025,677	383,913,120,090	378,015,091,341
Services		915,237,800,834	886,844,738,498	858,116,410,954
Financial services		139,609,549,719	143,227,870,068	138,700,559,136
Mining		963,282,346	1,078,059,706	913,925,482
Manufacturing and quarrying		174,012,563,089	164,439,989,019	143,209,786,678
Construction		105,462,464,290	102,337,598,821	99,350,878,911
Agriculture and forestry		124,155,566,253	119,200,690,631	115,723,338,996
Livestock, hunting, and fishing		84,073,338,152	75,554,660,408	73,615,487,634
Electricity, water, sanitation, and other related sectors		433,215,475,449	397,442,725,153	392,492,857,063
Transportation and telecommunications		46,174,715,680	41,876,391,133	39,441,583,504
Housing		1,307,360,020,071	1,192,797,400,089	1,169,904,986,033
Personal or consumer loans		537,637,839,130	445,416,562,419	418,170,088,992
Tourism		175,690,476,415	161,477,445,037	141,906,616,236
		4,469,930,117,105	4,115,607,251,072	3,969,561,610,960
Accrued interest receivable		31,963,107,077	27,221,501,072	28,068,739,498
Allowance for loan losses		(102,288,678,110)	(85,464,859,320)	(81,777,275,730)
	¢	4,399,604,546,072	4,057,363,892,824	3,915,853,074,728

Annual interest rates on loans receivable are as follows:

Currency	September 2017		December 2016		September 2016	
	Rates	Average *(1)*	Rates	Average *(1)*	Rates	Average *(1)*
Colones	4.35% to 40.56%	14.93%	4.45% to 39.00%	13.23%	4.70% to 39.00%	13.76%
U.S. dollars	3.00% to 34.92%	9.23%	3.00% to 34.92%	8.93%	3.00% to 34.92%	8.96%
DU	3.85% to 11.00%	6.57%	3.85% to 11.00%	6.58%	3.85% to 11.00%	6.58%

(1) Corresponds to weighted average by outstanding value of the loan portfolio at September 30, 2017, and December and September 2016.

(Continued)

(b) Loan portfolio by days past due

The loan portfolio by days past due is as follows:

		September 2017	December 2016	September 2016
Current	¢	4,209,654,964,392	3,922,996,772,133	3,746,100,127,202
1 to 30 days		112,802,022,665	46,067,740,682	92,522,931,126
31 to 60 days		24,806,948,227	38,346,524,164	20,891,021,197
61 to 90 days		22,937,426,535	19,993,513,410	20,648,624,050
91 to 120 days		10,308,750,127	10,101,589,852	9,181,477,645
121 to 180 days		9,850,158,545	12,237,325,773	10,228,360,513
More than 180 days		79,569,846,614	65,863,785,058	69,989,069,227
Total loan portfolio - gross		4,469,930,117,105	4,115,607,251,072	3,969,561,610,960
Accrued interest receivable		31,963,107,077	27,221,501,072	28,068,739,498
Allowance for loan losses		(102,288,678,110)	(85,464,859,320)	(81,777,275,730)
	¢	4,399,604,546,072	4,057,363,892,824	3,915,853,074,728

(c) Allowance for loan losses

Movement in the allowance for loan losses is as follows:

		September 2017	December 2016	September 2016
Opening balance	¢	85,464,859,320	62,968,882,979	62,968,882,979
Expense for the period (note 34)		28,409,143,910	37,490,816,079	26,730,096,644
Settlements		(11,975,795,398)	(15,733,523,078)	(8,563,476,776)
Decrease in allowance charged to profit or loss		(720,000,000)	-	-
Foreign exchange differences		1,110,470,278	738,683,340	641,772,883
Closing balance	¢	102,288,678,110	85,464,859,320	81,777,275,730

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

(8) Accounts and fees and commissions receivable

Accounts and fees and commissions receivable are as follows:

		September 2017	December 2016	September 2016
Fees and commissions	¢	1,183,138,101	1,292,023,911	1,138,547,880
Accounts receivable for brokerage operations		58,572,629	3,828,079	10,982,311
Accounts receivable from related parties (officers, employees)		37,076,658	20,707,083	167,647,533
Deferred tax (note 16-b)		1,426,492,780	1,016,478,067	1,020,686,864
Income tax receivable (1)		171,269,178	217,865,796	160,933,462
Other sundry accounts receivable		3,982,986,573	3,993,335,555	4,128,419,648
Accrued interest receivable on other sundry accounts receivable		1,732,262	1,800,923	2,203,805
Allowance for impairment of other accounts receivable		(3,683,844,999)	(3,451,027,734)	(3,632,840,667)
	¢	3,177,423,182	3,095,011,680	2,996,580,836

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

		September 2017	December 2016	September 2016
Banco Nacional de Costa Rica	¢	97,690,188	140,319,873	108,027,362
BN Vital Operadora de Planes de Pensiones Complementarias, S.A.		-	225,091	-
BN Corredora de Seguros, S.A.		73,578,990	77,320,832	52,906,100
	¢	171,269,178	217,865,796	160,933,462

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

		September 2017	December 2016	September 2016
Opening balance	¢	3,451,027,735	5,920,917,785	5,862,408,795
Allowance expense (note 34)		1,779,690,994	1,601,391,297	1,136,700,776
Decrease in allowance (note 35)		(690,778,253)	(3,229,204,400)	(3,026,994,241)
Items settled against allowance		(858,462,498)	(845,837,775)	(342,555,963)
Foreign exchange differences		2,367,021	3,760,827	3,281,300
Closing balance	¢	3,683,844,999	3,451,027,734	3,632,840,667

(9) Foreclosed assets

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

		September 2017	December 2016	September 2016
Assets received in lieu of payment	¢	77,680,930,512	77,394,578,153	78,922,759,508
Idle property and equipment		1,471,878	1,471,878	627,277
Allowance for impairment		(62,084,364,123)	(59,644,951,072)	(61,637,738,398)
	¢	15,598,038,267	17,751,098,959	17,285,648,387

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

		September 2017	December 2016	September 2016
Opening balance	¢	59,644,951,072	61,161,022,915	61,161,022,915
Allowance expense (note 38)		5,008,013,572	4,906,253,492	4,810,518,873
Decrease in allowance		(2,568,600,521)	(6,422,325,335)	(4,333,803,390)
Closing balance	¢	62,084,364,123	59,644,951,072	61,637,738,398

(10) Investments in other companies

Investments in other companies are as follows:

		September 2017	December 2016	September 2016
Other financial and non-financial entities	¢	50,623,300	50,623,300	50,623,300
Banco Internacional de Costa Rica, S.A. and Subsidiary (BICSA) (note 3)		61,271,186,345	57,140,578,683	57,378,637,082
	¢	61,321,809,645	57,191,201,983	57,429,260,382

The Bank holds 49% ownership interest in BICSA, represented in September 2017 and December and September 2016 by 6,506,563, with a nominal value of US$10 each.

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

		September 2017	December 2016	September 2016	Concept
National Stock Exchange	¢	15,000,000	15,000,000	15,000,000	Investment to operate as custodian of electronic securities
Central de Valores de la Bolsa Nacional de Valores, S.A.		15,000,000	15,000,000	15,000,000	Investment to operate as custodian of electronic securities
Interclear Central de Valores		15,000,000	15,000,000	15,000,000	Investment to operate as custodian of electronic securities
Depósito Libre Comercial Golfito (Golfito Duty Free Shopping Center) per Article 24 of Law No. 7131		5,200,000	5,200,000	5,200,000	Investment in the Golfito Duty Free Shopping Center
Other financial entities		423,300	423,300	423,300	Investments in various cooperatives
	¢	50,623,300	50,623,300	50,623,300	

(11) Property and equipment

Property and equipment is as follows:

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

		December 2016					
		Land	Buildings	Furniture and equipment	Computer hardware	Vehicles	Total
Cost:							
Balance at beginning of period	¢	4,218,965,394	62,430,854,914	59,048,581,832	57,942,113,324	451,048,332	184,091,563,796
Revalued cost at beginning of period		42,395,124,332	57,353,344,058	-	-	-	99,748,468,390
Additions		-	783,223,809	5,759,938,623	7,614,884,356	-	14,158,046,788
Disposals		-	-	(3,837,327,753)	(5,916,904,016)	-	(9,754,231,769)
Sales		(135,459,981)	(168,500,338)	(273,875)	-	(13,644,336)	(317,878,530)
Adjustments		-	611,075,765	122,389,129	(50,183,386)	-	683,281,508
Reclassifications		-	(902,381)	(10,104,450)	11,087,351	(80,520)	-
Balance at end of period		46,478,629,745	121,009,095,827	61,083,203,506	59,600,997,629	437,323,476	288,609,250,183
Accumulated depreciation:							
Balance at beginning of period		-	29,704,829,213	31,171,302,930	44,614,967,063	321,446,224	105,812,545,430
Depreciation expense on historical cost		-	1,355,676,895	5,298,486,956	5,382,224,643	28,721,410	12,065,109,904
Depreciation expense on revaluation		-	1,364,745,840	-	-	-	1,364,745,840
Disposals		-	-	(2,634,688,039)	(5,841,055,189)	-	(8,475,743,228)
Sales		-	(70,932,726)	(273,875)	-	(13,644,336)	(84,850,937)
Adjustments		-	830,436,336	39,607,166	(47,651,774)	-	822,391,728
Reclassifications		-	(902,381)	(5,311,378)	6,294,278	(80,519)	-
Balance at end of period		-	33,183,853,177	33,869,123,760	44,114,779,021	336,442,779	111,504,198,737
Net balance at end of period	¢	46,478,629,745	87,825,242,650	27,214,079,746	15,486,218,608	100,880,697	177,105,051,446

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

		September 2016					
		Land	Buildings	Furniture and equipment	Computer hardware	Vehicles	Total
Cost:							
Balance at beginning of period	¢	46,614,089,726	119,784,198,972	59,048,581,832	57,942,113,324	451,048,332	283,840,032,186
Additions		-	744,708,083	3,504,769,777	3,671,399,718	-	7,920,877,578
Disposals		-	-	(2,798,086,098)	(4,250,011,407)	-	(7,048,097,505)
Sales		(135,459,981)	(168,500,338)	(273,874)	-	(13,644,336)	(317,878,529)
Adjustments		-	610,173,384	137,725,167	(31,665,564)	-	716,232,987
Reclassifications		-	-	(10,370,074)	10,450,594	(80,520)	-
Balance at end of period		46,478,629,745	120,970,580,101	59,882,346,730	57,342,286,665	437,323,476	285,111,166,717
Accumulated depreciation:							
Balance at beginning of period		-	29,704,829,213	31,171,302,930	44,614,967,063	321,446,224	105,812,545,430
Depreciation expense on historical cost		-	1,032,540,535	3,940,105,696	3,974,759,928	22,005,591	8,969,411,750
Depreciation expense on revaluation		-	1,005,658,517	-	-	-	1,005,658,517
Disposals		-	-	(1,886,815,035)	(4,188,766,268)	-	(6,075,581,303)
Sales		-	(70,932,726)	(273,874)	-	(13,644,335)	(84,850,935)
Adjustments		-	829,784,567	43,971,961	(49,801,874)	-	823,954,654
Reclassifications		-	-	(5,582,533)	5,663,053	(80,520)	-
Balance at end of period		-	32,501,880,106	33,262,709,145	44,356,821,902	329,726,960	110,451,138,113
Net balance at end of period	¢	46,478,629,745	88,468,699,995	26,619,637,585	12,985,464,763	107,596,516	174,660,028,604

(Continued)

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

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

(12) Other assets

Other assets are as follows:

		September 2017	December 2016	September 2016
Deferred charges:				
Leasehold improvements	¢	952,894,227	1,230,240,341	1,052,375,818
Cost of issue of financial instruments, net (3)		1,555,244,054	1,888,423,058	1,996,723,728
Cost of subordinated debt project		416,389,502	474,798,764	493,666,940
Cost prior to the issue of financial instruments		8,312,897	-	-
Deferred direct costs related to loans		5,105,566,838	5,673,603,092	5,786,239,544
Other deferred charges		1,603,965,275	2,632,876,079	2,980,288,180
Deferred direct costs related to loans		9,642,372,793	11,899,941,334	12,309,294,210
Intangible assets:				
Software (2)		5,304,182,698	5,221,524,241	3,282,346,787
Other intangible assets (2)		1,173,981,637	4,145,080	4,145,080
		6,478,164,335	5,225,669,321	3,286,491,867
Other assets:				
Prepaid interest and fees and commissions		205,144,550	274,408,717	235,172,829
Prepaid taxes		5,863,635,870	6,468,712,634	4,591,503,011
Prepaid insurance policy		202,774,718	253,224,405	236,222,762
Other prepaid expenses		433,743,282	119,811,455	128,657,688
Stationery, office supplies, and other materials		782,753,023	624,937,164	426,915,299
Leased assets		99,797,219	100,810,170	101,149,151
Library and artwork		429,918,818	349,918,818	349,637,151
Construction work-in-progress		6,251,529,577	5,741,165,428	4,906,647,066
Software under development		419,768,645	343,328,418	330,408,049
Rights in welfare and trade associations		600,000	600,000	600,000
Other sundry assets		5,140,006,960	3,986,095,929	4,830,112,571
Cash shortage		-	3,000	-
Operations pending settlement		8,108,294,215	5,676,583,225	4,529,376,628
Other operations pending application		414,607,964	3,681,008,163	879,142,397
Guarantee deposits (1)		386,351,634	341,347,456	267,829,653
Legal and administrative deposits (1)		260,536,672	187,985,647	185,767,154
		28,999,463,147	28,149,940,629	21,999,141,409
	¢	45,120,000,275	45,275,551,284	37,594,927,486

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

(1) As of September 30, 2017, guarantee deposits amount to ¢646,888,306 (December and September 2016: ¢529,333,103 and ¢453,596,807, respectively; see note 2).

(2) Net intangible assets are as follows:

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

		December 2016		
		Software	Other intangible assets	Total
Cost:				
Opening balance	¢	20,535,208,567	96,302,651	20,631,511,218
Additions		3,257,298,745	18,480,098	3,275,778,843
Disposals		(1,699,395,942)	(16,608,110)	(1,716,004,052)
Adjustments		70,884,743	-	70,884,743
Closing balance		22,163,996,113	98,174,639	22,262,170,752
Accumulated amortization:				
Opening balance		16,546,267,398	94,029,559	16,640,296,957
Expense for the period		2,109,325,149	16,608,110	2,125,933,259
Disposals		(1,679,487,450)	(16,608,110)	(1,696,095,560)
Adjustments		(33,633,225)	-	(33,633,225)
Closing balance		16,942,471,872	94,029,559	17,036,501,431
Net closing balance	¢	5,221,524,241	4,145,080	5,225,669,321

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

		September 2016		
		Software	Other intangible assets	Total
Cost:				
Opening balance	¢	20,535,208,567	96,302,651	20,631,511,218
Additions		143,827,240	14,335,018	158,162,258
Disposals		(1,669,581,293)	(12,463,030)	(1,682,044,323)
Adjustments		629,973,974	-	629,973,974
Closing balance		19,639,428,488	98,174,639	19,737,603,127
Accumulated amortization:				
Opening balance		16,546,267,398	94,029,559	16,640,296,957
Expense for the period		1,493,803,364	12,463,030	1,506,266,394
Disposals		(1,655,579,914)	(12,463,030)	(1,668,042,944)
Adjustments		(27,409,147)	-	(27,409,147)
Closing balance		16,357,081,701	94,029,559	16,451,111,260
Net closing balance	¢	3,282,346,787	4,145,080	3,286,491,867

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

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

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

		December 2016			
		5-year issue (maturing in 2018)	10-year issue (maturing in 2023)	5-year issue (maturing in 2021)	Total
Commission - structuring banks	¢	274,090,000	274,090,000	465,953,000	1,014,133,000
Commission - Moody's Investors Service		137,045,000	137,045,000	-	274,090,000
Commission - Société de la Bourse de Luxembourg, S.A.		6,699,308	6,699,308	-	13,398,616
RR Donelley		6,000,926	6,000,905	3,592,374	15,594,205
BNY Mellon		2,166,956	2,166,956	3,161,354	7,495,266
Moody's - issuer rating		18,144,758	18,144,758	137,045,000	173,334,516
Fitch Ratings		137,045,000	137,045,000	137,045,000	411,135,000
Milbank		80,670,169	80,670,169	108,002,758	269,343,096
Shearman & Sterling		80,774,871	80,774,871	120,157,822	281,707,564
External audit		104,154,200	104,154,200	127,177,760	335,486,160
Perkins Cole (Broker)		-	-	7,190,504	7,190,504
Printing of documents		-	-	8,669,379	8,669,379
		846,791,188	846,791,167	1,117,994,951	2,811,577,306
Amortization		(521,521,223)	(231,871,584)	(169,761,441)	(923,154,248)
	¢	325,269,965	614,919,583	948,233,510	1,888,423,058

		September 2016			
		5-year issue (maturing in 2018)	10-year issue (maturing in 2023)	5-year issue (maturing in 2021)	Total
Commission - structuring banks	¢	273,165,000	273,165,000	464,380,500	1,010,710,500
Commission - Moody's Investors Service		136,582,500	136,582,500	-	273,165,000
Commission - Société de la Bourse de Luxembourg, S.A.		6,676,699	6,676,699	-	13,353,398
RR Donelley		5,980,675	5,980,653	3,580,251	15,541,579
BNY Mellon		2,159,642	2,159,642	3,150,685	7,469,969
Moody's - issuer rating		18,083,523	18,083,523	136,582,500	172,749,546
Fitch Ratings		136,582,500	136,582,500	136,582,500	409,747,500
Milbank		80,397,923	80,397,923	107,638,270	268,434,116
Shearman & Sterling		80,502,272	80,502,272	119,752,313	280,756,857
External audit		103,802,700	103,802,700	126,748,560	334,353,960
Perkins Cole (Broker)		-	-	7,166,238	7,166,238
Printing of documents		-	-	8,640,122	8,640,122
		843,933,434	843,933,412	1,114,221,939	2,802,088,785
Amortization		(476,466,609)	(211,113,236)	(117,785,212)	(805,365,057)
	¢	367,466,825	632,820,176	996,436,727	1,996,723,728

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

(Continued)

(13) Obligations with the public

Obligations with the public by cumulative amount are as follows:

		September 2017	December 2016	September 2016
Demand deposits:				
Checking accounts	¢	1,208,183,064,122	1,278,957,424,500	1,173,132,221,082
Certified checks		47,709,279	122,039,022	182,074,673
Savings deposits		1,280,643,579,268	1,296,486,039,607	1,207,908,493,367
Matured term deposits		23,553,676,902	17,819,303,823	17,362,013,307
Other demand deposits		510,938,371	611,720,829	704,614,683
Drafts and transfers		230,190,741	163,530,110	165,477,046
Cashier's checks		5,149,149,495	4,084,392,512	5,087,716,564
Advance collections from customers for credit cards		9,677,452,640	8,526,828,123	10,104,211,350
Trust fund obligations		13,885,439	35,790,055	20,269,720
		2,528,009,646,257	2,606,807,068,581	2,414,667,091,792
Term deposits:				
Deposits from the public		1,994,280,691,382	1,453,379,510,857	1,554,306,024,985
Other term deposits		172,688,374,739	81,367,527,731	104,011,417,101
		2,166,969,066,121	1,534,747,038,588	1,658,317,442,086
Other obligations with the public:				
Obligations with third parties for third-party repurchase agreements		24,616,469,587	26,448,255,041	38,787,798,303
		24,616,469,587	26,448,255,041	38,787,798,303
Interest payable for obligations with the public		32,958,135,178	22,134,040,383	23,296,143,547
	¢	4,752,553,317,143	4,190,136,402,593	4,135,068,475,728

As of September 30, 2017, deposits in checking accounts denominated in colones bear interest at a maximum rate of 2.55% per annum (December and September 2016: 1.50% per annum and 0.90% per annum) on balances and at a minimum rate of 1.65% per annum (December and September 2016: 0.00% per annum and 0.50% per annum) on balances greater than or equal to ¢500,001. Deposits in checking accounts denominated in U.S. dollars bear interest at a maximum rate of 0.45% per annum (December and September 2016: 0.40% per annum and 0.10% per annum) on balances and at a minimum rate of 0.30% per annum (December and September 2016: 0.00% per annum and 0.05% per annum) on balances greater than or equal to US$1,000.

(Continued)

Term obligations correspond to term certificates of deposit in colones, U.S. dollars, and euros. Term certificates bear annual interest at the following rates:

Currency	September 2017	December 2016	September 2016
Colones	4.00% to 8.20%	1.15% to 7.40%	1.15% to 7.40%
U.S. dollars	0.50% to 5.10%	0.45% to 5.85%	0.20% to 5.80%
Euros	0.00%	0.00%	0.00%

The Bank has term certificates of deposit that are restricted to secure certain loan operations. As of September 30, 2017, the balance of those term certificates of deposit amounts to ¢39,082,087.68 (December and September 2016: ¢32,221,517,946 and ¢32,228,230,310, respectively). As of that date, the Bank has no inactive deposits with State-owned entities or other banks.

(14) Obligations with BCCR

Obligations with BCCR are as follows:

		September 2017	December 2016	September 2016
Financing for loans using internal funds	¢	28,000,000,000	-	-
Financing for loans using external funds		125,644,412	125,644,412	125,644,412
Interest payable on obligations		8,944,444	-	-
	¢	28,134,588,856	125,644,412	125,644,412

(15) Obligations with entities

Obligations with entities are as follows:

		September 2017	December 2016	September 2016
Demand:				
Checking accounts with local financial entities	¢	46,783,191,731	67,079,202,786	62,972,610,475
Savings deposits with local financial entities		61,133,512	34,068,844	31,566,224
Development Credit Fund (FCD) management		148,111,847,125	145,344,840,301	142,207,450,287
Outstanding checks		4,781,655,393	1,947,218,401	6,878,623,005
Checking accounts and obligations with related parties		19,734,896	36,789,113	197,133,734
Other demand obligations with financial entities		1,084,974	997,169,021	821,698,598
		199,758,647,631	215,439,288,466	213,109,082,323
Term:				
Term deposits from local financial entities		142,759,464,219	2,702,114,143	10,269,228,045
Term deposits from foreign financial entities		5,683,300,000	5,481,800,000	5,463,300,000
Term obligations with foreign financial entities *(2)*		849,877,433,454	815,040,918,559	844,266,671,907
Liquidity market obligations		18,349,461,002	7,700,000,000	7,200,000,000
Loans from local financial entities		23,117,105,393	8,138,797,739	8,480,713,534
Loans from foreign financial entities *(1)*		101,054,124,396	160,775,371,029	174,221,833,715
Deferred liquidity operations		8,475,000,000	-	-
		1,149,315,888,464	999,839,001,470	1,049,901,747,201
Interest payable on other demand and term obligations with financial entities – foreign currency		284,981,571	38,405,886	66,087,420
Interest payable on other demand and term obligations with financial entities – local currency		1,066,556,425	123,680,533	286,918,993
Interest payable on loans with foreign financial entities *(1)*		1,732,186,268	1,413,597,675	2,282,341,110
Interest payable on loans with local financial entities		57,444,770	9,776,425	12,904,549
Interest payable on term deposits from foreign financial entities *(2)*		20,360,224,971	7,989,533,183	19,572,082,564
		23,501,394,005	9,574,993,702	22,220,334,636
	¢	1,372,575,930,100	1,224,853,283,638	1,285,231,164,160

(Continued)

(1) Loans due to foreign financial entities bear interest at rates ranging between 2.76% and 6.71% per annum (December and September 2016: between 2.54% and 6.65% per annum and between 2.32% and 6.65% per annum, respectively).

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

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

The balances according to the term of the obligations are as follows:

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

(Continued)

		December 2016			
		5-year issue (maturing in 2018)	10-year issue (maturing in 2023)	5-year issue (maturing in 2021)	Total
Issue	¢	273,840,105,083	308,765,469,368	275,425,692,866	858,031,267,317
Adjustment to fair value of hedged item measured at cost of international issues		(2,224,689,858)	(31,561,996,331)	(11,056,020,380)	(44,842,706,569)
Amortization of discount in traded amount of issues		1,107,715,702	639,844,894	104,797,215	1,852,357,811
		272,723,130,927	277,843,317,931	264,474,469,701	815,040,918,559
Interest payable		2,226,981,250	2,855,104,181	2,907,447,752	7,989,533,183
	¢	274,950,112,177	280,698,422,112	267,381,917,453	823,030,451,742

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

A valuation was performed as of September 30, 2017 and 2016 in order to calculate the change in the fair value of the primary instrument based on the following inputs:

- a 5- or 10-year LIBOR rate at the issue of the bond
- discount rates from Bloomberg
- zero rates corresponding to the swap curve as of September 30, 2017 and 2016
- only a portion of the bond cash flows is hedged (corresponding to the 5- and 10-year LIBOR rate in effect at the issue of the bond) rather than the total interest amount
- accrued and earned interest were segregated from the instruments to obtain variations in clean prices
- forward rate to calculate variable interest.

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

Maturities of loans due to entities

Loans due to entities mature as follows:

		September 2017		
		Local	Foreign	Total
Less than 1 year	¢	36,486,235,278	2,853,205,645	39,339,440,923
Between 3 and 5 years		125,644,412	7,507,948,176	7,633,592,588
More than 5 years		23,172,259,329	92,425,156,843	115,597,416,172
	¢	59,784,139,019	102,786,310,664	162,570,449,683

		December 2016		
		Local	Foreign	Total
Less than 1 year	¢	397,938,239	61,328,159,986	61,726,098,225
Between 1 and 2 years		-	2,745,006,304	2,745,006,304
Between 3 and 5 years		125,644,412	8,783,221,884	8,908,866,296
More than 5 years		7,750,635,925	89,332,580,530	97,083,216,455
	¢	8,274,218,576	162,188,968,704	170,463,187,280

		September 2016		
		Local	Foreign	Total
Less than 1 year	¢	587,829,199	72,140,559,603	72,728,388,802
Between 1 and 2 years		-	3,282,481,690	3,282,481,690
Between 3 and 5 years		125,644,412	9,268,496,719	9,394,141,131
More than 5 years		7,905,788,884	91,812,636,813	99,718,425,697
	¢	8,619,262,495	176,504,174,825	185,123,437,320

As of September 30, 2017 and 2016, loans due to local entities correspond to obligations with Banco Crédito Agrícola de Cartago.

(Continued)

(16) Income tax

Pursuant to the Costa Rican Income Tax Law, the Bank is required to file annual income tax returns for each of the years ended December 31. The calculation thus far, as of September 30 is as follows:

a) Current tax

The income tax expense is as follows:

		September		Quarter from July 1 to September 30	
		2017	2016	2017	2016
Current tax:					
Income tax expense for the period	¢	8,077,671,317	9,892,686,964	1,129,003,178	3,480,517,574
Decrease in income tax for the period		(1,366,885,755)	(1,334,895,134)	(508,873,936)	-
Subtotal income tax expense for the period		6,710,785,562	8,557,791,830	620,129,242	3,480,517,574
Prior-period income tax expense		834,374,297	-	-	-
Decrease in prior-period income tax		(19,910,540)	(16,380,331)	-	-
Total current tax expense, net		7,525,249,319	8,541,411,499	620,129,242	3,480,517,574
Deferred tax:					
Deferred tax expense		303,972,144	209,484,830	109,239,237	93,686,576
Increase in deferred tax		(155,513,563)	(1,395,608,218)	(55,915,642)	(79,905,384)
Total deferred tax expense, net		148,458,581	(1,186,123,388)	53,323,595	13,781,192
Total income tax expense, net	¢	7,673,707,900	7,355,288,111	673,452,837	3,494,298,766

For the nine months ended September 30, the difference between 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 2017	September 2016
Profit before tax	¢	49,723,123,385	65,247,124,908
Plus (less) tax effect of:			
Non-deductible expenses		30,411,664,225	30,012,974,411
Deductible expenses		(3,802,214,633)	(4,220,126,052)
Non-taxable income		(53,963,287,771)	(62,514,000,499)
Taxable income		22,369,285,206	28,525,972,768
Tax base		30%	30%
Subtotal - income tax expense		6,710,785,562	8,557,791,830
Decrease in income tax from prior periods		(19,910,540)	(16,380,331)
Total current income tax expense		6,690,875,022	8,541,411,499
Deferred income tax expense		303,972,144	209,484,830
Income from deferred income tax		(155,513,563)	(1,395,608,218)
Total income tax expense, net	¢	6,839,333,603	7,355,288,111

b) Deferred tax

Deferred tax assets and liabilities are as follows:

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

		December 2016		
		Assets	Liabilities	Net
Unrealized losses	¢	669,043,212	-	669,043,212
Provisions		347,434,855	-	347,434,855
Tax base of furniture and equipment		-	(518,000)	(518,000)
Unrealized gains		-	(1,271,480,448)	(1,271,480,448)
Revaluation of assets		-	(10,339,228,565)	(10,339,228,565)
	¢	1,016,478,067	(11,611,227,013)	(10,594,748,946)

(Continued)

		September 2016		
		Assets	Liabilities	Net
Unrealized losses	¢	691,636,464	-	691,636,464
Provisions		329,050,400	-	329,050,400
Tax base of furniture and equipment		-	-	-
Unrealized gains		-	(1,781,311,245)	(1,781,311,245)
Revaluation of assets		-	(10,339,228,565)	(10,339,228,565)
	¢	1,020,686,864	(12,120,539,810)	(11,099,852,946)

Movement in temporary differences that give rise to deferred tax assets is as follows:

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

		December 31, 2015	Included in the income statement	Included in equity	December 31, 2016
Unrealized losses	¢	503,251,465	-	166,982,020	670,233,485
Provisions		328,772,903	17,471,679	-	346,244,582
Allowance for doubtful accounts		17,552,696	(17,552,696)	-	-
Unrealized gains		(3,787,978,234)	737,948,880	1,778,030,907	(1,271,998,447)
Revaluation of assets		(11,524,732,938)	-	1,185,504,372	(10,339,228,566)
	¢	(14,463,134,108)	737,867,863	3,130,517,299	(10,594,748,946)

		December 31, 2015	Included in the income statement	Included in equity	September 30, 2016
Unrealized losses	¢	503,251,465	-	188,384,999	691,636,464
Provisions		328,772,903	277,497	-	329,050,400
Allowance for doubtful accounts		17,552,696	(17,552,696)	-	-
Unrealized gains	¢	(3,787,978,234)	553,631,376	1,453,035,612	-1,781,311,246
Revaluation of assets		(11,524,732,938)	-	1,185,504,374	-10,339,228,564
	¢	(14,463,134,108)	536,356,177	2,826,924,985	(11,099,852,946)

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

Tax returns filed by the Bank for the years ended December 31, 2013, 2014, 2015, 2016 and the tax return that will be filed for the year ended December 31, 2017 are open to review by the Tax Authorities.

(17) Provisions

Provisions are as follows:

		September 2017	December 2016	September 2016
Severance benefits	¢	2,704,376,914	2,848,046,997	9,120,392,430
Litigation		5,098,723,691	5,114,477,995	4,791,738,374
Other		17,397,223,355	18,331,583,729	15,722,975,515
	¢	25,200,323,960	26,294,108,721	29,635,106,319

Movement in provisions is as follows:

		Severance benefits	Litigation	Other *(1)*	Total
Balance at December 31, 2015	¢	19,351,170,766	4,759,970,548	11,810,578,826	35,921,720,140
Increase in provision		3,754,961,732	1,577,734,649	12,318,832,430	17,651,528,811
Used		(13,698,410,251)	(757,625,879)	(7,587,001,533)	(22,043,037,663)
Decrease in provision		(287,329,817)	(788,340,944)	(819,434,208)	(1,895,104,969)
Balance at September 30, 2016		9,120,392,430	4,791,738,374	15,722,975,515	29,635,106,319
Balance at December 31, 2015	¢	19,351,170,766	4,759,970,548	11,810,578,826	35,921,720,140
Increase in provision		7,122,139,578	1,944,689,188	15,799,859,759	24,866,688,525
Used		(23,271,121,855)	(801,840,797)	(8,256,828,606)	(32,329,791,258)
Decrease in provision		(354,141,492)	(788,340,944)	(1,022,026,250)	(2,164,508,686)
Balance at December 31, 2016		2,848,046,997	5,114,477,995	18,331,583,729	26,294,108,721
Increase in provision		1,136,835,024	789,026,382	9,475,687,315	11,401,548,721
Used		(1,262,545,256)	(788,167,931)	(9,594,299,929)	(11,645,013,116)
Decrease in provision		(17,959,851)	(16,612,755)	(815,747,760)	(850,320,366)
Balance at September 30, 2017	¢	2,704,376,914	5,098,723,691	17,397,223,355	25,200,323,960

(1) As of December 31, 2016, the "Other provisions" account includes ¢11,914,481,430 for lawsuit against CCSS and RIVM.

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

	Claimed amount			Provision		
Suit	September 2017	December 2016	September 2016	September 2017	December 2016	September 2016
Ordinary - in colones	64,839,814,231	66,170,702,983	65,871,859,553	3,492,571,427	3,914,211,465	3,902,888,516
Ordinary - in U.S. dollars	197,773,368,246	190,575,986,833	183,714,837,241	436,205,329	423,919,453	487,392,364
Criminal - in colones	1,020,877,223	1,009,129,410	1,004,052,000	480,758,907	496,046,408	401,457,494
Labor	748,230,103	1,616,275,443	1,257,107,911	276,288,114	280,300,669	-
Phishing		-	1,332,742,302	-	-	-
Administrative proceedings	-	-	-	412,899,914	-	-
	264,382,289,803	259,372,094,669	253,180,599,007	5,098,723,691	5,114,477,995	4,791,738,374

(18) Other sundry accounts payable

Other sundry accounts payable are as follows:

		September 2017	December 2016	September 2016
Professional fees	¢	10,071,570	2,558,750	17,724,330
Creditors - goods and services		4,503,535,056	3,384,330,555	3,684,342,537
Current tax		6,710,785,562	10,524,614,198	8,557,791,830
Employer contributions		6,412,977,530	8,457,415,872	7,409,634,878
Court-ordered withholdings		3,449,920,964	3,161,186,737	3,308,272,496
Tax withholdings		3,313,005,060	3,851,464,157	1,972,790,886
Employee withholdings		731,407,103	681,405,584	688,909,475
Other third-party withholdings		431,565,166	9,455,319	86,958,819
Compensation		4,633,175,668	6,702,950,151	5,165,545,205
Statutory allocations		12,747,644,972	17,153,405,402	14,070,252,988
Obligations on loans with related parties		-	83,835	-
Clearing house operations		8,640,612,246	4,617,080,542	12,905,324,409
Accrued vacation		7,272,124,833	6,944,862,199	7,228,939,737
Accrued statutory Christmas bonus		6,956,565,385	1,651,621,193	7,016,734,762
Contributions to the Superintendencies’ budget		-	9,839,843	-
Foreclosed assets		493,448,357	354,942,685	655,414,785
Various creditors - Local currency		7,687,197,067	6,327,166,650	7,605,638,632
Various creditors - Foreign currency		6,161,981,133	6,154,583,169	4,318,908,741
Interest rate futures - Hedges (note 6)		5,885,283,914	9,197,575,451	-
Purchase of FX futures (Other than hedges)		46,919,337	-	-
	¢	86,088,220,923	89,186,542,292	84,693,184,510

As of September 30, 2017, the “Various creditors” account includes ¢2,674 million (December and September 2016: ¢2,746 million and ¢2,062 million, respectively), for the operations of the Bank’s Electronic Processing of Payments Office (VISA). The remaining amount corresponds to normal operations of other divisions.

(19) Other liabilities

Other liabilities are as follows:

		September 2017	December 2016	September 2016
Deferred income:				
Deferred finance income	¢	30,082,398,416	24,722,362,957	21,290,474,374
Deferred fees and commissions for trust management		26,396,945	23,251,334	20,629,492
Subtotal		30,108,795,361	24,745,614,291	21,311,103,866
Allowance for stand-by credit losses *(1)*		266,234,864	540,840,567	1,769,455,707
Operations pending application:				
Operations pending settlement		12,522,286,550	19,153,979,611	60,961,053,093
Other operations pending application		17,346,740,795	2,337,461,858	19,517,396,208
		29,869,027,345	21,491,441,469	80,478,449,301
	¢	60,244,057,570	46,777,896,327	103,559,008,874

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

		September 2017	December 2016	September 2016
Opening balance	¢	540,840,567	1,545,597,997	1,545,597,997
Allowance expense (note 34)		76,167,000	185,335,020	185,330,020
Decrease in allowance (note 35)		(360,000,000)	(1,229,913,214)	-
Adjustment for foreign exchange differences		9,227,297	39,820,764	38,527,690
Closing balance	¢	266,234,864	540,840,567	1,769,455,707

(Continued)

(20) Subordinated obligations

The Bank’s subordinated obligations are as follows:

Annual interest rate	Term	Maturity		September 2017	December 2016	September 2016
6-month LIBOR + 4.50% in the first 5 years and 6-month LIBOR + 5.00% thereafter	10 years	27/05/2024	US$	100,000,000	100,000,000	100,000,000
6-month LIBOR + 5.25% in the first 5 years and 6-month LIBOR + 5.75% thereafter	15 years	23/10/2029		30,000,000	30,000,000	30,000,000
			US$	130,000,000	130,000,000	130,000,000
	Total in colones		¢	73,882,900,000	71,263,400,000	71,022,900,000
	Finance charges payable			655,454,409	1,412,378,397	601,323,687
			¢	74,538,354,409	72,675,778,397	71,624,223,687

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

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

(Continued)

(21) Equity

(a) Share capital

The Bank’s share capital is as follows:

		September 2017	December 2016	September 2016
Capital under Law No. 1644	¢	144,618,072,265	90,511,345,645	90,511,345,645
Bank capitalization bonds		27,618,957,837	27,618,957,837	27,618,957,837
	¢	172,237,030,102	118,130,303,482	118,130,303,482

On December 23, 2008, the Executive Branch of the Costa Rican Government authorized a capital contribution funded under the Amendment to Law No. 8627 on the Ordinary and Extraordinary Budget of the Republic for Tax Year 2008 (Law No. 8703). Such law grants funds to capitalize three State-owned banks, including the Bank, in order to stimulate productive sectors, particularly small and medium-sized enterprises. For such purposes, the Bank received four securities for a total of US$50,000,000 (equivalent to ¢27,619,000,002), denominated in DU, and maturing in 2013, 2017, 2018, and 2019 (No. 4183, No. 4184, No. 4185, and No. 4190 for DU10,541,265.09 each, at a reference exchange rate of ¢655.02 to DU1.00). As of September 30, 2017, based on the exchange rate as of that date, the balance of those investments is ¢27,613,265,554 (December and September 2016: ¢27,181,284,510 and ¢27,339,403,487, respectively; see note 5).

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

(b) Revaluation surplus

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

As of September 30, 2017, the revaluation surplus amounts to ¢62,042,199,833 (December and September 2016: ¢60,806,752,437).

(Continued)

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

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

As of September 30, 2017, the adjustment for the valuation of available-for-sale investments and restricted financial instruments results in an unrealized loss of ¢2,027,835,399 (December and September 2016: unrealized loss of ¢1,458,020,769 and unrealized gain of ¢93,475,126, respectively).

(d) Adjustment for valuation of investments in other companies

As of September 30, 2017, the adjustment for valuation of investments in foreign associates by the equity method amounts to ¢9,410,670,302 (December and September 2016: ¢8,084,303,314 and ¢8,185,055,566, respectively). These investments correspond to the Bank's 49% ownership interest in BICSA and Subsidiary.

(e) Equity reserves

Equity reserves are as follows:

		September 2017	December 2016	September 2016
Legal reserve	¢	295,477,786,868	261,729,857,989	261,729,722,013
Statutory reserve for foreclosed assets		155,064,737	142,801,520	142,319,593
Excess of statutory reserve for loans		5,850,052,262	4,770,983,124	3,819,093,220
Statutory dynamic provision		8,317,692,809	7,970,665,759	7,613,987,814
	¢	309,800,596,676	274,614,308,392	273,305,122,640

(f) Equity of the Development Financing Fund

As of September 30, 2017, the allocation of the Bank's earnings for the creation of the Development Financing Fund (FOFIDE) amounts to ¢27,111,958,013 (December and September 2016: ¢21,749,819,320).

(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, and the notional amounts of foreign exchange derivatives, as follows:

		September 2017	September 2016
Performance bonds	¢	31,424,227,854	30,211,228,147
Bid bonds		3,249,130,221	1,302,287,713
Other guarantees		4,345,416,231	4,166,742,101
Letters of credit		21,369,342,642	16,500,412,784
Credits pending disbursement		235,417,926	264,085,019
		60,623,534,874	52,444,755,764
Pre-approved lines of credit		285,524,857,507	250,498,799,908
Other contingencies not related to credits		25,898,061	636,737,855
Other contingencies - Pending litigation and lawsuits (note 47)		302,840,714,070	251,559,746,381
		588,391,469,638	502,695,284,144
FX futures - Other than hedges (note 6)		13,894,327,156	-
	¢	662,909,331,668	555,140,039,908

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

(Continued)

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

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

(23) Trust assets (unaudited)

The Bank provides trust services whereby it manages assets per the instructions of the customer. The Bank receives a fee for providing those services. Those assets, liabilities, and equity are not recognized in the Bank's consolidated interim 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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

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

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

(Continued)

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

a) Housing mortgage

These trusts are exclusively dedicated to managing housing loan portfolios.

b) Cash or property management

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

c) Securitization

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

d) Portfolio management

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

e) Special accounts

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

f) Guarantee

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)

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 2017	September 2016
Pension Fund Manager's own investments in custody – Face value of principal (unaudited)	¢	5,094,399,000	7,564,300,000
Pension Fund Manager's own investments in custody – Coupons (unaudited)		936,312,646	2,072,175,100
Pension Fund Manager's own investments in custody – Number of shares (unaudited)		23	23
Guarantees received in the Bank's custody		1,327,469,709	1,713,503,431
Other guarantees received in the Bank's custody		5,258,412,435,116	5,359,776,510,772
Lines of credit granted but unused		431,877,626,450	440,554,204,630
Loans pending disbursement		267,829,992,623	230,558,346,705
Unused overdrafts		92,474,720	133,469,997
Loans settled		172,376,097,079	161,398,759,747
Other accounts receivable settled		9,520,293,815	11,279,289,169
Accrued interest receivable settled		16,521,774,635	15,636,655,274
Interest income on non-accrual loans of loan portfolio		14,750,720,487	11,588,487,691
Supporting documentation received in the Bank's custody		1,255	1,223
Securities issued pending placement		20,939,220,358	14,676,596,357
Notified letters of credit		15,235,759,427	15,189,369,911
Notional value subject to interest rate futures (note 6)		578,957,771,000	682,912,500,000
Securities issued pending placement		13,870,034,119	-
Reversals made to expense accounts for the period		27,202,541,506	-
Nondeductible expenses		36,186,987,331	37,865,472,682
Nontaxable income		78,826,408,960	65,404,708,081
Other memoranda accounts		206,813,264,845	202,947,747,171
		7,156,771,585,104	7,261,272,097,964
Third-party debit memoranda accounts (unaudited)		2,525,868,720,930	2,279,212,041,378
Own debit memoranda accounts for custodial activities		314,275,146,823	384,671,728,050
Third-party debit memoranda accounts for custodial activities (unaudited)		10,760,178,851,873	9,380,394,327,969
		13,600,322,719,626	12,044,278,097,397
	¢	20,757,094,304,730	19,305,550,195,361

(Continued)

Other memoranda accounts by entity are as follows:

		September 2017	September 2016
Banco Nacional de Costa Rica	¢	18,147,412,404,748	16,784,990,776,022
BN Valores Puesto de Bolsa, S.A. (unaudited) (note 25)		936,857,724,682	989,484,874,165
BN Sociedad Administradora de Fondos de Inversión, S.A. (unaudited) (note 26)		412,390,017,410	399,017,949,415
BN Vital Operadora de Planes de Pensiones Complementarias (unaudited) (note 27)		1,260,434,157,890	1,132,056,595,759
	¢	20,757,094,304,730	19,305,550,195,361

Third-party debit memoranda accounts are as follows:

		September 2017	September 2016
Management of banking mandates	¢	859,233,101,455	757,918,360,137
Assets in custody on behalf of third parties		-	392,901
"TUDES" securities received in custody from affiliates under Article 75 of Law No. 7531		689,927,462	1,077,909,350
Pension funds (unaudited) (note 27)		1,253,622,138,365	1,121,276,726,043
Investment funds (unaudited) (note 26)		412,323,553,648	398,938,652,947
	¢	2,525,868,720,930	2,279,212,041,378

(25) <u>Current and term brokerage operations and security portfolio management (unaudited)</u>

Memoranda accounts for brokerage operations are summarized as follows:

		September 2017	September 2016
Own			
Trading securities in custody (note 25-a)	¢	4,895,412,267	7,430,088,096
Trading securities pledged as guarantees		-	520,787,080
Trading securities pending delivery		27,297,145,807	39,741,213,341
Confirmed cash agreements pending settlement		-	520,212,458
Futures contracts pending settlement (note 25-b)		24,788,587,968	39,031,331,872
Other own memoranda accounts		5,699,791,867	5,476,155,511
		62,680,937,909	92,719,788,358
Third-party			
Trading securities in custody (note 25-a)		633,544,856,071	611,001,300,447
Trading securities received as guarantees		54,571,461,912	71,860,404,725
Trading securities pledged as guarantees		77,850,812,070	82,636,663,791
Trading securities pending receipt		906,482,175	1,018,183,796
Signed agreements pending settlement		3,264,509,332	861,232,599
Repurchase agreements pending settlement (note 25-b)		103,458,812,480	128,578,675,087
Cash and accounts receivable		579,852,733	808,625,362
		874,176,786,773	896,765,085,807
	¢	936,857,724,682	989,484,874,165

(Continued)

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

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

a) Securities held in custody are as follows:

Location	Type of custody		September 2017	September 2016
Own custodial activities				
Local	At face value - available	¢	4,715,681,932	6,966,890,279
Local	At purchase value of shares - available		15,000,002	15,000,002
Local	At purchase value of investments - available		230,333	64,367,882
Local	At face value - pledged		164,500,000	383,000,000
Local	Amount of physical coupons - pledged		-	829,933
			4,895,412,267	7,430,088,096
Custodial activities on behalf of third parties				
Local	At face value - available		594,961,651,568	574,186,452,873
Local	At purchase value of shares - available		23,495,434,037	22,522,945,577
Local	At purchase value of investments - available		10,558,485,738	12,425,626,604
Local	At face value - pledged		1,970,759,198	1,713,143,024
Local	At purchase value of shares - pledged		64,873,800	64,939,976
Local	At purchase value of investments - pledged		227,151,692	16,076,833
Local	At face value - pending delivery		2,266,500,038	72,115,560
			633,544,856,071	611,001,300,447
		¢	638,440,268,338	618,431,388,543

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

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

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

As of September 30, 2017, term buyer and seller positions in tri-party repurchase agreements in U.S. dollars were valued at the exchange rate of ¢568.33 (2016: ¢546.33) to US$1.00.

(Continued)

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

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

	September 2016			
	Term buyer		Term seller	
	Colones	U.S. dollars	*Colones*	U.S. dollars
Own				
1 to 30 days	¢ 1,002,485,929	3,862,673	-	-
31 to 60 days	13,074,499,742	13,324,263	-	-
61 to 90 days	13,903,725,546	3,040,071	-	-
	27,980,711,217	20,227,007	-	-
Third parties				
1 to 30 days	1,678,762,529	1,470,759	727,275,054	275,391
31 to 60 days	18,504,661,836	34,872,654	17,105,781,410	19,617,767
61 to 90 days	8,177,993,946	19,027,814	16,779,991,164	15,169,521
More than 91 days	339,219,852	14,268,468	267,649,362	14,268,468
	28,700,638,163	69,639,695	34,880,696,990	49,331,147
	¢ 56,681,349,380	89,866,702	34,880,696,990	49,331,147

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

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

(26) Investment fund management agreements (unaudited)

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

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

Fund		September 2016 Net value	Shares	Value per share
Funds in Colones:				
Súper Fondo - *Colones*	¢	90,311,354,536	23,959,444,966	3,77
Fon Depósito - *Colones*		68,429,279,891	49,115,426,491	1,39
Creci Fondo - *Colones*		3,995,174,800	853,275,246	4,68
Redi Fondo - *Colones*		18,485,785,731	5,545,030,478	3,33
Diner Fondo - *Colones*		59,788,309,128	23,408,659,943	2,55
	¢	241,009,904,086	102,881,837,124	
Funds in U.S. dollars:				
Súper Fondo - U.S. dollars	US$	22,905,779	15,873,760	1,44
Creci Fondo - U.S. dollars		2,832,868	1,676,360	1,69
Redi Fondo - U.S. dollars		14,102,944	9,877,336	1,43
Diner Fondo - U.S. dollars		81,918,005	64,727,853	1,27
Fon Depósito - U.S. dollars		58,508,733	54,626,160	1,07
Súper Fondo Plus - U.S. dollars		108,464,886	104,515,041	1,04
Fondo Hipotecario - U.S. dollars (mortgage fund)		338,864	336,251	382,03
	US$	289,072,079	251,632,761	
	¢	157,928,748,861	137,474,526,317	
Total assets of managed funds (note 24)	¢	398,938,652,947	240,356,363,441	
Guarantees:				
Performance bonds	¢	77,321,164		
Outstanding checks		1,975,304		
Total memoranda accounts	¢	399,017,949,415		

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.

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

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

(Continued)

- *BN DinerFondo - Dólares No Diversificado* (non-diversified - U.S. dollars): This is an open-end (floating number of outstanding shares) money market fund with a fixed income portfolio. Returns on the investment portfolio are not distributed until the customer requests partial or full redemption of shares.
- *BN FonDepósito - Dólares No Diversificado* (non-diversified - U.S. dollars): This is an open-end (floating number of outstanding shares) money market fund with a fixed income portfolio. Returns on the investment portfolio are not distributed until the customer requests partial or full redemption of shares.
- *BN Fondo de Inversión de Titularización Hipotecaria (FHIPO) - Dólares* (mortgage securitization - U.S. dollars): This is mainly a closed-end mortgage investment fund, i.e. investor shares are listed and traded on a stock exchange.
- *BN SuperFondo Dólares Plus No Diversificado - Dólares* (non-diversified - U.S. dollars): This fund is aimed at conservative investors looking for short-term investments. It allows obtaining reimbursement of the shares one business day and up to a maximum of three business days from the date of receipt of the withdrawal request. Since it is a short-term fund, it allows the investor to manage resources to address its present or future liquidity needs. The goal of the fund is to offer an investment mechanism that seeks to obtain higher returns than other investment alternatives under similar liquidity, term, and risk parameters, taking advantage of the short-term part of the yield curve in the composition of its portfolio.
- *BN Inmobiliario CR-2 - Dólares* (real estate development – U.S. dollars): This is a long-term, closed-end fund, in U.S. dollars, which has the goal of investing in real estate for its exploitation through leasing and sale. It is aimed at investors interested in diversifying their investments portfolio by including real estate property located in national territory and mainly occupied by public institutions. As of September 30, 2017 and 2016, this fund does not have operations.
- *Fondo de Inversión de Desarrollo Inmobiliario BN-1 - Dólares* (real estate development - U.S. dollars): This fund invests in the construction of buildings to be occupied by entities of the Banco Nacional Conglomerate (BNCR Conglomerate). Once the works are completed, the buildings will be sold to an entity of the BNCR Conglomerate or a real estate fund managed by BN Fondos, and investors thus realize their potential gains. If the buildings are sold to a real estate fund, such fund will lease the buildings to an entity of the BNCR Conglomerate. As of September 30, 2017 and 2016, this fund does not have operations.

- *Fondo de Inversión de Desarrollo Inmobiliario de Infraestructura Pública - 1 - Dólares* (real estate development - U.S. dollars): This fund will invest in the construction of buildings to be occupied by the Maximum Deconcentration Organizations and other entities of BCCR. Once the works are completed, the buildings will be leased with a purchase option to BCCR or sold to BCCR or to a real estate fund managed by BN Fondos, and investors thus realize their potential gains. If the buildings are sold to a real estate fund, such fund will lease the buildings to BCCR. As of September 30, 2017 and 2016, this fund does not have operations.

(27) Pension fund management agreements (unaudited)

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

		September 2017	September 2016
Mandatory Pension Fund (ROP)	¢	1,026,021,982,208	928,521,056,283
ROP erroneous		13,962,712,568	-
Mandatory Retirement Savings Account (FCL)		87,065,993,683	80,339,798,159
FCL erroneous		3,259,745,338	-
Pension Fund in *Colones* A (FPC A)		62,128,174,104	58,301,192,694
Pension Fund in *Colones* B (FPC B)		15,798,162,914	12,805,346,715
Notary Fund (NOT)		25,314,539,340	23,693,950,010
Pension Fund in U.S. dollars A (FPD A) (a)		11,405,408,670	10,792,197,455
Pension Fund in U.S. dollars B (FPD B) (b)		8,665,419,540	6,823,184,727
Total assets of managed funds (note 24)		1,253,622,138,365	1,121,276,726,043
Securities and assets in own custody		6,030,711,670	9,636,475,123
Bid and performance bonds – colones		16,160,605	16,784,223
Bid and performance bonds – U.S. dollars (c)		75,219,788	48,701,020
Securities in DU		689,927,462	1,077,909,350
Total memoranda accounts (note 24)	¢	1,260,434,157,890	1,132,056,595,759

(a) As of September 30, 2017, this fund amounts to US$20,068,285 and is valued at the exchange rate of ¢568.33 to US$1.00 (2016: US$19,753,990 valued at the exchange rate of ¢546.33 to US$1.00).

(b) As of September 30, 2017, this fund amounts to US$15,247,162 and is valued at the exchange rate of ¢568.33 to US$1.00 (2016: US$12,489,127 valued at the exchange rate of ¢546.33 to US$1.00).

(c) As of September 30, 2017, this fund amounts to US$132,352 and is valued at the exchange rate of ¢568.33 to US$1.00 (2016: US$89,142 valued at the exchange rate of ¢546.33 to US$1.00).

(Continued)

(28) Finance income on financial instruments

Finance income on financial instruments is as follows:

		September		Quarter from July 1 to September 30	
		2017	2016	2017	2016
Cash and due from banks:					
Deposits in BCCR	¢	15,980,197	3,820,859	10,226,764	1,289,324
Checking accounts and demand deposits in local entities		65,948,863	62,380,961	32,169,334	15,632,378
Checking accounts and demand deposits in foreign entities		1,976,237,615	500,196,112	966,495,124	137,510,929
		2,058,166,675	566,397,932	1,008,891,222	154,432,631
Financial instruments:					
Investments in available-for-sale securities		35,023,144,953	30,541,864,142	11,440,658,442	12,470,558,690
Investment in securities and restricted deposits		1,832,543,333	6,200,404,835	548,464,018	1,339,887,285
		36,855,688,286	36,742,268,977	11,989,122,460	13,810,445,975
	¢	38,913,854,961	37,308,666,909	12,998,013,682	13,964,878,606

(Continued)

(29) Finance income on loan portfolio

Finance income on the loan portfolio is as follows:

		September		Quarter from July 1 to September 30	
		2017	2016	2017	2016
Current loans:					
Checking account overdrafts	¢	57,029,613	42,083,688	21,501,847	6,000,505
Discounted notes		-	626,964	-	-
Loans granted with funds from BCCR		765,003,992	894,740,817	242,994,008	298,307,965
Loans granted with other funds		242,910,012,564	211,640,163,823	87,087,713,087	73,241,764,119
Credit cards		18,107,923,459	15,431,669,659	6,345,319,824	5,380,588,521
Issued letters of credit		577,534	49,184	95,067	18,668
Other loans		3,391,462	3,386,501	1,157,213	1,142,746
		261,843,938,624	228,012,720,636	93,698,781,046	78,927,822,524
Past due loans and loans in legal collection:					
Checking account overdrafts		1,746,482	9,024,332	411,627	170,864
Loans granted with funds from BCCR		97,754,054	138,652,745	35,732,042	45,383,120
Loans granted with other funds		32,029,395,018	30,544,263,349	11,089,741,747	9,738,013,227
Credit cards		1,866,187,590	1,777,471,275	709,386,552	650,649,829
Other loans		234,173	-	-	-
		33,995,317,317	32,469,411,701	11,835,271,966	10,434,217,040
	¢	295,839,255,941	260,482,132,337	105,534,053,012	89,362,039,564

(30) Other finance income

Other finance income is as follows:

		September		Quarter from July 1 to September 30	
		2017	2016	2017	2016
Fees and commissions on letters of credit	¢	63,076,741	47,798,757	5,811,639	9,290,999
Fees and commissions on guarantees granted		366,567,362	332,092,909	101,110,660	100,823,947
Fees and commissions on lines of credit		54,373,227	82,693,375	20,833,200	24,985,063
Gain on fair value hedge for item measured at cost		10,750,360,041	13,025,975,336	7,533,353,024	8,392,625,978
Other sundry finance income		3,913,601,626	3,173,496,627	932,869,342	841,580,558
	¢	15,147,978,997	16,662,057,004	8,593,977,865	9,369,306,545

(31) Finance expenses for obligations with the public

Finance expenses for obligations with the public are as follows:

		September		Quarter from July 1 to September 30	
		2017	2016	2017	2016
Demand deposits	¢	26,597,290,333	20,991,588,771	10,213,079,165	6,733,246,346
Term deposits		79,756,894,251	57,951,862,726	30,499,986,108	19,800,068,046
Third-party repurchase agreements and securities lending		929,040,794	1,193,922,173	262,117,778	413,533,505
	¢	107,283,225,378	80,137,373,670	40,975,183,051	26,946,847,897

(Continued)

(32) Finance expenses for obligations with financial entities

Finance expenses for obligations with financial entities are as follows:

		September		Quarter from July 1 to September 30	
		2017	2016	2017	2016
Demand obligations	¢	1,707,848,389	1,343,633,098	652,888,805	450,038,561
Term obligations		50,527,854,280	39,636,477,682	18,420,724,788	14,858,254,081
	¢	52,235,702,669	40,980,110,780	19,073,613,593	15,308,292,642

(33) Other finance expenses

Other finance expenses are as follows:

		September		Quarter from July 1 to September 30	
		2017	2016	2017	2016
Fees and commissions on letters of credit obtained	¢	58,812,729	49,764,884	19,930,689	6,344,116
Loss on hedged item measured at cost from fair value hedge of interest rate risk		14,664,767,883	27,421,960,479	4,622,855,037	1,118,305,186
Other sundry interest expenses		200,850,832	899,892,640	37,312,167	613,546,690
	¢	14,924,431,444	28,371,618,003	4,680,097,893	1,738,195,992

(Continued)

(34) Expenses for allowance for impairment of assets

Expenses for allowance for impairment of assets are as follows:

	September		Quarter from July 1 to September 30	
	2017	2016	2017	2016
Allowance for loan losses (note 7-c)	¢ 18,663,169,479	21,617,216,855	10,051,132,499	6,785,518,697
Allowance for impairment of other accounts receivable (note 8)	1,779,430,394	1,136,700,776	517,505,994	460,027,922
Allowance for stand-by credit losses (note 19)	18,000,000	130,000,001	-	-
General and counter-cyclical allowance for loan portfolio (note 7-c)	9,745,974,431	5,112,879,789	2,656,333,043	2,684,276,499
General and counter-cyclical allowance for stand-by credit losses (note 19)	58,167,000	55,330,019	20,000	10,000,003
Allowance for impairment of derivative financial instruments (note 5)	14,102,866	20,527,703	1,995,500	-
	¢ 30,278,844,170	28,072,655,143	13,226,987,036	9,939,823,121

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

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

	September		Quarter from July 1 to September 30	
	2017	2016	2017	2016
Recovery of loan write-offs	¢ 9,610,291,531	6,293,310,970	1,714,015,088	2,019,571,783
Recovery of receivable write-offs	1,245,629	817,389	307,687	582,971
Decrease in allowance for loan losses (note 7)	720,000,000	-	-	-
Decrease in allowance for impairment of other accounts receivable (note 8)	690,778,253	3,026,994,241	393,044,788	2,578,616,861
Decrease in allowance for stand-by credit losses (note 19)	230,000,000	-	-	-
Decrease in general and counter-cyclical allowance for stand-by credit losses (note 19)	130,000,000	-	80,000,000	-
Decrease in allowance for impairment of investments in financial instruments (note 5)	13,732,415	97,495,429	13,432,822	-
	¢ 11,396,047,828	9,418,618,029	2,200,800,385	4,598,771,615

(Continued)

(36) Operating income from service fees and commissions

Operating income from service fees and commissions is as follows:

		September		Quarter from July 1 to September 30	
		2017	2016	2017	2016
Drafts and transfers	¢	6,243,133,186	5,759,818,860	2,076,577,813	1,961,550,136
Certified checks		4,886,879	3,449,454	1,591,046	1,181,299
Trusts		708,693,683	545,426,510	252,820,630	176,072,507
Custodial services		1,213,725,594	1,099,020,208	408,144,560	367,973,292
Banking mandates		164,843	116,064	50,746	38,307
Collections		24,209,997	27,047,725	7,493,507	9,089,326
Credit cards		39,710,611,367	33,831,897,495	13,348,134,678	11,640,331,921
Management services		2,574,039,842	2,853,091,333	841,718,091	873,087,892
Management of investment funds		3,636,821,754	3,937,866,982	1,188,552,201	1,181,205,203
Management of pension funds		5,397,467,975	6,420,097,082	1,861,774,130	2,147,300,797
Insurance underwriting		4,205,212,761	3,215,415,740	1,505,573,810	1,257,674,485
Brokerage operations (third parties in local market)		2,106,816,379	2,264,416,432	570,397,071	766,255,702
Brokerage operations (third parties in other markets)		58,394,802	136,592,955	8,789,015	47,560,508
Individual portfolio management		781,779	861,141	262,069	268,064
Other		29,346,637,650	28,775,104,785	9,785,681,014	9,202,010,760
	¢	95,231,598,491	88,870,222,766	31,857,560,381	29,631,600,199

(Continued)

(37) Other operating income

Other operating income is as follows:

		September		Quarter From July 1 September 30	
		2017	2016	2017	2016
Leasing of assets	¢	35,996,925	33,410,194	5,700,000	12,430,097
Recovery of expenses		2,158,246,928	1,988,054,398	643,815,761	597,216,795
Net valuation of other assets (note 46-c)		216,573,653	287,355,748	129,885,654	168,891,113
Other income from accounts receivable		1,056,697	1,025,982	409,144	358,503
Sundry operating income		3,634,859,097	15,366,177,369	1,328,751,058	1,457,380,678
Decrease in provisions		850,320,364	1,895,104,968	353,734,109	537,287,845
	¢	6,897,053,664	19,571,128,659	2,462,295,726	2,773,565,031

(38) Expenses for foreclosed assets

Expenses for foreclosed assets are as follows:

		September		Quarter from July 1 to September 30	
		2017	2016	2017	2016
Loss on sale of property and other assets acquired in lieu of payment	¢	1,488,697,250	542,280,047	1,319,010,484	373,306,294
Loss on sale of assets awarded in judicial auctions		6,142,073,245	4,289,520,152	1,877,260,324	1,664,899,872
Management of assets awarded in judicial auctions		4,169,872,225	6,103,802,493	1,629,867,983	1,849,718,043
Loss on impairment of foreclosed assets (note 9)		84,106,163	54,089,975	41,267,182	16,941,246
Loss on allowance for impairment of foreclosed assets and per legal requirements (note 9)		4,923,907,409	4,756,428,898	1,352,135,915	814,645,157
Other expenses for foreclosed assets		297,511,474	107,766,404	40,788,824	94,184,437
	¢	17,106,167,766	15,853,887,969	6,260,330,712	4,813,695,049

(Continued)

(39) Expenses for provisions

Expenses for provisions are as follows:

		September		Quarter from July 1 to September 30	
		2017	2016	2017	2016
Severance benefits	¢	1,136,835,023	3,754,961,732	520,934,978	2,263,491,580
Pending litigation		789,026,382	1,577,734,649	412,899,914	692,099,475
Other provisions		9,475,687,315	12,318,832,430	2,843,583,582	4,063,174,806
	¢	11,401,548,720	17,651,528,811	3,777,418,474	7,018,765,861

(40) Other operating expenses

Other operating expenses are as follows:

		September		Quarter from July 1 to September 30	
		2017	2016	2017	2016
Fines for noncompliance with legal regulatory provisions	¢	374,512,485	19,593,179	18,936	31,424
Net valuation of other liabilities (note 46-c)		689,166,497	446,541,530	131,086,829	125,346,190
Income tax on foreign remittances		75,051,617	1,232,258,637	-	116,940,843
Income tax (8%) on interest on investments in financial instruments		2,258,393,061	2,096,586,226	726,969,774	635,759,250
Property tax		178,868,401	169,802,176	66,038,105	48,217,734
Licenses		448,474,093	362,145,484	120,912,938	111,423,096
Other local taxes		896,172,987	2,572,889	654,928	1,474,044
Transfer to FINADE		2,996,190,629	2,566,142,163	907,827,722	1,006,023,840
Sundry operating expenses		46,366,353,787	35,923,376,779	15,829,152,784	12,361,775,658
	¢	54,283,183,557	42,819,019,063	17,782,662,016	14,406,992,079

(Continued)

(41) Personnel expenses

Personnel expenses are as follows:

		September		Quarter from July 1 to September 30	
		2017	2016	2017	2016
Salaries and bonuses, permanent staff	¢	49,949,135,870	49,923,093,592	16,607,029,858	16,661,609,182
Salaries and bonuses, contractors		1,239,590,482	1,326,596,546	406,939,974	467,165,991
Compensation for directors and statutory examiners		142,487,012	127,530,668	50,871,744	49,296,459
Overtime		715,523,964	702,049,850	214,548,614	204,912,405
Travel expenses		460,168,148	518,868,566	166,492,544	190,380,864
Statutory Christmas bonus		5,467,515,706	5,613,804,908	1,812,999,113	1,890,564,098
Vacation		5,534,088,875	6,262,898,954	1,758,729,783	1,820,664,300
Other compensation		3,291,794,034	2,964,323,285	1,306,724,156	1,054,626,601
Severance benefits		3,331,759,324	3,351,673,925	1,096,686,267	1,133,632,958
Employer social security taxes		20,806,961,609	21,041,466,462	6,837,458,782	7,077,936,006
Refreshments		320,298,034	326,385,295	136,765,876	131,553,663
Uniforms		159,881,896	11,911,886	23,483,125	2,446,276
Training		444,263,654	510,427,600	213,273,710	286,374,925
Employee insurance		176,066,392	205,449,235	56,085,284	68,643,349
Back-to-school bonus		4,670,424,651	4,780,755,391	1,541,291,046	1,611,194,996
Mandatory retirement savings account		1,999,348,549	2,019,255,428	657,595,323	678,846,391
Other personnel expenses		413,267,108	438,759,461	120,795,329	136,839,222
	¢	99,122,575,308	100,125,251,052	33,007,770,528	33,466,687,686

(42) Other administrative expenses

Other administrative expenses are as follows:

		September		Quarter from July 1 to September 30	
		2017	2016	2017	2016
Outsourcing	¢	9,492,789,942	9,168,206,216	3,346,235,144	3,042,096,337
Transportation and communications		3,396,591,027	3,172,949,706	1,167,158,107	1,128,064,478
Infrastructure		26,763,486,025	26,409,132,848	8,914,046,879	8,614,482,571
Overhead		10,948,186,894	9,209,796,857	3,691,568,391	3,426,066,558
	¢	50,601,053,888	47,960,085,627	17,119,008,521	16,210,709,944

(43) Statutory allocations

Statutory allocations are as follows:

		September		Quarter from July 1 to September 30	
		2017	2016	2017	2016
CONAPE (5%)	¢	2,380,038,427	3,127,069,363	519,159,931	1,039,740,132
CNE (3%)		1,502,122,268	1,957,443,630	333,492,680	648,798,684
INFOCOOP (10%)		3,851,250,090	5,194,045,341	938,092,353	1,617,456,072
Public capital pension operators		507,630,267	866,870,392	210,195,109	268,228,418
RIVM (15%) (September 2016: 7%)		4,525,105,990	2,924,824,245	1,068,108,237	908,312,456
	¢	12,766,147,042	14,070,252,971	3,069,048,310	4,482,535,762

Statutory allocations decreased as follows:

		September		Quarter from July 1 to September 30	
		2017	2016	2017	2016
CNE (3%)	¢	6,857,889	-	-	-
INFOCOOP (10%)		63,669,806	-	-	-
RIVM (15%) (September 2016: 7%)		30,585,366	-	-	-
	¢	101,113,061	-	-	-

(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 2017	
		Carrying amount	Fair value
Financial assets:			
Cash and due from banks	¢	1,302,567,320,124	1,302,567,320,124
Investments in financial instruments		1,027,780,330,144	1,027,780,330,144
Loan portfolio		4,501,893,224,182	4,185,098,423,803
	¢	6,832,240,874,450	6,515,446,074,071
Financial liabilities:			
Demand deposits from the public and financial entities	¢	2,745,655,750,750	2,745,655,750,750
Other demand obligations with the public		15,070,678,316	15,070,678,316
Term deposits from the public and financial entities		3,418,293,498,997	2,558,036,842,139
Obligations for tri-party repurchase agreements		24,616,469,587	24,616,469,587
	¢	6,203,636,397,650	5,343,379,740,792

		September 2016	
		Carrying amount	Fair value
Financial assets:			
Cash and due from banks	¢	1,003,880,473,885	1,003,880,473,885
Investments in financial instruments		1,094,732,400,650	1,094,732,400,650
Loan portfolio		3,997,630,350,458	3,704,457,532,556
	¢	6,096,243,224,991	5,803,070,407,091
Financial liabilities:			
Demand deposits from the public and financial entities	¢	2,635,694,642,981	2,635,694,642,981
Other demand obligations with the public		15,377,674,681	15,377,674,681
Term deposits from the public and financial entities		2,779,969,057,386	2,790,952,573,552
Obligations for tri-party repurchase agreements		38,787,798,303	38,787,798,303
	¢	5,469,829,173,351	5,480,812,689,517

(Continued)

Fair value estimates

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

a. Cash and due from banks, demand deposits from the public, and obligations from tri-party repurchase agreements

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

(b) Loan portfolio

The fair value of loans is calculated by discounting future cash flows expected for principal and interest. Loan payments are assumed to be made on the contractually agreed payment dates. Future expected cash flows for loans are discounted at the interest rates offered for similar loans to new borrowers as of September 30, 2017 and 2016.

(c) Term deposits

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

(d) Obligations with entities

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

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

Financial instruments measured at fair value by the level in the fair value hierarchy are as follows:

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

		September 2016			
		Level 1	Level 2	Level 3	Total
Available for sale	¢	795,607,566,288	156,532,389,732	5,613,661,030	957,753,617,050
Held to maturity		-	27,339,403,487	-	27,339,403,487
Derivative financial instruments		-	-	26,305,923,351	26,305,923,351
Term obligations with foreign financial entities		-	-	841,866,671,907	841,866,671,907

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).

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

		September 30					
		2017			2016		
		Available for sale	Derivative financial instruments	Term obligations with foreign financial entities	Available for sale	Derivative financial instruments	Term obligations with foreign financial entities
Opening balance	¢	5,629,455,571	5,893,164,907	815,040,918,559	5,594,435,115	12,835,716,456	539,553,389,165
Purchases		-	-	269,968,328,000	-	-	269,968,328,000
Valuation		110,604,168	4,090,670,546	45,434,984,643	(105,840,134)	14,351,364,120	(15,656,458,489)
Amortizations		-	-	669,415,281	-	-	529,901,557
Exchange differences		171,226,316	195,839,788	(281,236,213,029)	125,066,049	347,232,071	47,471,511,674
Closing balance	¢	5,911,286,055	10,179,675,241	849,877,433,454	5,613,661,030	27,534,312,647	841,866,671,907

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

		For the nine months ended September 30, 2016							
		Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations	Consolidated
Finance income	¢	328,874,173,977	3,632,336,353	385,549,304	507,616,454	27,361,811	333,427,037,899	68,630,347	333,358,407,552
Finance costs		152,195,963,425	1,380,116,230	82,790,824	8,102,988	965,025	153,667,938,492	68,630,347	153,599,308,145
Income from recovery of assets		9,418,618,029	-	-	-	-	9,418,618,029	-	9,418,618,029
Allowance expense		28,072,655,143	-	-	-	-	28,072,655,143	-	28,072,655,143
FINANCE INCOME		158,024,173,438	2,252,220,123	302,758,480	499,513,466	26,396,786	161,105,062,293	-	161,105,062,293
Other operating income		124,065,900,622	3,120,080,143	3,954,046,300	6,617,657,247	2,759,912,089	140,517,596,401	5,769,016,330	134,748,580,071
Other operating expenses		81,308,406,101	460,610,926	497,711,623	860,453,566	113,120,488	83,240,302,704	719,121,927	82,521,180,777
GROSS OPERATING INCOME		200,781,667,959	4,911,689,340	3,759,093,157	6,256,717,147	2,673,188,387	218,382,355,990	5,049,894,403	213,332,461,587
Personnel expenses		92,427,399,273	2,132,948,268	1,477,106,828	2,775,783,272	1,312,013,411	100,125,251,052	-	100,125,251,052
Other administrative expenses		45,812,881,429	646,737,040	489,975,320	942,555,236	154,626,445	48,046,775,470	86,689,843	47,960,085,627
Total administrative expenses		138,240,280,702	2,779,685,308	1,967,082,148	3,718,338,508	1,466,639,856	148,172,026,522	86,689,843	148,085,336,679
NET OPERATING INCOME BEFORE STATUTORY ALLOCATIONS AND TAXES		62,541,387,257	2,132,004,032	1,792,011,009	2,538,378,639	1,206,548,531	70,210,329,468	4,963,204,560	65,247,124,908
Income tax		8,278,793,792	126,080,600	522,954,972	784,723,040	389,619,390	10,102,171,794	-	10,102,171,794
Decrease in income tax		2,532,274,791	80,904,396	42,382,009	56,236,544	35,085,943	2,746,883,683	-	2,746,883,683
Statutory allocations		12,973,284,430	63,960,121	53,790,158	943,021,751	36,196,511	14,070,252,971	-	14,070,252,971
INCOME FOR THE PERIOD	¢	43,821,583,826	2,022,867,707	1,257,647,888	866,870,392	815,818,573	48,784,788,386	4,963,204,560	43,821,583,826

(Continued)

(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.

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

The Bank has established the following credit risk management procedures:

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

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

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

			Direct			Stand-by	
	Note		September 2017	September 2016	Note	September 2017	September 2016
Loan portfolio							
Principal	7-a	¢	4,469,930,117,105	3,969,561,610,960		346,148,392,381	302,943,555,672
Accounts and accrued interest receivable			31,963,107,077	28,068,739,498		-	-
Carrying amount, gross			4,501,893,224,182	3,997,630,350,458		346,148,392,381	302,943,555,672
Allowance for loan losses (accounting records)			(96,180,981,940)	(81,777,275,730)		(266,234,864)	(1,769,455,707)
Carrying amount, net		¢	4,405,712,242,242	3,915,853,074,728		345,882,157,517	301,174,099,965

(Continued)

Loan portfolio

0	¢	14,446,260,313	-	-	-
A1		3,602,694,013,574	3,236,178,987,390	336,511,736,709	291,805,915,748
A2		38,722,407,726	35,536,650,224	528,955,937	512,586,330
B1		340,317,625,861	302,783,387,341	3,528,414,708	6,642,306,969
B2		4,396,634,299	7,157,273,409	14,764,656	32,357,444
C1		157,303,301,753	128,156,052,217	2,380,337,560	1,869,745,051
C2		4,101,253,067	4,991,318,502	30,968,819	14,736,935
D		140,734,895,009	102,790,891,528	1,125,617,836	466,348,493
E		199,176,832,580	180,035,789,847	2,027,596,156	1,599,558,702
		4,501,893,224,182	3,997,630,350,458	346,148,392,381	302,943,555,672
Structural allowance (subledger – database)		(95.362.421.349)	(72,639,357,551)	(169,913,876)	(68,368,295)
Carrying amount, net	¢	4.406.530.802.833	3,924,990,992,907	345,978,478,505	302,875,187,377
Individually assessed loans with allowance:					
0	¢	14,446,260,313	-	-	-
A1		3,602,694,013,574	3,236,178,987,390	50,841,567,155	42,832,822,606
A2		38,722,407,726	35,536,650,224	91,086,504	123,078,839
B1		340,317,625,861	302,783,387,341	1,697,430,227	4,315,603,746
B2		4,396,634,299	7,157,273,409	-	8,320,000
C1		157,303,301,753	128,156,052,217	132,700,660	225,746,758
C2		4,101,253,067	4,991,318,502	-	-
D		140,734,895,009	102,790,891,528	178,130,398	7,776,497
E		199,176,832,580	180,035,789,847	92,366,317	110,974,814
		4,501,893,224,182	3,997,630,350,458	53,033,281,261	47,624,323,260
Structural allowance (subledger – database)		(95.362.421.349)	(72,639,357,551)	(169,913,876)	(68,368,295)
Carrying amount, net	¢	4,406,530,802,833	3,924,990,992,907	52,863,367,385	47,555,954,965

		Direct		Stand-by	
		September 2017	September 2016	September 2017	September 2016
Current loans without allowance:					
0				-	-
A1		-	-	285,670,169,556	248.973.093.144
A2		-	-	437,869,433	389.507.491
B1		-	-	1,830,984,480	2.326.703.222
B2		-	-	14,764,656	24.037.444
C1		-	-	2,247,636,899	1.643.998.292
C2		-	-	30,968,819	14.736.935
D		-	-	947,487,439	458.571.996
E		-	-	1,935,229,839	1.488.583.888
Carrying amount	¢	-	-	293,115,111,121	255.319.232.412
Carrying amount, gross		4,501,893,224,182	3,997,630,350,458	346,148,392,381	302,943,555,672
Allowance for loan losses (database)		(95,362,421,350)	(72,639,357,551)	(169,913,876)	(68,368,295)
Excess of allowance over structural allowance		(818,560,590)	(9,137,918,179)	(96,320,988)	(1,701,087,412)
Carrying amount, net	¢	4,405,712,242,242	3,915,853,074,728	345,882,157,517	301,174,099,965
Restructured loans	¢	39,136,689,791	43,125,088,659	-	8,491,066

(Continued)

Set out below is an analysis of the gross and net (of allowance for loan losses) amounts of loans by risk rating according to SUGEF Directive 1-05:

		September 2017	
		Loans to customers	
		Gross	Net
0	¢	14,446,260,313	14,389,342,679
A1		3,602,694,013,574	3,583,229,990,137
A2		38,722,407,726	38,535,316,840
B1		340,317,625,861	337,481,482,186
B2		4,396,634,299	4,342,611,167
C1		157,303,301,753	153,931,123,836
C2		4,101,253,067	3,863,397,951
D		140,734,895,009	131,667,695,628
E		199,176,832,580	138,271,281,818
	¢	4,501,893,224,182	4,405,712,242,242

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

As shown above, as of September 30, 2017, the gross portfolio amounts to ¢4,501 billion. Of that amount, 88.86% is classified in risk ratings “A + B” and 11.14% in risk ratings “C + D + E” (2016: ¢3,997 billion, of which 89.59% is classified in risk ratings “A + B” and 10.41% in risk ratings “C + D + E”).

Individually assessed loans with allowance:

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

Restructured loans:

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

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

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

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 charge-off policy:

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

Borrower classification

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

The loan portfolio by borrower classification is as follows:

		Direct		Stand-by	
Borrower classification		September 2017	September 2016	September 2017	September 2016
Group 1	¢	2,735,943,205,039	2,402,496,038,111	68,229,350,576	57,541,528,637
Group 2		1,765,950,019,143	1,595,134,312,347	277,919,041,805	245,402,027,035
	¢	4,501,893,224,182	3,997,630,350,458	346,148,392,381	302,943,555,672

Risk ratings

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

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

Risk rating	Arrears	Historical payment behavior	Creditworthiness
A1	30 days or less	Level 1	Level 1
A2	30 days or less	Level 2	Level 1
B1	60 days or less	Level 1	Level 1 or Level 2
B2	60 days or less	Level 2	Level 1 or Level 2
C1	90 days or less	Level 1	Level 1, 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

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.

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

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

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

Analysis of historical payment behavior

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

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

Structural allowance for loan losses

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

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

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

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

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

(Continued)

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

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

Pursuant to Articles 11 bis and 12 of SUGEF Directive 1-05, the calculations of the general allowance and the specific allowance for the covered portion of loan operations must consider the provisions of Transition Provision XII of such Directive. Accordingly, as of December 31, 2015, the Bank applied an allowance percentage of 0.32%, which will gradually increase on a quarterly basis to 0.5%, pursuant to the aforementioned Transition Provision.

Allowance percentages based on borrower risk rating are as follows:

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

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

(Continued)

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

Arrears	Specific allowance percentage - Uncovered portion	Specific allowance percentage - Covered portion	Creditworthiness (Group 1 borrowers)	Creditworthiness (Group 2 borrowers)
30 days or less	20%	0.50%	Level 1	Level 1
30 days or less	50%	0.50%	Level 2	Level 1
More than 60 days	100%	0.50%	Level 1, 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, as of September 30, the Bank must maintain a structural allowance, as follows:

		September 2017		
		Allowance booked	Structural allowance	Excess (insufficiency) of allowance
Direct	¢	96,180,981,940	(95,362,421,349)	818,560,591
Stand-by		266,234,864	(169,913,876)	96,320,988
		96,447,216,804	(95,532,335,225)	914,881,579
Counter-cyclical - SUGEF 19-16		6,107,696,171	(6,107,696,170)	-
	¢	102,554,912,974	(101,640,031,395)	914,881,579

		September 2016		
		Allowance booked	Structural allowance	Excess (insufficiency) of allowance
Direct	¢	81,777,275,730	(72,639,357,551)	9,137,918,179
Stand-by		1,769,455,707	(68,368,295)	1,701,087,412
	¢	83,546,731,437	(72,707,725,846)	10,839,005,591

(Continued)

As of September 30, 2017, the balance of the Bank's allowance for loan losses (direct and stand-by), accrued interest receivable, and other receivables amounts to ¢106,238,757,973 (December and September 2016: ¢89,398,051,250 and ¢87,179,572,104, respectively).

Counter-cyclical allowance

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

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

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

Transition Provision II of SUGEF Directive 19-16 indicates that starting July 2016 each entity must perform the monthly booking of the expense for the counter-cyclical component equivalent to a minimum of 7% of the difference between the balance of income accounts less expenses plus taxes and monthly statutory allocations, until the balance of the analytical account reaches the amount corresponding to the counter-cyclical allowance provided in the regulations (¢39,289,635,575 based on the calculation of the counter-cyclical allowance made by management as of December 31, 2016). Once the entity reach that level, it shall continue booking the counter-cyclical account as indicated by this Regulation.

(Continued)

As of September 30, 2017, the counter-cyclical allowance booked amounts to ¢6,107,696,171. (September 2016: ¢1,534,116,471).

Credit equivalent

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

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

Allowance for other assets

Allowances should be established for the following assets:

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

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

(Continued)

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

As of September 30, 2017, the carrying amount of the allowance for impairment of foreclosed assets and per legal requirements amounts to ¢62,084,364,123 (December and September 2016: ¢59,644,951,072 and ¢61,637,738,398, respectively).

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

Sector		Direct		Stand-by	
		September 2017	September 2016	September 2017	September 2016
Trade	¢	428,422,504,388	380,010,500,704	2,803,643	34,697,036
Services		918,747,289,943	861,098,623,840	60,399,642,664	52,196,878,004
Financial services		140,334,739,056	139,378,206,664	-	-
Mining		965,670,400	915,481,394	-	-
Manufacturing and quarrying		174,431,395,278	143,652,375,432	-	1,771,472
Construction		106,072,398,344	99,718,829,430	-	-
Agriculture and forestry		125,612,012,260	117,014,380,406	-	14,995,227
Livestock, hunting, and fishing		85,007,309,608	74,516,359,197	-	-
Electricity, water, sanitation, and other related sectors		436,670,702,865	395,891,080,499	-	-
Transportation and telecommunications		46,322,750,187	39,528,782,447	-	-
Housing		1,318,853,611,522	1,179,695,073,788	16,505,373	14,484,568
Personal or consumer		543,815,254,840	423,370,753,195	285,524,857,513	250,498,799,910
Tourism		176,637,585,490	142,839,903,462	204,583,189	181,929,455
	¢	4,501,893,224,181	3,997,630,350,458	346,148,392,382	302,943,555,672

(Continued)

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

		Direct		Stand-by	
		September 2017	September 2016	September 2017	September 2016
Central America	¢	4,501,893,224,181	3,997,630,350,458	346,148,392,382	302,943,555,672

The loan portfolio by type of guarantee is as follows:

		Direct		Stand-by	
Type of guarantee		September 2017	September 2016	September 2017	September 2016
Back to back	¢	45,045,353,327	39,593,330,764	1,136,751	1,521,163
Mortgage bond		394,389,556	506,798,329	-	-
Assignment of loans		417,831,197,871	443,843,522,976	-	218,532
Mortgage		1,830,069,917,576	1,683,145,883,905	203,177,415	199,152,629
Surety		866,173,273,464	726,078,140,864	8,336,265	-
Trust		381,405,556,333	352,046,754,243	14,204,147	84,378,276
Securities		817,968,271	1,011,538,116	-	-
Chattel mortgage		237,972,816,084	186,897,238,186	-	-
Other		722,182,751,699	564,507,143,075	345,921,537,804	302,658,285,072
	¢	4,501,893,224,181	3,997,630,350,458	346,148,392,382	302,943,555,672

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, 2017 and 2016, 64.70% and 67.72%, respectively, of the loan portfolio is secured by collateral guarantees.

(Continued)

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

		Direct		Stand-by	
Loan portfolio concentration		September 2017	September 2016	September 2017	September 2016
¢1 to ¢3,000,000	¢	160,044,497,926	146,265,400,164	104,274,586,974	95,877,500,140
¢3,000,001 to ¢15,000,000		620,661,601,856	546,808,635,505	179,678,793,258	152,978,071,593
¢15,000,001 to ¢30,000,000		475,256,618,831	443,701,708,053	6,308,634,058	5,897,844,196
¢30,000,001 to ¢50,000,000		481,771,405,699	434,158,358,608	2,536,784,193	1,982,608,482
¢50,000,001 to ¢75,000,000		387,166,132,425	324,390,537,749	1,811,364,745	2,149,095,643
¢75,000,001 to ¢100,000,000		189,320,365,735	143,230,793,908	1,391,393,960	1,064,768,285
¢100,000,001 to ¢200,000,000		240,211,133,582	217,708,529,405	4,361,091,341	3,612,222,026
More than ¢200,000,000		1,947,461,468,127	1,741,366,387,066	45,785,743,853	39,381,445,307
	¢	4,501,893,224,181	3,997,630,350,458	346,148,392,382	302,943,555,672

As of September 30, 2017 and 2016, the portion of the loan portfolio (direct and stand-by loans) corresponding to economic interest groups amounts to ¢486,110,834,274 and ¢457,989,816,165, respectively.

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

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

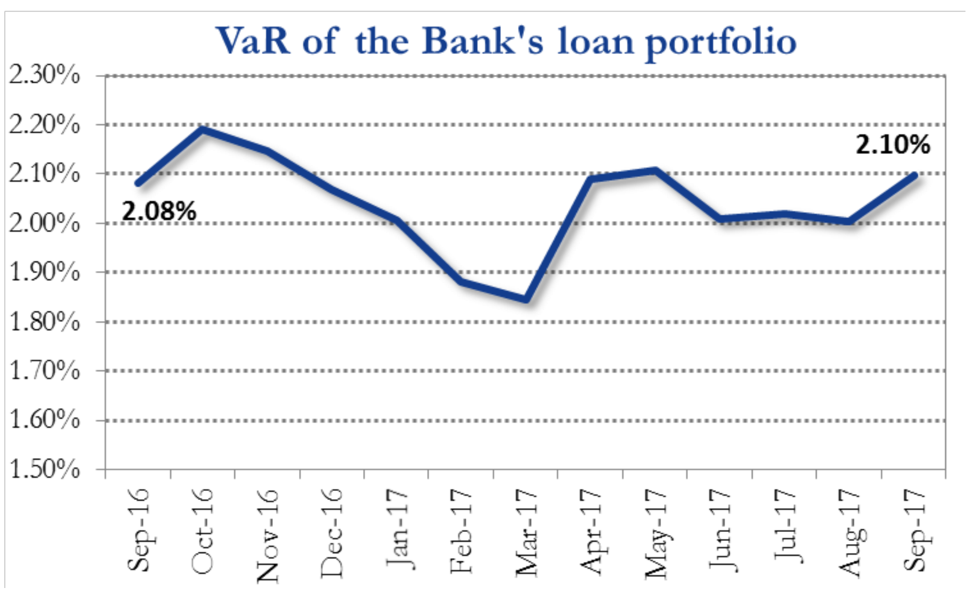
The Bank’s loan portfolio is comprised of operations in various currencies, i.e. the Costa Rican colon, the U.S. dollar, and DU. Consequently, the VaR analysis is performed separately for each currency. The data is then consolidated to determine a maximum loss for the entire portfolio, expressed in *colones*.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

(Continued)

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 monthly decrease in the VaR and EL is due to the decrease in the legal collection and in arrears of more than 90 days observed in the entire loan portfolio between April and June 2017. Also during that period, by currency, the VaR and EL of portfolio in *colones* and DU decreased due to the decrease in the legal collection and in arrears of more than 90 days, while in U.S. dollars the decrease is due to the decrease in arrears of more than 90 days.

The consolidated VaR of the loan portfolio presented a marginal increase on a year-on-year basis between September 2016 and September 2017. By currency, the VaR of the portfolio in *colones* decreased, while in DU and U.S. dollars increased. EL had the same behavior as the VaR both at the consolidated level and by currency.



By economic activity, on a year-on-year basis, Mining, Energy, Construction, and Agriculture show increases in VaR, while Tourism, Consumer, Industry, Livestock, and Trade show decreases in VaR. In consolidated terms, VaR shows a marginal increase from 2.08% in September 2016 to 2.10% in September 2017.

VaR of the Bank's loan portfolio by economic activity:

Activity	Sep 2016	Dec 2016	Mar 2017	June 2017	Sep 2017
Agriculture	2.86%	3.01%	3.38%	3.96%	4.10%
Livestock	3.49%	3.11%	2.65%	2.93%	3.07%
Mining	7.38%	9.11%	6.84%	10.35%	10.40%
Industry	4.11%	3.84%	3.08%	3.51%	3.61%
Energy	2.64%	3.65%	2.02%	3.66%	4.36%
Housing	1.49%	1.51%	1.45%	1.48%	1.51%
Construction	3.37%	3.94%	2.94%	3.07%	4.78%
Trade	2.67%	2.73%	2.61%	2.59%	2.51%
Transportation	1.10%	1.14%	1.02%	1.14%	1.33%
Financial services	0.27%	0.36%	0.22%	0.25%	0.26%
Consumer	4.78%	4.35%	4.10%	4.01%	4.33%
Services	2.05%	1.78%	1.56%	2.05%	2.06%
Tourism	6.51%	6.36%	5.05%	5.95%	5.65%
BNCR	**2.08%**	**2.07%**	**1.85%**	**2.01%**	**2.10%**

Source: Credit Risk Division

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

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

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

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

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

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

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

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

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

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

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

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

The Brokerage Firm may acquire the following instruments:

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

(Continued)

Local currency:

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

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

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

For the September 2017 close, the accounting records showed investments in *colones*, investments in instruments issued by local issuers in U.S. dollars ($CR), and investments in instruments issued by foreign issuers in U.S. dollars ($USA). The Brokerage Firm holds no investments in DU. By currency, the majority (68.10%) of the Brokerage Firm's financial instruments is concentrated in the portfolio denominated in *colones*.

The consolidated portfolio is comprised of investments in instruments issued by the Government of Costa Rica (60.10%), BCCR (4.09%), Banco Popular y de Desarrollo Comunal (1.96%), MUCAP (1.50%), and BNCR (0.05%). These issuers represent 32.29% of the consolidated portfolio. The portfolio in U.S. dollars represents 32.29%, comprised of investments in instruments issued by BCCR (32.29%).

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

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

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

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

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

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

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

As of September 30, 2017, the net assets managed by the Pension Fund Manager amount to ¢1,253,622 million (2016: ¢1,121,276 million), growing year-on-year by ¢131,008 million in nominal terms, equivalent to a growth rate of 11.80%. These data do not include the Pension Fund Manager's own assets.

(Continued)

The pension fund with the highest relative share is ROP, which represents 81.84%, growing year-on-year by ¢110,733 million, equivalent to a growth rate of 12.10% with respect to the same period in 2016.

As of September 30, 2017, the Pension Fund Manager's portfolio of own funds is represented by available-for-sale investments in the amount of ¢5,055.56 million (September 2016: ¢7,976.50 million) (see note 5). There is a significant decrease due to the maturity of principal and sales of such investments. An adjustment has been made to the price of assets that comprise the portfolio of investments of the Pension Fund Manager due to the increase in market's interest rates. This has a negative effect on the price of bonds, with a direct impact on gains on assets and a decrease in gains over the last year.

In September 2017, the VaR of credit in absolute terms is ¢30.04 million, equivalent to 0.59% (2016: ¢28.20 million, equivalent to 0.35%), showing a minimum increase.

Consolidated Value at Risk - 1 year

Fund	***September 2017***	***September 2016***	***Change***
FCL	1.89%	2.23%	-0.34%
FPC A	0.16%	0.17%	-0.01%
FPC B	3.80%	4.67%	-0.87%
FPD A	30.03%	38.67%	-8.64%
FPD B	29.98%	37.92%	-7.95%
NOT	0.00%	0.00%	0.00%
ROP	5.50%	6.24%	-0.75%
BN Vital (OPC)	0.59%	0.35%	0.24%
FCLE	5.06%	4.93%	0.12%
ROPE	4.05%	3.96%	0.09%

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

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

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

As of September 30, 2017 and 2016, exposure to credit risk is represented by the carrying amounts of cash and due from banks and available-for-sale investments. Cash and due from banks correspond to checking account deposits with a State-owned bank. As of September 30, 2017, investments in financial instruments correspond to the non-diversified investment fund in *colones "Fondo de Inversión BN FonDepósito Colones, No Diversificado"*, which is secured by term certificates of deposit from BNCR.

b) *Liquidity risk*

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

(Continued)

i. *Banco Nacional de Costa Rica*

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

Below is the LCR indicator, which remained stable in colones and increased in U.S. dollars with respect to September 2016, remaining above the risk appetite level in both currencies. The LCR indicator in colones presented variations during the first half of 2017 as a result of the accelerated placement of loans in colones, managed by means of measures to diversify profit-taking (through standardized issues), adjustments to deposit taking rates and loan rationalization during the second half of the year. In U.S. dollars, the LCR indicator has shown a significant upward tendency during 2017, influenced by the expectation and evolution of the exchange rate, which has decelerated the placement of loans and increased profit-taking.

Indicator	September 30, 2016	September 30, 2017	Variation	Level
LCR in colones	113.00%	115.00%	**1.50%**	Appetite
LCR in U.S. dollars	165.00%	251.00%	**85.80%**	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.

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

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

		Days								
		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	¢	-	115,519,126,613	-	-	-	-	-	-	115,519,126,613
Minimum legal deposit in BCCR		-	276,250,803,764	23,410,614,699	20,107,041,812	27,750,940,203	68,599,247,684	33,884,251,980	9,389,853,215	459,392,753,357
Investments		-	-	169,989,641,295	7,135,550,973	5,836,716,707	130,106,371,499	93,849,483,944	171,811,976,335	578,729,740,753
Loan portfolio		107,692,338,536	-	34,264,721,183	37,926,852,899	24,111,674,073	81,791,934,487	99,076,590,894	2,103,068,237,909	2,487,932,349,981
Total recovery of assets	¢	107,692,338,536	391,769,930,377	227,664,977,177	65,169,445,684	57,699,330,983	280,497,553,670	226,810,326,818	2,284,270,067,459	3,641,573,970,704
Obligations with the public										
Obligations with BCCR	¢	-	1,610,485,802,806	139,294,084,106	202,144,946,300	162,442,979,488	437,920,369,172	227,987,851,458	93,212,645,943	2,873,488,679,273
Obligations with financial entities		-	-	-	-	-	-	-	125,644,412	125,644,412
Cash and due from banks		-	87,971,049,263	13,498,510,000	2,605,195,000	21,034,994	203,359,347	1,150,093,358	7,239,537,900	112,688,779,862
Charges payable		-	7,342,225,175	3,884,731,533	2,933,616,715	1,569,859,133	1,565,220,680	2,254,296,530	111,307,919	19,661,257,685
Total maturity of liabilities	¢	-	1,705,799,077,244	156,677,325,639	207,683,758,015	164,033,873,615	439,688,949,199	231,392,241,346	100,689,136,174	3,005,964,361,232
Difference	¢	107,692,338,536	(1,314,029,146,867)	70,987,651,538	(142,514,312,331)	(106,334,542,632)	(159,191,395,529)	(4,581,914,528)	2,183,580,931,285	635,609,609,472

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

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

		Days								
		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	¢	-	181,106,343,253	-	-	-	-	-	250,437,085	181,356,780,338
Minimum cash reserve in BCCR		-	142,952,378,295	11,972,317,213	11,906,142,224	11,886,566,068	16,219,401,529	9,150,974,558	43,524,033,688	247,611,813,575
Investments		-	-	25,569,763,072	78,151,909,057	19,253,051,668	18,468,548,695	120,840,035,456	253,778,585,048	516,061,892,996
Loan portfolio		69,620,980,192	-	40,522,235,190	21,056,537,000	25,531,287,166	54,068,065,686	66,529,393,307	1,232,369,501,937	1,509,698,000,478
Total recovery of assets	¢	69,620,980,192	324,058,721,548	78,064,315,475	111,114,588,281	56,670,904,902	88,756,015,910	196,520,403,321	1,529,922,557,758	2,454,728,487,387
Obligations with the public	¢	-	804,181,288,986	93,489,608,163	75,949,808,386	52,486,238,991	113,049,317,786	71,103,798,314	28,023,592,282	1,238,283,652,908
Obligations with financial entities		-	126,337,211,920	5,468,763,300	10,939,493,388	6,180,084,960	21,853,200	57,391,966,500	943,982,676,394	1,150,322,049,662
Charges payable		-	1,216,569,065	7,749,096,470	13,442,684,104	1,872,754,588	1,111,028,500	336,407,076	126,680,695	25,855,220,498
Total maturity of liabilities	¢	-	931,735,069,971	106,707,467,933	100,331,985,878	60,539,078,539	114,182,199,486	128,832,171,890	972,132,949,371	2,414,460,923,068
Difference	¢	69,620,980,192	(607,676,348,423)	(28,643,152,458)	10,782,602,403	(3,868,173,637)	(25,426,183,576)	67,688,231,431	557,789,608,387	40,267,564,319

(Continued)

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

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

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

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

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

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

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

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

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

(Continue)

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.

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

(Continue)

Set out below are the main results of the VaR of liquidity assessment as of September 30, 2017, using a new methodology with a three-year historical data (the results are not comparable with 2016 due to the change in methodology). This new methodology concludes that the results obtained by decreasing the amount of data to be used (historical data) and the historical VaR calculated with the original data (without filters by currency drops and without truncation) are similar. Additionally, the VaR by simulation, using three-year historical data parameters, is the risk measure that offers best results. It was implemented with calculations obtained for the month indicated below.

Historical VaR of liquidity	
Fund	***September 2017***
ROP	0.04%
FCL	0.45%
NOT	0.07%
FPCA	0.42%
FPCB	0.55%
FPDA	1.09%
FPDB	0.89%
FCL-E	0.31%
ROP-E	0.04%

According to the results above, as of September 30, 2017, the VaR of liquidity does not exceed 1% for most funds, except for the FPD A, where the VaR at 99%, eliminating two standard deviations, reaches 1.09%. ROP and ROP Erroneous show the lowest VaR (0.04%).

Liquidity risk management

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

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

(Continue)

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

Exposure to liquidity risk:

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

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

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

c) *Market risk*

i. *Banco Nacional de Costa Rica*

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

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

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

Below is the variation of the portfolios in each currency between September 2016 and September 2017. The decrease in the face value in *colones* is due to the reallocation of funds toward credit in that currency because of the high demand of credit in that currency and as part of the optimization of productive assets.

Face value of investments by currency

Currency	September 30, 2016	September 30, 2017	Variation
Colones	474,526,550,000	419,453,750,000	(55,072,800,000,00)
U.S. dollars - local	437,503,064	463,592,000	26,088,936
U.S. dollars - intl.	388,768,923	376,633,767	(12,135,156)
Euros	29,426,000	17,000,000	(12,426,000)
DU	34,823,795	34,823,795	-

The duration for each currency has presented variations according to portfolio management, with a decrease during the last year in local dollars, international dollars, and development units.

Duration	September 30, 2016	September 30, 2017	Variation
Colones	0.63	0.49	(0.14)
U.S. dollars - local	0.85	0.97	0.12
U.S. dollars - intl.	1.28	1.33	0.05
Euros	0.77	0.79	0.02
DU	2.12	1.14	(0.97)

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

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

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

Market risk management

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

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

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

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

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

(Continue)

Market risk exposure – trading portfolio:

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

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

	September 2017	September 2016
VaR (99% confidence level)	0.43%	0.34%

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, 2017 and 2016, 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.

(Continue)

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

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

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

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

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

(Continue)

Price risk exposure:

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

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

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

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

(Continue)

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

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

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

- *Market risk of investments*

i. *Banco Nacional de Costa Rica.*

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

Type of risk	September 30, 2016	September 30, 2017	Variation	Level
Consolidated VaR	0.14%	0.23%	0.10%	Appetite

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

VaR by currency

Currency	September 30, 2016	September 30, 2017	Variation
Colones	0.09%	0.31%	0.21%
U.S. dollars - local	0.20%	0.31%	0.11%
U.S. dollars - Intl	0.29%	0.25%	(0.03%)
Euros	0.04%	0.02%	(0.02%)
DU	0.31%	0.03%	(0.27%)

- *Interest rate risk*

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

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

Type of risk	September 30, 2016	September 30, 2017	Variation	Level
Interest rate risk in *colones*	1.79%	0.23%	(1.56%)	Normal
Interest rate risk in foreign currency	0.74%	0.42%	(0.33%)	Normal

Both indicators closed considerably below SUGEF's regulatory maximum limit. The decrease in the interest rate risk in *colones* is due improvements in the source of data, which makes better use of the distribution of credit by time band based on the interest rate renegotiated starting June 2017.

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

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

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

(Continued)

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

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

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

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

The consolidated VaR of the Pension Fund Manager's own funds presents a downward trend with a maximum of 1.21% and a minimum of 0.00%, for an average of 0.23%, equivalent to ¢15.75 million. As of September 30, 2017, the indicator closes at 0.22%, compared to the indicator at the 2016 close at 0.35%, showing a decrease resulting from the proportional decrease of the investment portfolio. For the 2016 period, 0.35% is equivalent to ¢28.33 million.

The volatility observed mid-year caused a considerable increase in VaR levels. However, sales were made, materializing capital gains in the portfolio and decreasing the probability of losses due to movements in interest rates.

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

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

- *Currency risk*

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

(Continued)

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

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

Type of risk	September 30, 2016	September 30, 2017	Variation	Level
Currency risk	0.03%	0.03%	0.00%	Appetite

i. *Banco Nacional de Costa Rica*

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

Assets and liabilities denominated in foreign currency are as follows:

		U.S. dollars	
		September 2017	September 2016
Assets:			
Cash and due from banks	US$	1,224,427,683	759,252,564
Investments in financial instruments		900,916,659	909,996,852
Loan portfolio		2,654,232,072	2,715,341,801
Accounts and accrued interest receivable		499,813	663,618
Investments in other companies		107,809,171	105,025,602
Other assets		3,026,275	2,287,993
	US$	4,890,911,673	4,492,568,430
Liabilities:			
Obligations with the public	US$	2,723,512,198	2,217,932,018
Obligations with entities		2,026,568,949	2,144,587,169
Accounts payable and provisions		26,236,397	15,034,832
Other liabilities		31,857,730	28,028,372
Subordinated obligations		131,153,299	131,100,660
	US$	4,939,328,573	4,536,683,051
Excess (deficit) of assets over liabilities in U.S. dollars	US$	(48,416,900)	(44,114,621)

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

		Euros	
		September 2017	September 2016
Assets:			
Cash and due from banks	€	24,584,571	23,118,578
Investments in financial instruments		17,529,126	30,752,791
Other assets		7,256	-
	€	42,120,953	53,871,369
Liabilities:			
Obligations with the public	€	40,903,917	49,767,549
Obligations with entities		1,574,141	963,269
Accounts payable and provisions		339,838	194,959
Other liabilities		465,756	-
	€	43,283,652	50,925,777
Excess (deficit) of assets over liabilities in euros	€	(1,162,699)	2,945,592

		DU	
		September 2017	September 2016
Assets:			
Investments in financial instruments	UD	34,804,591	34,775,118
Loan portfolio		16,704,220	25,183,690
	UD	51,508,811	59,958,808
Liabilities:			
Accounts payable and provisions	UD	754,172	860,289
Other liabilities		2,946	4,190
	UD	757,118	864,479
Excess of assets over liabilities in DU	UD	50,751,693	59,094,329

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.

(Continued)

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

		September 2017	September 2016
Foreign exchange gain	¢	149,489,160,541	93,289,226,462
Foreign exchange loss		(151,002,224,940)	(94,377,201,398)
Net (loss) gain	¢	(1,513,064,399)	(1,087,974,936)

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

		September 2017	September 2016
Gain on net valuation of other assets (see note 37)	¢	216,573,653	287,355,748
Loss on net valuation of other liabilities (note 40)		(689,166,497)	(446,541,530)
Net gain (loss)	¢	(472,592,844)	(159,185,782)

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.

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

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

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, 2017, 3.26% of the Pension Fund Manager's portfolio of own funds is represented by investments in U.S. dollars. By adding cash and due from banks denominated in foreign currency, the percentage increases to 3.60%, which in nominal terms represents ¢243.92 million compared to the close as of September 30, 2016 at 1.03% (¢83.43 million), considering cash and due from banks and bonded debt, which is a relatively low currency risk for the size of the managed portfolio.

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

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

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

d) *Operational risk*

i. *Banco Nacional de Costa Rica*

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

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.

(Continued)

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

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

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

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

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

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

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

(Continued)

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

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

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

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

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

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

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

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

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

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

(Continued)

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

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

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

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

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

(Continued)

Fair value of financial instruments

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

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

(a) The carrying amounts of cash and cash equivalents, accounts receivable, and accounts payable approximate fair value because of the short-term nature of these instruments.

(b) Available-for-sale investments are booked at fair value. The fair values are based on quoted market prices or prices quoted by brokers. The fair values of held-to-maturity investments are estimated using discounted cash flow techniques.

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

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

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

- appropriate segregation of duties, including the independent authorization of transactions
- requirements for effective reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- communication and application of conduct guidelines or ethical standards

(Continued)

- monitoring of risks using measurement tools
- reporting of operational losses and proposed remedial actions
- comprehensive planning for resuming activities, including plans to restore key operations and internal and external support to ensure services are not interrupted
- personnel training.

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

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

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

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

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

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

(Continued)

As of September 30, 2017, the Bank's General Risk Division presented the results of the VaR by legal risk for the Pension Fund Manager, which indicate that the amount to be provisioned is the EL of ¢22.8 million (see note 12, Litigation section), amount that covers the main lawsuits against the Pension Fund Manager out of six pending lawsuits, most of which are in first instance.

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

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

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

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

Capital management

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

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

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

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

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

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

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

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

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

As of September 30, 2017 and 2016, the Group's risk rating is at a normal level since its capital adequacy ratio is above the required 10% ratio.

(Continued)

(47) Contingencies

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

	Number of cases				Total estimated amount	
	2017	2016	Phase		2017	2016
Bank	236	210	First instance	¢	240,145,996,197	226,955,029,677
	21	19	Second instance		20,506,192,192	18,382,475,385
	-	3	Appeal		3,615,000,000	6,089,047,215
	1	-	Administrative proceedings (see note 48)		38,458,424,266	-
	258	232			302,725,612,655	251,426,552,277
Pension Fund Manager	1	-	First instance		23,000,000	-
	1	-			23,000,000	-
Investment Fund Manager	1	1	First instance		92,101,415	133,194,104
	1	1			92,101,415	133,194,104
	260	233	(see note 22)	¢	302,840,714,070	251,559,746,381

As of September 30, 2017 and 2016, the legal actions filed against the Bank are booked in memoranda accounts under “Other contingencies - pending litigation and lawsuits”.

As of September 30, 2017 and 2016, the Bank is a claimant in ordinary, labor, and criminal lawsuits, which outcome is uncertain and are not booked in the accounting records, as follows:

Number of cases				Total estimated amount	
2017	2016	Phase		2017	2016
161	136	First instance	¢	720,598,517,697	722,268,092,106
1	1	Second instance		375,839,600	375,839,600
-	1	Appeal		-	3,384,930,021
162	138		¢	720,974,357,297	726,028,861,727

(Continued)

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

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

The following lawsuits can also be mentioned:

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

  - ✓ Statement of facts: The plaintiffs seek that the Bank be ordered to pay damages caused to all the plaintiffs and to pay compensation for pain and suffering caused due to the inability to acquire decent housing, as a result of apparent anomalies regarding the management of credits to Grupo Zion, S.A. to build the Bariloche Real condominium. Additionally, it has had media coverage.
  - ✓ Current status: In ruling issued at 14:46 hours of July 3, Nancy Rodríguez Cruz was appointed as expert witness, who must accept this position within a term of three days and issue the corresponding expert opinion within 15 business days.

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

  - ✓ Court: Agrarian Court of Corredores
  - ✓ Statement of facts: The proceedings seek to declare the liability of CORBANA, as Trustee of a banana plantation Management Trust, in which the Bank was the Trust Beneficiary.
  - ✓ Current status: An appeal was filed and is being discussed by the Agrarian Court of the Second Judicial Circuit of San José, Goicoechea. No judicial records exist for this case. It seems clear that, since the case relates to a contractual commercial liability, it has lapsed.

- *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: First instance ruling 56-2014 in favor of the Bank upheld the objection due to lack of legal grounds given that no damages caused by the defendants were demonstrated since there is no direct relationship between the factual substance of the complaint and the legal claims. No background exists regarding issues like this. A motion for appeal was filed and is under consideration by the Agrarian Court of the Second Judicial Circuit of San José, Goicoechea.

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

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

- *File No. 08-000382-0419-AG*

  - ✓ Statement of facts: Lawsuit for breach of contract and fiduciary responsibility.
  - ✓ Current status: The plaintiff is filing an appeal.

(48) Significant events

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

A formal motion for reconsideration was filed before the Large Taxpayer Administration against sanctioning ruling No. 2-10-15-14-1-5178-03 and No. 2-10-15-14-03-582-03 dated April 5, 2017, notified to the Bank on April 19, 2017.

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

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

c) *Dividends paid to the Bank*

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

	Board of Directors' Agreement			Amount	
Subsidiary	2017	2016		2017	2016
BN Corredora de Seguros, S.A.	Article 4, Meeting No. 12,172 held on May 29, 2017	Article 4, Meeting No. 12,127 held on December 5, 2016	¢	1,376,131,467	826,027,662
BN Sociedad Administradora de Fondos de Inversión, S.A.	Article 4, Meeting No. 12,171 held on May 29, 2017	Article 3, Meeting No. 12,120 held on November 21, 2016		1,000,000,000	1,000,000,000
BN Valores Puesto de Bolsa, S.A.	Article 2, Meeting No. 12,161 held on April 24, 2017	Article 2, Meeting No. 12,119 held on November 21, 2016		3,024,096,802	2,404,923,470
BN Vital Operadora de Planes de Pensiones Complementarias, S.A.	Article 2, Meeting No. 12,163 held on April 24, 2017	Article 2, Meeting No. 12,121 held on November 21, 2016		560,091,499	550,231,826
			¢	5,960,319,768	4,781,182,958

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

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

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

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

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

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

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

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

a) IAS 1: Presentation of Financial Statements

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

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

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

b) IAS 7: Statement of Cash Flows

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

c) IAS 12: Income Taxes

SUGEF's Chart of Accounts presents deferred income tax assets, liabilities, income, and expenses separately. This Standard permits presenting 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 Standard issued by the Board requires the revaluation of property through appraisals made by independent appraisers at least once every five years, eliminating the option to carry these assets at cost or to revalue other types of assets.

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

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

e) IAS 18: Revenue

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

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

Accordingly, 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, the Board 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 standards issued by the Board and IAS 18 and IAS 39, as follows:

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

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

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

g) IAS 27: Consolidated and Separate Financial Statements

The Board requires that the financial statements of a parent be presented separately, measuring its investments by the equity method. Under 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 the Board.

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

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

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

(Continued)

h) IAS 28: Investments in Associates

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

i) Revised IAS 32: Financial Instruments - Presentation

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

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

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

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

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

l) IAS 38: Intangible Assets

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

m) IAS 39: Financial Instruments: Recognition and Measurement

The Board 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, by means of Official Letter SGF-1729-2016, the Board 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 indicators of impairment, in order to mitigate the effects of the economic cycle on the profit or loss derived from the allowance for loan losses.

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

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

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

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

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

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

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

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

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

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

The above classifications do not necessarily adhere to IAS 39.

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

n) IAS 40: Investment Property

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

o) Revised IFRS 3: Business Combinations

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

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

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

q) IFRS 9: Financial Instruments

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

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r) IFRS 10: Consolidated Financial Statements

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

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

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

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

s) IFRS 11: Joint Arrangements

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

t) IFRS 12: Disclosure of Interests in Other Entities

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

(Continued)

u) IFRS 13: Fair Value Measurement

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

v) IFRS 14: Regulatory Deferral Accounts

This Standard was approved 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 the Board.

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 the Board.

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 the Board.

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y) IFRIC 10: Interim Financial Reporting and Impairment

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

z) IFRIC 21: Levies

This Interpretation addresses the accounting of liabilities related to the payment of levies imposed by governments. This Interpretation is effective for 2014. Early application is permitted. This Interpretation has not been adopted by the Board.

(50) Disclosure of economic impact of departure from IFRSs

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

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