BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
Consolidated Financial Statements

As of December 31, 2019
(With corresponding figures for 2018)

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

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Independent Auditors' Report

To the Board of Directors of Banco Nacional de Costa Rica

Opinion
We have audited the consolidated financial statements of Banco Nacional de Costa Rica and Subsidiaries (the Bank), which comprise the consolidated balance sheet as of December 31, 2019, the consolidated statements of comprehensive income, changes in equity, and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Bank as of December 31, 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the financial reporting provisions of the accounting regulations issued by the National Financial System Oversight Board (CONASSIF), the Superintendency General of Financial Entities (SUGEF), the National Securities Commission (SUGEVAL), the Pensions Superintendency (SUPEN), and the Superintendency General of Insurance (SUGESE).

Basis for Opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Bank in accordance with the Code of Ethics for Professional Accountants, issued by the International Ethics Standards Board for Accountants (the IESBA Code), along with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Republic of Costa Rica, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – Basis of Accounting
We draw your attention to note 1-b to the consolidated financial statements, which describes the basis of accounting. The consolidated financial statements have been prepared in accordance with the financial reporting provisions of the accounting regulations issued by CONASSIF, SUGEF, SUGEVAL, SUPEN, and SUGESE. Therefore, the consolidated financial statements may not be suitable for another purpose. Our opinion has not been modified in this regard.

Key Audit Matters
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	**How the matter was addressed in our audit**
1. Valuation of derivative financial instruments	
The Bank has derivative financial instruments, which are valued through the application of valuation techniques that often entail the use of judgments, estimates, and assumptions.	Our procedures in this area included: • involving our specialists to assess the methodologies, inputs and assumptions used by the Bank in the fair value determination; • questioning the observable inputs in the valuation models, i.e. quoted prices; and • for a sample of derivative instruments, assessing that the Bank's valuations fall within a reasonable range, compared to the valuations derived from our valuation model, considering the inherent uncertainties disclosed in the financial statements; • submitting confirmations to the financial entities with which the Bank holds derivative financial instruments.

Key Audit Matter	How the matter was addressed in our audit
2. Compliance with the regulation to determine the allowance for loan losses	
We have established compliance with SUGEF Directive 1-05, Regulations for Borrower Classification, which provides guidelines to determine the allowance for loan losses, as a key audit matter (see Note 3). According to this regulation, the allowance for loan losses is determined through the application of pre-established percentages to each borrower, according to their risk rating, which considers the days of arrears, creditworthiness, and historical payment behavior. The elements to be considered as basis for the allowance are: the balance of the loan for each borrower, current interest, and stand-by credits. The allowance percentage is applied to the net balance not covered by collaterals eligible for risk mitigation, in conformity with the mitigation percentages established in the aforementioned regulation.	Our procedures in this area included: • assessing the design and operating efficiency of IT controls on the information systems used by management to calculate arrears in the loan portfolio; performing detailed testing of a sample to confirm the days of arrears used in the calculation; • testing the transfer of data between the interfaces of the loan information systems and the systems used by the Bank to determine the borrower classification and to calculate the allowance for loan losses; • recalculating the minimum allowance for loan losses on direct and stand-by credits, based on the information furnished by management; testing the integrity of data for this information; • performing detailed testing of a sample of borrowers, to confirm whether management complied with the analysis of creditworthiness required by the regulation, as well as the assessment of the collaterals that can be used to mitigate credit risk. This procedure included an assessment of the work performed by external experts on the valuation of collaterals; • comparing the level of historical payment behavior used by management with the information provided by SUGEF's Credit Information Center.

Key Audit Matter	How the matter was addressed in our audit
3. Provisions	
The Bank operates within a regulatory environment and noncompliance with certain regulations may result in fines, penalties, litigation, etc. that require judgments and estimates to determine the relevance and the liability, based on management's assessment of the most likely outcome.	Our procedures in this area included: • assessing management's estimates and judgments that consider the most recent information available, and assessing the accuracy and reliability of the sources of such information; • verifying the adequacy of management's assumptions regarding the confirmations by the Legal Department; • considering management's estimates based on the most likely outcomes within the range of possible outcomes;

Responsibilities of Management and those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the financial reporting provisions of the accounting regulations issued by CONASSIF, SUGEF, SUGEVAL, SUPEN, and SUGESE, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure, and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

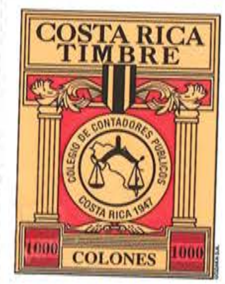
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG



March 23, 2020

San José, Costa Rica
Erick Brenes Flores
Member No. 2520
Policy No. 0116 FIG 7
Expires 9/30/2020

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

	Note	2019	2018
ASSETS			
Cash and due from banks	4	**1,118,775,933,830**	**1,025,465,414,007**
Cash		97,322,207,003	79,721,131,128
BCCR		734,391,376,282	856,105,137,933
Local financial entities		6,862,013,063	6,683,469,272
Foreign financial entities		271,029,532,251	71,106,869,756
Other cash and due from banks		9,170,805,231	11,848,805,918
Investments in financial instruments	5	**1,440,511,241,869**	**1,171,705,316,500**
Held for trading		1,512,582,272	12,096,981,603
Available for sale		1,408,702,573,504	1,144,183,068,457
Derivative financial instruments	6	10,747,514,970	678,813,152
Accrued interest receivable		19,548,571,123	14,757,154,973
(Allowance for impairment of investments in financial instruments)		-	(10,701,685)
Loan portfolio	7	**4,203,026,225,237**	**4,416,292,531,288**
Current		3,976,100,030,099	4,223,554,423,932
Past due		170,543,873,404	149,989,262,621
In legal collection		139,573,744,235	147,602,847,205
Accrued interest receivable		35,315,688,334	36,776,953,763
(Allowance for loan losses)		(118,507,110,835)	(141,630,956,233)
Accounts and fees and commissions receivable	8	**2,230,228,317**	**2,606,734,531**
Fees and commissions receivable		1,807,840,064	1,379,493,008
Accounts receivable for brokerage operations		38,691	56,675
Accounts receivable for transactions with related parties		51,030,427	23,953,056
Deferred tax and income tax receivable		291,579,837	1,106,483,592
Other receivables		4,512,490,372	4,009,191,298
Accrued interest receivable		6,689,206	2,082,892
(Allowance for impairment of accounts and fees and commissions receivable)		(4,439,440,280)	(3,914,525,990)
Foreclosed assets	9	**29,544,875,888**	**20,074,903,998**
Assets and securities acquired in lieu of payment		93,207,402,343	79,173,439,587
Other foreclosed assets		55,884,629	1,840,189
(Allowance for impairment of foreclosed assets and per legal requirements)		(63,718,411,084)	(59,100,375,778)
Investments in other companies	10	**66,189,680,260**	**66,495,484,274**
Property and equipment, net	11	**180,105,408,960**	**185,735,321,962**
Other assets	12	**85,223,038,792**	**105,548,849,426**
Deferred charges		62,305,370,995	77,656,451,038
Intangible assets		6,925,904,434	5,049,553,312
Other assets		15,991,763,363	22,842,845,076
TOTAL ASSETS		**7,125,606,633,153**	**6,993,924,555,986**

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

Continued...

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

LIABILITIES AND EQUITY	Note	2019	2018
LIABILITIES			
Obligations with the public	13	**5,247,646,610,846**	**4,783,549,987,583**
Demand obligations		3,004,878,808,576	2,741,094,583,154
Term obligations		2,180,324,955,388	1,989,376,199,821
Other obligations		11,859,003,890	12,135,686,821
Finance charges payable		50,583,842,992	40,943,517,787
Obligations with BCCR	14	**125,644,412**	**150,630,088,856**
Term obligations		125,644,412	150,525,644,412
Finance charges payable		-	104,444,444
Obligations with entities	15	**934,533,630,079**	**1,166,875,675,036**
Demand obligations		189,958,602,328	181,672,052,001
Term obligations		738,098,336,345	976,481,905,984
Finance charges payable		6,476,691,406	8,721,717,051
Accounts payable and provisions		**139,432,452,472**	**97,866,235,628**
Accounts payable for brokerage services		1,509,000,134	1,077,656,970
Deferred tax	16-b	12,824,279,925	8,629,716,741
Provisions	17	31,965,915,088	24,754,699,577
Other sundry accounts payable	18	93,133,257,325	63,404,162,340
Other liabilities	19	**41,964,824,981**	**67,159,254,065**
Deferred income		34,030,707,767	33,255,354,768
Allowance for stand-by credit losses		146,910,621	169,073,348
Other liabilities		7,787,206,593	33,734,825,949
Subordinated obligations	20	**69,965,445,025**	**80,488,169,915**
Subordinated obligations		68,410,800,000	78,570,700,000
Finance charges payable		1,554,645,025	1,917,469,915
TOTAL LIABILITIES		**6,433,668,607,815**	**6,346,569,411,083**
EQUITY			
Share capital		**172,237,030,102**	**172,237,030,102**
Paid-in capital	21-a	172,237,030,102	172,237,030,102
Equity adjustments		**83,000,303,041**	**69,226,390,881**
Surplus from revaluation of property	21-b	65,745,785,452	66,193,911,011
Adjustment for valuation of available-for-sale investments	21-c	8,443,714,008	(5,106,902,948)
Adjustment for valuation of restricted financial instruments	21-c	31,580,683	(1,053,043,002)
Surplus from revaluation of other assets		66,585,248	66,585,248
Adjustment for valuation of investments in other companies	1-e (iv), 21-d	8,712,637,650	9,125,840,572
Capital reserves	21-e	**348,798,402,459**	**334,043,304,638**
Prior period retained earnings		**29,551,796,287**	**19,485,203,956**
Income for the year		**23,701,957,485**	**21,391,220,879**
Equity of the Development Financing Fund	21-f	**34,648,535,964**	**30,971,994,447**
TOTAL EQUITY		**691,938,025,338**	**647,355,144,903**
TOTAL LIABILITIES AND EQUITY		**7,125,606,633,153**	**6,993,924,555,986**
DEBIT MEMORANDA ACCOUNTS	22	**596,632,407,643**	**635,962,468,859**
TRUST ASSETS	23	**2,109,773,756,476**	**2,277,259,672,046**
TRUST LIABILITIES		**146,655,424,772**	**209,981,156,957**
TRUST EQUITY		**1,963,118,331,704**	**2,067,278,515,088**
TRUST MEMORANDA ACCOUNTS		**115,439,083,205**	**99,962,938,570**
OTHER DEBIT MEMORANDA ACCOUNTS	24	**23,884,692,823,134**	**23,025,592,011,994**
Own debit memoranda accounts		7,070,968,659,268	7,588,595,867,700
Third-party debit memoranda accounts		3,463,182,275,754	2,992,442,398,537
Own debit memoranda accounts for custodial activities		376,872,803,078	230,639,645,060
Third-party debit memoranda accounts for custodial activities		12,973,669,085,034	12,213,914,100,697

Gustavo Vargas Fernández
General Manager

Alejandra Morales Centeno
General Accountant
CPI 21119

Ricardo Araya Jiménez
General Auditor

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

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2019
(With corresponding figures for 2018)
(In colones)

	Note	2019	2018
Finance income			
Cash and due from banks	28	4,090,244,844	5,573,281,885
Investments in financial instruments	28	77,486,115,786	62,827,723,124
Loan portfolio	29	448,948,616,835	444,852,003,318
Gain on foreign exchange differences and DU, net	46-c	4,015,539,621	-
Gain on available-for-sale financial instruments		2,376,226,123	303,409,800
Gain on derivative financial instruments, net	6	12,857,020,334	-
Other finance income	30	12,578,265,997	27,496,461,333
Total finance income		**562,352,029,540**	**541,052,879,460**
Finance costs			
Obligations with the public	31	211,038,852,467	183,746,818,834
Obligations with BCCR		427,413,535	851,735,569
Obligations with financial entities	32	53,213,536,175	71,652,074,562
Subordinated, convertible and preferred obligations		5,445,681,253	5,254,174,406
Loss on foreign exchange differences and DU, net	46-c	-	3,191,523,840
Loss on available-for-sale financial instruments		523,101,084	514,760,914
Loss on derivative financial instruments	6	-	6,063,007,599
Other finance costs	33	28,039,917,658	18,643,167,846
Total finance costs		**298,688,502,172**	**289,917,263,570**
Allowance for impairment of assets	34	53,235,467,727	88,526,619,673
Recovery of assets and decrease in allowances	35	8,520,882,930	7,380,138,319
FINANCE INCOME		**218,948,942,571**	**169,989,134,536**
Other operating income			
Service fees and commissions	36	150,296,899,673	140,239,721,942
Foreclosed assets		5,570,597,628	8,275,132,995
Gain on investments in other foreign companies	1-a, 3	3,333,721,355	3,160,852,893
Gain on investments in other local companies		3,278,195	2,764,988
Foreign currency exchange and arbitrage		22,890,118,559	23,494,213,689
Other operating income	37	14,112,532,922	12,160,821,793
Total other operating income		**196,207,148,332**	**187,333,508,300**

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

Continued…

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2019
(With corresponding figures for 2018)
(In colones)

	Note	2019	2018
Other operating expenses			
Service fees and commissions		5,149,342,698	4,522,073,947
Foreclosed assets	38	22,460,889,870	18,677,786,643
Sundry assets		484,988,733	938,332,246
Provisions	39	14,236,358,211	15,653,363,144
Bonuses on fees and commissions of voluntary pension funds		232,092,308	118,026,341
Foreign currency exchange and arbitrage		6,126,243	14,324,173
Other expenses - related parties		8,694,833	-
Other operating expenses	40	89,238,014,444	71,593,650,742
Amortization of deferred direct costs related to credits		380,706,810	500,928,818
Total other operating expenses		**132,197,214,150**	**112,018,486,054**
GROSS OPERATING INCOME		**282,958,876,753**	**245,304,156,782**
Administrative expenses			
Personnel expenses	41	135,202,999,962	131,168,783,821
Other administrative expenses	42	72,695,211,544	77,558,955,071
Total administrative expenses		**207,898,211,506**	**208,727,738,892**
NET OPERATING INCOME BEFORE TAXES AND STATUTORY ALLOCATIONS		**75,060,665,247**	**36,576,417,890**
Current tax	16-a	20,122,774,464	6,263,277,755
Prior period income tax	16-a	14,189,237,931	869,401
Deferred tax	16-a	46,603,623	86,473,578
Increase in deferred tax	16-a	158,122,943	150,447,118
Statutory allocations	43	17,158,214,687	9,592,739,915
Decrease in statutory allocations	43	-	607,716,520
INCOME FOR THE YEAR		**23,701,957,485**	**21,391,220,879**
OTHER COMPREHENSIVE INCOME, NET OF TAX			
Surplus from revaluation of property		256,694,460	5,530,350,280
Adjustment for valuation of available-for-sale investments, net of income tax		13,550,616,956	(3,108,583,992)
Adjustment for valuation of restricted financial instruments, net of income tax		1,084,623,685	(746,372,303)
Surplus from revaluation of other assets		-	22,836,618
Adjustment for valuation of investments in other companies		(413,202,922)	30,215,886
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**14,478,732,179**	**1,728,446,489**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**38,180,689,664**	**23,119,667,368**

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

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2019
(With corresponding figures for 2018)
(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	Capital reserves	Retained earnings	Equity of the Development Financing Fund	Total
Balance at January 1, 2018		172,237,030,102	61,425,174,760	(2,304,989,655)	43,748,630	9,095,624,686	68,259,558,421	311,121,806,369	45,505,124,630	27,111,958,013	624,235,477,535
Transactions with owners booked directly in equity:											
Legal reserves		-	-	-	-	-	-	22,904,968,835	(22,904,968,835)	-	-
Other statutory reserves		-	-	-	-	-	-	16,529,434	(16,529,434)	-	-
Equity of the Development Financing Fund		-	-	-	-	-	-	-	(3,860,036,434)	3,860,036,434	-
Total transactions with owners booked directly in equity		-	-	-	-	-	-	22,921,498,269	(26,781,534,703)	3,860,036,434	-
Comprehensive income for the year:											
Income for the year		-	-	-	-	-	-	-	21,391,220,879	-	21,391,220,879
Adjustment for valuation of available-for-sale investments, net of income tax	5	-	-	(3,108,583,992)	-	-	(3,108,583,992)	-	-	-	(3,108,583,992)
Adjustment for valuation of restricted financial instruments, net of income tax	5	-	-	(746,372,303)	-	-	(746,372,303)	-	-	-	(746,372,303)
Adjustment for valuation of investments in other companies	1-e (iv)	-	-	-	-	30,215,886	30,215,886	-	-	-	30,215,886
Surplus from revaluation of property		-	5,530,350,280	-	-	-	5,530,350,280	-	-	-	5,530,350,280
Surplus from revaluation of other assets		-	-	-	22,836,618	-	22,836,618	-	-	-	22,836,618
Realization of surplus from revaluation of property		-	(761,614,029)	-	-	-	(761,614,029)	-	761,614,029	-	-
Total comprehensive income for the year		-	4,768,736,251	(3,854,956,295)	22,836,618	30,215,886	966,832,460	-	22,152,834,908	-	23,119,667,368
Balance at December 31, 2018	21	172,237,030,102	66,193,911,011	(6,159,945,950)	66,585,248	9,125,840,572	69,226,390,881	334,043,304,638	40,876,424,835	30,971,994,447	647,355,144,903
Adjustment to prior-period statutory allocations		-	-	-	-	-	-	-	6,402,190,771	-	6,402,190,771
Balance at January 1, 2019		172,237,030,102	66,193,911,011	(6,159,945,950)	66,585,248	9,125,840,572	69,226,390,881	334,043,304,638	47,278,615,606	30,971,994,447	653,757,335,674
Transactions with owners booked directly in equity:											
Legal reserves		-	-	-	-	-	-	14,379,640,177	(14,379,640,177)	-	-
Other statutory reserves		-	-	-	-	-	-	375,457,644	(375,457,644)	-	-
Equity of the Development Financing Fund		-	-	-	-	-	-	-	(3,676,541,517)	3,676,541,517	-
Total transactions with owners booked directly in equity		-	-	-	-	-	-	14,755,097,821	(18,431,639,338)	3,676,541,517	-
Comprehensive income for the year:											
Income for the year		-	-	-	-	-	-	-	23,701,957,485	-	23,701,957,485
Adjustment for valuation of available-for-sale investments, net of income tax	5	-	-	13,550,616,956	-	-	13,550,616,956	-	-	-	13,550,616,956
Adjustment for valuation of restricted financial instruments, net of income tax	5	-	-	1,084,623,685	-	-	1,084,623,685	-	-	-	1,084,623,685
Adjustment for valuation of investments in other companies	1-e (iv)	-	-	-	-	(413,202,922)	(413,202,922)	-	-	-	(413,202,922)
Surplus from revaluation of property		-	256,694,460	-	-	-	256,694,460	-	-	-	256,694,460
Realization of surplus from revaluation of property		-	(704,820,019)	-	-	-	(704,820,019)	-	704,820,019	-	-
Total comprehensive income for the year		-	(448,125,559)	14,635,240,641	-	(413,202,922)	13,773,912,160	-	24,406,777,504	-	38,180,689,664
Balance at December 31, 2019	21	172,237,030,102	65,745,785,452	8,475,294,691	66,585,248	8,712,637,650	83,000,303,041	348,798,402,459	53,253,753,772	34,648,535,964	691,938,025,338

Gustavo Varagas Fernández
General Manager

Alejandra Morales Centeno
General Accountant
CPI 21119

Ricardo Araya Jiménez
General Auditor

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

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019
(With corresponding figures for 2018)
(In colones)

	Note	2019	2018
Cash flows from operating activities			
Income for the year		23,701,957,485	21,391,220,879
Items not requiring cash			
(Gain) loss on foreign exchange differences and DU, net		(37,444,834,704)	37,961,151,722
Loss on allowance for loan losses, net		43,498,948,657	80,409,350,044
Gain on allowance for impairment of investments, net		(10,701,685)	(62,772,512)
Loss on allowance for other receivables, net		1,226,337,829	799,903,822
Loss (gain) on allowance for foreclosed assets, net		4,618,045,908	(2,409,494,382)
Loss on sale of foreclosed assets		8,411,526,784	9,492,720,684
Provision expense, net of payments		(7,126,015,974)	(11,067,326,101)
Depreciation and amortization		21,530,060,609	23,722,945,861
Share of net profit of foreign associate		(3,333,721,355)	(3,160,852,893)
Statutory allocations, net		17,158,214,687	8,985,023,395
Income tax expense, net	16-a	34,312,012,395	6,264,147,156
Deferred tax	16-a	(111,519,320)	(63,973,540)
Finance income on loan portfolio and investments		(526,434,732,621)	(507,679,726,442)
Finance costs on term obligations with the public and financial entities		208,985,450,754	205,321,544,653
		(211,018,970,551)	**(130,096,137,654)**
Net (increase) decrease in assets			
Credits and cash advances		51,515,052,728	(45,005,444,828)
Foreclosed assets		18,495,466,230	20,166,100,255
Accrued interest receivable on other receivables		(4,606,314)	(358,736)
Other assets		27,810,703,971	(70,423,351,970)
		(113,202,353,936)	**(225,359,192,933)**
Net increase (decrease) in liabilities			
Demand and term obligations		351,417,124,158	(391,997,411,269)
Other accounts payable and provisions		33,383,686,833	40,648,171,320
Other liabilities		(24,143,631,975)	(32,064,108,258)
		247,454,825,080	**(608,772,541,140)**
Interest received on loan portfolio and investments		523,104,266,076	499,366,848,954
Income tax paid		(11,901,778,472)	(15,695,356,584)
Interest paid on term obligations with the public and financial entities		(201,989,056,477)	(201,043,846,565)
Statutory allocations paid		(8,985,023,395)	(13,682,347,694)
Net cash from (used in) operating activities		**547,683,232,812**	**(339,827,243,029)**
Cash flows from investing activities			
Increase in financial instruments		(3,801,907,631,415)	(27,091,093,028,694)
Decrease in financial instruments		3,662,427,659,756	26,924,031,161,504
Acquisition of property and equipment		(20,323,070,356)	(27,052,121,149)
Sale of property and equipment		703,662,152	1,655,091,963
Acquisition of intangible assets		(7,758,184,920)	(1,532,073,147)
Investments in other companies made in cash		16,279,578	(8,953,904)
Net cash used in investing activities		**(166,841,285,205)**	**(193,999,923,427)**
Cash flows from financing activities			
Other new financial obligations		21,947,239,637	3,054,362,059,337
Settlement of obligations		(167,528,290,919)	(2,903,681,031,037)
Net cash (used in) from financing activities		**(145,581,051,282)**	**150,681,028,300**
Net increase (decrease) in cash and cash equivalents		**235,260,896,325**	**(383,146,138,156)**
Cash and cash equivalents at beginning of year		**1,117,943,115,083**	**1,501,089,253,239**
Cash and cash equivalents at end of year	4	**1,353,204,011,408**	**1,117,943,115,083**

Gustavo Vargas Fernández
General Manager

Alejandra Morales Centeno
General Accountant
CPI 21119

Ricardo Araya Jiménez
General Auditor

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

(1) Summary of operations and significant accounting policies

(a) Operations

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

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

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

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

As of December 31, 2019, the Bank has 162 offices, 466 ATM's, and along with its subsidiaries a total of 5,602 employees (2018: 167 offices, 479 ATM's and 5,716 employees). Employees are distributed as follows: Banco Nacional de Costa Rica - 5,162 employees (2018: 5,307); BN Valores Puesto de Bolsa, S.A. - 69 employees (2018: 69); BN Vital Operadora de Planes de Pensiones Complementarias, S.A. - 185 employees (2018: 171); BN Sociedad Administradora de Fondos de Inversión, S.A. - 86 employees (2018: 80); and BN Sociedad Corredora de Seguros, S.A. - 100 employees (2018: 89). The Bank's website is www.bncr.fi.cr.

The following subsidiaries are wholly owned by the Bank:

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

		2019				
		BN Valores Puesto de Bolsa, S.A.	BN Sociedad Administradora de Fondos de Inversión, S.A.	BN Vital Operadora de Planes de Pensiones Complementarias S.A.	BN Sociedad Corredora de Seguros, S.A.	Banco Internacional de Costa Rica, S.A.
Assets	¢	64,594,697,922	9,583,796,204	12,853,680,484	4,619,654,809	554,177,689,476
Liabilities		46,970,704,640	750,451,532	3,188,988,964	969,430,610	488,038,632,516
Equity		17,623,993,282	8,833,344,672	9,664,691,520	3,650,224,199	66,139,056,960
Income for the year		2,455,903,356	2,164,933,821	1,655,127,550	3,195,422,498	3,333,721,355
Memoranda accounts		1,065,320,460,101	502,372,384,904	1,698,549,751,150	-	-

(Continued)

	2018				
	BN Valores Puesto de Bolsa, S.A.	BN Sociedad Administradora de Fondos de Inversión, S.A.	BN Vital Operadora de Planes de Pensiones Complementarias S.A.	BN Sociedad Corredora de Seguros, S.A.	Banco Internacional de Costa Rica, S.A.
Assets	¢ 66,647,192,067	8,222,761,277	9,743,271,307	3,881,801,721	570,074,944,344
Liabilities	51,635,210,086	551,313,362	1,818,179,670	888,116,620	503,630,083,370
Equity	15,011,981,981	7,671,447,952	7,925,091,637	2,993,685,101	66,444,860,974
Income for the year	1,684,605,745	2,038,605,151	1,146,194,956	2,550,045,101	3,160,852,893
Memoranda accounts	966,935,348,682	434,748,836,782	1,450,052,605,752	-	-

(b) Basis of preparation of the consolidated financial statements

- Statement of compliance

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

- Basis of measurement of assets and liabilities

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

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

The accounting policies have been consistently applied.

(c) Functional and presentation currency

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

(d) Basis of consolidation

i. Subsidiaries

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

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

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

Subsidiaries were consolidated based on the following accounting principles:

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

ii. *Associates*

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

(e) Foreign currency

i. *Foreign currency transactions*

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

ii. Monetary unit and foreign exchange regulations

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

In accordance with the Chart of Accounts, assets and liabilities denominated in foreign currency should be expressed in colones using the reference buy rate published by BCCR. As of December 31, 2019, the exchange rate was established at ¢570.09 and ¢576.49 (2018: ¢604.39 and ¢611.75) to US$1.00 for the purchase and sale of US dollars, respectively.

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

As of December 31, 2019, assets and liabilities denominated in US dollars were valued at the exchange rate of ¢570.09 to US$1.00 (2018: ¢604.39 to US$1.00), which is the reference buy rate published by BCCR for that date.

As of December 31, 2019, assets and liabilities denominated in euro were valued at the exchange rate of ¢640.67 to €1.00 (2018: ¢693.11 to €1.00). This exchange rate was calculated by multiplying the international exchange rate published by Reuters by the reference buy rate for US dollars published by BCCR on the last business day of the month.

As of December 31, 2019, assets and liabilities denominated in Development Units (DU) were valued at the exchange rate of ¢917.23 to DU1.00 (2018: ¢899.90 to DU1.00). This exchange rate is based on the DU value tables published by SUGEVAL.

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

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

The financial statements of foreign operations are translated as follows:

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

For the year ended December 31, 2019, a foreign exchange loss in the amount of ¢413,202,922 (2018: foreign exchange gain of ¢30,215,885) is presented in equity for the translation of the consolidated financial statements of foreign operations. As of December 31, 2019, the adjustment for valuation of investments in other companies amounts to ¢8,712,637,650 (2018: ¢9,125,840,572).

(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 December 31, 2019 and 2018, the Bank no longer classifies financial instruments as held to maturity, except for the securities denominated in DU received from the Central Government to capitalize the Bank. Those securities were authorized by the Executive Branch of the Government of Costa Rica as a capital contribution and are funded under the *Amendment to Law No. 8627 on the Ordinary and Extraordinary Budget of the Republic for Tax Year 2008* (Law No. 8703).

Securities sold under repurchase agreements

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

Securities purchased under reverse repurchase agreements

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

Derivative financial instruments

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

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

Originated loans and other receivables

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

Deposits and debt securities issued

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

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

iii. *Derecognition*

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

iv. *Offsetting*

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

v. *Amortized cost measurement*

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

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

vi. *Fair value measurement*

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

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

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

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

Investments in financial instruments

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

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

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

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 year.

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

(g) Loan portfolio

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

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

(h) Allowance for loan losses

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

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

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

As of December 31, 2019 and 2018, increases in the allowance for loan losses are included in the accounting records in accordance with Article 10 of IRNBS.

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

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

(j) Other receivables

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

(k) Foreclosed assets

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

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

The net realizable value of an asset should be used as its market value. Net realizable value is determined by applying strictly conservative criteria and is calculated by subtracting expenses to be incurred in the sale of the asset from its estimated selling price. The estimated selling price of the asset is determined by an appraiser based on current market conditions. 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 must 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. As of December 31, 2019 and 2018, the Bank's investments in other companies are as follows:

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

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

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

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

(m) Property and equipment

i. Own assets

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

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

ii. Leased assets

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

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

iii. Subsequent expenditure

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

iv. Depreciation and amortization

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

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

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

(n) Intangible assets

i. Other intangible assets

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

ii. Subsequent expenditure

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

iii. Amortization

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

(o) Impairment of non-financial assets

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

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

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

(p) Accounts payable and other liabilities

Accounts payable and other liabilities are carried at amortized cost.

(q) Provisions

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

(Continued)

(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 thereto for employees with more than 20 years of service, in compliance with Article 34 of the *Collective Bargaining Agreement.*

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

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

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

ii. *Short-term employee benefits*

Statutory Christmas bonus

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

Vacation

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

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

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

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

Back-to-school bonus

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

Incentives and Performance Assessment System (SEDI)

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

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

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

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

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

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

iii. Employee Protection and Retirement Fund

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

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

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

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

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

(s) Deferred income

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

(t) Legal reserve

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

Other statutory reserves

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

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

(u) Revaluation surplus

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

(v) Income tax

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

i. Current tax

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

ii. Deferred tax

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

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

iii. Tax benefits - FOCREDE

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

The 8% exemption on securities is effective from August 23, 2016, as evidenced in certification SRCST-TV-009-2016 of the Ministry of Finance issued for the period of one year, which was renewed indefinitely by means of resolution DGCN-146-2017, at the request of the banks that manage the fund, i.e. Banco Nacional de Costa Rica and Banco de Costa Rica. Pursuant to the *Law to Strengthen Public Finances* (Law. No. 9635), a 15% exemption is effective from July 1, 2019.

(w) Segment reporting

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

(x) Financial statements of the departments

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

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

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

(y) Use of estimates

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

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

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

(z) Recognition of income and costs

i. Interest income and interest expense

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

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

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

ii. Fee and commission income

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

iii. Income from foreign currency exchange and arbitrage

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

iv. Operating lease expenses

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

(aa) Statutory allocations

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

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

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

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

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

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

(bb) Development Financing Fund (FOFIDE)

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

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

(cc) Development Credit Fund (FOCREDE)

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

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

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

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

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

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

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

(dd) Trust operations

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

(2) Collateralized or restricted assets

Collateralized or restricted assets are as follows:

Restricted asset	Cause of restriction		2019	2018
Cash and due from banks:				
Checking account – colones (Note 4)	Minimum legal deposit	¢	442,699,408,633	490,472,341,154
Checking account – US dollars (Note 4)	Minimum legal deposit		255,390,762,971	283,010,610,003
Checking account – euro (Note 4)	Minimum legal deposit		3,567,266,743	4,152,775,150
Other cash and due from banks (Note 4)	Custody of liabilities of Banco Crédito Agrícola de Cartago		1,110,469,833	1,198,002,163
Other cash and due from banks (Note 4)	Margin calls for derivative financial instruments		12,663,512	-
Other cash and due from banks (Note 4)	Margin calls for tri-party repurchase agreements		119,003,438	8,462,542
Other cash and due from banks (Note 4)	Contribution to FOGABONA		395,081,552	214,975,302
		¢	703,294,656,682	779,057,166,314
Investments in financial instruments:				
Investments in financial instruments	Guarantee for tri-party repurchase agreements		12,728,264,366	13,392,509,848
Investments in financial instruments	Liquidity market operations		43,317,268,634	44,979,191,022
Securities issued by BCCR and the Government	Investments securing repurchase agreements		516,884,541	607,442,622
External debt bonds	Nomura Bank guarantee		62,742,681,356	45,173,015,838
External debt bonds	BNY MELLON guarantee		660,704,207	-
External debt bonds	Citi-SWAPS guarantee		569,734,560	-
External debt bonds	JP-SWAPS guarantee		949,557,600	-
Central Bank bond (global bond)	Interbank Electronic Payment System (SINPE) guarantee		-	96,089,536,625
External debt bond	Interbank Electronic Payment System (SINPE) guarantee		-	180,308,749,905
Monetary stabilization bond	Interbank Electronic Payment System (SINPE) guarantee		-	29,739,359,400
		¢	121,485,095,264	410,289,805,260
Other assets:				
Other assets (Note 12)	Security deposits	¢	792,561,187	529,032,006

(Continued)

As of December 31, 2019, the Brokerage Firm has restricted assets in the amount of ¢56,074,068,331 (2018: ¢58,595,138,714), corresponding to guarantees for tri-party repurchase agreements, operations in the liquidity market and contributions to the liquidation and compensation risk management fund.

(3) Balances and transactions with related parties

Balances and transactions with related parties are as follows:

		2019	2018
Assets:			
Checking accounts in foreign financial entities *(1)* (Note 4)	¢	22,159,760,108	17,945,463,302
Investments in other companies *(2)*		66,139,056,960	66,444,860,974
	¢	88,298,817,068	84,390,324,276
Liabilities:			
Demand obligations with entities *(3)*		50,395,704	510,449,626
Term obligations with entities *(3)*		5,700,900,000	-
Charges payable for obligations with related parties		38,954,693	-
Accounts payable		-	65,818
	¢	5,790,250,397	510,515,444
Income:			
Gain on investments in other foreign companies	¢	3,333,721,355	3,160,852,893
Expenses:			
Operating expenses		114,947,320	-

The aforementioned balances and transactions with related parties are related to:

(1) Foreign checking accounts with BICSA.

(2) Investments in the share capital of entities over which the Bank exercises control or significant influence.

(3) Movements in the subsidiaries' checking accounts with the Bank.

For the year ended December 31, compensation to key personnel is as follows:

		2019	2018
Short-term benefits	¢	2,002,616,135	1,871,232,334
Long-term benefits		260,340,098	243,260,203
Per diem - Board of directors		182,006,749	160,987,264
	¢	2,444,962,982	2,275,479,801

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

(4) Cash and cash equivalents

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

		2019	2018
Cash and due from banks	¢	1,118,775,933,830	1,025,465,414,007
Investments with maturities of two months or less		234,428,077,578	92,477,701,076
	¢	1,353,204,011,408	1,117,943,115,083

Cash and due from banks is as follows:

		2019	2018
Cash on hand and in vaults	¢	87,170,445,903	54,926,278,487
Cash in transit		10,151,761,100	24,794,852,641
Checking account in BCCR *(1)*		64,310,561,269	68,856,647,714
Minimum legal deposits in BCCR *(1)*		712,579,484,369	787,248,490,219
Checking accounts and demand deposits in State-owned commercial banks and banks created under special laws		162,784,049	231,548,826
Checking accounts and other demand accounts in private financial entities		6,099,229,014	6,451,920,446
Overnight deposits in local financial entities		600,000,000	-
Checking accounts in foreign financial entities		244,044,170,188	49,891,592,911
Deposits and other demand accounts in foreign financial entities		7,543,318	101,093,880
Checking accounts and demand deposits in related parties (Note 3)		22,159,760,108	17,945,463,302
Overnight deposits in foreign financial entities		4,818,058,637	3,168,719,663
Transfers through the Interbank Electronic Payment System (SINPE)		1,899,433,307	1,785,642,086
Local notes receivable		3,720,234,973	6,098,464,304
Foreign notes receivable		1,913,918,616	2,543,259,521
Margin calls - derivative financial instruments (Note 2)		12,663,512	-
Margin calls for tri-party repurchase agreements (Note 2)		119,003,438	8,462,542
Fondo de Garantía de la Bolsa Nacional de Valores (FOGABONA) (Note 2)		395,081,552	214,975,302
Other restricted cash and due from banks *(2)*		1,110,469,833	1,198,002,163
	¢	1,161,274,603,186	1,025,465,414,007

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

Pursuant to Note GD-5879/09 issued by BCCR on June 3, 2019, as of June 16, 2019 the percentage for the minimum legal deposit decreased to 12% (2018: 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.

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

(5) Investments in financial instruments

As of December 31, investments in financial instruments are as follows:

		2019	2018
Trading:			
Open investment funds	¢	1,512,582,272	12,096,981,603
		1,512,582,272	12,096,981,603
Available for sale:			
Local issuers:			
Government of Costa Rica	¢	619,753,176,995	501,672,592,983
BCCR		159,065,700,779	123,888,398,241
State-owned banks		12,698,822,257	35,603,879,775
Private issuers		173,422,070,947	5,374,960,833
		964,939,770,978	666,539,831,832
Foreign issuers:			
Governments		217,761,812,409	250,699,141,704
Private issuers		94,803,463,975	145,841,940,179
Private banks		131,197,526,142	81,102,154,742
		443,762,802,526	477,643,236,625
		1,408,702,573,504	1,144,183,068,457
Held to maturity:			
Government of Costa Rica		-	-
		-	-
Derivative financial instruments:			
Interest rate futures - Hedges (Note 6)		10,747,514,970	564,329,586
Purchase of FX futures – Other than hedges (Note 6)		-	106,663,896
Sale of FX futures – Other than hedges (Note 6)		-	7,819,670
		10,747,514,970	678,813,152
Allowance for impairment:			
Allowance for impairment of derivative instruments other than hedges		-	(10,701,685)
		-	(10,701,685)
Accrued interest receivable on investments		19,548,571,123	14,756,839,149
	¢	1,440,511,241,869	1,171,705,000,676

(Continued)

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

		2019	2018
Opening balance	¢	10,701,685	73,474,196
Allowance expense (Note 34)		3,641,701	27,236,248
Decrease in allowance (Note 35)		(14,343,386)	(90,008,759)
Closing balance	¢	-	10,701,685

As of December 31, 2019, no allowance was recognized for impairment of derivative instruments other than hedges. As of December 31, 2018, the Bank recognized an allowance for impairment of derivative instruments other than hedges in the amount of ¢10,701,685, for sales of FX futures other than hedges in accordance with SUGEF Directive 9-08.

Annual returns on investments in financial instruments are as follows:

Currency	2019	2018
Colones	5.19% to 11.50%	4.87% to 11.20%
US dollars	1.12% to 9.32%	0.75% to 6.85%
Euro	0.00%	1.62% to 2.00%

As of December 31, 2019, the valuation of available-for-sale investments and restricted financial instruments gives rise to an unrealized gain, net of deferred tax, in the amount of ¢14,635,240,641 (2018: unrealized loss of ¢3,854,956,295). Accordingly, as of that date, the cumulative balance of equity adjustments arising from valuation of these investments is an unrealized gain of ¢8,475,294,691 (2018: unrealized loss of ¢6,159,945,950).

(6) Derivative financial instruments

The Bank holds the following types of derivative financial instruments:

✓ *Derivatives as risk hedging instruments:*

Interest rate futures - hedges:

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

Derivative financial instruments are as follows:

		2019			
Issuing bank		Notional amount		Valuation	Purpose
Citibank	US$	100,000,000	US$	3,768,788	
JP Morgan		200,000,000		7,537,575	Swaps to hedge 10-year issues (maturing in 2023)
Bank of America		200,000,000		7,537,575	
	US$	500,000,000	US$	18,843,938	
Amount in colones	¢	285,045,000,000	¢	10,742,740,489	
Bank of America		100,200,000	US$	(597,199)	Swaps to hedge 5-year issues (maturing in 2021)
JP Morgan		250,000,000		(1,387,612)	
	US$	350,200,000	US$	(1,984,812)	
Amount in colones	¢	199,645,518,000	¢	(1,131,521,262)	
Chicago Board of Trade	US$	5,700,000	US$	(14,781)	Standardized futures contracts (maturing in 2019)
Amount in colones	¢	3,249,513,000	¢	(8,426,660)	

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

As of December 31, 2019, total notional amounts of US$855,900,000, equivalent to ¢487,940,031,000 (2018: US$1,006,700,000, equivalent to ¢608,439,413,000) 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 December 31, 2019, the Bank booked an increase in the fair value of these swaps in the amount of US$18,843,938, equivalent to ¢10,742,740,489 (2018: increase of US$849,679, equivalent to ¢513,537,219) (see Note 5) and a decrease in the fair value of these hedges in the amount of US$1,984,812, equivalent to ¢1,131,521,262 (2018: decrease of US$15,741,800, equivalent to ¢9,514,186,508) (see Note 18).

As of December 31, 2019, the Bank booked an increase in the fair value of futures contracts in the amount of US$8,375, equivalent to ¢4,774,481 (2018: increase of US$84,039, equivalent to ¢50,792,367) (see Note 5) and a decrease in the fair value of those contracts in the amount of US$23,156, equivalent to ¢13,201,141 (2018: nil) (see Note 18).

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

As of December 31, effectiveness of the valuation of derivative financial instruments is as follows:

	Effectiveness rate	
	2019	2018
10-year issue (maturing in 2023)	96.60%	99.40%
5-year issue (maturing 2021)	101.90%	99.60%

As of December 31, 2019 and 2018, a valuation was performed 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 December 31, 2019
- only a portion of the bond cash flows is hedged (corresponding to the 5- and 10-year LIBOR rates 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 December 31, 2019, standardized futures contracts are negotiated as part of the management of the financial derivatives portfolio. The Bank booked a notional amount of US$5.7 million (equivalent to ¢3,249,513,000) for the sale and purchase of these futures contracts.

(Continued)

✓ *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 December 31, 2019, the total notional amount is US$1,500,000, equivalent to ¢855,135,000 (2018: US$8,853,765, equivalent to ¢5,351,126,744) (see Note 22).

As of December 31, 2019, the Bank did not book an increase in the fair value of these forwards (2018: increase in fair value of ¢114,483,566) booked in an asset account (see Note 5) and a decrease in the fair value of these forwards in the amount of ¢20,448,000 (2018: ¢760,675) under a liability account (see Note 18).

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

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

		2019	2018
Gain on derivative financial instruments	¢	23,996,969,536	20,850,704,979
Loss on derivative financial instruments		(11,139,949,202)	(26,913,712,578)
Net gain (loss)	¢	12,857,020,334	(6,063,007,599)

(7) Loan portfolio

(a) Loan portfolio by sector

As of December 31, the loan portfolio by sector is as follows:

		2019	2018
Trade	¢	350,407,493,472	396,785,279,700
Services		898,420,468,670	939,030,870,995
Financial services		110,703,401,409	136,874,986,400
Mining		751,150,730	884,454,369
Manufacturing and quarrying		164,113,448,845	193,446,458,802
Construction		98,549,420,357	116,304,451,617
Agriculture and forestry		108,249,994,180	121,629,572,584
Livestock, hunting and fishing		76,519,891,060	81,952,751,313
Electricity, water, sanitation and other related sectors		392,759,591,131	412,573,611,859
Transportation and telecommunications		48,140,464,669	45,062,571,105
Housing		1,298,362,918,314	1,304,945,620,152
Personal or consumer loans		552,124,931,044	580,323,359,989
Tourism		187,114,473,857	191,332,544,873
		4,286,217,647,738	4,521,146,533,758
Accrued interest receivable		35,315,688,334	36,776,953,763
Allowance for loan losses		(118,507,110,835)	(141,630,956,233)
	¢	4,203,026,225,237	4,416,292,531,288

Annual interest rates on loans receivable are as follows:

	2019		2018	
Currency	Rates	Average *(1)*	Rates	Average *(1)*
Colones	2.00% to 45.20%	15.20%	4.00% to 47.28%	15.28%
US dollars	1.90% to 34.92%	8.98%	2.89% to 38.40%	10.46%
DU	3.85% to 10.50%	6.35%	3.85% to 11.00%	6.53%

(1) Simple average of the minimum and maximum values of the portfolio as of December 31, 2019 and 2018.

(b) Loan portfolio by arrears

As of December 31, the loan portfolio by arrears is as follows:

	2019	2018
Current	¢ 3,976,100,030,099	4,223,554,423,932
1 to 30 days	76,142,922,313	68,059,933,741
31 to 60 days	63,087,894,533	52,941,762,027
61 to 90 days	28,280,314,688	27,147,803,058
91 to 120 days	1,780,298,270	1,434,890,919
121 to 180 days	1,239,338,630	361,407,002
More than 180 days	13,104,970	43,465,874
In legal collection	139,573,744,235	147,602,847,205
	4,286,217,647,738	4,521,146,533,758
Accrued interest receivable	35,315,688,334	36,776,953,763
Allowance for loan losses	(118,507,110,835)	(141,630,956,233)
	¢ 4,203,026,225,237	4,416,292,531,288

(c) Allowance for loan losses

Movement in the allowance for loan losses is as follows:

		2019	2018
Opening balance	¢	141,630,956,234	140,168,393,361
Allowance expense for the year (Note 31)		51,799,477,406	86,529,016,148
Write-offs		(72,595,824,525)	(91,064,341,598)
Decrease in allowance (Note 32)		(175,919)	-
Foreign exchange differences		(2,327,322,361)	5,997,888,322
Closing balance	¢	118,507,110,835	141,630,956,233

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

As of December 31, accounts and fees and commissions receivable are as follows:

		2019	2018
Fees and commissions	¢	1,807,840,064	1,379,493,008
Accounts receivable for brokerage operations		38,691	56,675
Accounts due from officers		51,030,427	23,953,056
Deferred tax (Note 16-b)		18,317,403	837,943,990
Income tax receivable *(1)*		273,262,434	268,539,602
Sundry accounts receivable for credit cards		133,345,974	82,482,719
Other expenses to be recovered		154,949,537	21,163,480
Other accounts receivable *(2)*		4,224,194,861	3,905,545,099
Accrued interest receivable on other sundry accounts receivable		6,689,206	2,082,892
Allowance for impairment of accounts receivable		(4,439,440,280)	(3,914,525,990)
	¢	2,230,228,317	3,986,324,592

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

		2019	2018
Banco Nacional de Costa Rica	¢	138,575,747	156,399,541
BN Vital Operadora de Planes de Pensiones Complementarias, S.A.		72,190	80,512
BN Sociedad Corredora de Seguros, S.A.		134,614,497	112,059,549
	¢	273,262,434	268,539,602

(2) As of December 31, 2019, other accounts receivable include an amount of ¢2,922 million corresponding to theft and fraud (2018: ¢1,677 million corresponding to theft or misappropriation, malicious acts, scams and fraud) and ¢485 million corresponding to system security and data entry errors (2018: ¢450 million).

For the year ended December 31, movement in the allowance for impairment of other accounts receivable is as follows:

		2019	2018
Opening balance	¢	3,914,525,990	3,592,576,911
Allowance expense (Note 34)		1,418,248,620	1,949,617,277
Decrease in allowance (Note 35)		(180,065,955)	(1,149,713,455)
Items settled against allowance		(710,263,802)	(483,865,137)
Foreign exchange differences		(3,004,573)	5,910,394
Closing balance	¢	4,439,440,280	3,914,525,990

(9) Foreclosed assets

As of December 31, foreclosed assets are presented net of the allowance for impairment as follows:

		2019	2018
Assets acquired in lieu of payment	¢	93,207,402,343	79,173,439,587
Idle property and equipment		55,884,629	1,840,189
Allowance for impairment		(63,718,411,084)	(59,100,375,778)
	¢	29,544,875,888	20,074,903,998

For the year ended December 31, movement in the allowance for impairment of foreclosed assets is as follows:

		2019	2018
Opening balance	¢	59,100,375,778	62,466,054,133
Allowance expense (Note 38)		8,835,786,482	4,111,275,986
Sale or disposal of foreclosed assets		(10,602)	(956,183,973)
Decrease in allowance		(4,217,740,574)	(6,520,770,368)
Closing balance	¢	63,718,411,084	59,100,375,778

(10) Investments in other companies

As of December 31, investments in other companies are as follows:

		2019	2018
Other financial and non-financial entities *(1)*	¢	50,623,300	50,623,300
Banco Internacional de Costa Rica, S.A. and subsidiary (BICSA) (Note 3) *(2)*		66,139,056,960	66,444,860,974
	¢	66,189,680,260	66,495,484,274

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

		2019	2018	Concept
National Stock Exchange	¢	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	Investment to operate as custodian of electronic securities
Interclear Central de Valores		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	Investment in the Golfito Duty Free Shopping Center
Other financial entities		423,300	423,300	Investments in various cooperatives
	¢	50,623,300	50,623,300	

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

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(11) Property and equipment, net

As of December 31, property and equipment is as follows:

		2019					
		Land	Buildings	Furniture and equipment	Computer hardware	Vehicles	Total
Cost:							
Historical cost at beginning of year	¢	4,281,149,677	69,580,863,035	65,263,465,984	50,713,063,855	264,951,853	190,103,494,404
Revalued cost at beginning of year		49,234,856,453	65,881,300,846	(9,367,058)	(33,530,103)	-	115,073,260,138
Additions		-	734,718,525	6,266,523,128	4,015,250,452	92,270,353	11,108,762,458
Revaluation		150,828,151	(204,594,177)	-	-	-	(53,766,026)
Disposals		-	-	(4,769,272,350)	(1,308,278,734)	-	(6,077,551,084)
Sales		-	-	(13,039,259)	-	-	(13,039,259)
Reclassifications *(i)*		-	(108,714,153)	(2,341,974,477)	(791,196,199)	-	(3,241,884,829)
Closing balance		53,666,834,281	135,883,574,076	64,396,335,968	52,595,309,271	357,222,206	306,899,275,802
Accumulated depreciation:							
Opening balance		-	43,897,512,314	38,877,680,174	36,445,870,666	220,369,424	119,441,432,578
Depreciation expense on historical cost		-	1,682,208,682	7,319,339,582	5,732,758,150	18,154,281	14,752,460,695
Depreciation expense on revalued cost		-	1,226,598,263	-	-	-	1,226,598,263
Disposals		-	-	(4,120,381,092)	(1,253,601,150)	-	(5,373,982,242)
Sales		-	-	(12,945,949)	-	-	(12,945,949)
Reclassifications *(ii)*		-	(156,210,873)	(2,317,380,613)	(766,105,017)	-	(3,239,696,503)
Closing balance	¢	-	46,650,108,386	39,746,312,102	40,158,922,649	238,523,705	126,793,866,842
Net closing balance	¢	53,666,834,281	89,233,465,690	24,650,023,866	12,436,386,622	118,698,501	180,105,408,960

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

i. Correspond to reclassifications between asset accounts, change in asset type (classification of assets) between accounts of the same group, asset transfer process (change of location by office), reversal of journal entries and correction of differences in reconciliation offset between asset accounts, depreciation expense, loss or lower balance.

ii. Correspond to the asset transfer process (change of location by office), correction of differences in reconciliation offset between asset accounts, depreciation expense, loss or lower balance. Includes adjustment to accumulated depreciation based on the valuation of buildings performed during the year.

(Continued)

(12) Other assets

As of December 31, other assets are as follows:

		2019	2018
Deferred charges:			
Leasehold improvements *(1)*	¢	354,932,802	690,513,572
Cost of issue of financial instruments, net *(2)*		747,590,438	1,020,486,226
Cost of subordinated debt project		248,222,637	340,742,718
Deferred direct costs related to loans		4,081,444,630	4,488,822,065
Other deferred charges *(3)*		56,873,180,488	71,115,886,457
		62,305,370,995	77,656,451,038
Intangible assets:			
Software *(4)*		6,923,034,375	5,046,893,109
Other intangible assets *(4)*		2,870,059	2,660,203
		6,925,904,434	5,049,553,312
Other assets:			
Prepaid interest and fees and commissions		126,659,586	365,324,853
Prepaid taxes		365,631,712	1,049,166,356
Prepaid insurance policy		206,313,956	144,379,676
Other prepaid expenses *(5)*		4,486,566,614	728,395,586
Stationery, office supplies and other materials		574,380,153	452,274,191
Leased assets		119,663,788	121,011,254
Library and artwork		429,918,818	429,918,818
Construction work-in-progress		1,099,344,126	2,471,766,478
Software under development		-	953,628
Payments to welfare and trade associations		600,000	600,000
Other sundry assets *(6)*		603,844,611	7,105,562,703
Operations pending settlement		7,119,154,682	8,727,470,265
Other operations pending application		67,124,129	224,971,615
Security deposits (Note 2)		548,924,899	368,859,948
Legal and administrative deposits (Note 2)		243,636,289	160,172,058
		15,991,763,363	22,842,845,076
	¢	85,223,038,792	105,548,849,426

(1) As of December 31, 2019, the expense for amortization of leasehold improvements amounts to ¢376,452,976 (2018: ¢332,162,531).

(2) As of December 31, costs related to the issue of financial instruments are as follows:

		2019		
		10-year issue (maturing in 2023)	5-year issue (maturing 2021)	Total
Commission - structuring banks	¢	285,045,000	484,576,500	1,054,666,500
Commission - Moody's Investors Service		142,522,500	-	285,045,000
Commission - Société de la Bourse de Luxembourg, S.A.		6,967,070	-	13,934,140
RR Donnelley		6,240,752	3,735,957	16,217,484
BNY Mellon		2,253,566	3,287,709	7,794,841
Moody's - issuer rating		18,869,979	142,522,500	180,262,458
Fitch Ratings		142,522,500	142,522,500	427,567,500
Milbank		83,894,444	112,319,480	280,108,368
Shearman & Sterling		84,003,332	124,960,364	292,967,028
External audit		108,317,100	132,260,880	348,895,080
Perkins Cole (Broker)		-	7,477,899	7,477,899
Printing of documents		-	9,015,882	9,015,882
		880,636,243	1,162,679,671	2,923,952,180
Amortization		(475,534,753)	(820,190,723)	(2,176,361,742)
	¢	405,101,490	342,488,948	747,590,438

		2018		
		10-year issue (maturing in 2023)	5-year issue (maturing 2021)	Total
Commission - structuring banks	¢	302,195,000	513,731,500	1,118,121,500
Commission - Moody's Investors Service		151,097,500	-	302,195,000
Commission - Société de la Bourse de Luxembourg, S.A.		7,386,250	-	14,772,500
RR Donnelley		6,616,233	3,960,734	17,193,224
BNY Mellon		2,389,154	3,485,518	8,263,826
Moody's - issuer rating		20,005,309	151,097,500	191,108,118
Fitch Ratings		151,097,500	151,097,500	453,292,500
Milbank		88,942,032	119,077,286	296,961,350
Shearman & Sterling		89,057,471	132,478,722	310,593,664
External audit		114,834,100	140,218,480	369,886,680
Perkins Cole (Broker)		-	7,927,814	7,927,814
Printing of documents		-	9,558,331	9,558,331
		933,620,549	1,232,633,385	3,099,874,507
Amortization		(469,459,691)	(676,308,017)	(2,079,388,281)
	¢	464,160,858	556,325,368	1,020,486,226

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

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

(4) As of December 31, intangible assets, net, are as follows:

		2019		
		Software	Other intangible assets	Total
Cost:				
Opening balance	¢	29,090,446,091	2,087,126,157	31,177,572,248
Additions		7,746,494,828	11,690,092	7,758,184,920
Disposals		(2,852,811,229)	(2,042,370,395)	(4,895,181,624)
Reclassifications		-	(11,480,236)	(11,480,236)
Adjustments		(1,225,470,005)	-	(1,225,470,005)
Closing balance		32,758,659,685	44,965,618	32,803,625,303
Accumulated amortization:				
Opening balance		24,043,552,981	2,084,465,954	26,128,018,935
Expense for the year		5,106,669,955	11,480,236	5,118,150,191
Disposals		(2,760,182,747)	(2,042,370,395)	(4,802,553,142)
Reclassifications		(51,880,898)	(11,480,236)	(63,361,134)
Adjustments		(502,533,981)	-	(502,533,981)
Closing balance		25,835,625,310	42,095,559	25,877,720,869
Net closing balance	¢	6,923,034,375	2,870,059	6,925,904,434

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

(5) As of December 31, 2019, "Other prepaid expenses" include the booking of the recovery of amounts previously paid due to the recalculation of the parafiscal contributions for fiscal years 2010-2016, due to the notice of deficiency and pursuant to the *Amnesty Law* of the Ministry of Finance. It also includes computer developments performed by the Bank during the year.

(6) The "Other sundry assets" account decreased due to the payments during the year of invoices of software under development.

(13) Obligations with the public

As of December 31, obligations with the public by cumulative amount are as follows:

		2019	2018
Demand deposits:			
Checking accounts	¢	1,503,302,739,901	1,266,981,098,817
Certified checks		15,935,664	73,507,572
Savings deposits		1,468,957,645,610	1,429,099,932,052
Matured term deposits		17,584,675,308	26,930,306,912
Other demand deposits		204,830,131	331,158,380
Drafts and transfers payable		70,339,341	210,113,339
Cashier's checks		2,624,421,077	3,573,252,271
Advance collections from customers for credit cards		10,869,054,002	12,462,263,255
Banking mandates		1,110,469,833	1,198,002,163
Trust fund obligations		138,697,709	234,948,393
		3,004,878,808,576	2,741,094,583,154
Term deposits:			
Deposits from the public		2,037,331,022,921	1,862,962,601,087
Other term deposits		142,993,932,467	126,413,598,734
		2,180,324,955,388	1,989,376,199,821
Other obligations with the public:			
Obligations with third parties for tri-party repurchase agreements		11,859,003,890	12,135,686,821
Finance charges payable		50,583,842,992	40,943,517,787
	¢	5,247,646,610,846	4,783,549,987,583

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

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

Currency	2019	2018
Colones	3.30% to 8.15%	4.00% to 8.20%
US dollars	0.50% to 5.10%	0.50% to 5.10%

The Bank has term certificates of deposit that are restricted to secure certain loan operations. As of December 31, 2019, the balance of those term certificates of deposit is ¢71,699,818,604 (2018: ¢45,565,025,114). As of that date, the Bank has no inactive deposits with State-owned entities or other banks.

(14) Obligations with BCCR

As of December 31, obligations with BCCR are as follows:

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

i. According to Agreement MAG/AID 515-T-027 signed December 15, 1981, obligations related to financing of loans using external funds correspond to the agreement between the Government of Costa Rica and the Bank regarding management of the funds of the Agricultural Production Systems Project. This loan bears no interest and the agreement shall remain effective until otherwise agreed.

ii. Other term obligations with BCCR correspond to deferred liquidity operations (Integrated Liquidity Market (MIL) operations), with the corresponding interest.

(15) Obligations with financial entities

Obligations with financial entities are as follows:

		2019	2018
Demand:			
Checking accounts with local financial entities	¢	55,828,020,450	46,734,855,631
Savings deposits with local financial entities		56,423,006	77,408,367
Development Credit Fund (FOCREDE) management		132,014,786,688	132,343,259,393
Outstanding checks		2,003,275,580	1,912,750,821
Matured term deposits		5,700,900	93,328,163
Current accounts and obligations with related parties		50,395,704	510,449,626
		189,958,602,328	181,672,052,001
Term:			
Term deposits with local financial entities		80,202,556,836	111,103,688,102
Term obligations with foreign financial entities *(1)*		489,650,619,452	590,621,555,713
Liquidity market obligations		26,763,999,502	37,631,699,999
Loans from local financial entities *(2)*		32,574,416,468	34,750,337,565
Loans from foreign financial entities *(2)(3)*		103,205,844,087	96,774,624,605
Obligations with related financial entities		5,700,900,000	-
Obligations for liquidity deferred operations *(2)*		-	105,600,000,000
		738,098,336,345	976,481,905,984
Charges payable on other demand and term obligations with financial entities - foreign currency		55,207,077	96,502,933
Charges payable on other demand and term obligations with financial entities - local currency		770,128,398	1,632,784,606
Charges payable on loans with foreign financial entities *(2)(3)*		454,086,861	436,983,682
Charges payable on loans with local financial entities *(2)*		77,701,718	152,689,267
Charges payable on term deposits with foreign financial entities *(1)*		5,119,567,352	6,402,756,563
		6,476,691,406	8,721,717,051
	¢	934,533,630,079	1,166,875,675,036

(Continued)

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

Date of issue	Face value	Characteristics
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

As of December 31, balances according to the term of the obligations are as follows:

		2019		
		10-year issue (maturing in 2023)	5-year issue (maturing in 2021)	Total
Issue	¢	282,399,782,400	199,006,652,342	481,406,434,742
Adjustment to fair value of hedged item measured at cost of international issues		9,104,962,694	(2,692,850,427)	6,412,112,267
Amortization of discount in traded amount of issues		1,400,107,684	431,964,759	1,832,072,443
		292,904,852,778	196,745,766,674	489,650,619,452
Finance charges payable		2,969,218,754	2,150,348,598	5,119,567,352
	¢	295,874,071,532	198,896,115,272	494,770,186,804

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

On March 18, 2019, the Bank repurchased the 5-year issue of securities maturing in 2021, in the amount of US$149,800,000, corresponding to issue BNALCR5.875 maturing April 25, 2021, ISIN No. USP14623AC98.

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

		2019		
		Local	Foreign	Total
Less than 1 year		77,701,718	17,556,786,861	17,634,488,579
1 to 2 years		-	2,672,296,875	2,672,296,875
3 to 5 years		-	40,674,097,212	40,674,097,212
More than 5 years		32,574,416,468	42,756,750,000	75,331,166,468
	¢	32,652,118,186	103,659,930,948	136,312,049,134

		2018		
		Local	Foreign	Total
Less than 1 year	¢	105,667,412,889	-	105,667,412,889
1 to 2 years		-	5,141,281,219	5,141,281,219
2 to 5 years		34,835,613,944	92,070,327,068	126,905,941,012
	¢	140,503,026,832	97,211,608,287	237,714,635,120

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

(16) Income tax

Pursuant to the *Costa Rican Income Tax Law*, the Bank is required to file income tax returns each year. As of December 31, income tax is as follows:

a) Income tax for the current period

For the year ended December 31, the income tax expense is as follows:

		2019	2018
Current tax:			
Income tax expense for the year	¢	20,122,774,464	6,263,277,755
Prior-year income tax:			
Prior-year income tax expense		14,189,237,931	869,401
		34,312,012,395	6,264,147,156
Deferred tax:			
Deferred tax expense		46,603,623	86,473,578
Deferred tax income		(158,122,943)	(150,447,118)
		(111,519,320)	(63,973,540)
Income tax expense, net	¢	34,200,493,075	6,200,173,616

For the year ended December 31, the difference between the income tax expense and the amount that would result from applying the corresponding tax rate to pre-tax income (30%) is reconciled as follows:

		2019	2018
Profit before tax	¢	75,060,665,247	36,576,417,890
Plus (less) tax effect of:			
Non-deductible expenses		84,186,597,972	66,766,094,325
Deductible expenses		(4,310,177,685)	(7,308,142,927)
Non-taxable income		(87,861,170,654)	(75,156,776,771)
Tax base		67,075,914,880	20,877,592,517
Tax rate		30%	30%
Subtotal - income tax expense		20,122,774,464	6,263,277,755
Prior-year income tax expense		14,189,237,931	869,401
Deferred tax expense		46,603,623	86,473,578
Income from deferred income tax		(158,122,943)	(150,447,118)
Income tax expense, net	¢	34,200,493,075	6,200,173,616

b) Deferred tax

As of December 31, deferred tax assets and liabilities are as follows:

		2019		
		Assets	Liabilities	Net
Unrealized losses on valuation of investments	¢	1,049,189,321	-	1,049,189,321
Provisions		198,437,376	-	198,437,376
Unrealized gains on valuation of investments		-	(4,547,196,438)	(4,547,196,438)
Revaluation of assets		-	(9,506,392,781)	(9,506,392,781)
	¢	1,247,626,698	(14,053,589,219)	(12,805,962,522)

		2018		
		Assets	Liabilities	Net
Unrealized losses on valuation of investments	¢	2,171,066,820	-	2,171,066,820
Provisions		46,467,231	-	46,467,231
Unrealized gains on valuation of investments		-	(246,219,571)	(246,219,571)
Revaluation of assets		-	(9,763,087,231)	(9,763,087,231)
	¢	2,217,534,051	(10,009,306,802)	(7,791,772,751)

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of December 31, deferred tax assets and liabilities are as follows:

		2018	Included in the income statement	Included in equity	2019
Unrealized losses on valuation of investments	¢	2,171,066,820	(6,066,520)	(1,115,810,979)	1,096,556,098
Provisions		46,467,232	151,970,144	-	198,437,376
Unrealized gains on valuation of investments		(246,219,570)	(196,822,995)	(4,104,153,873)	(4,547,196,438)
Revaluation of assets		(9,763,087,232)	-	256,694,451	(9,506,392,781)
	¢	(7,791,772,750)	(50,919,373)	(4,963,270,401)	(12,805,962,522)

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

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

As of December 31, 2019, the Bank did not recognize a deferred tax liability in the amount of ¢3,145,539,400 (2018: ¢2,896,083,005) given that it controls the moment when the subsidiaries pay dividends.

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

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(17) Provisions

As of December 31, provisions are as follows:

		2019	2018
Severance benefits	¢	490,062,436	610,346,000
Litigation		7,728,962,160	6,949,309,790
Checking and savings accounts liquidated		717,377,096	772,565,219
Manager commissions		14,752,936,518	12,787,348,741
Variation in RIVM methodology		6,132,921,902	2,852,491,877
Notice of deficiency		1,780,940,731	782,637,950
"BN Premios" points program		267,404,182	-
Other		95,310,063	-
	¢	31,965,915,088	24,754,699,577

As of December 31, movement in provisions is as follows:

		Severance benefits	Litigation *(1)*	Other	Total
Opening balance for 2017	¢	1,208,537,980	4,716,284,942	14,938,593,146	20,863,416,068
Increase in provision		1,549,587,597	2,441,577,318	11,662,198,229	15,653,363,144
Used		(1,876,145,392)	(187,552,470)	(7,254,785,037)	(9,318,482,899)
Decrease in provision		(271,634,185)	(21,000,000)	(2,150,962,551)	(2,443,596,736)
Balance for 2018		610,346,000	6,949,309,790	17,195,043,787	24,754,699,577
Increase in provision		319,666,364	909,774,810	13,006,917,036	14,236,358,210
Used		(264,984,181)	(130,122,440)	(6,446,994,906)	(6,842,101,527)
Decrease in provision		(174,965,747)	-	(8,075,425)	(183,041,172)
Closing balance for 2019	¢	490,062,436	7,728,962,160	23,746,890,492	31,965,915,088

(1) As of December 31, the Bank and its subsidiaries are defendants in pending litigations and management considers that an outflow of economic benefits will be required to settle the corresponding obligations. The Bank and its subsidiaries have estimated future outflows and made the following provisions:

	Claimed amount		Provision	
Type	2019	2018	2019	2018
Ordinary - in colones	67,509,267,766	65,950,513,209	4,772,411,751	4,296,568,066
Ordinary - in US dollars	215,321,593,452	214,868,706,304	1,963,180,484	1,877,804,885
Criminal - in colones	1,020,877,223	1,020,877,223	651,145,428	506,644,203
Labor - in colones	939,164,223	864,333,394	342,224,497	268,292,636
	284,790,902,664	282,704,430,130	7,728,962,160	6,949,309,790

(18) Other sundry accounts payable

Other sundry accounts payable are as follows:

		2019	2018
Professional fees	¢	3,493,153	-
Creditors - goods and services		6,563,498,911	3,602,343,718
Income tax		14,484,273,758	935,487,000
Value-added tax		131,366,341	-
Employer contributions		6,103,931,422	5,518,675,886
Court-ordered withholdings		3,522,836,918	3,697,873,283
Tax withholdings		2,175,100,638	3,781,589,858
Employee withholdings		669,043,767	614,833,686
Other third-party withholdings		62,259,736	13,160,925
Compensation		6,375,528,923	5,599,261,127
Statutory allocations		17,158,214,701	8,971,707,328
Obligations on loans with related parties		654,935	237,161
Clearing house operations		7,330,622,692	173,998,387
Accrued vacation		4,936,134,465	6,499,439,265
Accrued statutory Christmas bonus		1,044,097,695	995,517,307
Contributions to the Superintendencies' budget		4,997,897	8,078,817
Foreclosed assets		830,452,283	783,217,563
Temporary deposits for the payment of premiums		2,996,653,635	3,525,879,600
Direct contracts with the Government Purchases department - various *(1)*		923,685,184	1,172,877,958
PAYPAL transactions		515,950,291	254,442,509
Accounts due to customers *(2)*		11,301,498,652	1,805,252,268
Amounts received for partial sales of foreclosed assets		535,329,053	674,480,585
Master Card and Visa payments		1,172,297,303	1,270,064,536
Various creditors *(3)*		3,126,164,569	3,990,796,390
Interest rate futures - Hedges		1,144,722,403	9,514,186,508
Purchase of FX futures (Other than hedges) (Note 6)		20,448,000	-
Sale of FX futures (other than hedges) (Note 6)		-	760,675
	¢	93,133,257,325	63,404,162,340

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

(2) Accounts due to customers are related to dividends, sales or liquidations pending instructions by foreign investors.

(3) As of December 31, 2019, the "Various creditors" account includes ¢371 million related to real property, ¢715 million for Merlink guarantees and ¢567 million related to cash differences (2018: ¢3,721 million related to operations of the Bank's Electronic Means of Payment Division [VISA]), while the remaining amount corresponds to the normal operations of other divisions.

(19) Other liabilities

As of December 31, other liabilities are as follows:

		2019	2018
Deferred income:			
Deferred finance income	¢	33,991,946,026	33,218,566,310
Deferred fees and commissions for trust management		38,761,741	36,788,458
		34,030,707,767	33,255,354,768
Allowance for stand-by credit losses *(1)*		146,910,621	169,073,348
Operations pending application:			
Operations pending settlement		7,247,885,296	19,899,787,694
Other operations pending application		539,321,297	13,835,038,255
		7,787,206,593	33,734,825,949
	¢	41,964,824,981	67,159,254,065

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

		2019	2018
Opening balance	¢	169,073,348	265,681,489
Allowance expense (Note 34)		14,100,000	20,750,000
Decrease in allowance (Note 35)		(30,000,000)	(130,000,000)
Adjustment for foreign exchange differences		(6,262,727)	12,641,859
Closing balance	¢	146,910,621	169,073,348

(20) Subordinated obligations

As of December 31, the Bank's subordinated obligations are as follows:

Annual interest rate	Term	Maturity		2019	2018
6-month LIBOR + 4.50% in the first 5 years and 6-month LIBOR + 5.00% thereafter	10 years	11/15/2023	US$	90,000,000	100,000,000
6-month LIBOR + 5.25% in the first 5 years and 6-month LIBOR + 5.75% thereafter	15 years	10/23/2029		30,000,000	30,000,000
			US$	120,000,000	130,000,000
	Total equivalent in colones		¢	78,570,700,000	73,634,600,000
	Finance charges payable			1,917,469,915	1,501,463,242
			¢	69,965,445,025	80,488,169,915

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.

(21) Equity

(a) Share capital

As of December 31, the Bank's share capital is as follows:

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

(b) Revaluation surplus

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

As of December 31, 2019, the revaluation surplus amounts to ¢65,745,785,452 (2018: ¢66,193,911,011).

(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 December 31, 2019, the adjustment for the valuation of available-for-sale investments and restricted financial instruments resulted in an unrealized gain of ¢8,475,294,691 (2018: unrealized loss of ¢6,159,945,950).

(d) Adjustment for valuation of investments in other companies

As of December 31, 2019, the adjustment for valuation of investments in foreign associates using the equity method amounts to ¢8,712,637,650 (2018: ¢9,125,840,572). These investments correspond to the Bank's 49% ownership interest in BICSA and Subsidiary.

(e) Capital reserves

As of December 31, capital reserves are as follows:

		2019	2018
Legal reserve	¢	332,762,255,495	318,382,615,318
Statutory reserve for foreclosed assets		684,433,271	247,445,202
Excess of statutory reserve for loans		5,271,191,880	5,739,879,198
Statutory dynamic provision		10,080,521,813	9,673,364,920
	¢	348,798,402,459	334,043,304,638

(f) Equity of the Development Financing Fund

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

(22) Commitments and contingencies

The Bank has off-balance sheet commitments and contingencies that arise in the normal course of business and involve elements of credit and liquidity risk. As of December 31, the notional amounts of foreign exchange derivatives are as follows:

		2019	2018
Performance bonds	¢	33,750,650,170	32,794,951,309
Bid bonds		3,629,633,623	5,632,858,532
Other guarantees		254,606,698	3,517,184,123
Letters of credit		6,359,518,260	17,288,986,781
Credits pending disbursement		170,195,188	212,097,543
		44,164,603,939	59,446,078,288
Pre-approved lines of credit		266,778,460,323	288,433,381,312
Other contingencies not related to credits		43,221,343	27,398,060
Other contingencies - Pending litigation and lawsuits (Note 47)		284,790,987,038	282,704,484,455
		551,612,668,704	571,165,263,827
FX futures - Other than hedges (Note 6)		855,135,000	5,351,126,744
	¢	596,632,407,643	635,962,468,859

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

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

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

(23) Trust assets (unaudited)

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of December 31, 2019, 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 clause	Custody of stock and cash management	Guaranties and cash management	Custody of stock	Management, custody and guaranty	Guaranty and custody of stock	Total
Trust assets												
Cash and due from banks	¢ 216,013,920	7,699,742	13,172,958	20	177,868	-	8,864	228,954,478	-	-	-	466,027,850
Investments in financial instruments	260,457,059,772	27,570,032,222	1,596,799,838	1,490,736,386,534	1,247,960,557	-	2,415,632	34,211,454	-	34,213,479	570,501	1,781,679,649,989
Loan portfolio	3,287,700,999	-	1,435,473,511	-	-	-	-	-	-	-	-	4,723,174,510
Accounts and accrued interest receivable	65,969,144,522	27,270,738,419	1,789,234,831	40,812,455	-	-	-	128,421,727	-	-	847,906	95,199,199,860
Foreclosed assets	152,415,013	-	13,569,118	-	-	-	-	-	-	-	-	165,984,131
Investments in other companies	-	-	-	200,000,000	3,377,009	176,000	-	-	36,000	-	916,884,000	1,120,473,009
Property and equipment	795,700,368	44,034,477,803	-	103,622,050,975	483,082,253	-	-	8,719,375,327	-	-	1,738,460,805	159,393,147,531
Other assets	57,228,364,497	7,885,574,076	-	235,000,000	2,656,299	-	-	-	-	-	1,674,504,724	67,026,099,596
	¢ 388,106,399,091	106,768,522,262	4,848,250,256	1,594,834,249,984	1,737,253,986	176,000	2,424,496	9,110,962,986	36,000	34,213,479	4,331,267,936	2,109,773,756,476

(Continued)

As of December 31, 2018, trust capital is invested in the following assets (unaudited):

Nature of the trust		Cash or property management	Securitization	Portfolio management	Guaranty	Testamentary	Custody of stock with testamentary clauses	Custody of stock and management of funds	Guaranties and cash management	Custody of stock	Guaranty and custody of stock	Total
Trust assets												
Cash and due from banks	¢	349,558,362	2,814,638	34,391,034	2,367,431	340,036	-	8,633	-	-	-	389,480,134
Investment in financial instruments		389,014,806,688	15,130,037,490	897,443,766	1,648,104,217,294	1,276,799,016	-	2,204,105	-	-	-	2,054,425,508,359
Loan portfolio		2,961,287,844	-	1,483,501,217	-	-	-	-	-	-	-	4,444,789,061
Accounts and accrued interest receivable		33,495,449,219	21,944,782,699	1,696,057,851	28,501,954	222,564	-	-	109,483,978	-	3,505,466	57,278,003,731
Foreclosed assets		83,913,469	-	-	-	-	-	-	-	-	-	83,913,469
Investments in other companies		-	-	-	200,000,000	2,380,439	2,120,000	-	-	36,000	967,024,000	1,171,560,439
Property and equipment		792,308,175	47,596,681,660	-	61,660,877,229	93,224,756	-	-	1,544,041,161	-	1,738,460,805	113,425,593,786
Other assets		42,586,424,748	292,376,158	-	1,486,136,781	1,380,654	-	-	-	-	1,674,504,725	46,040,823,066
	¢	469,283,748,505	84,966,692,645	4,111,393,868	1,711,482,100,689	1,374,347,465	2,120,000	2,212,738	1,653,525,139	36,000	4,383,494,996	2,277,259,672,045

(Continued)

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

a) Housing mortgage

These trusts are exclusively dedicated to managing housing loan portfolios.

b) Cash or property management

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

c) Securitization

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

d) Portfolio management

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

e) Special accounts

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

f) Guaranty

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

g) Testamentary

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

h) Custody of stock with testamentary clause

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

(24) Other debit memoranda accounts

As of December 31, other debit memoranda accounts are as follows:

		2019	2018
Pension Fund Manager's own investments in custody – Face value of principal (unaudited)	¢	9,654,418,400	7,495,275,500
Pension Fund Manager's own investments in custody – Coupons (unaudited)		7,281,355,641	1,334,424,514
Pension Fund Manager's own investments in custody – Number of shares (unaudited)		23	23
Guarantees received in the Bank's custody		218,853,597	270,568,076
Other guarantees received in the Bank's custody		5,176,054,303,919	5,376,562,492,203
Lines of credit granted but unused		323,421,145,438	357,850,484,895
Loans pending disbursement		181,245,800,456	210,781,440,052
Unused overdrafts		83,060,584	97,787,627
Loans settled		314,345,064,616	255,710,265,939
Other accounts receivable settled		13,924,613,678	10,649,584,424
Accrued interest receivable settled		27,942,752,572	22,232,785,736
Interest income on non-accrual loans of loan portfolio		23,668,206,663	22,737,769,740
Supporting documentation received in the Bank's custody		1,255	1,255
Securities issued pending placement		-	20,267,899,998
Lines of credit or overdrafts obtained but unused		5,700,900,000	-
Notified letters of credit		14,803,564,373	14,794,547,717
Notional value subject to interest rate futures (Note 6)		487,940,031,000	608,439,413,000
Reversals made to income accounts for the year		24,191,264,433	42,203,949,449
Reversals made to expense accounts for the year		93,175,352,615	309,182,251,803
Non-deductible expenses		76,710,515,077	60,426,069,492
Non-taxable income		87,270,366,858	78,925,461,561
Other memoranda accounts		203,337,088,070	188,633,394,696
		7,070,968,659,268	7,588,595,867,700
Third-party debit memoranda accounts *(1)* (unaudited)		3,463,182,275,754	2,992,442,398,537
Own debit memoranda accounts for custodial activities		376,872,803,078	230,639,645,060
Third-party debit memoranda accounts for custodial activities (unaudited)		12,973,669,085,034	12,213,914,100,697
		16,813,724,163,866	15,436,996,144,294
	¢	23,884,692,823,134	23,025,592,011,994

(1) As of December 31, third-party debit memoranda accounts are as follows:

		2019	2018
Management of banking mandates	¢	1,279,425,802,869	1,116,600,990,382
"TUDES" securities received in custody from affiliates under Article 75 of Law No. 7531		495,137,812	565,822,098
Pension funds (unaudited) (Note 27)		1,680,941,664,604	1,440,563,987,276
Investment funds (unaudited) (Note 26)		502,319,670,469	434,711,598,781
	¢	3,463,182,275,754	2,992,442,398,537

As of December 31, other memoranda accounts by entity are as follows:

		2019	2018
Banco Nacional de Costa Rica	¢	20,618,489,989,927	20,173,855,220,770
BN Valores Puesto de Bolsa, S.A. (unaudited) (Note 25)		1,065,320,460,101	966,935,348,690
BN Sociedad Administradora de Fondos de Inversión, S.A. (unaudited) (Note 26)		502,372,384,904	434,748,836,782
BN Vital Operadora de Planes de Pensiones Complementarias (unaudited) (Note 27)		1,698,509,988,202	1,450,052,605,752
	¢	23,884,692,823,134	23,025,592,011,994

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

As of December 31, memoranda accounts for brokerage operations are summarized as follows:

		2019	2018
Own			
Trading securities in custody (Note 25-a)	¢	-	3,609,653,548
Trading securities pending delivery		-	13,752,529,970
Confirmed cash agreements pending settlement		-	-
Repurchase agreements pending settlement (Note 25-b)		44,629,339,091	12,214,400,200
Other own memoranda accounts (Note 25-a)		22,594,074,374	-
Own trading securities		5,718,898,378	6,057,466,966
		72,942,311,843	35,634,050,684
Third-party			
Trading securities in custody (Note 25-a)		-	669,779,647,707
Trading securities received as guarantees		44,973,773,723	60,944,579,831
Trading securities pledged as guarantees		-	87,142,856,328
Trading securities pending receipt		-	1,678,995,418
Signed agreements pending settlement		-	1,171,307,819
Repurchase agreements pending settlement (Note 25-b)		83,226,731,441	109,506,197,223
Third-party trading securities (Note 25-a)		862,668,604,471	-
Cash and accounts receivable		1,509,038,623	1,077,713,680
		992,378,148,258	931,301,298,006
Memoranda accounts (Note 24)	¢	1,065,320,460,101	966,935,348,690

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.

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a) As of December 31, securities held in custody are as follows:

Location	Type of custody		2019	2018
Own custodial activities				
Local	At face value - available	¢	-	3,563,040,849
Local	At purchase value of shares - available		-	15,000,002
Local	At purchase value of investments - available		-	79,195
Local	At face value - pledged		-	29,500,000
Local	Amount of physical coupons - pledged		-	2,033,502
Local	CEVAL - private		12,728,290,542	-
Local	CEVAL - public		9,850,783,830	-
Local	At face value - pending delivery		-	-
Local	Vault		15,000,002	-
			22,594,074,374	3,609,653,548
Custodial activities on behalf of third parties				
Local	At face value - available		-	628,205,539,525
Local	Amount of physical coupons - available		-	4,893,141
Local	At purchase value of shares - available		-	18,401,425,869
Local	At purchase value of investments - available		-	20,534,709,051
Local	At face value - pledged		-	2,386,974,952
Local	At purchase value of shares - pledged		-	49,200,471
Local	At purchase value of investments - pledged		-	196,904,698
Local	At face value - pending delivery		-	-
Local	CEVAL - private		168,649,356,729	-
Foreign	CEVAL - private		18,229,333,191	-
Local	CEVAL - public		655,906,820,691	-
Foreign	International custody		19,480,059,738	-
Local	Vault		8,024,829	-
Local-Foreign	Securities that are doubtful, in arrears or in litigation		395,009,293	-
			862,668,604,471	669,779,647,707
		¢	885,262,678,845	673,389,301,255

b) As of December 31, term buyer and seller positions in third-party repurchase agreements involving the Brokerage Firm are as follows:

2019

	Term buyer				Term seller			
	Colones	US dollars	US dollars expressed in colones	Total	Colones	US dollars	US dollars expressed in colones	Total
Own	23,747,093,333	36,629,735	20,882,245,758	44,629,339,091	-	-	-	-
Third parties	12,562,837,072	64,703,505	36,886,821,210	49,449,658,282	7,828,360,552	45,516,870	25,948,712,607	33,777,073,159
	36,309,930,405	101,333,240	57,769,066,968	94,078,997,373	7,828,360,552	45,516,870	25,948,712,607	33,777,073,159

2018

	Term buyer				Term seller			
	Colones	US dollars	US dollars expressed in colones	Total	Colones	US dollars	US dollars expressed in colones	Total
Own	9,104,496,905	5,145,524	3,109,903,295	12,214,400,200	-	-	-	-
Third parties	11,481,507,622	86,891,745	52,516,502,039	63,998,009,661	11,016,569,785	57,068,479	34,491,617,777	45,508,187,562
	20,586,004,527	92,037,269	55,626,405,334	76,212,409,861	11,016,569,785	57,068,479	34,491,617,777	45,508,187,562

As of December 31, 2019, term buyer and seller positions in tri-party repurchase agreements in US dollars were valued at the exchange rate of ¢570.09 (2018: ¢604.39) to US$1.00.

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

	2019			
	Term buyer		Term seller	
	Colones	US dollars	Colones	US dollars
Own				
1 to 30 days	¢ 1,502,625,000	1,453,976	-	-
31 to 60 days	19,827,447,500	8,885,921	-	-
61 to 90 days	-	7,586,524	-	-
More than 91 days	2,417,020,833	18,703,314	-	-
	23,747,093,333	36,629,735	-	-
Third parties				
1 to 30 days	553,570,338	-	553,570,338	-
31 to 60 days	6,021,601,486	39,224,455	3,706,216,889	24,150,779
61 to 90 days	5,627,328,645	25,252,626	3,208,236,722	21,139,668
More than 91 days	360,336,603	226,424	360,336,603	226,423
	12,562,837,072	64,703,505	7,828,360,552	45,516,870
	¢ 36,309,930,405	101,333,240	7,828,360,552	45,516,870

	2018			
	Term buyer		Term seller	
	Colones	US dollars	Colones	US dollars
Own				
1 to 30 days	¢ 3,797,421,874	4,580,288	-	-
31 to 60 days	3,330,487,185	-	-	-
61 to 90 days	1,655,546,750	565,236	-	-
More than 91 days	321,041,096	-	-	-
	9,104,496,905	5,145,524	-	-
Third parties				
1 to 30 days	2,158,619,640	2,334,372	1,378,470,767	5,162,168
31 to 60 days	8,629,135,102	57,627,457	7,307,738,304	24,307,949
61 to 90 days	580,388,159	21,375,019	1,895,954,897	21,940,256
More than 91 days	113,364,721	5,554,897	434,405,817	5,658,106
	11,481,507,622	86,891,745	11,016,569,785	57,068,479
	¢ 20,586,004,527	92,037,269	11,016,569,785	57,068,479

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.

(Continued)

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

(26) Investment fund management agreements

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

Fund		2019 Net value	Shares	Value per share
Funds in colones:				
Súper Fondo - colones	¢	146,043,170,212	33,687,226,601	4.34
Fon Depósito - colones		47,025,129,793	29,896,218,276	1.57
Creci Fondo - colones		3,817,211,190	647,205,981	5.90
Redi Fondo - colones		23,814,466,488	5,662,634,652	4.21
Diner Fondo - colones		49,141,186,462	16,923,475,598	2.90
	¢	269,841,164,145	86,816,761,108	
Funds in US dollars:				
Súper Fondo - US dollars	US$	17,314,570	11,332,256	1.53
Creci Fondo - US dollars		8,629,625	4,308,393	2.00
Redi Fondo - US dollars		34,614,635	20,827,691	1.66
Diner Fondo - US dollars		86,233,023	64,505,027	1.34
Fon Depósito - US dollars		54,587,262	48,130,863	1.13
Súper Fondo Plus - US dollars		177,316,168	159,531,040	1.11
Fondo Hipotecario - US dollars (mortgage fund)		40,580	40,937	45.75
BN Infraestructura Pública -1 – US dollars (public infrastructure)		29,056,777	21,750	1,335.94
	US$	407,792,640	308,697,957	
	¢	232,478,506,324	175,985,618,306	
Assets of managed funds (Note 24)	¢	502,319,670,469	262,802,379,414	
Guarantees:				
Performance bonds		50,739,131		
Outstanding checks		1,975,304		
		52,714,435		
Memoranda accounts (Note 24)	¢	502,372,384,904		

Fund		2018 Net value	Shares	Value per share
Funds in colones:				
Súper Fondo - colones	¢	92,688,604,880	22,428,807,600	4.13
Fon Depósito - colones		52,246,075,748	34,609,045,425	1.51
Creci Fondo - colones		2,763,593,314	519,193,090	5.32
Redi Fondo - colones		12,580,792,423	3,315,263,140	3.79
Diner Fondo - colones		43,384,981,573	15,617,170,186	2.78
	¢	203,664,047,938	76,489,479,441	
Funds in US dollars:				
Súper Fondo - US dollars	US$	19,366,085	12,865,765	1.51
Creci Fondo - US dollars		5,762,361	3,164,604	1.82
Redi Fondo - US dollars		21,368,105	13,968,993	1.53
Diner Fondo - US dollars		90,618,321	69,123,047	1.31
Fon Depósito - US dollars		52,123,408	46,919,103	1.11
Súper Fondo Plus - US dollars		171,619,980	158,143,576	1.09
Fondo Hipotecario - US dollars (mortgage fund)		116,467	115,490	131.30
BN Infraestructura Pública -1 – US dollars (public infrastructure)		21,307,494	21,750	979.65
	US$	382,282,221	304,322,328	
	¢	231,047,550,843	183,929,371,820	
Assets of managed funds (Note 24)	¢	434,711,598,781	260,418,851,261	
Guarantees:				
Performance bonds		35,262,697		
Outstanding checks		1,975,304		
		37,238,001		
Memoranda accounts (Note 24)	¢	434,748,836,782		

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

(Continued)

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

- *Fondo de Inversión de Desarrollo Inmobiliario de Infraestructura Pública - 1 - Dólares* (real estate development - US dollars): This fund will invest in the construction of buildings to be occupied by the Maximum Deconcentration Organizations and other entities of BCCR. Once the works are completed, the buildings will be leased with a purchase option to BCCR or sold to BCCR or to a real estate fund managed by BN Fondos and investors thus realize their potential gains. If the buildings are sold to a real estate fund, such fund will lease the buildings to BCCR. As of December 31, 2019 and 2018, this fund does not have operations.
- *BN Internacional Valor (US dollars):* This is an international, mixed portfolio investment fund, ideal for conservative customers who primarily seek to maintain their capital, even if it entails obtaining returns much lower than those of the market. It is addressed to the investor that would like to invest in a portfolio comprised of debt securities issued by the public or private sector and investment funds. As of December 31, 2019 and 2018, this fund does not have operations.
- *BN Internacional Suma (US dollars):* This is an international, mixed portfolio investment fund, addressed to investors with a balanced-risk profile, that is, willing to assume losses in the short- and mid-term to obtain returns higher than those of the market in the mid- and long-term. It is addressed to the investor that would like to invest in a portfolio comprised of debt securities issued by the public or private sector and in variable-return instruments and investment funds. As of December 31, 2019 and 2018, this fund does not have operations.
- *BN Internacional Crece (US dollars):* This is a long term, international, mixed portfolio investment fund addressed to investors with an aggressive-risk profile, i.e. willing to assume significant losses while aiming to obtain returns higher than those of the market. It is addressed to the investor that would like to invest in a portfolio comprised of debt securities issued by the public or private sector and in variable-return instruments and investment funds. As of December 31, 2019 and 2018, this fund does not have operations.

(Continued)

(27) Pension fund management agreements (unaudited)

As of December 31, the Pension Fund Manager's memoranda accounts are as follows:

		Net asset value	
		2019	2018
Mandatory Pension Fund (ROP)	¢	1,402,262,884,778	1,179,501,953,791
ROP erroneous		17,156,086,216	15,175,619,720
Mandatory Retirement Savings Account (FCL)		124,457,032,790	104,522,886,810
FCL erroneous		3,992,586,410	3,553,662,719
Voluntary Pension Fund in Colones A (FPC A)		87,521,311,660	70,851,173,674
Voluntary Pension Fund in Colones B (FPC B)		21,903,896,675	18,028,244,400
Notary Fund (NOT)		-	28,068,874,236
Voluntary Pension Fund in US dollars A (FPD A) *(i)*		15,545,450,092	13,487,617,120
Voluntary Pension Fund in US dollars B (FPD B) *(ii)*		8,102,415,983	7,373,954,806
Assets of managed funds (Note 24)		1,680,941,664,604	1,440,563,987,276
Securities and assets in own custody		16,935,774,064	8,829,700,037
Bid and performance bonds – colones		41,583,623	21,776,036
Bid and performance bonds – US dollars *(iii)*		95,828,098	71,320,305
Securities in DU		495,137,813	565,822,098
Memoranda accounts (Note 24)	¢	1,698,509,988,202	1,450,052,605,752

i. As of December 31, 2019, this fund amounts to US$27,268,414 and is valued at the exchange rate of ¢570.09 to US$1.00 (2018: US$22,316,083 valued at the exchange rate of ¢604.39 to US$1.00).

ii. As of December 31, 2019, this fund amounts to US$14,212,521 and is valued at the exchange rate of ¢570.09 to US$1.00 (2018: US$12,200,657 valued at the exchange rate of ¢604.39 to US$1.00).

iii. As of December 31, 2019, this fund amounts to US$168,093 and is valued at the exchange rate of ¢570.09 to US$1.00 (2018: US$118,004 valued at the exchange rate of ¢604.39 to US$1.00).

(28) Finance income from financial instruments

For the year ended December 31, finance income from financial instruments is as follows:

		2019	2018
Cash and due from banks:			
Deposits in BCCR	¢	35,851,705	27,084,209
Checking accounts and demand deposits in local entities		122,537,318	191,071,548
Checking accounts and demand deposits in foreign entities		3,931,855,821	5,355,126,128
		4,090,244,844	5,573,281,885
Financial instruments:			
Investments in available-for-sale securities		75,650,196,962	59,093,267,441
Investment in securities and restricted deposits		1,835,918,824	3,734,455,683
		77,486,115,786	62,827,723,124
	¢	81,576,360,630	68,401,005,009

(29) Finance income from loan portfolio

For the year ended December 31, finance income from the loan portfolio is as follows:

		2019	2018
Current loans:			
Checking account overdrafts	¢	106,194,529	34,107,623
Loans granted with funds from BCCR		735,903,087	858,898,268
Loans granted with other funds		359,709,453,102	360,078,868,324
Credit cards		24,619,130,362	25,311,294,353
Issued letters of credit		488,874	837,336
Loan portfolio due to sales		58,751,313	4,560,235
Other loans		3,906,656	-
		385,233,827,923	386,288,566,139
Past due loans and loans in legal collection:			
Checking account overdrafts		1,898,914	1,674,029
Loans granted with funds from BCCR		149,331,077	147,724,580
Loans granted with other funds		59,920,058,767	55,191,135,488
Credit cards		3,640,165,820	3,212,866,799
Term sale of foreclosed assets		3,308,140	-
Other loans		26,194	10,036,283
		63,714,788,912	58,563,437,179
	¢	448,948,616,835	444,852,003,318

(30) Other finance income

For the year ended December 31, other finance income is as follows:

		2019	2018
Fees and commissions on letters of credit	¢	21,293,316	29,704,170
Fees and commissions on guarantees granted		460,979,223	413,222,662
Fees and commissions on lines of credit		188,870,333	252,417,496
Valuation of trading financial instruments		123,394,293	9,056,425
Gain on fair value hedge for item measured at cost		6,952,049,944	22,637,455,147
Other sundry finance income		4,831,678,888	4,154,605,433
	¢	12,578,265,997	27,496,461,333

(31) Finance costs for obligations with the public

For the year ended December 31, finance costs for obligations with the public are as follows:

		2019	2018
Demand deposits	¢	52,157,412,930	46,735,516,647
Term deposits		158,223,834,455	135,462,794,120
Third-party repurchase agreements and securities lending		657,605,082	1,548,508,067
	¢	211,038,852,467	183,746,818,834

(32) Finance costs for obligations with financial entities

For the year ended December 31, finance costs for obligations with financial entities are as follows:

		2019	2018
Demand obligations	¢	2,879,333,411	2,645,059,598
Term obligations		50,334,202,764	69,007,014,964
	¢	53,213,536,175	71,652,074,562

(33) Other finance costs

For the year ended December 31, other finance costs are as follows:

		2019	2018
Fees and commissions on letters of credit obtained	¢	196,611,376	190,188,506
Loss on valuation of held-for-trading financial instruments		122,728	-
Loss on hedged item measured at cost from fair value hedge on interest rate risk		26,640,082,109	16,959,960,171
Other sundry finance costs		1,203,101,445	1,493,019,169
	¢	28,039,917,658	18,643,167,846

(34) Expenses for allowance for impairment of assets

For the year ended December 31, expenses for allowance for impairment of assets are as follows:

		2019	2018
Allowance for loan losses (Note 7-c)	¢	46,903,946,559	82,459,783,695
Allowance for impairment of other accounts receivable (Note 8)		1,418,248,620	1,949,617,277
Allowance for stand-by credit losses (Note 19)		8,500,000	17,140,000
General and counter-cyclical allowance for loan portfolio (Note 7-c)		4,895,530,847	4,069,232,453
General and counter-cyclical allowance for stand-by credit losses (Note 19)		5,600,000	3,610,000
Allowance for impairment of derivative financial instruments (Note 5)		3,641,701	27,236,248
	¢	53,235,467,727	88,526,619,673

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

For the year ended December 31, income from recovery of assets and decreases in allowances and provisions is as follows:

		2019	2018
Recovery of loan write-offs	¢	8,284,452,833	6,007,580,804
Recovery of accounts receivable write-offs		11,844,837	2,835,301
Decrease in allowance for loan losses (Note 6)		175,919	-
Decrease in allowance for impairment of other accounts receivable (Note 8)		180,065,955	1,149,713,455
Decrease in allowance for stand-by credit losses (Note 18)		30,000,000	50,000,000
Decrease in general and counter-cyclical allowance for stand-by credit losses (Note 19)		-	80,000,000
Decrease in allowance for impairment of investments in financial instruments (Note 5)		14,343,386	90,008,759
	¢	8,520,882,930	7,380,138,319

(36) Operating income from service fees and commissions

For the year ended December 31, operating income from service fees and commissions is as follows:

		2019	2018
Drafts and transfers	¢	9,150,141,254	8,873,032,051
Certified checks		3,047,353	3,949,358
Trusts		1,496,325,182	1,206,686,134
Custodial services		1,847,699,077	1,475,350,899
Banking mandates		171,694	424,165
Collections		23,204,503	28,152,153
Credit cards		63,659,094,173	60,059,446,475
Management services		3,683,196,479	3,320,859,273
Management of investment funds		5,701,566,727	5,481,995,324
Management of pension funds		10,492,300,120	8,460,833,018
Insurance underwriting		7,100,170,304	6,264,532,328
Brokerage operations (third parties in local market)		3,198,985,953	1,857,568,576
Brokerage operations (third parties in other markets)		57,333,013	73,641,909
Individual portfolio management		-	174,807
Transactions with related parties		280,267,509	245,891,076
Other service fees and commissions *(1)*		43,603,396,332	42,887,184,396
	¢	150,296,899,673	140,239,721,942

(1) "Other service fees and commissions" corresponds to Servibanca local interchange, transfer pricing and fees and commissions for agreements with affiliated businesses.

(37) Other operating income

For the year ended December 31, other operating income is as follows:

		2019	2018
Leasing of assets	¢	21,746,925	32,166,338
Recovery of expenses		5,843,853,634	2,912,025,465
Net valuation of other assets (Note 46-c)		2,366,907,349	1,035,396,519
Other income from accounts receivable		5,947,614	4,989,553
Liquidation of term certificate of deposit not claimed		501,549,100	794,746,972
Withholdings from vendors		453,740,889	731,916,158
Administrative collection - Electronic means of payment		1,731,857,096	1,281,700,341
Liquidation of check - own accounts		173,262,966	95,013,052
Liquidation of savings accounts		204,982,385	192,368,951
Liquidation of security deposits		255,802,576	28,620,717
Liquidation of judicial deposits		221,917,090	69,514,645
Sundry operating income		2,147,824,125	2,538,766,346
Decrease in provisions		183,041,173	2,443,596,736
	¢	14,112,532,922	12,160,821,793

(Continued)

(38) Expenses for foreclosed assets

For the year ended December 31, expenses for foreclosed assets are as follows:

		2019	2018
Loss on sale of assets acquired in lieu of payment	¢	545,899,903	946,583,591
Loss on sale of assets awarded in judicial auctions		7,865,626,880	8,546,137,093
Management of assets received in lieu of payment		14,477,080	41,697,139
Management of assets awarded in judicial auctions		5,182,331,668	4,930,738,008
Loss on impairment of foreclosed assets (Note 9)		60,295,713	54,286,095
Loss on allowance for impairment of foreclosed assets and per legal requirements (Note 9)		8,775,490,769	4,056,989,891
Other expenses for foreclosed assets		16,767,857	101,354,826
	¢	22,460,889,870	18,677,786,643

(39) Provision expenses

For the year ended December 31, provision expenses are as follows:

		2019	2018
Severance benefits	¢	319,666,364	1,549,587,597
Pending litigation		909,774,811	2,441,577,318
"BN Premios" points program		2,950,974,180	4,319,043,806
Incentives and Performance Evaluation System (SEDI)		-	1,185,358,808
Case of the manager commissions with CCSS		1,965,587,777	2,154,005,167
Case of the RIVM contribution		6,301,286,265	2,855,573,956
Notice of deficiency		1,730,517,330	954,435,974
Other provisions		58,551,484	193,780,518
	¢	14,236,358,211	15,653,363,144

(40) Other operating expenses

For the year ended December 31, other operating expenses are as follows:

		2019	2018
Fines for noncompliance with legal regulatory provisions	¢	138,116	50,000
Net valuation of other liabilities (Note 46-c)		1,141,530,151	1,587,413,836
Income tax on foreign remittances		6,913,671	23,020,682
Income tax (8%) on interest on investments in financial instruments		4,089,819,058	2,827,942,713
Property tax		243,339,198	254,757,504
Patents		749,475,431	744,773,607
Other local taxes		734,954,405	676,907,250
Transfer to FINADE		3,529,291,100	2,905,963,322
Local and international currency exchange		24,277,238,048	22,022,963,210
Costs of microfinance insurance policies		2,231,903,606	3,412,512,105
Servibanca interchange fees and commissions		4,743,858,893	4,434,921,603
Base I and II fund disbursements		14,888,999,592	14,268,359,804
Life insurance policy debit balance		8,171,692,008	6,890,243,216
Software and license maintenance		11,933,822,310	-
Sundry operating expenses		12,495,038,857	11,543,821,890
	¢	89,238,014,444	71,593,650,742

(41) Personnel expenses

For the year ended December 31, personnel expenses are as follows:

		2019	2018
Salaries and bonuses, permanent staff	¢	68,189,036,654	67,669,448,030
Salaries and bonuses, contractors		1,620,600,242	1,656,263,666
Compensation for directors and statutory examiners		241,956,639	219,404,964
Overtime		667,883,247	661,895,976
Travel expenses		444,181,965	534,079,723
Statutory Christmas bonus		7,187,967,474	7,160,452,248
Vacation		6,981,415,937	6,687,564,945
Incentives		2,089,045,892	-
Other compensation		3,941,402,731	4,094,276,439
Severance benefits		4,328,990,073	4,346,593,097
Employer social security taxes		27,128,770,611	27,004,701,211
Refreshments		562,663,623	514,555,842
Uniforms		77,327,033	239,577,458
Training		920,992,151	749,384,307
Employee insurance		187,130,994	232,384,784
Back-to-school bonus		6,827,867,318	6,204,068,890
Mandatory retirement savings account		2,614,752,184	2,593,659,929
Other personnel expenses		1,191,015,194	600,472,312
	¢	135,202,999,962	131,168,783,821

(42) Other administrative expenses

For the year ended December 31, other administrative expenses are as follows:

		2019	2018
Outsourcing	¢	20,102,171,538	16,254,902,898
Transportation and communications		3,684,866,137	4,069,873,599
Infrastructure		30,715,043,272	36,829,038,498
Overhead		18,193,130,597	20,405,140,076
	¢	72,695,211,544	77,558,955,071

(43) Statutory allocations

For the year ended December 31, statutory allocations are as follows:

		2019	2018
CONAPE 5%	¢	3,468,622,939	1,611,854,786
CNE (3%)		2,251,819,958	1,111,348,646
INFOCOOP (10%)		4,767,383,966	2,855,558,087
Public capital pension operators		1,655,127,550	1,146,194,956
RIVM (15%)		5,015,260,274	2,867,783,440
	¢	17,158,214,687	9,592,739,915

For the year ended December 31, statutory allocations decreased as follows:

		2019	2018
CNE (3%)	¢	-	740,029
INFOCOOP (10%)		-	204,799,495
RIVM (15%)		-	402,176,996
	¢	-	607,716,520

(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:

		2019	
		Carrying amount	Fair value
Financial assets:			
Cash and due from banks	¢	1,118,775,933,830	1,118,775,933,830
Loan portfolio		4,321,533,336,072	4,296,504,697,844
	¢	5,440,309,269,902	5,415,280,631,674
Financial liabilities:			
Demand deposits from the public and financial entities	¢	3,218,896,009,048	3,218,896,009,048
Other demand obligations with the public		14,812,981,963	14,812,981,963
Term deposits from the public and financial entities		2,428,898,316,693	2,416,455,812,709
Obligations for tri-party repurchase agreements		11,859,003,890	11,859,003,890
	¢	5,674,466,311,594	5,662,023,807,610

		2018	
		Carrying amount	Fair value
Financial assets:			
Cash and due from banks	¢	1,025,465,414,007	1,025,465,414,007
Loan portfolio		4,557,923,487,521	4,259,230,366,631
	¢	5,583,388,901,528	5,284,695,780,638
Financial liabilities:			
Demand deposits from the public and financial entities	¢	2,946,031,573,521	2,946,031,573,521
Other demand obligations with the public		17,678,579,421	17,678,579,421
Term deposits from the public and financial entities		3,118,100,465,425	3,115,361,464,199
Obligations for tri-party repurchase agreements		12,135,686,821	12,135,686,821
	¢	6,093,946,305,188	6,091,207,303,962

(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 customers, obligations from tri-party repurchase agreements and accrued interest payable.

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

(b) Loan portfolio

The fair value of loans is calculated by discounting future cash flows expected for principal and interest. Loan payments are assumed to be made on the contractually agreed payment dates. Future expected cash flows for loans are discounted at the interest rates offered for similar loans to new borrowers as of December 31, 2019 and 2018.

(c) Term deposits

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

(d) Obligations with entities

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

Fair value estimates are made at a specific date, based on 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.

(Continued)

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

		2019			
		Level 1	Level 2	Level 3	Total
Available for sale	¢	1,361,443,944,743	42,770,339,837	4,488,288,925	1,408,702,573,505
Trading		1,512,582,272	-	-	1,512,582,272
Derivative financial instruments		-	-	10,747,514,970	10,747,514,970
Term obligations with foreign financial entities		-	-	489,650,619,452	489,650,619,452

		2018			
		Level 1	Level 2	Level 3	Total
Available for sale	¢	1,070,763,016,993	68,659,649,777	4,760,401,682	1,144,183,068,452
Trading		12,096,981,603	-	-	12,096,981,603
Derivative financial instruments		-	-	678,813,152	678,813,152
Term obligations with foreign financial entities		-	-	590,621,555,713	590,621,555,713

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:

		2019		
		Available for sale	Derivative financial instruments	Term obligations with foreign financial entities
Opening balance	¢	4,760,401,682	576,258,774	590,621,555,713
Repurchases		-	-	(85,126,203,658)
Valuation		7,688,095	10,215,212,023	18,058,686,812
Amortization		-	-	182,548,584
Exchange differences		(279,800,852)	(43,955,827)	(34,085,967,999)
Closing balance	¢	4,488,288,925	10,747,514,970	489,650,619,452

		2018		
		Available for sale	Derivative financial instruments	Term obligations with foreign financial entities
Opening balance	¢	5,884,509,934	6,159,898,498	841,601,971,462
Maturities		(1,194,835,544)	-	-
Valuation		(243,645,323)	(5,894,014,525)	(6,615,350,748)
Amortization		-	-	(1,066,026,729)
Exchange differences		314,372,615	412,929,179	(243,299,038,272)
Closing balance	¢	4,760,401,682	678,813,152	590,621,555,713

(Continued)

(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 December 31, 2019							
		Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations	Consolidated
ASSETS									
Cash and due from banks	¢	1,113,115,306,076	3,141,308,084	108,661,924	378,975,038	2,423,924,873	1,119,168,175,995	392,242,165	1,118,775,933,830
Investments in financial instruments		1,358,668,761,608	61,106,614,264	8,625,069,850	10,860,381,350	1,261,814,790	1,440,522,641,862	11,400,000	1,440,511,241,862
Loan portfolio, net		4,203,026,225,237	-	-	-	-	4,203,026,225,237	-	4,203,026,225,237
Accounts and fees and commissions receivable, net		537,210,487	24,058,395	108,629,405	957,887,641	621,693,384	2,249,479,312	19,250,998	2,230,228,309
Fees and commissions		294,846,648	15,433,650	96,644,635	952,288,093	462,668,492	1,821,881,518	14,041,454	1,807,840,064
Brokerage services		-	38,691	-	-	-	38,691	-	38,691
Transactions with related parties		50,967,821	1,889,193	3,338,899	-	44,063	56,239,976	5,209,549	51,030,427
Deferred tax and income tax		138,575,747	-	-	72,190	152,931,900	291,579,837	-	291,579,837
Other		4,426,613,673	6,696,861	8,645,871	64,485,030	6,048,929	4,512,490,364	-	4,512,490,364
Accrued interest		6,689,206	-	-	-	-	6,689,206	-	6,689,206
Allowance for impairment of accounts and fees and commissions receivable		-4,380,482,608	-	-	-58,957,672	-	-4,439,440,280	-	-4,439,440,280
Foreclosed assets, net		29,544,875,888	-	-	-	-	29,544,875,888	-	29,544,875,888
Investments in other companies		105,931,933,910	30,000,000	-	-	-	105,961,933,910	39,772,253,650	66,189,680,260
Property and equipment, net		179,127,990,203	130,095,639	236,040,155	482,386,372	128,896,591	180,105,408,960	-	180,105,408,960
Other assets		84,197,647,127	162,621,540	505,394,870	174,050,083	183,325,171	85,223,038,791	-	85,223,038,791
TOTAL ASSETS	¢	7,074,149,950,536	64,594,697,922	9,583,796,204	12,853,680,484	4,619,654,809	7,165,801,779,955	40,195,146,813	7,125,606,633,137
LIABILITIES AND EQUITY									
LIABILITIES									
Obligations with the public	¢	5,235,740,158,602	11,906,452,242	-	-	-	5,247,646,610,844	-	5,247,646,610,844
Obligations with BCCR		125,644,412	-	-	-	-	125,644,412	-	125,644,412
Obligations with entities		902,338,804,932	32,597,944,872	-	-	-	934,936,749,804	403,119,725	934,533,630,079
Demand		190,350,322,056	-	-	-	-	190,350,322,056	391,719,728	189,958,602,328
Term		705,644,836,843	32,464,899,500	-	-	-	738,109,736,343	11,400,000	738,098,336,343
Finance charges payable		6,343,646,033	133,045,372	-	-	-	6,476,691,405	-	6,476,691,405
Accounts payable and provisions		132,076,524,802	2,466,307,526	750,451,532	3,188,988,964	969,430,610	139,451,703,434	19,250,962	139,432,452,472
Other liabilities		41,965,347,425	-	-	-	-	41,965,347,425	522,444	41,964,824,981
Subordinated obligations		69,965,445,025	-	-	-	-	69,965,445,025	-	69,965,445,025
TOTAL LIABILITIES	¢	6,382,211,925,198	46,970,704,640	750,451,532	3,188,988,964	969,430,610	6,434,091,500,944	422,893,131	6,433,668,607,813

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		As of December 31, 2019							
		Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations	Consolidated
EQUITY									
Share capital	¢	172,237,030,102	6,600,000,000	3,000,000,000	5,701,469,239	369,700,000	187,908,199,341	15,671,169,239	172,237,030,102
Non-capitalized capital contributions		-	-	-	493,455,769	-	493,455,769	493,455,769	-
Equity adjustments		83,000,303,041	625,586,958	183,930,961	536,490,487	11,161,701	84,357,473,148	1,357,170,107	83,000,303,041
Capital reserves		348,798,402,459	1,320,000,000	600,000,000	300,000,000	73,940,000	351,092,342,459	2,293,940,000	348,798,402,459
Prior period retained earnings		29,551,796,287	6,622,502,968	2,884,479,890	978,148,475	-	40,036,927,620	10,485,131,333	29,551,796,287
Income for the year		23,701,957,485	2,455,903,356	2,164,933,821	1,655,127,550	3,195,422,498	33,173,344,710	9,471,387,225	23,701,957,485
FOFIDE		34,648,535,964	-	-	-	-	34,648,535,964	-	34,648,535,964
TOTAL EQUITY	¢	691,938,025,338	17,623,993,282	8,833,344,672	9,664,691,520	3,650,224,199	731,710,279,011	39,772,253,673	691,938,025,338
TOTAL LIABILITIES AND EQUITY	¢	7,074,149,950,536	64,594,697,922	9,583,796,204	12,853,680,484	4,619,654,809	7,165,801,779,955	40,195,146,804	7,125,606,633,151
Debit memoranda accounts	¢	596,456,699,985	133,004,706	100,000	39,762,952	2,840,000	596,632,407,643	-	596,632,407,643
Trust assets	¢	2,108,157,757,436	1,615,999,040	-	-	-	2,109,773,756,476	-	2,109,773,756,476
Trust liabilities	¢	146,654,903,946	520,826	-	-	-	146,655,424,772	-	146,655,424,772
Trust equity	¢	1,961,502,853,491	1,615,478,213	-	-	-	1,963,118,331,704	-	1,963,118,331,704
Other debit memoranda accounts	¢	20,618,489,989,927	1,065,320,460,103	502,372,384,904	1,698,509,988,200	-	23,884,692,823,134	-	23,884,692,823,134

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	For the year ended December 31, 2019							
	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations	Consolidated
Finance income	¢ 555,187,930,908	5,160,566,144	714,615,614	1,109,666,090	253,370,239	562,426,148,995	74,119,455	562,352,029,540
Finance costs	296,082,729,426	2,580,152,058	36,012,173	52,907,522	10,820,449	298,762,621,628	74,119,456	298,688,502,172
Allowance expense	53,235,467,727	-	-	-	-	53,235,467,727	-	53,235,467,727
Income from recovery of assets	8,520,882,930	-	-	-	-	8,520,882,930	-	8,520,882,930
FINANCE INCOME	214,390,616,685	2,580,414,086	678,603,441	1,056,758,568	242,549,791	218,948,942,571	-	218,948,942,571
Other operating income	179,641,962,309	4,617,676,159	5,727,320,224	10,500,182,589	6,821,800,141	207,308,941,422	11,101,793,090	196,207,148,332
Other operating expenses	130,961,477,570	596,115,642	480,252,936	1,460,548,544	112,186,802	133,610,581,494	1,413,367,344	132,197,214,150
GROSS OPERATING INCOME	263,071,101,424	6,601,974,603	5,925,670,729	10,096,392,613	6,952,163,130	292,647,302,499	9,688,425,746	282,958,876,753
Personnel expenses	123,807,302,199	3,128,695,354	2,153,596,408	4,099,514,764	2,013,891,237	135,202,999,962	-	135,202,999,962
Other administrative expenses	69,891,340,448	767,704,588	789,130,979	1,186,562,559	277,511,519	72,912,250,093	217,038,549	72,695,211,544
Total administrative expenses	193,698,642,647	3,896,399,942	2,942,727,387	5,286,077,323	2,291,402,756	208,115,250,055	217,038,549	207,898,211,506
NET OPERATING INCOME BEFORE STATUTORY ALLOCATIONS AND TAXES	69,372,458,776	2,705,574,661	2,982,943,342	4,810,315,290	4,660,760,374	84,532,052,443	9,471,387,196	75,060,665,247
Income tax	30,622,201,967	204,212,897	759,728,593	1,423,856,512	1,348,616,044	34,358,616,013	-	34,358,616,013
Decrease in income tax	-	35,708,831	31,207,341	68,105,781	23,100,990	158,122,943	-	158,122,943
Statutory allocations	15,048,299,324	81,167,240	89,488,302	1,799,437,009	139,822,812	17,158,214,687	-	17,158,214,687
INCOME FOR THE YEAR	¢ 23,701,957,485	2,455,903,355	2,164,933,788	1,655,127,550	3,195,422,508	33,173,344,686	9,471,387,201	23,701,957,485

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		As of December 31, 2018							
		Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations	Consolidated
ASSETS									
Cash and due from banks	¢	1,020,863,217,469	2,473,447,554	100,151,831	207,437,008	3,127,061,076	1,026,771,314,938	(1,305,900,931)	1,025,465,414,007
Investments in financial instruments		1,093,578,721,177	63,023,675,199	7,169,447,295	7,961,941,462	12,431,367	1,171,746,216,500	(40,900,000)	1,171,705,316,500
Loan portfolio, net		4,416,292,531,288	-	-	-	-	4,416,292,531,288	-	4,416,292,531,288
Accounts and fees and commissions receivable, net		455,023,175	836,996,298	58,994,722	785,490,780	502,809,859	2,639,314,834	(32,580,303)	2,606,734,531
Fees and commissions		191,445,673	11,565,883	58,096,619	759,684,851	390,737,057	1,411,530,083	(32,037,074)	1,379,493,009
Brokerage services		-	56,675	-	-	-	56,675	-	56,675
Transactions with related parties		24,496,286	-	-	-	-	24,496,286	(543,229)	23,953,057
Deferred tax and income tax		156,399,541	824,410,405	-	13,614,099	112,059,547	1,106,483,592	-	1,106,483,592
Other		3,935,763,699	963,335	898,103	71,552,904	13,255	4,009,191,296	-	4,009,191,296
Accrued interest		2,082,892	-	-	-	-	2,082,892	-	2,082,892
Allowance for impairment of accounts and fees and commissions receivable		(3,855,164,916)	-	-	(59,361,074)	-	(3,914,525,990)	-	(3,914,525,990)
Foreclosed assets, net		20,074,903,998	-	-	-	-	20,074,903,998	-	20,074,903,998
Investments in other companies		100,067,692,893	30,000,000	-	-	-	100,097,692,893	(33,602,208,620)	66,495,484,273
Property and equipment, net		184,587,503,037	170,424,138	303,869,932	568,998,717	104,526,139	185,735,321,963	-	185,735,321,963
Other assets		104,494,751,527	112,648,878	590,297,497	219,403,340	134,973,280	105,552,074,522	(3,225,096)	105,548,849,426
TOTAL ASSETS	¢	6,940,414,344,564	66,647,192,067	8,222,761,277	9,743,271,307	3,881,801,721	7,028,909,370,936	(34,984,814,950)	6,993,924,555,986
LIABILITIES AND EQUITY									
LIABILITIES									
Obligations with the public	¢	4,771,356,180,436	12,193,807,147	-	-	-	4,783,549,987,583	-	4,783,549,987,583
Obligations with BCCR		150,630,088,856	-	-	-	-	150,630,088,856	-	150,630,088,856
Obligations with entities		1,130,402,120,101	37,820,355,864	-	-	-	1,168,222,475,965	(1,346,800,928)	1,166,875,675,037
Demand		182,977,952,929	-	-	-	-	182,977,952,929	(1,305,900,928)	181,672,052,001
Term		938,891,105,985	37,631,699,999	-	-	-	976,522,805,984	(40,900,000)	976,481,905,984
Finance charges payable		8,533,061,187	188,655,865	-	-	-	8,721,717,052	-	8,721,717,052
Accounts payable and provisions		93,023,386,283	1,621,047,075	551,313,362	1,818,179,670	888,116,620	97,902,043,010	(35,807,383)	97,866,235,627
Other liabilities		67,159,254,065	-	-	-	-	67,159,254,065	-	67,159,254,065
Subordinated obligations		80,488,169,915	-	-	-	-	80,488,169,915	-	80,488,169,915
TOTAL LIABILITIES	¢	6,293,059,199,656	51,635,210,086	551,313,362	1,818,179,670	888,116,620	6,347,952,019,394	(1,382,608,311)	6,346,569,411,083

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		As of December 31, 2018							
		Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations	Consolidated
EQUITY									
Share capital	¢	172,237,030,102	6,600,000,000	3,000,000,000	5,030,352,860	369,700,000	187,237,082,962	(15,000,052,860)	172,237,030,102
Non-capitalized capital contributions		-	-	-	1,164,572,148	-	1,164,572,148	(1,164,572,148)	-
Equity adjustments		69,226,390,882	(1,830,520,988)	(13,031,975)	(25,601,358)	-	67,357,236,561	1,869,154,321	69,226,390,882
Capital reserves		334,043,304,638	1,320,000,000	539,734,980	300,000,000	73,940,000	336,276,979,618	(2,233,674,980)	334,043,304,638
Prior period retained earnings		19,485,203,960	7,237,897,224	2,106,139,759	309,573,031	-	29,138,813,974	(9,653,610,013)	19,485,203,961
Income for the year		21,391,220,879	1,684,605,745	2,038,605,151	1,146,194,956	2,550,045,101	28,810,671,832	(7,419,450,959)	21,391,220,873
FOFIDE		30,971,994,447	-	-	-	-	30,971,994,447	-	30,971,994,447
TOTAL EQUITY	¢	647,355,144,908	15,011,981,981	7,671,447,915	7,925,091,637	2,993,685,101	680,957,351,542	(33,602,206,639)	647,355,144,903
TOTAL LIABILITIES AND EQUITY	¢	6,940,414,344,564	66,647,192,067	8,222,761,277	9,743,271,307	3,881,801,721	7,028,909,370,936	(34,984,814,950)	6,993,924,555,986
Debit memoranda accounts	¢	635,829,244,153	133,004,706	-	220,000	-	635,962,468,859	-	635,962,468,859
Trust assets	¢	2,276,346,824,986	912,847,060	-	-	-	2,277,259,672,046	-	2,277,259,672,046
Trust liabilities	¢	209,979,452,284	1,704,673	-	-	-	209,981,156,957	-	209,981,156,957
Trust equity	¢	2,066,367,372,702	911,142,386	-	-	-	2,067,278,515,088	-	2,067,278,515,088
Other debit memoranda accounts	¢	20,173,855,220,768	966,935,348,692	434,748,836,782	1,450,052,605,752	-	23,025,592,011,994	-	23,025,592,011,994

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		For the year ended December 31, 2018							
		Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations	Consolidated
Finance income	¢	535,229,857,993	4,519,794,332	605,127,220	648,053,010	160,851,588	541,163,684,143	110,804,683	541,052,879,460
Finance costs		287,450,304,440	2,508,676,818	69,086,995	-	-	290,028,068,253	110,804,683	289,917,263,570
Allowance expense		88,526,619,673	-	-	-	-	88,526,619,673	-	88,526,619,673
Income from recovery of assets		7,380,138,319	-	-	-	-	7,380,138,319	-	7,380,138,319
FINANCE INCOME		166,633,072,199	2,011,117,514	536,040,225	648,053,010	160,851,588	169,989,134,536	-	169,989,134,536
Other operating income		173,094,512,574	3,522,642,269	5,566,815,756	8,513,148,790	5,716,729,525	196,413,848,914	9,080,340,614	187,333,508,300
Other operating expenses		111,164,481,397	425,747,161	516,653,434	1,219,692,361	152,269,444	113,478,843,797	1,460,357,743	112,018,486,054
GROSS OPERATING INCOME		228,563,103,376	5,108,012,622	5,586,202,547	7,941,509,439	5,725,311,669	252,924,139,653	7,619,982,871	245,304,156,782
Personnel expenses		121,444,150,181	2,416,858,251	2,010,938,645	3,544,971,965	1,751,864,779	131,168,783,821	-	131,168,783,821
Other administrative expenses		74,881,857,466	819,699,324	734,960,769	1,081,918,156	241,051,269	77,759,486,984	200,531,913	77,558,955,071
Total administrative expenses		196,326,007,647	3,236,557,575	2,745,899,414	4,626,890,121	1,992,916,048	208,928,270,805	200,531,913	208,727,738,892
NET OPERATING INCOME BEFORE STATUTORY ALLOCATIONS AND TAXES		32,237,095,729	1,871,455,047	2,840,303,133	3,314,619,318	3,732,395,621	43,995,868,848	7,419,450,958	36,576,417,890
Income tax		3,472,773,276	117,389,567	718,293,283	971,785,958	1,070,378,651	6,350,620,735	-	6,350,620,735
Decrease in income tax		99,647,590	-	1,804,396	48,995,133	-	150,447,119	-	150,447,119
Statutory allocations		8,080,465,682	69,459,734	85,209,095	1,245,633,536	111,971,868	9,592,739,915	-	9,592,739,915
Decrease in statutory allocations		607,716,520	-	-	-	-	607,716,520	-	607,716,520
INCOME FOR THE YEAR	¢	21,391,220,881	1,684,605,746	2,038,605,151	1,146,194,957	2,550,045,102	28,810,671,837	7,419,450,958	21,391,220,879

(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. the 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-consolidated 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 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	
		2019	2018	2019	2018
Loan portfolio					
Principal	¢	4,286,217,647,738	4,521,146,533,758	310,943,064,262	347,879,459,600
Accounts and accrued interest receivable		35,315,688,334	36,776,953,763	-	-
Gross carrying amount		4,321,533,336,072	4,557,923,487,521	310,943,064,262	347,879,459,600
Allowance for loan losses (accounting records)		(99,413,951,105)	(132,340,850,374)	(146,910,621)	(169,073,348)
Net carrying amount	¢	4,222,119,384,967	4,425,582,637,147	310,796,153,641	347,710,386,252

		Direct		Stand-by	
		2019	2018	2019	2018
Loan portfolio					
Total balances:					
0	¢	38,345,881,731	37,427,442,169	-	-
A1		3,230,988,097,853	3,440,849,168,342	294,433,876,327	328,283,656,992
A2		45,722,047,147	30,738,749,865	913,919,014	744,669,032
B1		474,730,438,298	483,983,067,681	7,143,615,639	12,479,532,229
B2		17,349,763,827	10,867,686,829	58,037,818	32,806,568
C1		99,188,277,065	113,649,733,779	5,504,087,658	2,068,420,664
C2		6,248,122,518	22,345,923,687	48,868,321	54,884,838
D		219,557,270,442	152,210,409,626	1,503,690,419	1,181,773,349
E		189,403,437,191	265,851,305,543	1,336,969,066	3,033,715,928
		4,321,533,336,072	4,557,923,487,521	310,943,064,262	347,879,459,600
Structural allowance (subledger – database)		(99,160,629,362)	(131,396,734,202)	(113,550,815)	(136,183,805)
Net carrying amount	¢	4,222,372,706,710	4,426,526,753,319	310,829,513,447	347,743,275,795
Individually assessed loans with allowance:					
0	¢	38,345,881,731	37,427,442,169	-	-
A1		3,230,988,097,853	3,440,849,168,342	31,728,121,395	38,945,363,455
A2		45,722,047,147	30,738,749,865	59,978,230	141,522,178
B1		474,730,438,298	483,983,067,681	2,017,592,279	8,382,243,815
B2		17,349,763,827	10,867,686,829	-	-
C1		99,188,277,065	113,649,733,779	44,856,927	67,559,784
C2		6,248,122,518	22,345,923,687	-	-
D		219,557,270,442	152,210,409,626	54,845,747	109,787,259
E		189,403,437,191	265,851,305,543	10,420,222	23,884,195
		4,321,533,336,072	4,557,923,487,521	33,915,814,800	47,670,360,686
Structural allowance (subledger – database)		(99,160,629,362)	(131,396,734,202)	(113,550,815)	(136,183,805)
Net carrying amount	¢	4,222,372,706,710	4,426,526,753,319	33,802,263,985	47,534,176,881

(Continued)

			Direct		Stand-by	
			2019	2018	2019	2018
Current loans without allowance:						
0		¢	-	-	-	-
A1					262,705,754,931	289,338,293,538
A2			-	-	853,940,784	603,146,854
B1			-	-	5,126,023,360	4,097,288,414
B2			-	-	58,037,818	32,806,568
C1			-	-	5,459,230,731	2,000,860,879
C2			-	-	48,868,321	54,884,838
D			-	-	1,448,844,673	1,071,986,090
E			-	-	1,326,548,844	3,009,831,733
Carrying amount		¢	-	-	277,027,249,462	300,209,098,914
Gross carrying amount			4,321,533,336,072	4,557,923,487,521	310,943,064,262	347,879,459,600
Allowance for loan losses (database)			(99,160,629,362)	(131,396,734,202)	(113,550,815)	(136,183,805)
Excess of allowance over structural allowance			(253,321,743)	(944,116,172)	(33,359,806)	(32,889,543)
Counter-cyclical allowance			(19,093,159,730)	(9,290,105,859)	-	-
Net carrying amount	7-a	¢	4,203,026,225,237	4,416,292,531,288	310,796,153,641	347,710,386,252
Restructured loans		¢	39,645,027,842	48,865,106,445	-	-

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 and SUGEF Directive 15-16:

		2019	
		Loans to customers	
		Gross	Net
0	¢	38,345,881,731	37,385,702,147
A1		3,230,988,097,853	3,213,304,494,738
A2		45,722,047,147	45,491,867,260
B1		474,730,438,298	470,429,121,007
B2		17,349,763,827	17,136,260,230
C1		99,188,277,065	96,275,668,790
C2		6,248,122,518	5,725,748,933
D		219,557,270,442	205,301,596,961
E		189,403,437,191	131,068,924,901
	¢	4,321,533,336,072	4,222,119,384,967

(Continued)

		2018	
		Loans to customers	
		Gross	Net
0	¢	37,427,442,169	36,977,530,261
A1		3,440,849,168,342	3,421,129,775,024
A2		30,738,749,865	30,580,570,992
B1		483,983,067,681	479,267,713,024
B2		10,867,686,829	10,735,404,109
C1		113,649,733,779	109,746,454,452
C2		22,345,923,687	20,458,826,626
D		152,210,409,626	141,215,522,241
E		265,851,305,543	175,470,840,418
	¢	4,557,923,487,521	4,425,582,637,147

As shown above, as of December 31, 2019, the gross portfolio amounts to ¢4,321 billion. Of that amount, 88.10% is classified in risk ratings "A+B" and 11.90% in risk ratings "C+D+E" (2018: ¢4,558 billion, of which 87.81% is classified in risk ratings "A+B" and 12.19% in risk ratings "C+D+E").

Individually assessed loans with allowance:

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

Past due loans without allowance:

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

Restructured loans:

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

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

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

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

Loan write-off policy:

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

(Continued)

Borrower classification

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

The loan portfolio by borrower classification is as follows:

		Direct		Stand-by	
Borrower classification		2019	2018	2019	2018
Group 1	¢	2,199,331,405,415	2,742,352,824,524	39,886,895,553	66,044,930,654
Group 2		2,122,201,930,657	1,815,570,662,997	271,056,168,709	281,834,528,946
	¢	4,321,533,336,072	4,557,923,487,521	310,943,064,262	347,879,459,600

Risk ratings

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

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

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

(Continued)

Pursuant to SUGEF Directive 15-16, to calculate specific allowances, risk ratings 2 to 6 for the microfinance, development and second-tier banking portfolios are subject to specific allowances according to the percentages in the following table:

Risk rating	Specific allowance percentage (uncovered portion)
1	0%
2	5%
3	25%
4	50%
5	70%
6	100%

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.

(Continued)

Structural allowance for loan losses

Pursuant to Article 12 of SUGEF Directive 1-05, 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 Article 12 of SUGEF Directive 1-05.

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	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
60 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

Pursuant to Article No. 11 bis of SUGEF Directive 1-05, at each month-end, the Bank must book the general allowance for a minimum of 0.50% of the total outstanding balance for loan operations rated A1 and A2, without reducing the effect of guarantees. The provisions of Article 13 of the aforementioned Directive are to be applied to stand-by credits.

General allowance percentages, based on borrower risk ratings, are as follows:

Risk rating	General allowance	Specific allowance percentage - Uncovered portion	Specific allowance percentage - Covered portion
A1	0.50%	0%	0%
A2	0.50%	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%

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 of 100% and the aforementioned exception should not be applied.

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

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

		2019	
	Allowance booked	Structural allowance	Excess of allowance
Allowance for direct loans	¢ 99,413,951,105	(99,160,629,362)	253,321,743
Allowance for stand-by credits	146,910,621	(113,550,815)	33,359,806
	99,560,861,726	(99,274,180,177)	286,681,549
Counter-cyclical allowance per SUGEF Directive 19-16	19,093,159,730	(19,093,159,730)	-
	¢ 118,654,021,456	(118,367,339,907)	286,681,549

		2018	
	Allowance booked	Structural allowance	Excess of allowance
Allowance for direct loans	¢ 132,340,850,374	(131,396,734,202)	944,116,172
Allowance for stand-by credits	169,073,348	(136,183,805)	32,889,543
	132,509,923,722	(131,532,918,007)	977,005,715
Counter-cyclical allowance per SUGEF Directive 19-16	9,290,105,859	(9,290,105,859)	-
	¢ 141,800,029,581	(140,823,023,866)	977,005,715

Counter-cyclical allowance

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

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

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

Transition Provision II of SUGEF Directive 19-16 indicates that starting July 2016 each entity must perform the monthly booking of the expense for the counter-cyclical component equivalent to a minimum of 7% of the difference between the balance of income accounts less expenses plus taxes and monthly statutory allocations, until the balance of the analytical account reaches the amount corresponding to the counter-cyclical allowance provided in the regulations (¢30,066,087,227 based on the calculation of the counter-cyclical allowance made by management as of December 31, 2019). Once the entity reaches that level, it shall continue booking the counter-cyclical account as indicated by this regulation.

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

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

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

> … c) First, with cutoff date as of August 31, 2019, the amount determined in point b) above shall be reclassified to account "139.02.M.02 (Counter-cyclical component)" until reaching the amount corresponding to Pcc_{it} as per Article 4 of SUGEF Directive 19-16 *Regulations to Determine and Book Counter-cyclical Allowances*. This applies to entities who are still under Transition Provision II of SUGEF Directive 19-16 and the Superintendency's resolution SGF-0077-2019 SGF-PUBLICO dated January 14, 2019.
>
> d) Second, with cutoff date as of August 31, 2019, the remaining amount of the change in the allowances, after applying the reclassification indicated in point c) above, shall be reclassified to a general allowance account within the group of general allowances created.
>
> e) The amount booked in the analytical account mentioned in point d) above may be gradually reversed, at a maximum rate of 1/24 per month, starting as of the September 30, 2019 close. The reversal rate of 1/24 per month must be considered a maximum; each entity can establish a lower rate or decide to not reverse it.

As of December 31, 2019, the counter-cyclical allowance booked amounts to ¢19,093,159,730 (2018: ¢9,290,105,859).

Credit equivalent

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

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

Allowance for other assets

Allowances should be established for the following assets:

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

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

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

As of December 31, 2019, the carrying amount of the allowance for impairment of foreclosed assets and per legal requirements amounts to ¢63,718,411,084 (2018: ¢59,100,375,778).

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

Sector		Direct 2019	Direct 2018	Stand-by 2019	Stand-by 2018
Trade	¢	353,259,176,831	399,405,456,179	2,771,780	2,439,692
Services		903,232,881,110	943,942,869,178	43,994,408,691	59,243,927,489
Financial services		111,258,275,270	137,540,968,729	-	-
Mining		769,605,354	889,942,613	-	-
Manufacturing and quarrying		164,890,728,445	194,076,459,450	-	-
Construction		98,988,750,504	117,180,507,280	-	-
Agriculture and forestry		110,291,533,580	123,697,356,395	1,241,200	850,890
Livestock, hunting and fishing		77,790,308,017	83,199,780,004	-	-
Electricity, water, sanitation and other related sectors		394,355,287,804	414,357,886,412	-	-
Transportation and telecommunications		48,557,561,428	45,315,876,468	-	-
Housing		1,311,398,690,723	1,317,206,969,622	2,324,324	19,726,133
Personal or consumer		558,540,648,865	588,550,522,201	266,778,460,323	288,433,381,312
Tourism		188,199,888,141	192,558,892,990	163,857,944	179,134,084
	¢	4,321,533,336,072	4,557,923,487,521	310,943,064,262	347,879,459,600

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

		Direct 2019	Direct 2018	Stand-by 2019	Stand-by 2018
Central America	¢	4,321,533,336,072	4,557,923,487,521	310,943,064,262	347,879,459,600

The loan portfolio by type of guarantee is as follows:

Guarantee		Direct 2019	Direct 2018	Stand-by 2019	Stand-by 2018
Back to back	¢	17,879,084,868	45,712,041,762	570,090	598,107
Mortgage bond		115,867,472	200,637,096	1,275,323	-
Assignment of loans		329,117,118,726	332,360,804,301	-	-
Mortgage		1,736,747,633,266	1,794,906,112,324	16,000,969	159,823,064
Surety		818,873,013,669	915,411,187,722	11,149,144	6,034,974
Trust		488,644,150,891	521,893,896,757	-	165,417
Securities		28,087,156,422	774,413,025	-	-
Chattel mortgage		251,042,117,457	271,705,255,213	-	-
Other		651,027,193,301	674,959,139,321	310,914,068,736	347,712,838,038
	¢	4,321,533,336,072	4,557,923,487,521	310,943,064,262	347,879,459,600

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 December 31, 2019 and 2018, 58.00% and 57.82% of the loan portfolio is secured by collateral guarantees, respectively.

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

		Direct		Stand-by	
Loan portfolio concentration		2019	2018	2019	2018
¢1 to ¢3,000,000	¢	162,605,008,398	172,087,411,541	102,854,328,140	95,255,908,944
¢3,000,001 to ¢15,000,000		612,838,406,883	642,446,435,057	163,642,712,462	190,963,989,929
¢15,000,001 to ¢30,000,000		459,301,586,106	470,424,108,164	6,025,229,951	6,617,590,541
¢30,000,001 to ¢50,000,000		476,919,592,308	475,298,298,216	2,145,418,990	3,278,346,354
¢50,000,001 to ¢75,000,000		401,361,293,518	400,385,017,945	1,757,429,289	1,940,694,062
¢75,000,001 to ¢100,000,000		198,161,660,792	197,191,798,087	1,081,858,097	593,926,334
¢100,000,001 to ¢200,000,000		235,355,538,403	249,115,461,435	3,760,760,089	2,630,291,575
More than ¢200,000,000		1,774,990,249,664	1,950,974,957,076	29,675,327,244	46,598,711,861
	¢	4,321,533,336,072	4,557,923,487,521	310,943,064,262	347,879,459,600

As of December 31, 2019 and 2018, the portion of the loan portfolio (direct and stand-by loans) corresponding to economic interest groups amounts to ¢621,243,350,351 and ¢592,501,711,854, respectively.

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

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

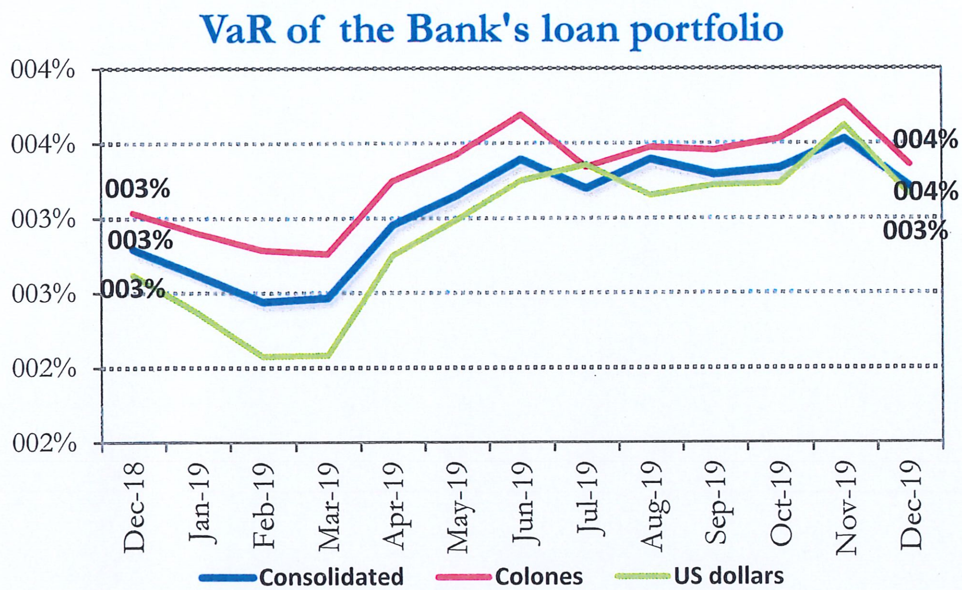
The Bank's loan portfolio is comprised of operations in various currencies, i.e. the Costa Rican colon, the US dollar and DU. Consequently, the VaR analysis is performed separately for each currency. The data is then consolidated to determine a maximum loss for the entire portfolio, expressed in colones,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

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 VaR of the entire loan portfolio increased from 3.09% to 3.51% and is mainly due to the increase in legal collection and arrears over 90 days between December 2018 and December 2019. Specifically, legal collection increased from 6.58% to 7.22%, while arrears more than 90 days increased from 3.31% to 3.33%.

By currency, the VaR of the portfolio in colones increased by 0.32 percentage points (from 3.34% to 3.66%) due to the increase in legal collection (from 6.98% to 7.76%) and in arrears over 90 days (from 3.18% to 3.36%). A similar behavior was observed in the portfolio in US dollars, with an increase of 0.54 percentage points in the VaR (from 2.92% to 3.45%) due to an increase (from 5.59% to 5.74%) in legal collection in US dollars. For the portfolio in DU, the VAR increased due to an increase in legal collection and in arrears over 90 days between December 2018 and December 2019.

(Continued)



As of December 31, 2019, by economic activity, a combination of increases and decreases in VaR was observed. Some massive portfolios such as Industry and Consumer had a decrease in VaR due to a decrease in arrears indicators. Activities such as Agriculture and Mining had an increase in VaR, but a decrease was observed in legal collection, in line with the economic recovery towards the end of the prior year.

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

Activity	2019	2018
Agriculture	8.89%	6.91%
Livestock	6.14%	4.16%
Mining	15.61%	9.73%
Industry	4.35%	5.30%
Energy	4.72%	2.34%
Housing	2.62%	1.91%
Construction	4.47%	6.21%
Trade	6.35%	5.07%
Transportation	3.31%	2.07%
Financial services	0.80%	0.49%
Consumer	8.44%	9.43%
Services	2.98%	2.18%
Tourism	7.48%	6.98%
BNCR	**3.51%**	**3.09%**

(Continued)

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.

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 December 2019 close, the accounting records showed investments in colones, investments in instruments issued by local issuers in US dollars ($CR) and investments in instruments issued by foreign issuers in US dollars ($USA). The Brokerage Firm holds no investments in DU. By currency, most of the Brokerage Firm's financial instruments (66.38%) is concentrated in the portfolio denominated in colones.

With respect to the consolidated portfolio, investments in instruments issued by the Government of Costa Rica (63.04%) and BCCR (3.34%) comprise the portfolio in colones, representing 66.38% of the consolidated portfolio. Investments in instruments issued by the Government of Costa Rica comprise the portfolio in US dollars, representing 33.62% of the consolidated portfolio.

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

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

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

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

As of December 31, 2019, the net assets managed by the Pension Fund Manager amount to ¢1,681,894 million (2018: ¢1,441,324 million), growing year-on-year by ¢240,570 million in nominal terms, equivalent to a growth rate of 16.69% (see Note 16). This data does not include the Pension Fund Manager's own assets.

The pension fund with the highest relative share as of December 31, 2019 is ROP, which represents 83.42%, growing year-on-year by ¢222,854 million, an increase of 18.89% with respect to December 2018 (see Note 16).

The Pension Fund Manager's portfolio of own funds is represented by available-for-sale investments in the amount of ¢10,679 million (2018: ¢7,817 million) (see Note 5).

As of December 31, 2019, the credit risk methodology is different from that used as of December 31, 2018, given that the VaR of credit is calculated using the financial copulas model. Consequently, it is not compared. As of December 31, 2019, the VaR of credit was 0.42% (¢44 million).

Consolidated VaR - One year	As of December 31,	
Fund	2019	2018
FCL	0.70%	1.27%
FPC A	0.88%	0.02%
FPC B	0.90%	3.96%
FPD A	4.29%	29.36%
FPD B	5.05%	31.50%
NOT	0.70%	0.00%
ROP	0.42%	6.17%
BN Vital (OPC)	0.93%	0.41%
FCLE	0.91%	4.48%
ROPE	0.70%	3.76%

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

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

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

As of December 31, 2019, exposure to credit risk is represented by the carrying amounts of cash and due from banks and available-for-sale investments. Cash and due from banks correspond to checking account deposits at BNCR and participation in open investment funds managed by BN SAFI.

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

b) *Liquidity risk*

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

i. *Banco Nacional de Costa Rica*

To support liquidity risk management, the Market Risk Division (MRD) 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 as of December 2019 and December 2018, period during which it increased in colones and remained stable in US dollars, remaining considerably above the risk appetite level in both currencies. This means that commitments and net cash outflows for 30 days can be met in an adverse scenario.

Year on year, the LCR indicator in colones increased significantly from 85% to 209% due to a recovery in the rhythm of placements during 2019, even though the growth in credit was below the expectation. This has led to an accrual of liquid assets in the amount of approximately ¢500 billion. Furthermore, the methodological adjustment considers a higher percentage of minimum legal deposit, which has a positive effect on the LCR. In addition, the LCR. In addition, the LCR requirement was recently changed from 15% to 12% starting June 2019.

The LCR indicator in US dollars has been at 337% for the past six months, considerably above risk appetite, due to the lack of dynamism in foreign currency, mainly loans, which continue to contract up to -1.9% year on year (approximately ¢440 million) . This situation has been occurring since 2018.

The LCR indicator in both currencies includes the adjustment set forth in SUGEF Directive 17-13, starting November 1, 2018, date on which this new adjustment is effective.

Indicator	December 2019	December 2018	Variation	Level
LCR colones	209.01%	124.25%	84.76%	Appetite
LCR US dollars	337.44%	183.45%	153.99%	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 Financial Statements

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

				Days					
	Past due	Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	More than 365	Total
Cash and due from banks	¢ -	39,921,988,418	-	-	-	-	-	-	39,921,988,418
Minimum legal deposit in BCCR	-	277,127,783,473	17,756,649,146	30,450,944,750	21,027,362,256	55,514,367,153	48,157,037,401	36,935,366,403	486,969,510,582
Investments	-	-	173,283,540,066	1,701,747,999	53,721,497,220	56,513,240,820	38,527,963,851	577,624,286,277	901,372,276,233
Loan portfolio	212,326,842,099	-	51,831,674,793	41,827,408,025	37,398,504,687	95,536,371,083	137,985,118,075	2,529,883,623,312	3,106,789,542,074
Recovery of assets	¢ 212,326,842,099	317,049,771,891	242,871,864,005	73,980,100,774	112,147,364,163	207,563,979,056	224,670,119,327	3,144,443,275,992	4,535,053,317,307
Obligations with the public	¢ -	2,072,008,008,915	251,857,294,044	154,956,388,361	156,221,822,110	450,935,566,512	336,839,392,582	264,789,782,094	3,687,608,254,618
Obligations with BCCR	-	-	-	-	-	-	-	125,644,412	125,644,412
Obligations with financial entities	-	90,761,781,359	26,682,209,244	27,226,087,524	10,705,547,604	18,761,646,348	1,438,835,286	32,653,284,840	208,229,392,205
Charges payable	-	11,293,162,602	16,429,040,763	4,960,607,044	2,117,503,603	5,662,114,689	1,620,416,836	1,193,305,263	43,276,150,800
Maturity of liabilities	-	2,174,062,952,876	294,968,544,051	187,143,082,929	169,044,873,317	475,359,327,549	339,898,644,704	298,762,016,609	3,939,239,442,035
Difference	¢ 212,326,842,099	(1,857,013,180,985)	(52,096,680,046)	(113,162,982,155)	(56,897,509,154)	(267,795,348,493)	(115,228,525,377)	2,845,681,259,383	595,813,875,272

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

						Days				
		Past due	Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	More than 365	Total
Cash and due from banks	¢	-	70,840,121,548	-	-	-	-	-	-	70,840,121,548
Minimum legal deposit in BCCR		-	314,612,294,599	24,597,772,230	43,251,408,923	28,139,027,017	56,456,765,822	59,130,821,240	13,632,519,516	539,820,609,347
Investments		-	-	45,574,697,445	1,503,700,922	17,008,296,512	5,342,617,583	61,837,310,341	400,921,738,483	532,188,361,286
Loan portfolio		193,766,214,722	-	51,991,311,753	40,253,906,014	50,196,732,922	103,802,848,120	139,357,819,476	2,518,461,695,495	3,097,830,528,502
Recovery of assets	¢	193,766,214,722	385,452,416,147	122,163,781,428	85,009,015,859	95,344,056,451	165,602,231,525	260,325,951,057	2,933,015,953,494	4,240,679,620,683
Obligations with the public	¢	-	1,761,053,463,853	302,411,961,529	178,890,860,139	135,070,706,387	332,187,985,968	345,181,140,475	62,760,497,448	3,117,556,615,799
Obligations with BCCR		-	-	150,400,000,000	-	-	-	-	125,644,412	150,525,644,412
Obligations with financial entities		-	75,674,454,813	134,806,645,142	20,425,874,498	7,133,245,771	33,623,072,804	26,939,568,885	34,134,528,439	332,737,390,352
Charges payable		-	9,687,358,104	13,221,459,332	4,478,148,529	2,760,903,723	2,943,035,036	1,257,265,315	372,652,496	34,720,822,535
Maturity of liabilities	¢	-	1,846,415,276,770	600,840,066,003	203,794,883,166	144,964,855,881	368,754,093,808	373,377,974,675	97,393,322,795	3,635,540,473,098
Difference	¢	193,766,214,722	(1,460,962,860,623)	(478,676,284,575)	(118,785,867,307)	(49,620,799,430)	(203,151,862,283)	(113,052,023,618)	2,835,622,630,699	605,139,147,585

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

		Days								
		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	¢	-	301,568,818,210	-	-	-	-	-	395,081,563	301,963,899,773
Minimum legal deposit in BCCR		-	173,185,549,554	8,415,156,733	10,943,112,299	11,203,663,284	22,522,366,584	18,341,043,064	45,309,643,539	289,920,535,057
Investments		-	-	23,055,651,189	36,387,138,324	19,906,570,198	26,582,131,190	208,320,231,047	224,887,243,689	539,138,965,637
Loan portfolio		95,589,050,123	-	30,948,024,000	33,146,654,705	18,682,229,256	51,016,135,837	60,336,950,647	925,024,749,430	1,214,743,793,998
Recovery of assets	¢	95,589,050,123	474,754,367,764	62,418,831,922	80,476,905,328	49,792,462,738	100,120,633,611	286,998,224,758	1,195,616,718,221	2,345,767,194,465
Obligations with the public	¢	-	932,870,799,662	83,368,381,869	72,160,803,405	60,294,944,749	147,748,486,121	96,426,035,173	117,750,232,659	1,510,619,683,638
Obligations with financial entities		-	99,588,540,698	3,185,952,239	13,198,152,450	4,063,133,803	6,586,771,239	17,730,497,610	575,474,498,430	719,827,546,469
Charges payable		-	2,354,799,952	1,290,668,141	981,023,330	6,066,115,864	1,364,089,295	771,250,743	956,436,273	13,784,383,598
Maturity of liabilities	¢	-	1,034,814,140,312	87,845,002,249	86,339,979,185	70,424,194,416	155,699,346,655	114,927,783,526	694,181,167,362	2,244,231,613,705
Difference	¢	95,589,050,123	(560,059,772,548)	(25,426,170,327)	(5,863,073,857)	(20,631,731,678)	(55,578,713,044)	172,070,441,232	501,435,550,859	101,535,580,760

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

		Days								
		Past due	Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	More than 365	Total
Cash and due from banks	¢	-	98,296,716,670	-	-	-	-	-	223,437,857	98,520,154,527
Minimum legal deposit in BCCR		-	181,037,854,179	10,249,628,136	19,905,848,160	11,346,517,697	24,709,454,340	17,933,811,822	51,101,414,252	316,284,528,586
Investments		-	-	16,375,636,585	29,023,666,124	15,936,099,242	253,754,320,770	52,915,668,829	271,521,949,525	639,527,341,075
Loan portfolio		125,165,885,515	-	30,796,578,646	26,423,822,186	22,912,408,879	69,140,154,006	78,551,581,108	1,107,102,528,679	1,460,092,959,019
Recovery of assets	¢	125,165,885,515	279,334,570,849	57,421,843,367	75,353,336,470	50,195,025,818	347,603,929,116	149,401,061,759	1,429,949,330,313	2,514,424,983,207
Obligations with the public	¢	-	980,041,119,301	146,600,655,953	83,829,648,093	51,861,546,469	174,999,318,319	121,294,361,388	75,938,151,657	1,634,564,801,180
Obligations with financial entities		-	107,303,498,116	7,258,723,900	15,720,183,900	3,050,994,566	5,357,605,485	48,351,200	688,289,481,229	827,028,838,396
Charges payable		-	2,325,836,740	2,665,749,961	1,137,209,846	436,215,620	7,729,943,055	556,561,065	491,801,300	15,343,317,587
Maturity of liabilities	¢	-	1,089,670,454,157	156,525,129,814	100,687,041,839	55,348,756,655	188,086,866,859	121,899,273,653	764,719,434,186	2,476,936,957,163
Difference	¢	125,165,885,515	(810,335,883,308)	(99,103,286,447)	(25,333,705,369)	(5,153,730,837)	159,517,062,257	27,501,788,106	665,229,896,127	37,488,026,044

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

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

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

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

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

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

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

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

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

(Continued)

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.

(Continued)

Liquidity ratio	As of December 31,		
Fund	2019	2018	Variation
FCL	40.77	9.12	31.65
FPC A	6.13	6.36	(0.23)
FPC B	4.76	7.43	(2.67)
FPD A	2.14	3.35	(1.21)
FPD B	2.39	5.46	(3.07)
ROP	12.05	10.43	1.62
FCL Erroneous	19.10	15.58	3.52
ROP Erroneous	21.76	85.96	(64.20)

Liquidity risk management

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

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

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

Exposure to liquidity risk:

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

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

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

c) *Market risk*

i. *Banco Nacional de Costa Rica,*

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

Indicator	Limit	Level
VaR (consolidated)	1.90%	Appetite
Foreign currency risk	2.50%	Appetite
Interest rate risk in colones	5.00%	Normal
Interest rate risk in foreign currency	5.00%	Normal

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.

(Continued)

Below is the variation of the portfolios in each currency between December 2019 and December 2018.

Currency	Face value of investments by currency December 2019	December 2018	Variation
Colones	805,935,100,000	464,988,850,000	340,946,250,000
US dollars – local issuers	96,751,000	233,574,000	(136,823,000)
US dollars – international issuers	772,746,000	761,563,725	11,182,276
Euro	-	6,000,000	(6,000,000)

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

Duration	December 2019	December 2018	Variation
Colones	0.82	0.58	0.24
US dollars - local issuers	0.86	0.81	0.04
US dollars - international issuers	1.00	0.99	0.01
Euro	-	0.16	(0.16)

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.

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:

	2019	2018
VaR (99% confidence level)	0.76%	0.50%

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

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

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

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

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

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

Price risk exposure:

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

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

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

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

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

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

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

- *Market risk of investments*

i. *Banco Nacional de Costa Rica*

The Bank's consolidated VaR regarding the market value of investments increased 0.11% during the last year, mainly due to the increase in portfolio durations.

Type of risk	2019	2018	Variation	Level
VaR (consolidated)	0.39%	0.28%	0.11%	Appetite

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

Currency	VaR by currency December 2019	December 2018	Variation
Colones	0.50%	0.28%	0.22%
US dollars - local issuers	0.57%	0.68%	(0.11) %
US dollars - international issuers	0.34%	0.25%	0.08%

- *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 the Bank does not have the necessary flexibility to make a timely adjustment.

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

Type of risk	2019	2018	Variation	Level
Interest rate risk in colones	0.24%	0.18%	0.06%	Normal
Interest rate risk in foreign currency	0.35%	0.95%	(0.61)%	Normal

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

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

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

		1 to 30 days	31 to 90 days	91 to 180 days	181 to 360 days	361 to 720 days	More than 720 days	Total
Local currency (LC)								
Investments	¢	173,263,564,175	55,300,466,783	56,325,700,195	38,634,403,691	245,029,385,516	331,763,042,221	900,316,562,581
Loan portfolio		2,624,607,572,140	104,813,976,251	100,038,050,570	14,636,950,342	15,460,987,243	67,060,728,879	2,926,618,265,425
Recovery of rate-sensitive assets in LC (A)	¢	2,797,871,136,315	160,114,443,034	156,363,750,765	53,271,354,033	260,490,372,759	398,823,771,100	3,826,934,828,006
Obligations with the public	¢	279,879,531,309	348,998,622,070	475,359,327,549	338,130,974,786	177,377,557,562	90,790,674,531	1,710,536,687,807
Obligations with BCCR		-	-	-	-	-	125,644,412	125,644,412
Obligations with financial entities in LC		16,291,749,318	7,400,000,000	-	-	-	32,574,416,468	56,266,165,786
Maturity of rate-sensitive liabilities in LC (B)	¢	296,171,280,627	356,398,622,070	475,359,327,549	338,130,974,786	177,377,557,562	123,490,735,411	1,766,928,498,005
Difference in LC, recovery of assets less maturity of liabilities (A - B)	¢	2,501,699,855,688	(196,284,179,036)	(318,995,576,784)	(284,859,620,753)	83,112,815,197	275,333,035,689	2,060,006,330,001
Foreign currency (FC)								
Investments	¢	10,003,739,298	55,772,077,127	39,212,482,788	206,961,342,153	114,334,787,771	101,935,374,467	528,219,803,604
Loan portfolio		1,099,595,890,714	40,921,262,031	23,933,401,567	2,631,230,457	21,984,062,392	61,035,014,082	1,250,100,861,243
Recovery of rate-sensitive assets in FC (C)	¢	1,109,599,630,012	96,693,339,158	63,145,884,355	209,592,572,610	136,318,850,163	162,970,388,549	1,778,320,664,847
Obligations with the public	¢	85,057,530,365	145,364,768,406	168,883,880,519	88,975,522,222	262,130,484,838	345,799,433,903	1,096,211,620,253
Obligations with entities		3,163,999,500	5,782,454,886	371,409,673	17,103,822,302	2,672,296,875	83,430,847,212	112,524,830,448
Maturity of rate-sensitive liabilities in FC (D)	¢	88,221,529,865	151,147,223,292	169,255,290,192	106,079,344,524	264,802,781,713	429,230,281,115	1,208,736,450,701
Difference in FC, recovery of assets less maturity of liabilities (C - D)	¢	1,021,378,100,147	(54,453,884,134)	(106,109,405,837)	103,513,228,086	(128,483,931,550)	(266,259,892,566)	569,584,214,146
Recovery of rate-sensitive assets 1/ (A + C)	¢	3,907,470,766,327	256,807,782,192	219,509,635,120	262,863,926,643	396,809,222,922	561,794,159,649	5,605,255,492,853
Maturity of rate-sensitive liabilities 2/ (B + D)	¢	384,392,810,492	507,545,845,362	644,614,617,741	444,210,319,310	442,180,339,275	552,721,016,526	2,975,664,948,706
LC + FC difference, recovery of assets less maturity of liabilities (item 1 - item 2)	¢	3,523,077,955,835	(250,738,063,170)	(425,104,982,621)	(181,346,392,667)	(45,371,116,353)	9,073,143,123	2,629,590,544,147

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of December 31, 2018, the interest rate terms for the Bank's assets and liabilities (differences between the recovery of assets and the maturity of liabilities) are matched as follows:

		1 to 30 days	31 to 90 days	91 to 180 days	181 to 360 days	361 to 720 days	More than 720 days	Total
Local currency (LC)								
Investments	¢	45,474,860,238	18,348,280,906	5,361,155,101	61,747,929,058	88,112,666,990	311,973,230,504	531,018,122,797
Loan portfolio		2,627,377,708,141	105,133,944,923	100,425,336,043	15,240,161,162	16,303,571,594	68,192,567,203	2,932,673,289,066
Recovery of rate-sensitive assets in LC (A)	¢	2,672,852,568,379	123,482,225,829	105,786,491,144	76,988,090,220	104,416,238,584	380,165,797,707	3,463,691,411,863
Obligations with the public	¢	331,376,218,031	343,789,721,590	368,809,089,623	372,574,981,780	42,338,520,397	21,606,622,442	1,480,495,153,863
Obligations with BCCR		150,504,444,444	-	-	-	-	125,644,412	150,630,088,856
Obligations with financial entities in LC		120,334,839,276	4,950,000,000	-	-	-	34,750,337,565	160,035,176,841
Maturity of rate-sensitive liabilities in LC (B)	¢	602,215,501,751	348,739,721,590	368,809,089,623	372,574,981,780	42,338,520,397	56,482,604,419	1,791,160,419,560
Difference in LC, recovery of assets less maturity of liabilities (A - B)	¢	2,070,637,066,628	(225,257,495,761)	(263,022,598,479)	(295,586,891,560)	62,077,718,187	323,683,193,288	1,672,530,992,303
Foreign currency (FC)								
Investments	¢	16,308,083,163	42,257,309,704	250,682,862,619	58,935,090,891	134,083,922,621	136,510,044,469	638,777,313,467
Loan portfolio		1,224,683,279,346	45,572,233,975	26,653,590,870	2,930,287,193	24,482,696,411	67,972,046,911	1,392,294,134,706
Recovery of rate-sensitive assets in FC (C)	¢	1,240,991,362,509	87,829,543,679	277,336,453,489	61,865,378,084	158,566,619,032	204,482,091,380	2,031,071,448,173
Obligations with the public	¢	149,545,377,768	145,175,841,177	186,506,788,420	119,531,916,936	32,315,678,706	628,914,485,415	1,261,990,088,422
Obligations with entities		7,252,680,000	10,920,760,594	393,755,884	295,948,043	-	98,386,895,369	117,250,039,890
Maturity of rate-sensitive liabilities in FC (D)	¢	156,798,057,768	156,096,601,771	186,900,544,304	119,827,864,979	32,315,678,706	727,301,380,784	1,379,240,128,312
Difference in FC, recovery of assets less maturity of liabilities (C - D)	¢	1,084,193,304,741	(68,267,058,092)	90,435,909,185	(57,962,486,895)	126,250,940,326	(522,819,289,404)	651,831,319,861
Recovery of rate-sensitive assets 1/ (A + C)	¢	3,913,843,930,888	211,311,769,508	383,122,944,633	138,853,468,304	262,982,857,616	584,647,889,087	5,494,762,860,036
Maturity of rate-sensitive liabilities 2/ (B + D)	¢	759,013,559,519	504,836,323,361	555,709,633,927	492,402,846,759	74,654,199,103	783,783,985,203	3,170,400,547,872
LC + FC difference, recovery of assets less maturity of liabilities (item 1 - item 2)	¢	3,154,830,371,369	(293,524,553,853)	(172,586,689,294)	(353,549,378,455)	188,328,658,513	(199,136,096,116)	2,324,362,312,164

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

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

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

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

The consolidated VaR of the Pension Fund Manager's own funds had a maximum of 1.49% and a minimum of 0.43% for an average of 0.80%, equivalent to ¢85.53 million. As of December 31, 2019, the indicator closed at 0.70% (2018: 0.54%) showing an increase due to the proportion of the portfolio related to fixed-rate instruments, since this indicator shows the volatility of the portfolio with respect to market interest rates.

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

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

- *Currency risk*

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

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.

(Continued)

i. *Banco Nacional de Costa Rica*

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

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

Type of risk	2019	2018	Variation	Level
Currency risk	1.06%	0.01%	(0.07) %	Appetite

Assets and liabilities denominated in foreign currency are as follows:

		US dollars	
		2019	2018
Assets:			
Cash and due from banks	US$	994,011,845	645,707,944
Investments in financial instruments		945,708,512	1,051,129,970
Loan portfolio		2,068,595,744	2,331,253,151
Accounts and accrued interest receivable		491,335	282,851
Investments in other companies		116,015,115	109,937,062
Other assets		2,420,768	5,541,282
	US$	4,127,243,319	4,143,852,260
Liabilities:			
Obligations with the public	US$	2,621,210,197	2,656,562,300
Obligations with entities		1,271,327,549	1,379,370,275
Accounts payable and provisions		122,727,017	133,172,571
Other liabilities		33,236,716	31,017,135
Subordinated obligations		38,340,909	31,080,852
	US$	4,086,842,388	4,231,203,133
Excess (deficit) of assets over liabilities in US dollars	US$	40,400,931	(87,350,873)

		Euro 2019	Euro 2018
Assets:			
Cash and due from banks	€	39,346,657	35,413,222
Investments in financial instruments		-	6,109,995
Other assets		254	1,127,452
	€	39,346,911	42,650,669
Liabilities:			
Obligations with the public	€	36,303,941	39,634,187
Obligations with entities		1,141,309	973,337
Accounts payable and provisions		45,626	293,909
Other liabilities		577,245	947,048
	€	38,068,121	41,848,481
Exceso of assets over liabilities in euro	€	1,278,790	802,188

		DU 2019	DU 2018
Assets:			
Investments in financial instruments	UD	-	-
Loan portfolio		4,264,934	8,102,290
	UD	4,264,934	8,102,290
Liabilities:			
Accounts payable and provisions	UD	313,004	554,430
Other liabilities		1,081	1,797
	UD	314,085	556,227
Excess of assets over liabilities in DU	UD	3,950,849	7,546,063

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

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

		2019	2018
Foreign exchange gain	¢	379,362,882,556	285,367,547,881
Foreign exchange loss		(375,347,342,935)	(288,559,071,721)
Net gain (loss)	¢	4,015,539,621	(3,191,523,840)

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

		2019	2018
Gain on net valuation of other assets (Note 37)	¢	2,366,907,349	1,035,396,519
Loss on net valuation of other liabilities (Note 40)		(1,141,530,151)	(1,587,413,836)
Net gain (loss)	¢	1,225,377,198	(552,017,317)

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 US dollars.

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

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

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

As of December 31, 2019, 4.45% of the Pension Fund Manager's portfolio of own funds is represented by investments in US dollars. By adding cash and due from banks denominated in foreign currency, the percentage increases to 4.85% (¢535.98 million), compared to the close as of December 31, 2018 at 4.17% (¢334.82 million), considering cash and due from banks and bonded debt, which is a relatively low currency risk for the size of the managed portfolio.

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

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

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

d) *Operational risk*

i. *Banco Nacional de Costa Rica*

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

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

That policy is implemented through a management framework that includes:

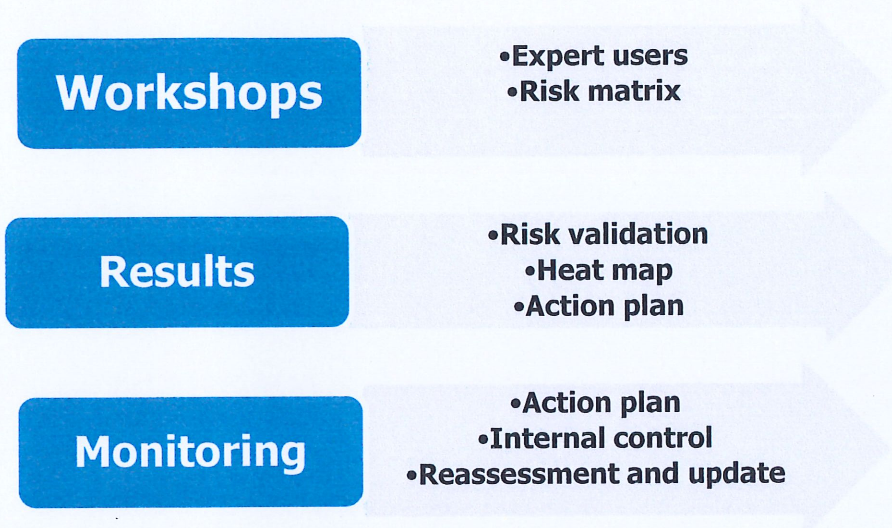
- defining operating risk and best practices
- goals of the operating risk function
- institutional principles to manage operating risk
- roles and relationships
- specific framework to manage legal risk.

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

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

One of the Bank's fundamental operational risk management principles is transparency, meaning that all events must be identified, documented and reported in order to allow the Bank to adequately measure risk events and carry out any necessary corrective, preventive and mitigation measures in a timely manner, including insurance where applicable.

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



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

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

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

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

ii. <u>*BN Sociedad Administradora de Fondos de Inversiones, S.A.*</u>

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

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

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

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

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

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

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

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

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

Fair value of financial instruments

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

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

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

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

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

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

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

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

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

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

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

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

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

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

As of December 31, 2019, the Bank's General Risk Division presented the results of the VaR by legal risk for the Pension Fund Manager, indicating that the amount to be provisioned is the EL of ¢7,999,063 million (see Note 12, Lawsuits) that covers the lawsuits against the Pension Fund Manager with a probability of an unfavorable outcome, out of seven pending lawsuits, most of which are in first instance.

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

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

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

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

(47) Contingencies

As of December 31, Banco Nacional de Costa Rica (the Bank), BN Vital Operadora de Planes de Pensiones Complementarias, S.A. (the Pension Fund Manager), BN Valores Puesto de Bolsa, S.A. (the Brokerage Firm) and BN Sociedad Administradora de Fondos de Inversión, S.A. (the Investment Fund Manager) are defendants in ordinary, labor and criminal lawsuits, as follows:

	Number of cases			Total estimated amount	
	2019	2018	Phase	2019	2018
Banco Nacional de Costa Rica	354	244	First instance	¢ 260,283,301,146	256,975,645,152
	16	17	Second instance	18,611,486,536	19,772,872,880
	9	8	Appeal	5,720,491,698	5,822,741,718
	379	269		284,615,279,380	282,571,259,750
BN Vital	7	7	First instance	39,762,952	220,000
BN Valores	1	1	First instance	133,004,706	133,004,705
BN SAFI	1	-		100,000	-
BN Corredora	1	-		2,840,000	-
	389	277	(Note 22)	¢ 284,790,987,038	282,704,484,455

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

As of December 31, the Bank is a claimant in ordinary, labor and criminal lawsuits for which the outcome is uncertain. These are not booked in the accounting records.

Number of cases				Total estimated amount	
2019	2018	Phase		2019	2018
283	300	First instance	¢	55,114,085,197	108,968,476,944
1	1	Second instance		375,839,600	375,839,600
284	301		¢	55,489,924,797	109,344,316,544

Additionally, the Bank is a defendant in one lawsuit related to the payment of SEDI. The file for such proceedings is 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 December 31, 2019, the Bank booked a provision in the amount of ¢866,518,115 for that lawsuit.

The following lawsuits are also worth noting:

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

  ✓ Statement of facts: The plaintiffs seek the payment of damages by the Bank to all the plaintiffs as well as 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 for Grupo Zion, S.A. to build the Bariloche Real condominium. Additionally, it has had media coverage.

  ✓ Current status: The resolution of April 10, 2018 at 17:15 ordered the separation of the case into separate files for each of the group members. This resolution was unsuccessfully appealed by the plaintiff's representatives. Currently, a number of separate lawsuits were presented to the Bank, which is in the process of filing the corresponding responses and some preliminary hearings have been summoned. The plaintiff's attorney resigned from its legal representation; therefore, the processes are currently suspended while a new attorney is appointed.

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

  - ✓ Court: Agrarian Court of Corredores
  - ✓ Statement of facts: The proceedings seek to declare the liability of CORBANA, as Trustee of a banana plantation Management Trust, in which the Bank was the Trust Beneficiary.
  - ✓ Current status: Vote No. 055-F-18 of January 31, 2018, at 11:55, denied the negative statute of limitations exception, in its commercial and decennial common modality. The judge of first instance must issue a ruling on the appeal concerning new facts and claims of the case, as applicable. Since the parties were not in conformity with the resolution, all parties filed appeals for review before the First Chamber. As of the date of this report, this case remains the same.

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

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

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

  - ✓ Court: Office of Economic, Tax and Customs Crimes
  - ✓ Statement of facts: Irregularities were reported with respect to the company Zion and the process to grant credits to that company, misuse of resources, presentation of fake documents to the Bank to obtain credit approval and the apparent participation of some of the employees of Bank.

- ✓ Current status: The public prosecutor's office filed an accusation, but it was not communicated to the Bank since it is not considered a victim. A motion for declaration of procedural defects was filed, so that the accusation can be brought to the Bank's attention. In a hearing scheduled for September 12, 2019, the declaration of procedural defects filed by BNCR will be heard. There is a civil lawsuit against the Bank, but it does not hold because the accused (bank employees) were summoned to a testimony. Until the legal status of those individuals is defined, they cannot be part of a civil lawsuit.

- *File No.: 08-000350-0419-AG*

  - ✓ Statement of facts: This proceeding seeks annulment of the judicial auction, award and registration of plots No. 79045-000, No. 79046-000 and No.134130-000.
  - ✓ Current status: Vote No. 001581-F-S1-2019 made at 11:36 hrs. of July 24, 2019 by the First Chamber of the Supreme Court of Justice rejected the appeal, thus confirming the resolution which had rejected the lawsuit in all respects.

(48) Significant events

a) *Dividends paid to the Bank*

As of December 31, dividends of the subsidiaries are as follows:

Subsidiary	Amount 2019	Amount 2018
BN Corredora de Seguros, S.A.	2,550,045,102	2,260,896,821
BN Sociedad Administradora de Fondos de Inversión, S.A.	1,200,000,000	1,000,000,000
BN Valores Puesto de Bolsa, S.A.	2,300,000,000	675,205,850
BN Vital Operadora de Planes de Pensiones Complementarias, S.A.	477,619,511	560,939,777
	6,527,664,613	4,497,042,448

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

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

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

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

(Continued)

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

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

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

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

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

(Continued)

a) IAS 1: Presentation of Financial Statements

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

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

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

b) IAS 7: Statement of Cash Flows

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

c) IAS 12: Income Taxes

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

d) IAS 16: Property. Plant and Equipment

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

(Continued)

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

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

e) IAS 18: Revenue

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

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

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

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

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

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

g) IAS 27: Consolidated and Separate Financial Statements

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

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

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

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

h) IAS 28: Investments in Associates

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

i) Revised IAS 32: Financial Instruments - Presentation

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

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

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

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

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

l) IAS 38: Intangible Assets

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

m) IAS 39: Financial Instruments: Recognition and Measurement

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

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

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

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

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

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

a) Pooled portfolios

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

b) Own investments of regulated entities

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

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

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

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

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

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

n) IAS 40: Investment Property

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

o) Revised IFRS 3: Business Combinations

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

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

CONASSIF requires booking an allowance of one-twenty-fourth of the value of non-current assets classified as available for sale each month, so that if they are not sold within two years from acquisition, an allowance is recognized equivalent to 100% of the assets' carrying amount. IFRS 5 requires that these assets be recorded at the lower of the carrying amount or fair value less costs to sell, discounted to the present value of the assets that will be sold in periods greater than one year. Accordingly, assets could be understated, with excess allowances.

q) IFRS 9: Financial Instruments

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

r) IFRS 10: Consolidated Financial Statements

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

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

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

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

s) IFRS 11: Joint Arrangements

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

t) IFRS 12: Disclosure of Interests in Other Entities

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

u) IFRS 13: Fair Value Measurement

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

v) IFRS 14: Regulatory Deferral Accounts

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

w) IFRS 15: Revenue from Contracts with Customers

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

x) IFRS 16: Leases

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

y) IFRS 17: Insurance Contracts

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

z) IFRIC 10: Interim Financial Reporting and Impairment

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

aa) IFRIC 21: Levies

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

bb) IFRIC 22: Foreign currency transactions and advance considerations

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

(Continued)

cc) IFRIC 23: Uncertainty over Income Tax Treatments

The Interpretation clarifies application of recognition and measurement requirements in IAS 12 Income Taxes when there is uncertainty over income tax treatments. In these circumstances, an entity shall recognize and measure its current or deferred tax assets or liabilities applying the requirements of IAS 12 on the taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined applying this Interpretation. This Interpretation is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted.

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

a. Book against profit or loss for the period in the case that, in accordance with the assessment made by senior management, a conclusion is reached that the entity has an obligation of immediate enforceability with the Tax Administration.

b. Book a provision for those treatments not considered in the items above; the amount must reflect the uncertainty of each tax treatment in dispute, according to the method that best predicts its resolution as established in IFRIC 23.

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

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

(50) Disclosure of economic impact of departure from IFRS

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

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