

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Financial Information Required by the
Superintendency General of Financial Entities

Consolidated Financial Statements

December 31, 2016

(With corresponding figures for 2015)

(With Independent Auditor's Report Thereon)

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



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Independent Auditors' Report

The Superintendency General of Financial Entities (SUGEF)
and the Board of Directors
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, 2016, 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, 2016, 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

Without modifying our opinion, 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.

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	Auditor's Response
1. Valuation of derivative financial instruments	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> • We assessed the design and operating efficiency of controls on the identification, measurement, and management of derivative financial instruments; • Our specialists assessed the methodologies, inputs, and assumptions used by the Bank in the fair value determination; • We questioned the observable inputs in the valuation models, i.e. quoted prices; and • For a sample of derivative instruments, we assessed 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.
2. Income tax notice of deficiency	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> • We analyzed the confirmations received from the tax advisors regarding the status and probability of success. • We reviewed management's analysis, including judgments, estimates, and conclusions reached, for each of the concepts included in the notices of deficiency and observations. • Our tax specialists reviewed each of the items in dispute.

Key Audit Matter	Auditor's Response
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.	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> • We assessed management's estimates and judgments that consider the most recent information available and we assessed the accuracy and reliability of the sources of such information. • We verified the adequacy of management's assumptions regarding the confirmations by the Legal Department. • We considered management's estimates based on the most likely outcomes within according to 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:

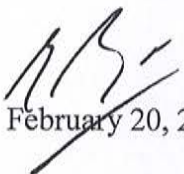
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of 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.

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.



February 20, 2017

San José, Costa Rica
Erick Brenes Flores
Member No. 2520
Policy No. 0116 FIG 7
Expires 9/30/2017

KPMG



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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
AS OF DECEMBER 31, 2016
(With corresponding figures for 2015)
(In colones)

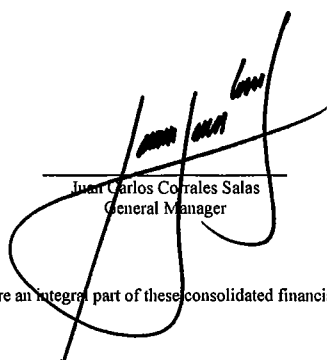
	Note	2016	2015
ASSETS			
Cash and due from banks	4	937,810,182,994	850,267,856,821
Cash		56,192,345,858	79,938,812,261
Demand deposits in BCCR		689,309,617,609	640,340,750,042
Demand deposits in local financial entities		7,462,507,464	20,425,072,298
Demand deposits in foreign financial entities		178,157,371,306	103,283,890,249
Other cash and due from banks		6,688,245,083	6,279,291,698
Accrued interest receivable		95,674	40,273
Investments in financial instruments	5	956,600,207,359	1,148,614,214,346
Available-for-sale		912,646,019,784	1,098,274,577,490
Held-to-maturity		27,181,284,510	27,030,439,007
Derivative financial instruments	6	5,893,164,907	13,103,031,815
Accrued interest receivable		10,939,171,834	10,340,806,695
(Allowance for impairment of investments in financial instruments)		(59,433,676)	(134,640,661)
Loan portfolio	7	4,057,363,892,824	3,663,687,932,586
Current		3,922,221,361,522	3,490,768,356,493
Past due		105,532,644,255	124,446,457,751
In legal collection		87,853,245,295	86,287,327,716
Accrued interest receivable		27,221,501,072	25,154,673,605
(Allowance for loan impairment)	7-e	(85,464,859,320)	(62,968,882,979)
Accounts and fees and commissions receivable	8	2,060,363,518	1,532,926,550
Fees and commissions receivable		1,292,023,911	1,073,457,946
Accounts receivable for brokerage operations		3,828,079	34,120
Accounts receivable for transactions with related parties		20,707,083	180,506,172
Income tax receivable		199,695,701	2,630,373,656
Other receivables		3,993,335,555	3,567,482,304
Accrued interest receivable		1,800,923	1,990,137
(Allowance for impairment of accounts and fees and commissions receivable)		(3,451,027,734)	(5,920,917,785)
Foreclosed assets	9	17,751,098,959	17,416,744,581
Assets and securities acquired in lieu of payment		77,394,578,153	78,575,996,987
Other foreclosed assets		1,471,878	1,770,509
(Allowance for impairment of foreclosed assets and per legal requirements)		(59,644,951,072)	(61,161,022,915)
Investments in other companies	10	57,191,201,983	53,559,078,256
Property, furniture and equipment, net	11	177,105,051,446	178,027,486,757
Other assets	12	38,821,584,257	27,049,017,597
Deferred charges		11,899,941,334	12,659,880,978
Intangible assets		5,225,669,321	3,991,214,261
Other assets		21,695,973,602	10,397,922,358
TOTAL ASSETS		6,244,703,583,340	5,940,155,257,494

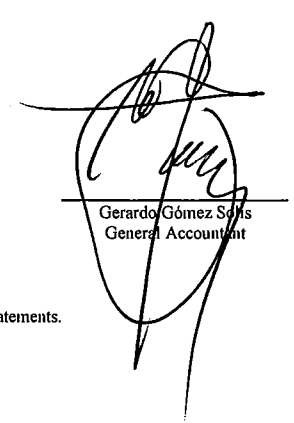
The notes are an integral part of these consolidated financial statements.

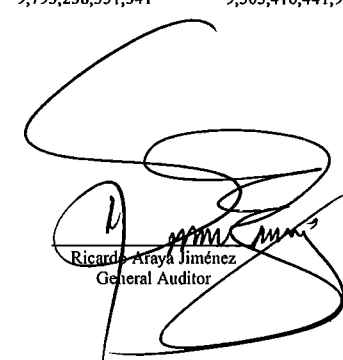
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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
AS OF DECEMBER 31, 2016
(With corresponding figures for 2015)
(In colones)

LIABILITIES AND EQUITY	Note	2016	2015
LIABILITIES			
Obligations with the public	13	4,190,136,402,593	3,968,907,321,801
Demand obligations		2,606,807,068,581	2,476,060,368,987
Term obligations		1,534,747,038,588	1,435,677,785,115
Other obligations		26,448,255,041	36,683,915,704
Finance charges payable		22,134,040,383	20,485,251,995
Obligations with BCCR	14	125,644,412	125,644,412
Term obligations		125,644,412	125,644,412
Obligations with entities	15	1,224,853,283,638	1,210,085,341,685
Demand obligations		215,439,288,466	272,574,469,925
Term obligations		999,839,001,470	930,461,049,359
Finance charges payable		9,574,993,702	7,049,822,401
Accounts payable and provisions		121,037,729,284	109,385,861,810
Accounts payable for brokerage services		1,434,466,447	1,255,898,777
Deferred tax	16-b	10,594,748,946	14,480,686,804
Provisions	17	26,294,108,721	35,921,720,140
Other sundry accounts payable	18	82,714,405,170	57,727,556,089
Other liabilities	19	46,777,896,327	42,411,442,867
Deferred income		24,745,614,291	14,717,958,057
Allowance for stand-by credit losses		540,840,567	1,545,597,997
Other liabilities		21,491,441,469	26,147,886,813
Subordinated obligations	20	72,675,778,397	70,347,385,713
Subordinated obligations		71,263,400,000	69,152,200,000
Charges payable		1,412,378,397	1,195,185,713
TOTAL LIABILITIES		5,655,606,734,651	5,401,262,998,288
EQUITY			
Share capital		118,130,303,482	118,130,303,482
Paid-in capital	21-a	118,130,303,482	118,130,303,482
Equity adjustments		67,476,783,612	73,595,044,363
Surplus from revaluation of property	21-b	60,806,752,437	63,572,929,305
Adjustment for valuation of available-for-sale investments	21-c	159,197,995	3,303,224,869
Adjustment for valuation of restricted financial instruments	21-c	(1,617,218,764)	(435,415,249)
Surplus from revaluation of other assets		43,748,630	69,678,787
Adjustment for valuation of investments in other companies	1-e (iv) and 21-d	8,084,303,314	7,084,626,651
Capital reserves	21-e	274,614,308,392	247,784,553,250
Prior period retained earnings		54,106,726,619	44,435,719,699
Income for the year		53,018,907,264	36,801,775,377
Equity of the Development Financing Fund	21-f	21,749,819,320	18,144,863,035
TOTAL EQUITY		589,096,848,689	538,892,259,206
TOTAL LIABILITIES AND EQUITY		6,244,703,583,340	5,940,155,257,494
DEBIT MEMORANDA ACCOUNTS	22	607,278,057,097	520,000,578,556
TRUST ASSETS	23	1,395,438,209,356	986,889,695,199
TRUST LIABILITIES		51,558,918,092	47,653,258,628
TRUST EQUITY		1,343,879,291,264	939,236,436,571
TRUST MEMORANDA ACCOUNTS		27,200,220,639	20,926,149,777
OTHER DEBIT MEMORANDA ACCOUNTS	24	19,573,797,402,675	18,797,308,347,367
Own debit memoranda accounts		7,280,944,022,035	6,989,146,202,238
Third-party debit memoranda accounts		2,268,532,958,984	2,111,396,136,345
Own debit memoranda accounts for custodial activities		231,082,070,315	393,349,566,832
Third-party debit memoranda accounts for custodial activities		9,793,238,351,341	9,303,416,441,952


Juan Carlos Corrales Salas
General Manager


Gerardo Gómez Solís
General Accountant


Ricardo Araya Jiménez
General Auditor

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

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2016
(With corresponding figures for 2015)
(In colones)

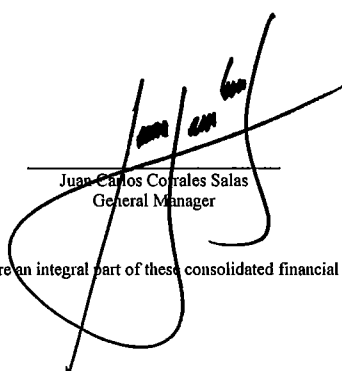
	Note	2016	2015
Finance income			
Cash and due from banks	28	714,614,012	310,669,785
Investments in financial instruments	28	47,878,571,350	48,467,337,437
Loan portfolio	29	351,653,217,587	331,560,895,769
Gain on available-for-sale financial instruments		1,742,702,304	2,530,600,569
Gain on derivative financial instruments, net	6	-	10,724,032,941
Other finance income	30	47,396,113,701	28,091,512,413
Total finance income		<u>449,385,218,954</u>	<u>421,685,048,914</u>
Finance costs			
Obligations with the public	31	107,153,234,146	110,568,002,089
Obligations with BCCR		-	556,658
Obligations with financial entities	32	57,605,739,683	46,533,462,276
Subordinated, convertible, and preferred obligations		4,075,879,448	3,673,084,364
Loss on foreign exchange differences and development units, net	46	1,618,236,228	477,207,121
Loss on available-for-sale financial instruments		73,531,374	82,822,756
Loss on derivative instruments, net	6	9,473,071,759	-
Other finance costs	33	28,462,832,392	27,087,497,352
Total finance costs		<u>208,462,525,030</u>	<u>188,422,632,616</u>
Allowance for impairment of assets	34	39,297,902,715	32,624,982,718
Recovery of assets and decrease in allowances	35	13,098,376,497	11,897,152,398
FINANCE INCOME		<u>214,723,167,706</u>	<u>212,534,585,978</u>
Other operating income			
Service fees and commissions	36	122,521,808,391	113,520,422,899
Foreclosed assets		8,653,833,259	2,281,309,882
Gain on investments in other foreign companies	1-a and 3	1,690,868,660	4,410,917,651
Gain on investments in other local companies		16,313,452	4,394,619
Foreign currency exchange and arbitrage		24,421,625,521	23,814,149,458
Other operating income	37	22,169,036,567	16,322,688,800
Total other operating income		<u>179,473,485,850</u>	<u>160,353,883,309</u>

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

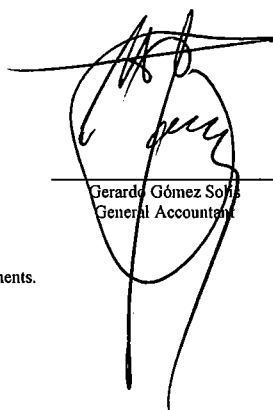
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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2016
(With corresponding figures for 2015)
(In colones)

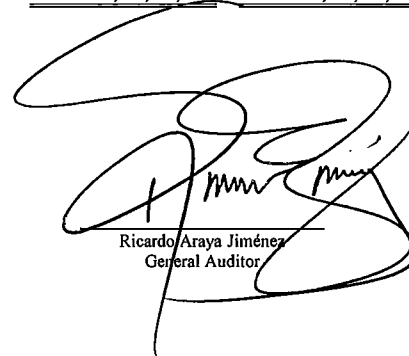
		2016	2015
Other operating expenses			
Service fees and commissions		5,968,026,398	6,213,732,920
Foreclosed assets	38	22,170,699,085	20,719,730,283
Sundry assets		1,271,238,538	1,272,030,080
Provisions	39	24,866,688,525	25,370,961,057
Bonuses on fees and commissions of voluntary pension funds		78,536,057	86,942,819
Foreign currency exchange and arbitrage		7,112,245	1,633,958
Other operating expenses	40	60,534,614,566	56,681,487,849
Amortization of deferred direct costs related to credits		426,736,284	7,749,520,906
Total other operating expenses		115,323,651,698	118,096,039,872
GROSS OPERATING INCOME		278,873,001,858	254,792,429,415
Administrative expenses			
Personnel expenses	41	133,090,357,597	133,599,050,987
Other administrative expenses	42	65,883,085,543	63,271,297,816
Total administrative expenses		198,973,443,140	196,870,348,803
NET OPERATING INCOME BEFORE TAXES			
AND STATUTORY ALLOCATIONS		79,899,558,718	57,922,080,612
Current tax expense	16-a	12,424,439,845	10,488,010,071
Deferred tax expense	16-a	222,500,640	82,458,436
Decrease in current tax for the period	16-a	1,478,222,342	1,266,321,377
Decrease in prior period income tax	16-a	16,380,331	-
Increase in deferred income tax	16-a	1,425,091,743	222,894,705
Statutory allocations	43	17,153,405,385	12,409,000,668
Decrease in statutory allocations	43	-	369,947,858
INCOME FOR THE YEAR		53,018,907,264	36,801,775,377
OTHER COMPREHENSIVE INCOME, NET OF TAX			
Surplus from revaluation of property		537,766,102	(1,093,409,868)
Adjustment for valuation of available-for-sale investments, net of income tax		(3,144,026,874)	5,049,604,808
Adjustment for valuation of restricted financial instruments, net of income tax		(1,181,803,515)	1,605,632,687
Surplus from revaluation of other assets		(25,930,157)	(567,838)
Adjustment for valuation of investments in other companies		999,676,663	754,720,330
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		(2,814,317,781)	6,315,980,119
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		50,204,589,483	43,117,755,496



Juan Carlos Contreras Salas
General Manager



Gerardo Gómez Solís
General Accountant

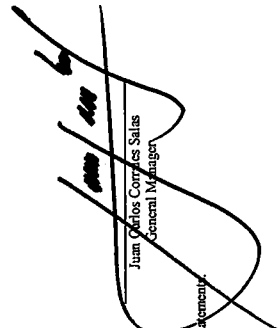


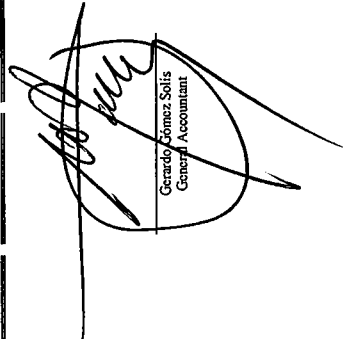
Ricardo Araya Jiménez
General Auditor

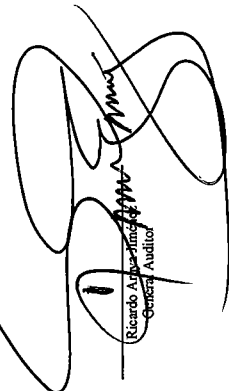
The notes are an integral part of these consolidated financial statements.

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2016
(With corresponding figures for 2015)
(In colones)

Note	Share capital	Equity adjustments				Total equity adjustments	Capital reserves	Retained earnings	Equity of the Development Financing Fund	Total
		Surplus from revaluation of property	Adjustment for valuation of available-for-sale investments and restricted financial instruments	Surplus from revaluation of other assets	Adjustment for valuation of investments in other companies					
Balance at January 1, 2015	118,130,303,482	63,639,596,055	(3,787,427,875)	70,246,625	6,329,906,321	66,252,321,126	216,895,556,917	80,328,984,133	14,548,173,826	496,155,339,484
Transactions with owners booked directly in equity:										
Legal reserves	-	-	-	-	-	-	-	-	-	-
Other statutory reserves	-	-	-	-	-	-	-	-	-	-
Statutory allocations - Mandatory pension funds, Employee Protection Law No. 7983	-	-	-	-	-	-	-	-	-	-
Equity of the Development Financing Fund	-	-	-	-	-	-	-	-	-	-
Total transactions with owners booked directly in equity	-	-	-	-	-	-	-	-	-	-
Comprehensive income for the year:										
Income for the year	-	-	-	-	-	-	-	-	-	-
Adjustment for valuation of available-for-sale investments, net of income tax	6	-	5,049,604,808	-	-	5,049,604,808	-	-	-	5,049,604,808
Adjustment for valuation of restricted financial instruments, net of income tax	6	-	1,605,632,687	-	-	1,605,632,687	-	-	-	1,605,632,687
1-e (iv)	-	-	-	-	754,720,330	754,720,330	-	-	-	754,720,330
Surplus from revaluation of property	-	(66,666,750)	-	-	-	(66,666,750)	-	(1,026,743,118)	-	(1,093,409,868)
Realization of surplus from revaluation of other assets	-	-	-	(567,838)	-	(567,838)	-	-	-	(567,838)
Total comprehensive income for the year	-	(66,666,750)	6,655,237,495	(567,838)	754,720,330	7,342,723,237	-	36,775,032,259	-	43,117,755,496
Balance at December 31, 2015	118,130,303,482	63,572,929,305	2,867,809,620	69,678,787	1,084,626,651	73,595,044,563	247,784,553,250	81,237,495,076	18,144,863,035	538,892,259,206
Transactions with owners booked directly in equity:										
Legal reserves	-	-	-	-	-	-	-	-	-	-
Other statutory reserves	-	-	-	-	-	-	-	-	-	-
Equity of the Development Financing Fund	-	-	-	-	-	-	-	-	-	-
Total transactions with owners booked directly in equity	-	-	-	-	-	-	-	-	-	-
Comprehensive income for the year:										
Income for the year	-	-	-	-	-	-	-	-	-	-
Adjustment for valuation of available-for-sale investments, net of income tax	6	-	(3,144,026,874)	-	-	(3,144,026,874)	-	-	-	(3,144,026,874)
Adjustment for valuation of restricted financial instruments, net of income tax	6	-	(1,181,803,515)	-	-	(1,181,803,515)	-	-	-	(1,181,803,515)
1-e (iv)	-	-	-	-	999,676,663	999,676,663	-	-	-	999,676,663
Surplus from revaluation of property	-	(2,766,176,868)	-	-	-	(2,766,176,868)	-	3,303,942,970	-	(25,230,157)
Realization of surplus from revaluation of other assets	-	-	-	(25,930,157)	-	(25,930,157)	-	-	-	-
Total comprehensive income for the year	-	(2,766,176,868)	(4,225,830,389)	(25,930,157)	999,676,663	(6,747,250,761)	-	56,322,850,234	-	50,204,589,483
Balance at December 31, 2016	118,130,303,482	60,806,752,437	(1,458,020,769)	43,748,630	8,084,303,314	67,476,783,612	274,614,308,592	107,125,633,883	81,749,819,320	589,096,848,689


Juan Carlos Salas
General Manager


Gerardo Gomez Solis
General Accountant


Ricardo Alvarado Jimenez
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, 2016
(With corresponding figures for 2015)
(In colones)

	Note	2016	2015
Cash flows from operating activities			
Income for the year		53,018,907,264	36,801,775,377
Items not requiring cash			
Gain on sale of idle property, furniture and equipment		(578,151)	(796)
(Gain) loss on foreign exchange and development units, net		15,742,283,733	(1,722,778,466)
Loss on allowance for loan impairment, net		27,904,474,431	19,450,010,909
Expense for allowance on impairment of investments, net		(76,967,726)	74,289,638
Loss on allowance for other receivables, net		(1,627,980,487)	1,203,529,773
Loss on allowance for foreclosed assets, net		(1,516,071,844)	4,055,846,460
Loss on sale of foreclosed assets		7,935,053,900	6,873,267,222
Expense for severance accrual, net of payments		(12,282,509,121)	22,026,658,314
Depreciation and amortization		16,008,770,591	15,066,372,750
Share in net profit of foreign associate		(1,690,868,660)	(4,410,917,651)
Statutory allocations		17,153,405,385	12,039,052,810
Current tax expense	16-a	9,727,246,069	9,081,252,425
Interest income on loan portfolio and investments		(399,531,788,937)	(380,028,233,206)
Interest expense on term obligations with the public and financial entities		133,159,583,372	119,556,608,726
		(136,077,040,181)	(139,933,265,715)
(Increase) decrease in assets			
Credits and cash advances		(398,559,507,811)	(404,610,960,480)
Foreclosed assets		16,980,925,818	17,022,219,748
Accrued interest receivable on other receivables		189,214	582,643
Other assets		(13,163,209,344)	20,570,137,001
		(530,818,642,304)	(506,951,286,803)
Net increase (decrease) in liabilities			
Demand and term obligations		323,248,259,650	309,013,013,406
Other accounts payable and provisions		10,329,163,140	(40,773,582,304)
Other liabilities		4,298,012,865	8,502,560,752
		(192,943,206,649)	(230,209,294,949)
Interest received on loan portfolio and investments		396,866,596,331	376,040,134,151
Income tax paid		(8,785,784,930)	(18,140,485,855)
Interest paid on term obligations with the public and financial entities		(128,985,623,683)	(117,909,492,078)
Net cash from operating activities		66,151,981,069	9,780,861,269
Cash flows from investing activities			
Increase in financial instruments		(15,841,483,511,874)	(11,069,873,533,823)
Decrease in financial instruments		15,974,082,277,262	11,004,420,210,977
Acquisition of property and equipment		(14,669,445,315)	(26,284,278,968)
Sale of property and equipment		1,512,094,285	445,985,756
Cash investments in other companies		15,557,425	-
Net cash from (used in) investing activities		119,456,971,783	(91,291,616,058)
Cash flows from financing activities			
Other new financial obligations		107,351,729,914	89,266,456,826
Settlement of obligations		(274,806,414,303)	(11,757,999,044)
Net cash (used in) from financing activities		(167,454,684,389)	77,508,457,782
Net increase (decrease) in cash and cash equivalents		18,154,268,463	(4,002,297,007)
Cash and cash equivalents at beginning of year		1,001,004,712,154	1,005,007,009,161
Cash and cash equivalents at end of year	4	1,019,158,980,617	1,001,004,712,154

Juan Carlos Corrales Salas
General Manager

Gerardo Gómez Solís
General Accountant

Ricardo Araya Jiménez
General Auditor

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

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2016

(With corresponding figures for 2015)

(1) Summary of operations and significant accounting policies

(a) Operations

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

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

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

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

As of December 31, 2016, the Bank has 175 offices, 476 automated teller machines, and a total of 5,866 employees (2015: 183 offices, 472 automated teller machines, and 5,949 employees). Employees are distributed as follows: Banco Nacional de Costa Rica - 5,452 employees (2015: 5,502); BN Valores Puesto de Bolsa, S.A. - 69 employees (2015: 76); BN Vital Operadora de Planes de Pensiones Complementarias, S.A. - 172 employees (2015: 200); BN Sociedad Administradora de Fondos de Inversión, S.A. - 84 employees (2015: 84); and BN Corredora de Seguros, S.A. - 89 employees (2015: 87). The Bank's website is www.bncr.fi.cr.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The following subsidiaries are wholly owned by the Bank:

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

2016						
		Brokerage Firm	Pension Fund Manager	Investment Fund Manager	Insurance Brokerage Firm	BICSA
Assets	¢	55,432,733,834	9,691,092,683	6,622,494,603	2,479,076,938	463,178,771,141
Liabilities	¢	37,872,113,554	2,396,687,260	676,663,523	659,305,471	406,038,192,458
Equity	¢	17,560,620,280	7,294,405,423	5,945,831,080	1,819,771,467	57,140,578,683
Income for the year	¢	2,423,490,098	1,172,980,254	1,614,887,969	1,376,131,467	1,690,868,660
Memoranda accounts	¢	939,715,141,870	1,156,846,965,515	358,238,446,450	-	-
2015						
		Brokerage Firm	Pension Fund Manager	Investment Fund Manager	Insurance Brokerage Firm	BICSA
Assets	¢	7,082,976,915	9,966,575,154	6,259,049,765	1,620,508,557	482,821,702,119
Liabilities	¢	52,513,010,778	3,181,699,333	874,451,762	350,840,895	429,313,247,163
Equity	¢	18,316,758,337	6,784,875,821	5,384,598,003	1,269,667,662	53,508,454,956
Income for the year	¢	2,597,981,538	938,518,217	1,438,073,280	763,959,084	4,410,917,651
Memoranda accounts	¢	1,648,755,772,651	1,043,808,238,403	405,778,954,803	-	-

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(b) Basis of preparation of the consolidated financial statements

- Statement of compliance

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

- Basis of measurement applied to assets and liabilities

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

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

The accounting policies have been consistently applied.

(c) Functional and presentation currency

These consolidated financial statements and notes thereto are expressed in colones (¢), monetary unit of the Republic of Costa Rica, in accordance with the provisions 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.

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of December 31, 2016 and 2015, the consolidated financial statements include the financial figures of the following subsidiaries:

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

Subsidiaries were consolidated based on the following accounting principles:

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

ii. Associates

Associates are those entities in which the Bank has significant influence, but not control. The Bank updates the value of its associates using the equity method from the date that significant influence commences until the date significant influence ceases. As of December 31, 2016 and 2015, the Bank holds 49% ownership interest in BICSA.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(e) Foreign currency

i. *Foreign currency transactions*

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

ii. *Monetary unit and foreign exchange regulations*

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

In accordance with the Chart of Accounts, assets and liabilities denominated in foreign currency should be expressed in colones using the reference buy rate published by BCCR. As of December 31, 2016, the exchange rate was established at ¢548.18 and ¢561.10 (2015: ¢531.94 and ¢544.87) to US\$1.00 for the purchase and sale of U.S. dollars, respectively.

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

As of December 31, 2016, assets and liabilities denominated in U.S. dollars were valued at the exchange rate of ¢548.18 to US\$1.00 (2015: ¢531.94 to US\$1.00), which is the reference buy rate published by BCCR for that date.

As of December 31, 2016, assets and liabilities denominated in euros were valued at the exchange rate of ¢573.07 to €1.00 (2015: ¢581.68 to €1.00). This exchange rate was calculated by multiplying the international exchange rate published by Reuters by the reference buy rate for U.S. dollars published by BCCR on the last business day of the month.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of December 31, 2016, assets and liabilities denominated in DU were valued at the exchange rate of ¢859.52 to DU1.00 (2015: ¢854.75 to DU1.00). This exchange rate is based on the DU value tables published by SUGEVAL.

iv. Financial statements of foreign operations (BICSA)

The financial statements of BICSA are presented in U.S. dollars, which is the entity's functional currency. As of December 31, 2016 and 2015, the Bank holds 49% ownership interest in BICSA. Accordingly, the Bank should value its investment in that entity by the equity method rather than on a consolidated basis.

The financial statements of foreign operations are translated as follows:

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

For the year ended December 31, 2016, a foreign exchange gain in the amount of ¢999,676,663 (2015: foreign exchange gain ¢754,720,330) is presented in equity for the translation of the consolidated financial statements of foreign operations. As of December 31, 2016, the adjustment for valuation of investments in other companies amounts to ¢8,084,303,314 (2015: ¢7,084,626,651).

(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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

ii. Classification

Cash and cash equivalents

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

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

Investments in financial instruments

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

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

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

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

As of December 31, 2016, the Bank no longer classifies financial instruments as held-to-maturity, except for the securities denominated in DU received from the Central Government to capitalize the Bank. Those securities were authorized by the Executive Branch of the Government of Costa Rica as a capital contribution and are funded under the Amendment to Law No. 8627 on the Ordinary and Extraordinary Budget of the Republic for Tax Year 2008 (Law No. 8703).

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Securities sold under repurchase agreements

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

Securities purchased under reverse repurchase agreements

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

Derivative financial instruments

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

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

Originated loans and other receivables

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Deposits and debt securities issued

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

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

iii. Derecognition

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

iv. Offsetting

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

v. Amortized cost measurement

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

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

vi. Fair value measurement

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

Management of the Bank considers such valuations necessary and appropriate to ensure that its instruments are accurately presented in the consolidated 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, 2016 and 2015, the market price valuation methodology established by VALMER Costa Rica, S.A. is used. This methodology has been duly approved by SUGEVAL.

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

vii. *Gains and losses on subsequent measurement*

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

viii. *Impairment of financial assets*

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

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, then the impairment loss write-down 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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

(h) Allowance for loan losses

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

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

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

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

As of December 31, 2016 and 2015, increases in the allowance for loan losses are included in the accounting records in accordance with article 10 of IRNBS.

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(j) Other receivables

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

(k) Foreclosed assets

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

(l) Investments in other companies

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

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

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

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

As of December 31, 2016 and 2015, the Bank has no full or partial share or influence over the management of other companies, in accordance with article 73 of IRNBS and article 146 of the Internal Regulations of the Central Bank of Costa Rica.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(m) Property, furniture and equipment

i. *Own assets*

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

Pursuant to requirements established by regulatory authorities, the Bank must have its real property appraised by an independent appraiser at least once every five years, in order to determine its net realizable value. If the realizable value is less than the carrying amount, the carrying amount must be adjusted to the appraisal value. During 2013 and 2014, appraisals of the Bank's buildings and land were made by independent appraisers. Based on the valuation techniques used, those items are classified as Level 3 of the fair value hierarchy.

ii. *Leased assets*

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

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

iii. *Subsequent expenditure*

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

iv. *Depreciation and amortization*

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

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

(n) Intangible assets

i. *Other intangible assets*

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

ii. *Subsequent expenditure*

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

iii. *Amortization*

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(o) Impairment of non-financial assets

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

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

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

(p) Accounts payable and other liabilities

Accounts payable and other liabilities are carried at cost.

(q) Provisions

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(r) Employee benefits

i. *Severance benefits*

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

In the specific case of the Bank, that limit is 17 years for employees with more than 25 years of service. The Bank follows the policy of booking a provision to cover future disbursements related therewith for employees with more than 20 years of service, in compliance with article 34 of the Collective Bargaining Agreement. As of December 31, 2016 and 2015, severance is included in the provisions account (see note 17), which meets the legal provisioning requirements in effect as of those dates.

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

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

ii. *Short-term employee benefits*

Statutory Christmas bonus

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Vacation

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

Back-to-school bonus

The Back-to-school bonus is a percentage of the employee's salary earned during the year and is paid in the second week of January of the following year. The Bank establishes a fixed percentage of 8.19% for every year. The Bank books a monthly accrual to cover future disbursements related therewith.

Incentives and Performance Assessment System (SEDI)

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

iii. Employee Protection and Retirement Fund

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

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

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

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

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

(s) Deferred income

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(t) Legal reserve

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

Other statutory reserves

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

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

(u) Revaluation surplus

Revaluation surplus included in the consolidated statement of changes in equity may be transferred directly to prior period retained earnings when the surplus is realized. Total surplus is realized on the retirement, disposal, or use of the asset. The transfer of revaluation surplus to prior period retained earnings is not made through the consolidated statement of comprehensive income. The Bank follows the policy of capitalizing revaluation surplus to prior period retained earnings, to be subsequently transferred to share capital, in accordance with article No. 8 of IRNBS (Law No. 1644) and SUGEF Directive 33-07. The most recent capitalization was performed with data on prior period retained earnings from 2008 in the amount of ¢50,745 million and was authorized by CONASSIF through letter C.N.S 992/09/08 from September 18, 2012.

(v) Income tax

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

i. *Current tax*

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

ii. *Deferred tax*

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

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

(w) Segment reporting

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

(x) Combination of financial statements of departments

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(y) Use of estimates

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

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

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

(z) Recognition of income and costs

i. *Finance income and finance costs*

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

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

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

ii. *Fee and commission income*

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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 unconsolidated 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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

(bb) Development Financing Fund (FOFIDE)

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(cc) Development Credit Fund (FCD)

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

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

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

- a. Pursuant to article 6 of Law No. 8634, the Managing Banks may offer first-tier banking services to the beneficiaries of the Development Banking System.
- b. Pursuant to article 35 of Law No. 8634, the Managing Banks may offer second-tier banking services with FCD funds for financial entities other than private banks, provided that the purposes and obligations established in Law No. 8634 are met and such entities are duly authorized by the Governing Board.
- c. Pursuant to article 35 of Law No. 8634, the Managing Banks may channel FCD funds through placements to: associations, cooperatives, foundations, non-governmental organizations, producer organizations, or other formal entities, provided that they perform loan operations through development financing programs that meet the objectives established in Law No. 8634 and are duly authorized by the Governing Board.
- d. The term of the agreement is five years, renewable for equal and successive periods, unless a written order by the Governing Board provides otherwise and is notified at least three months in advance. If a lack of capacity and competence is proven by the Managing Banks, this agreement may be terminated under paragraph j), article 12 of Law No. 8634 and the executive regulations thereto.

(dd) Trust operations

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(2) Collateralized or restricted assets

As of December 31, collateralized or restricted assets are as follows:

Restricted asset	Cause of restriction	2016 Carrying amount	2015 Carrying amount
<i>Cash and due from banks:</i>			
Checking account – colones (note 4)	Minimum legal deposit	₡ 435,159,276,456	415,470,981,358
Checking account – U.S. dollars (note 4)	Minimum legal deposit	221,712,351,226	189,644,176,846
Checking account – euros (note 4)	Minimum legal deposit	4,350,556,378	4,874,288,911
Other cash and due from banks (note 4)	Contribution to FOGABONA	248,795,209	1,057,218,469
		<u>₡ 661,470,979,269</u>	<u>611,046,665,584</u>
<i>Investments in financial instruments:</i>			
Investments in financial instruments	Guarantee for repurchase agreements (tri-party)	26,849,711,867	39,664,189,932
Investments in financial instruments	Liquidity market operations	14,875,504,659	16,106,434,695
Securities issued by BCCR and the Government	Investments securing repurchase agreements	1,054,894,475	463,461,676
Monetary stabilization bonds	Citibank guarantee	-	29,866,916,093
Central Bank bond (global bonds)	Citibank guarantee	-	115,181,185,610
External debt bonds	Barclays guarantee	-	72,471,607,603
External debt bonds	Nomura Bank guarantee	71,767,100,042	-
External debt bonds	Credit Suisse guarantee	57,001,678,752	66,482,575,651
		<u>₡ 171,548,889,198</u>	<u>340,236,371,260</u>
<i>Other assets:</i>			
Other assets (note 12)	Guarantee deposits	₡ 529,333,103	509,289,396

As of December 31, 2016, the Brokerage Firm has restricted assets in the amount of ₡41,974,011,735 (2015: ₡56,827,843,096), corresponding to guarantees for tri-party repurchase agreements, operations in the liquidity market, and contributions to the liquidation and compensation risk management fund.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(3) Balances and transactions with related parties

As of December 31, balances and transactions with related parties are as follows:

	2016	2015
<u>Assets:</u>		
Checking accounts in foreign financial entities		
(1) (note 4)	¢ 9,738,754,875	10,601,795,993
Investments in financial instruments and		
accrued interest receivable (2)	5,481,827,848	-
Accounts receivable (3)	20,707,083	180,506,172
Allowance for impairment for operations with		
related parties (3)	(12,179,982)	(53,007,296)
Investments in other companies (4) (note 10)	57,191,201,983	53,559,078,256
	¢ <u>72,420,311,807</u>	<u>64,288,373,125</u>
<u>Liabilities:</u>		
Demand obligations with entities (5)	¢ 36,789,117	25,933,333
	¢ <u>36,789,117</u>	<u>25,933,333</u>
<u>Income:</u>		
Operating	¢ -	313,720
Gain on investments in foreign companies	1,690,868,660	4,410,917,651
	¢ <u>1,690,868,660</u>	<u>4,411,231,371</u>

The aforementioned balances are related to:

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

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

	2016	2015
Short-term benefits	¢ 1,790,244,979	1,821,731,849
Long-term benefits	232,731,848	236,825,140
Per diem – Board of Directors	137,406,012	149,609,686
	¢ <u>2,160,382,839</u>	<u>2,208,166,675</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(4) Cash and cash equivalents

As of December 31, cash and cash equivalents are as follows:

	2016	2015
Cash on hand and in vaults	¢ 45,605,575,176	58,670,348,227
Cash in transit	10,586,770,682	21,268,464,034
Checking account in BCCR (1)	32,873,027,519	21,060,759,861
Minimum legal deposits in BCCR (1)	656,436,590,090	619,279,990,181
Checking accounts and demand deposits in State-owned commercial Banks and banks created under special laws	4,706,195,026	5,383,227,114
Checking accounts and other demand accounts in private financial entities	2,756,312,438	14,391,845,184
Overnight deposits in local financial entities	-	650,000,000
Checking accounts in foreign financial entities	162,549,650,880	82,042,623,264
Deposits and other demand accounts in foreign financial entities	20,654,470	58,446,548
Checking accounts and demand deposits with related entities	9,738,754,875	10,601,795,993
Overnight deposits in foreign financial entities	5,848,311,081	10,581,024,444
Transfers through the Interbank Electronic Payment System (SINPE)	3,477,754,224	2,188,733,036
Local notes receivable	2,154,613,317	2,068,347,562
Foreign notes receivable	807,082,333	964,992,631
Margin calls on tri-party repurchase agreements	-	684,167,212
Fondo de Garantía de la Bolsa Nacional de Valores (FOGABONA)	248,795,209	373,051,257
Accrued interest receivable	95,674	40,273
	¢ 937,810,182,994	850,267,856,821

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

As of December 31, 2016 and 2015, the percentage for the minimum legal deposit is 15%. The corresponding amount must be deposited in cash in BCCR pursuant to current banking legislation. Such deposit is calculated as a percentage of third-party deposits, which varies based on the term and form of deposit-taking used by the Bank.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

	2016	2015
Cash and due from banks	¢ 937,810,182,994	850,267,856,821
Investments with maturities of less than two months	81,348,797,623	150,736,855,333
	¢ 1,019,158,980,617	1,001,004,712,154

(5) Investments in financial instruments

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

	2016	2015
<i>Available-for-sale:</i>		
<u>Local issuers:</u>		
Government of Costa Rica	¢ 421,249,348,757	496,645,983,004
BCCR	160,717,002,649	197,502,805,066
State-owned banks	85,495,879,525	180,186,806,909
Private banks	7,932,586,072	5,222,907,661
Private issuers	9,550,559,893	5,119,104,420
	684,945,376,896	884,677,607,060
<u>Foreign issuers:</u>		
Governments	37,716,583,192	34,585,082,997
Private issuers	124,832,201,140	71,604,777,235
Private banks	65,151,858,556	107,407,110,198
	227,700,642,888	213,596,970,430
	912,646,019,784	1,098,274,577,490
<i>Held-to-maturity:</i>		
Government of Costa Rica	27,181,284,510	27,030,439,007
	27,181,284,510	27,030,439,007
<i>Derivative financial instruments:</i>		
Interest rate futures - Hedges (note 6)	5,893,164,907	12,835,717,440
FX futures - Other than hedges (note 6)	-	267,314,375
	5,893,164,907	13,103,031,815
<i>Allowance for impairment:</i>		
Allowance for impairment of investments	(59,433,676)	(57,672,935)
Allowance for impairment of derivative instruments other than hedges	-	(76,967,726)
	(59,433,676)	(134,640,661)
Accrued interest receivable	10,939,171,834	10,340,806,695
	¢ 956,600,207,359	1,148,614,214,346

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of December 31, movement in the allowance for impairment of financial instruments is as follows:

	2016	2015
Opening balance	¢ 134,640,661	60,499,558
Allowance expense (note 31)	20,527,703	128,016,660
Decrease in allowance (note 32)	(97,495,429)	(53,727,022)
Foreign exchange differences	1,760,741	(148,535)
Closing balance	¢ 59,433,676	134,640,661

As of December 31, 2016, the allowance for impairment of investments in non-derivative financial instruments amounts to ¢59,433,676 (2015: ¢57,672,935) and is booked for investments in Z Bonds related to the Mortgage Securitization Trust (impairment of 26% for both years).

As of December 31, 2016, the Bank did not recognize an allowance for impairment of derivative instruments other than hedges. As of December 31, 2015, the Bank recognized an allowance for impairment of derivative instruments other than hedges in the amount of ¢76,697,726 for FX futures sales other than hedges in accordance with SUGEF Directive 09-08.

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

Currency	2016	2015
Colones	0.75% to 11.13%	1.25% to 11.04%
U.S. dollars	0.63% to 6.55%	0.25% to 7.63%
Euros	1.10% to 5.50%	0.18 % to 4.75%
DU	0.00% to 0.74%	0.67% to 0.74%

As of December 31, 2016, the valuation of available-for-sale investments and restricted financial instruments gave rise to an unrealized loss, net of deferred tax, in the amount of ¢4,325,830,389 (2015: unrealized gain of ¢6,655,237,495). Accordingly, as of that date, the cumulative balance of equity adjustments arising from valuation of these investments is an unrealized loss of ¢1,458,020,769 (2015: unrealized gain of ¢2,867,809,620).

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(6) Derivative financial instruments

As of December 31, 2016 and 2015, the Bank holds the following types of derivative financial instruments:

✓ Derivatives as risk hedging instruments:

Interest rate futures - hedges:

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

Derivative financial instruments are as follows:

		December 31, 2016		Purpose
Issuing bank		Notional amount	Valuation	
CitiBank	US\$	100,000,000	US\$ 2,150,085	Swaps to hedge 10-year issues (maturing in 2023)
JP Morgan		200,000,000	4,300,167	
Bank of America		200,000,000	4,300,167	
	US\$	500,000,000	US\$ 10,750,419	
Amount in colones	¢	274,090,000,000	¢ 5,893,164,907	
CitiBank		100,000,000	(325,520)	Swaps to hedge 5-year issues (maturing in 2018)
JP Morgan		150,000,000	(488,281)	
	US\$	250,000,000	US\$ (813,801)	
Amount in colones	¢	137,045,000,000	¢ (446,109,432)	
Bank of America		250,000,000	(7,963,964)	Swaps to hedge 5-year issues (maturing in 2021)
JP Morgan		250,000,000	(7,963,964)	
	US\$	500,000,000	US\$ (15,927,928)	
Amount in colones	¢	274,090,000,000	¢ (8,731,371,571)	
CitiBank	US\$	5,964,211	US\$ (36,656)	Standardized futures contracts (maturing in 2017)
Amount in colones	¢	3,269,461,186	¢ (20,094,448)	

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Issuing bank	December 31, 2015				Purpose
		Notional amount		Valuation	
CitiBank	US\$	100,000,000	US\$	4,725,793	Swaps to hedge 10-year issues
JP Morgan		200,000,000		9,451,587	
Bank of America		200,000,000		9,451,587	
	US\$	500,000,000	US\$	23,628,967	
Amount in colones	¢	<u>265,970,000,000</u>	¢	<u>12,569,192,706</u>	
CitiBank		100,000,000		200,416	Swaps to hedge 5-year issues
JP Morgan		150,000,000		300,625	
	US\$	250,000,000	US\$	501,041	
Amount in colones	¢	<u>132,985,000,000</u>	¢	<u>266,523,750</u>	

As of December 31, 2016, total notional amounts of US\$1,255,964,211, equivalent to ¢688,494,461,153 (2015: US\$750 million, equivalent to ¢398,955,000,000) 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, 2016, the Bank books an increase in the fair value of these hedges in the amount of US\$10,750,419, equivalent to ¢5,893,164,907 (see note 5) and a decrease in the fair value of these hedges in the amount of US\$16,778,384, equivalent to ¢9,197,575,451 (see note 18).

As of December 31, 2015, the Bank booked an increase in the fair value of these hedges in the amount of US\$24,130,009, equivalent to ¢12,835,717,440 (see note 5)

As of December 31, 2015, the Bank did not book decreases in the fair value of these hedges.

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

	Effective rate	
	2016	2015
5-year issue (maturing in 2018)	83.62%	107.44%
10-year issue (maturing in 2023)	98.00%	100.48%
5-year issue (maturing 2021)	93.97%	-

A valuation was performed as of December 31, 2016 and 2015 to calculate the change in the fair value of the primary and derivative instruments based on the following inputs:

- a 5- or 10-year LIBOR rate at the issue of the bond
- discount rates from Bloomberg
- zero rates corresponding to the swap curve as of December 31, 2016 and 2015
- only a portion of the bond cash flows is hedged (corresponding to the 5- and 10-year LIBOR rate in effect at the issue of the bond) rather than the total interest amount
- accrued and earned interest were segregated from the instruments to obtain variations in clean prices
- forward rate to calculate variable interest.

✓ Derivatives for trading purposes:

Currency forwards:

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

As of December 31, 2016, the Bank has no currency forwards. As of December 31, 2015, total notional amounts of currency forwards in the amount of US\$21,900,000, equivalent to ₡11,649,486,000, were booked under memoranda accounts (see note 22).

As of December 31, 2015, the Bank booked an increase in the fair value of these forwards of ₡267,314,375 under an asset account (see note 5).

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

		2016	2015
Gain on derivative financial instruments	¢	32,487,947,468	35,212,694,463
Loss on derivative financial instruments		(41,961,019,227)	(24,488,661,522)
(Loss) gain, net	¢	(9,473,071,759)	10,724,032,941

(7) Loan portfolio

(a) Loan portfolio by sector

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

		2016	2015
Trade	¢	383,913,120,090	376,806,025,997
Services		886,844,738,498	796,162,829,760
Financial services		143,227,870,068	125,197,166,308
Mining		1,078,059,706	740,793,348
Manufacturing and quarrying		164,439,989,019	154,988,964,935
Construction		102,337,598,821	88,630,791,109
Agriculture and forestry		119,200,690,631	109,941,332,285
Livestock, hunting, and fishing		75,554,660,408	64,738,300,126
Electricity, water, sanitation, and other related sectors		397,442,725,153	347,407,634,466
Transportation and telecommunications		41,876,391,133	26,464,717,118
Housing		1,192,797,400,089	1,108,935,164,745
Personal or consumer loans		445,416,562,419	364,732,599,797
Tourism		161,477,445,037	136,755,821,966
		4,115,607,251,072	3,701,502,141,960
Accrued interest receivable		27,221,501,072	25,154,673,605
Allowance for loan losses		(85,464,859,320)	(62,968,882,979)
	¢	4,057,363,892,824	3,663,687,932,586

As of December 31, annual interest rates on loans receivable are as follows:

	2016		2015	
Currency	Rates	Average	Rates	Average
Colones	4.45% to 39.00%	13.23%	5.95% to 34.92%	14.32%
U.S. dollars	3.00% to 34.92%	8.93%	3.00% to 27.96%	8.38%
DU	3.85% to 11.00%	6.58%	3.85% to 11.00%	6.50%

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(b) Loan portfolio by arrears

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

	2016	2015
Current	¢ 3,922,996,772,133	3,491,758,501,550
1 to 30 days	46,067,740,682	54,239,972,503
31 to 60 days	38,346,524,164	51,342,045,126
61 to 90 days	19,993,513,410	18,171,340,010
91 to 120 days	10,101,589,852	10,014,328,343
121 to 180 days	12,237,325,773	13,749,242,525
More than 180 days	65,863,785,058	62,226,711,903
Total direct loans	4,115,607,251,072	3,701,502,141,960
Accrued interest receivable	27,221,501,072	25,154,673,605
Allowance for loan losses	(85,464,859,320)	(62,968,882,979)
	¢ 4,057,363,892,824	3,663,687,932,586

(c) Loan portfolio by origin

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

	2016	2015
Loans originated by the Bank	¢ 4,115,550,051,389	3,701,441,568,101
Loans purchased by the Bank	57,199,683	60,573,859
Total direct loans	4,115,607,251,072	3,701,502,141,960
Accrued interest receivable	27,221,501,072	25,154,673,605
Allowance for loan losses	(85,464,859,320)	(62,968,882,979)
	¢ 4,057,363,892,824	3,663,687,932,586

As of December 31, 2016 and 2015, the Bank purchases the loan portfolio from BICSA.

(d) Past due loans

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

	2016	2015
Past due loans in accrual status: 16,978 loans (2015: 20,442 loans)	¢ 126,551,794,860	148,279,853,379
Loans in legal collection: 6,872 loans, 2.13% of portfolio (2015: 6,590 loans, 2.33% of portfolio)	87,853,245,295	86,287,327,716
Unearned interest	2,919,903,029	2,037,606,104

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015, the Bank increased the “Finance income on non-accrual loans” account as a result of the recovery of loans receivable over 180 days past due by ¢2,919,903,029 and ¢2,037,606,104, respectively.

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

(e) Allowance for loan losses

For the years ended December 31, movement in the allowance for loan losses is as follows:

	2016	2015
Opening balance	¢ 62,968,882,979	49,838,574,099
Expense for the year (note 31)	37,490,816,079	30,936,117,232
Settlements	(15,733,523,078)	(17,763,386,035)
Foreign exchange differences	738,683,340	(42,422,317)
Closing balance	¢ 85,464,859,320	62,968,882,979

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:

	2016	2015
Fees and commissions	¢ 1,292,023,911	1,073,457,946
Accounts receivable for brokerage operations	3,828,079	34,120
Accounts receivable from related parties (officers, employees)	20,707,083	180,506,172
Income tax receivable (1)	199,695,701	2,630,373,656
Other sundry accounts receivable	3,993,335,555	3,567,482,304
Accrued interest receivable on other sundry accounts receivable	1,800,923	1,990,137
Allowance for impairment of other accounts receivable	(3,451,027,734)	(5,920,917,785)
	¢ 2,060,363,518	1,532,926,550

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(1) The breakdown of the income tax receivable, by entity, is as follows:

	2016	2015
Banco Nacional de Costa Rica	¢ 140,319,872	2,601,873,894
BN Valores Puesto de Bolsa, S.A.	59,150,738	-
BN Vital Operadora de Planes de Pensiones Complementarias, S.A.	225,091	-
BN Corredora de Seguros, S.A.	-	28,499,762
	¢ 199,695,701	2,630,373,656

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

	2016	2015
Opening balance	¢ 5,920,917,785	5,361,359,410
Allowance expense (note 33)	1,601,391,297	1,332,435,789
Decrease in allowance (note 35)	(3,229,204,400)	(128,906,016)
Items settled against allowance	(845,837,775)	(642,663,621)
Foreign exchange differences	3,760,827	(1,307,777)
Closing balance	¢ 3,451,027,734	5,920,917,785

(9) Foreclosed assets

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

	2016	2015
Assets acquired in lieu of payment	¢ 77,394,578,153	78,575,996,987
Idle property and equipment	1,471,878	1,770,509
Allowance for impairment	(59,644,951,072)	(61,161,022,915)
	¢ 17,751,098,959	17,416,744,581

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

	2016	2015
Opening balance	¢ 61,161,022,915	57,188,491,454
Allowance expense (note 35)	4,906,253,492	4,847,672,218
Liquidation of foreclosed assets	-	(83,315,000)
Decrease in allowance	(6,422,325,335)	(791,825,757)
Closing balance	¢ 59,644,951,072	61,161,022,915

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(10) Investments in other companies

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

	2016	2015
Other financial and non-financial entities	¢ 50,623,300	50,623,300
Banco Internacional de Costa Rica, S.A. and Subsidiary (BICSA) (note 3)	57,140,578,683	53,508,454,956
	¢ 57,191,201,983	53,559,078,256

The Bank holds 49% ownership interest in BICSA, represented in 2016 and 2015 by 6,506,563 ordinary shares of US\$10 par value each.

As of December 31, the Bank's investments in other non-financial entities are as follows:

	2016	2015	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, S.A.	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	

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(11) Property and equipment

As of December 31, 2016, property and equipment is as follows:

	2016				
	Land	Buildings	Furniture and equipment	Computer hardware	Vehicles
<u>Cost:</u>					
Historical cost at beginning of year	4,218,965,394	62,430,854,914	59,048,581,832	57,942,113,324	451,048,332
Revalued cost at beginning of year	42,395,124,332	57,353,344,058	-	-	-
Additions	-	783,223,809	5,759,938,623	7,614,884,356	-
Disposals	-	-	(3,837,327,753)	(5,916,904,016)	-
Sales	(135,459,981)	(168,500,338)	(273,875)	-	(13,644,336)
Adjustments	-	611,075,765	122,389,129	(50,183,386)	-
Reclassifications	-	(902,381)	(10,104,450)	11,087,351	(80,520)
Balance at end of year	46,478,629,745	121,009,095,827	61,083,203,506	59,600,997,629	437,323,476
<u>Accumulated depreciation:</u>					
Balance at beginning of year	-	29,704,829,213	31,171,302,930	44,614,967,063	321,446,224
Depreciation expense on historical cost	-	1,355,676,895	5,298,486,956	5,382,224,643	28,721,410
Depreciation expense on revaluation	-	1,364,745,840	-	-	-
Disposals	-	-	(2,634,688,039)	(5,841,055,189)	-
Sales	-	(70,932,726)	(273,875)	-	(13,644,336)
Adjustments	-	830,436,336	39,607,166	(47,651,774)	-
Reclassifications	-	(902,381)	(5,311,378)	6,294,278	(80,519)
Balance at end of year	-	33,183,853,177	33,869,123,760	44,114,779,021	336,442,779
Net balance at end of year	46,478,629,745	87,825,242,650	27,214,079,746	15,486,218,608	100,880,697
					177,105,051,446

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of December 31, 2015, property and equipment is as follows:

	2015				
	Land	Buildings	Furniture and equipment	Computer hardware	Vehicles
Cost:					Total
Historical cost at beginning of year	4,219,126,594	47,049,428,522	54,512,881,977	53,524,427,013	453,581,087
Revalued cost at beginning of year	38,953,191,243	63,247,844,753	-	-	-
Additions	-	15,381,426,392	5,700,436,805	5,239,146,948	-
Revaluation of assets	3,518,297,616	(5,692,905,154)	-	-	-
Disposals	-	-	(1,168,746,773)	(755,807,411)	(2,593,675)
Adjustments	(76,525,727)	(201,595,542)	(53,540)	(38,292,660)	-
Reclassifications	-	-	4,063,362	(27,360,564)	60,920
Closing balance	46,614,089,726	119,784,198,971	59,048,581,831	57,942,113,326	451,048,332
<u>Accumulated depreciation:</u>					
Balance at beginning of year	-	26,840,836,640	27,066,836,852	40,296,173,458	290,977,526
Depreciation expense on historical cost	-	1,132,988,745	4,798,710,357	4,953,096,361	32,761,018
Depreciation expense on revaluation	-	1,506,603,638	-	-	-
Disposals	-	-	(784,998,542)	(693,841,758)	(2,322,599)
Adjustments	-	224,400,190	74,796,657	75,526,886	-
Reclassifications	-	-	15,957,607	(15,987,884)	30,277
Balance at end of year	-	29,704,829,213	31,171,302,931	44,614,967,063	321,446,222
Net balance at end of year	46,614,089,726	90,079,369,758	27,877,278,900	13,327,146,263	129,602,110
					178,027,486,757

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(12) Other assets

As of December 31, other assets are as follows:

	2016	2015
<i><u>Deferred charges:</u></i>		
Leasehold improvements	¢ 1,230,240,341	1,207,934,825
Cost of issue of financial instruments, net (3)	1,888,423,058	1,175,391,199
Cost of subordinated debt project	474,798,764	546,893,248
Deferred direct costs related to loans	5,673,603,092	6,080,470,185
Other deferred charges	2,632,876,079	3,649,191,521
	<u>11,899,941,334</u>	<u>12,659,880,978</u>
<i><u>Intangible assets:</u></i>		
Software (2)	5,221,524,241	3,988,941,169
Other intangible assets (2)	4,145,080	2,273,092
	<u>5,225,669,321</u>	<u>3,991,214,261</u>
<i><u>Other assets:</u></i>		
Prepaid interest and fees and commissions	274,408,717	217,253,377
Prepaid taxes	14,745,606	21,086,292
Prepaid insurance policy	253,224,405	255,446,560
Other prepaid expenses	119,811,455	384,854,631
Stationery, office supplies, and other materials	624,937,164	391,707,623
Leased assets	100,810,170	102,151,718
Library and artwork	349,918,818	341,297,151
Construction work-in-progress	5,741,165,428	2,823,622,889
Software under development	343,328,418	289,048,089
Rights in welfare and trade associations	600,000	600,000
Other sundry assets	3,986,095,929	2,580,658,839
Cash shortage	3,000	-
Operations pending settlement	5,676,583,226	2,100,268,728
Other operations pending application	3,681,008,163	380,637,065
Guarantee deposits (1)	341,347,456	347,688,068
Legal and administrative deposits (1)	187,985,647	161,601,328
	<u>21,695,973,602</u>	<u>10,397,922,358</u>
¢	<u>38,821,584,257</u>	<u>27,049,017,597</u>

- (1) As of December 31, 2016, guarantee deposits amount to ¢529,333,103 (2015: ¢509,289,396) (see note 2).

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(2) As of December 31, 2016, intangible assets, net are as follows:

	Software	Other intangible assets	Total
<u>Cost:</u>			
Opening balance	¢ 20,535,208,567	96,302,650	20,631,511,217
Additions	3,257,298,745	18,480,098	3,275,778,843
Disposals	(1,699,395,942)	-	(1,699,395,942)
Reclassifications	-	(16,608,110)	(16,608,110)
Adjustments	70,884,743	-	70,884,743
Closing balance	22,163,996,113	98,174,638	22,262,170,751
<u>Accumulated amortization:</u>			
Opening balance	16,546,267,398	94,029,559	16,640,296,957
Expense for the year	2,109,325,149	16,608,110	2,125,933,259
Disposals	(1,679,487,450)	(16,608,110)	(1,696,095,560)
Adjustments	(33,633,225)	-	(33,633,225)
Closing balance	16,942,471,872	94,029,559	17,036,501,430
Net closing balance	¢ 5,221,524,241	4,145,080	5,225,669,321

As of December 31, 2015, intangible assets, net are as follows:

	Software	Other intangible assets	Total
<u>Cost:</u>			
Opening balance	¢ 19,066,822,045	96,516,837	19,163,338,882
Additions	1,664,403,003	8,776,518	1,673,179,521
Disposals	(169,055,790)	-	(169,055,790)
Reclassifications	(12,067,256)	(8,990,704)	(21,057,960)
Adjustments	(14,893,432)	-	(14,893,432)
Closing balance	20,535,208,570	96,302,651	20,631,511,221
<u>Accumulated amortization:</u>			
Opening balance	14,566,562,079	94,029,559	14,660,591,638
Expense for the year	2,141,179,018	8,990,704	2,150,169,722
Disposals	(99,492,813)	(8,990,704)	(108,483,517)
Reclassifications	(61,980,883)	-	(61,980,883)
Closing balance	16,546,267,401	94,029,559	16,640,296,960
Net closing balance	¢ 3,988,941,169	2,273,092	3,991,214,261

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- (3) As of December 31, 2016, costs related to the issue of financial instruments are as follows:

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

As of December 31, 2015, costs related to the issue of financial instruments are as follows:

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(13) Obligations with the public

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

	2016	2015
<i>Demand obligations:</i>		
Checking accounts	¢ 1,278,957,424,500	1,286,985,762,872
Certified checks	122,039,022	95,816,002
Savings deposits	1,296,486,039,607	1,149,490,351,138
Matured term deposits	17,819,303,823	21,175,066,864
Other demand deposits	611,720,829	6,039,745,640
Drafts and transfers	163,530,110	208,837,724
Cashier's checks	4,084,392,512	4,722,486,424
Advance collections from customers for credit cards	8,526,828,123	7,322,184,118
Trust fund obligations	35,790,055	20,118,205
	<u>2,606,807,068,581</u>	<u>2,476,060,368,987</u>
<i>Term obligations:</i>		
Deposits from the public	1,453,379,510,857	1,351,925,567,103
Other term deposits	81,367,527,731	83,752,218,012
	<u>1,534,747,038,588</u>	<u>1,435,677,785,115</u>
<i>Other obligations with the public:</i>		
Obligations for tri-party repurchase agreements	26,448,255,041	36,683,915,704
	<u>26,448,255,041</u>	<u>36,683,915,704</u>
Charges payable for obligations with the public	22,134,040,383	20,485,251,995
	<u>¢ 4,190,136,402,593</u>	<u>3,968,907,321,801</u>

As of December 31, 2016, deposits in checking accounts denominated in colones bear interest at a maximum rate of 1.50% per annum (2015: 1.50% per annum) on balances and at a minimum rate of 1.00% per annum (2015: 0.50% per annum) on balances greater than or equal to ¢500,001. Deposits in checking accounts denominated in U.S. dollars bear interest at a maximum rate of 0.40% per annum (2015: 0.05% per annum) on balances and at a minimum rate of 0.20% per annum (2015: 0.03% per annum) on balances greater than or equal to US\$1,000.

Term obligations correspond to term certificates of deposit in colones, U.S. dollars, and euros. As of December 31, term certificates bear annual interest at the following rates:

Currency	2016	2015
Colones	1.15% to 7.40%	1.15% to 7.60%
U.S. dollars	0.45% to 5.85%	0.10% to 5.00%
Euros	0.00% to 0.00%	0.01% to 0.05%

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The Bank has term certificates of deposit that are restricted to secure certain loan operations. As of December 31, 2016, the balance of those term certificates of deposit amounts to ₡32,221,517,946 (2015: ₡30,173,842,271). 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:

		2016	2015
Financing for loans using external funds	₡	125,644,412	125,644,412
	₡	125,644,412	125,644,412

(15) Obligations with entities

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

		2016	2015
<u>Demand:</u>			
Checking accounts with local financial entities	₡	67,079,202,786	135,826,173,704
Savings deposits with local financial entities		34,068,844	40,013,665
Development Credit Fund (FCD) management		145,344,840,301	133,455,307,294
Outstanding checks		1,947,218,401	2,681,849,500
Checking accounts and obligations with related parties		36,789,113	25,933,333
Other demand obligations with financial entities		997,169,021	545,192,429
		215,439,288,466	272,574,469,925
<u>Term:</u>			
Term deposits from local financial entities		2,702,114,143	46,549,514,521
Term deposits from foreign financial entities		5,481,800,000	-
Term obligations with foreign financial entities (2)		815,040,918,559	539,553,389,165
Liquidity market obligations		7,700,000,000	12,825,000,000
Loans from local financial entities		8,138,797,739	3,303,090,254
Loans from foreign financial entities (1)		160,775,371,029	328,230,055,419
		999,839,001,470	930,461,049,359
Charges payable for other demand and term obligations with financial entities – foreign currency		38,405,886	45,675,752
Charges payable for other demand and term obligations with financial entities – local currency		123,680,533	322,092,919
Charges payable for loans with foreign financial entities (1)		1,413,597,675	1,738,990,390
Charges payable for loans with local financial entities		9,776,425	11,536,232
Charges payable for term deposits from foreign financial entities (2)		7,989,533,183	4,931,527,108
		9,574,993,702	7,049,822,401
	₡	1,224,853,283,638	1,210,085,341,685

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- (1) Loans due to foreign financial entities bear interest at rates ranging between 2.54% and 6.65% per annum (2015: between 1.09% and 6.90% per annum).
- (2) Loans from foreign financial entities are as follows:

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

As of December 31, the balances of those issues in the accounting records are as follows:

	2016			
	5-year issue (maturing in 2018)	10-year issue (maturing in 2023)	5-year issue (maturing in 2021)	Total
Issue	¢ 273,840,106,303	308,765,469,368	275,425,691,646	858,031,267,317
Adjustment to fair value of hedged item measured at cost of international issues	(2,224,689,858)	(31,561,996,331)	(11,056,020,380)	(44,842,706,569)
Amortization of discount in traded amount of issues	1,107,715,702	639,844,894	104,797,215	1,852,357,811
Subtotal	272,723,132,147	277,843,317,931	264,474,468,481	815,040,918,559
Charges payable	2,226,981,250	2,855,104,181	2,907,447,752	7,989,533,183
	¢ 274,950,113,397	280,698,422,112	267,381,917,233	823,030,451,742

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	2015		
	5-year issue maturing in 2018)	10-year issue maturing in 2023)	Total
Issue	¢ 265,291,954,796	272,403,786,799	537,695,741,595
Adjustment to fair value of hedged item measured at cost of international issues	(1,308,900,128)	2,038,284,564	729,384,436
Amortization of discount in traded amount of issues	716,915,358	411,347,776	1,128,263,134
Subtotal	264,699,970,026	274,853,419,139	539,553,389,165
Charges payable	2,161,006,250	2,770,520,858	4,931,527,108
	¢ 266,860,976,276	277,623,939,997	544,484,916,273

A valuation was performed as of December 31, 2016 and 2015 in order to calculate the change in the fair value of the primary instrument based on the following inputs:

- a 5- or 10-year LIBOR rate at the issue of the bond
- discount rates from Bloomberg
- zero rates corresponding to the swap curve as of December 31, 2016 and 2015
- only a portion of the bond cash flows is hedged (corresponding to the 5- and 10-year LIBOR rate in effect at the issue of the bond) rather than the total interest amount
- accrued and earned interest were segregated from the instruments to obtain variations in clean prices
- forward rate to calculate variable interest.

Maturities of loans due to entities

As of December 31, loans due to entities mature as follows:

	2016		
	Local	Foreign	Total
Less than 1 year	¢ 397,938,239	61,328,159,986	61,726,098,225
Between 1 and 2 years	-	2,745,006,304	2,745,006,304
Between 3 and 5 years	-	8,783,221,884	8,908,866,296
More than 5 years	7,750,635,925	89,332,580,530	97,083,216,454
	¢ 8,148,574,164	162,188,968,704	170,463,187,279

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	2015		
	Local	Foreign	Total
Less than 1 year	-	183,472,534,284	183,472,534,284
Between 1 and 2 years	879,757,813	56,693,536,210	57,573,294,023
Between 3 and 5 years	-	4,794,632,376	4,920,276,788
More than 5 years	2,434,868,673	85,008,342,939	87,443,211,612
	¢ 3,314,626,486	329,969,045,809	333,409,316,707

As of December 31, 2016 and 2015, loans due to local entities correspond to obligations with Banco Crédito Agrícola de Cartago.

(16) Income tax

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

a) Current tax

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

	2016	2015
<u>Current tax:</u>		
Current tax expense	¢ 12,424,439,845	10,488,010,071
Decrease in current tax for the year	(1,478,222,342)	(1,266,321,377)
Decrease in prior-period current income tax	(16,380,331)	-
Total current tax expense, net	10,929,837,172	9,221,688,694
<u>Deferred tax:</u>		
Deferred tax expense	222,500,640	82,458,436
Increase in deferred tax	(1,425,091,743)	(222,894,705)
Total deferred tax, net	(1,202,591,103)	(140,436,269)
Total deferred tax expense, net	¢ 9,727,246,069	9,081,252,425

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

	2016	2015
Profit before tax	¢ 79,899,558,718	57,922,080,612
Plus (less) tax effect of:		
Non-deductible expenses	39,089,602,098	41,541,229,947
Deductible expenses	(4,516,208,212)	(3,579,695,026)
Non-taxable income	(78,057,533,519)	(65,612,774,120)
Tax base	¢ 36,415,419,085	30,270,841,413
Tax rate	30%	30%
Total income tax expense, net	¢ 10,924,625,727	9,081,252,424

b) Deferred tax

Deferred tax assets and liabilities are as follows:

As of December 31, 2016			
	Assets	Liabilities	Net
Unrealized losses	¢ 669,043,212	-	669,043,212
Unrealized gains	-	(1,271,480,716)	(1,271,480,716)
Provisions	347,435,123	-	347,435,123
Difference in useful lives	-	(518,000)	(518,000)
Revaluation of assets	-	(10,339,228,565)	(10,339,228,565)
	¢ 1,016,478,335	(11,611,227,281)	(10,594,748,946)

As of December 31, 2015			
	Assets	Liabilities	Net
Unrealized losses	¢ 501,189,191	-	501,189,191
Unrealized gains	1,128	(3,781,295,769)	(3,781,294,641)
Provisions	330,834,048	(6,682,465)	324,151,583
Revaluation of assets	-	(11,524,732,937)	(11,524,732,937)
	¢ 832,024,367	(15,312,711,171)	(14,480,686,804)

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

In 2016, movement in temporary differences that give rise to deferred tax assets is as follows:

	2015	Included in the statement of comprehensive income	Included in equity	2016
Unrealized losses	¢ 501,189,191	-	167,854,021	669,043,212
Unrealized gains	(3,781,294,641)	737,948,880	1,771,865,045	(1,271,480,716)
Provisions	324,151,583	23,283,540	-	347,435,123
Difference in useful lives	-	(518,000)	-	(518,000)
Revaluation of assets	(11,524,732,937)	-	1,185,504,372	(10,339,228,565)
	¢ (14,480,686,804)	(760,714,420)	3,125,223,438	(10,594,748,946)

In 2015, movement in temporary differences that give rise to deferred tax assets is as follows:

	2014	Included in the statement of comprehensive income	Included in equity	2015
Unrealized losses	¢ 1,484,152,904	-	(982,963,713)	501,189,191
Unrealized gains	(883,882,942)	4,789,080	(2,902,200,779)	(3,781,294,641)
Provisions	183,716,442	140,435,141	-	324,151,583
Revaluation of assets	(13,283,636,328)	-	1,758,903,391	(11,524,732,937)
	¢ (12,499,649,924)	145,224,221	(2,126,261,101)	(14,480,686,804)

(17) Provisions

As of December 31, provisions are as follows:

	2016	2015
Severance benefits	¢ 2,848,046,997	19,351,170,766
Litigation	5,114,477,995	4,759,970,548
Other	18,331,583,729	11,810,578,826
	¢ 26,294,108,721	35,921,720,140

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Movement in provisions is as follows:

	Severance benefits	Litigation	Other	Total
Balance at December 31, 2014	¢ 28,436,142,592	2,680,918,923	8,385,833,140	39,502,894,655
Increase in provision	8,479,879,789	2,775,512,681	14,115,568,588	25,370,961,058
Used	(13,998,174,006)	(540,345,355)	(6,429,604,978)	(20,968,124,339)
Decrease in provision	(3,566,677,609)	(156,115,701)	(4,261,217,924)	(7,984,011,234)
Balance at December 31, 2015	19,351,170,766	4,759,970,548	11,810,578,826	35,921,720,140
Increase in provision	7,122,139,578	1,944,689,188	15,799,859,759	24,866,688,525
Used	(23,271,121,855)	(801,840,797)	(8,256,828,606)	(32,329,791,258)
Decrease in provision	(354,141,492)	(788,340,944)	(1,022,026,250)	(2,164,508,686)
Balance at December 31, 2016	¢ 2,848,046,997	5,114,477,995	18,331,583,729	26,294,108,721

As of December 31, 2016 and 2015, the Bank is a defendant in litigation and management considers that an outflow of economic benefits will be required to settle the corresponding obligations. The Bank has estimated future outflows and made the following provisions:

Suit	Claimed amount		Provision	
	2016	2015	2016	2015
Ordinary - in colones	66,170,702,983	62,595,731,735	3,914,211,465	4,289,990,865
Ordinary - in U.S. dollars	190,575,986,833	172,871,837,357	423,919,453	-
Criminal	1,009,129,410	398,430,775	496,046,408	-
Labor	1,616,275,443	1,486,333,665	280,300,669	53,836,750
Phishing	-	416,142,933	-	416,142,933
	<u>259,372,094,669</u>	<u>237,768,476,465</u>	<u>5,114,477,995</u>	<u>4,759,970,548</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(18) Other sundry accounts payable

As of December 31, other sundry accounts payable are as follows:

	2016	2015
Professional fees	¢ 2,558,750	1,604,375
Creditors - goods and services	3,384,330,555	3,111,297,196
Current tax	4,052,523,071	1,910,214,592
Employer contributions	8,457,415,872	8,375,642,825
Court-ordered withholdings	3,161,186,737	3,105,351,390
Tax withholdings	3,851,464,157	2,721,503,637
Employee withholdings	681,405,584	570,210,272
Other third-party withholdings	9,455,319	16,570,398
Compensation	6,702,950,151	6,753,067,878
Statutory allocations	17,153,405,402	12,097,287,024
Obligations payable on loans with related parties	83,835	-
Clearing house operations	4,617,080,542	513,780,850
Accrued vacation	6,944,862,199	6,575,901,665
Accrued statutory Christmas bonus	1,651,621,193	1,446,425,804
Contributions to superintendencies	9,839,843	7,323,169
Foreclosed assets	354,942,685	117,483,268
Various creditors - Local currency (1)	6,327,120,655	6,713,672,996
Various creditors - Foreign currency	6,154,583,169	3,690,218,750
Interest rate futures - Hedges (note 6)	9,197,575,451	-
	¢ <u>82,714,405,170</u>	<u>57,727,556,089</u>

- (1) As of December 31, 2016 and 2015, the "Various creditors" account includes ¢2,746 million and ¢2,436 million, respectively, for the operations of the Bank's Electronic Processing of Payments Office (VISA). The remaining amount corresponds to normal operations of other divisions.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(19) Other liabilities

As of December 31, other liabilities are as follows:

	2016	2015
<i>Deferred income:</i>		
Deferred fees and commissions for loan portfolio	¢ 24,722,362,957	14,699,323,266
Deferred fees and commissions for trust management	23,251,334	16,916,474
Other	-	1,718,317
Subtotal	24,745,614,291	14,717,958,057
Allowance for stand-by credit losses (1)	540,840,567	1,545,597,997
<i>Operations pending application:</i>		
Operations pending settlement	19,153,979,611	20,341,189,654
Other	2,337,461,858	5,806,697,159
	21,491,441,469	26,147,886,813
	¢ 46,777,896,327	42,411,442,867

(1) For the years ended December 31, movement in the allowance for stand-by credit losses is as follows:

	2016	2015
Opening balance	¢ 1,545,597,997	1,319,693,076
Allowance expense (note 31)	185,335,020	228,413,037
Decrease in allowance (note 32)	(1,229,913,214)	-
Adjustment for foreign exchange differences	39,820,764	(2,508,116)
Closing balance	¢ 540,840,567	1,545,597,997

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(20) Subordinated obligations

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

<u>Annual interest rate</u>	<u>Term</u>	<u>Maturity</u>		<u>2016</u>	<u>2015</u>
6-month LIBOR + 4.50% in the first 5 years and 6-month LIBOR + 5.00% thereafter	10 years	05/27/2024	US\$	100,000,000	100,000,000
6-month LIBOR + 5.25% in the first 5 years and 6-month LIBOR + 5.75% thereafter	15 years	10/23/2029		30,000,000	30,000,000
			US\$	130,000,000	130,000,000
	Total in colones		¢	71,263,400,000	69,330,300,000
	Finance charges payable			1,412,378,397	1,027,971,862
			¢	<u>72,675,778,397</u>	<u>70,347,385,713</u>

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(21) Equity

(a) Share capital

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

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

On December 23, 2008, the Executive Branch of the Costa Rican Government authorized a capital contribution funded under the Amendment to Law No. 8627 on the Ordinary and Extraordinary Budget of the Republic for Tax Year 2008 (Law No. 8703). Such law grants funds to capitalize three State-owned banks, including the Bank, in order to stimulate productive sectors, particularly small and medium-sized enterprises. For such purposes, the Bank received four securities for a total of US\$50,000,000 (equivalent to ¢27,619,000,002), denominated in DU, and maturing in 2017, 2018, and 2019 (No. 4184, No. 4185, and No. 4190 for DU10,541,265.09 each, at a reference exchange rate of ¢655.02 to DU1.00). As of December 31, 2016, based on the exchange rate as of that date, the balance of those investments is ¢27,181,284,510 (2015: ¢27,030,439,007) (see note 5).

(b) Revaluation surplus

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

As of December 31, 2016, revaluation surplus amounts to ¢60,806,752,437 (2015: ¢63,572,929,305).

(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, 2016 and 2015, the adjustment for valuation of available-for-sale investments and restricted financial instruments amounts to ¢1,458,020,769 (unrealized loss) and ¢2,867,809,620 (unrealized gain), respectively.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(d) Adjustment for valuation of investments in other companies

As of December 31, 2016 and 2015, the adjustment for valuation of investments in foreign associates using the equity method amounts to ¢8,084,303,314 and ¢7,084,626,651, respectively. These investments correspond to the Bank's 49% ownership interest in BICSA.

(e) Equity reserves

As of December 31, equity reserves are as follows:

	2016	2015
Legal reserve	¢ 261,729,857,989	237,909,153,277
Statutory reserve for foreclosed assets	142,801,520	110,915,646
Excess of statutory reserve for loans	4,770,983,124	4,456,681,706
Statutory dynamic provision	7,970,665,759	5,307,802,621
	¢ 274,614,308,392	247,784,553,250

(f) Equity of the Development Financing Fund

As of December 31, 2016, the allocation of the Bank's earnings for the creation of the Development Financing Fund (FOFIDE) amounts to ¢21,749,819,320 (2015: ¢18,144,863,035).

(22) Commitments and contingencies

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

	2016	2015
Performance bonds	¢ 30,682,050,718	29,834,393,474
Bid bonds	1,342,107,486	2,347,050,585
Other guarantees	3,980,030,923	3,759,924,499
Letters of credit	10,690,229,800	13,289,869,206
Credits pending disbursement	253,629,299	325,733,653
	46,948,048,226	49,556,971,417
Pre-approved lines of credit	262,526,260,221	221,702,170,194
Other contingencies not related to credits	818,024,507	636,737,855
Other contingencies - Pending litigation and lawsuits (note 47)	296,985,724,143	236,455,213,089
	560,330,008,871	458,794,121,138
FX futures - Other than hedges (note 6)	-	11,649,486,001
	¢ 607,278,057,097	520,000,578,556

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

(23) Trust assets

The Bank provides trust services whereby it manages assets per the instructions of the customer. The Bank receives a fee for providing those services. Those assets, liabilities, and equity are not recognized in the Bank's consolidated 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, 2016, trust capital is invested in the following assets:

Nature of trust	Cash or property management	Securitization	Portfolio management	Guaranty	Testamentary	Custody of stock with testamentary clause	Custody and management of funds	Cash guaranty and management	Pre-sales management	Guaranty and custody of stock	Total
<i>Trust assets</i>											
Cash and due from banks	¢ 84,749,206	667,588,410	5,079,882	-	892,322	-	8,573	-	-	-	758,318,393
Investment securities and term deposits	193,209,749,751	7,005,541,450	1,978,345,006	1,025,988,873,967	1,182,795,790	-	1,984,220	-	-	-	1,229,367,290,184
Loan portfolio	2,683,406,286	-	1,311,997,204	-	-	-	-	-	-	-	3,995,403,490
Accounts and accrued interest receivable	9,599,521,995	12,834,002,406	1,769,982,758	24,682,121	475,951	-	-	34,848,960	-	548,180	24,264,062,371
Foreclosed assets	12,852,464	-	-	-	-	-	-	-	-	-	12,852,464
Investments in other companies	599,075,640	-	-	-	2,320,000	2,096,000	-	-	-	877,088,000	1,480,579,640
Property and equipment	4,560,607,132	49,080,535,436	-	72,930,401,803	-	-	-	1,544,041,161	-	1,454,901,292	129,570,486,824
Other assets	2,790,238,017	-	-	1,517,709,641	1,172,011	-	-	-	5,591,595	1,674,504,726	5,989,215,990
¢ 213,540,200,491	69,587,667,702	5,065,404,850	1,187,656,074	1,100,461,667,532	1,992,793	2,096,000	1,578,890,121	5,591,595	4,007,042,198	1,395,438,209,356	

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of December 31, 2015, trust capital is invested in the following assets:

Nature of trust	Cash or property management	Securitization	Portfolio management	Guaranty	Testamentary	Custody of stock with testamentary clause	Custody and management of funds	Cash guaranty and management	Pre-sales management	Guaranty and custody of stock	Total
<i>Trust assets</i>											
Cash and due from banks	148,894,085	4,389,161	1,480,868	5,439,696	-	-	8,524	-	53,194	-	160,265,528
Investment securities and term deposits	173,308,850,241	3,318,357,098	632,840,950	666,494,365,872	1,308,640,716	-	1,910,201	-	427,474,888	-	845,492,439,966
Loan portfolio	2,579,120,499	-	1,101,433,290	-	-	-	-	-	-	-	3,680,553,789
Accounts and accrued interest receivable	6,543,291,846	4,497,133	1,890,341,950	23,285,645	5,233	-	-	27,607,335	-	-	8,489,029,143
Foreclosed assets	33,272,382	-	2,667,915	-	-	-	-	-	-	-	35,940,297
Investments in other companies	1,209,954,431	-	-	-	2,332,000	2,396,000	-	-	-	851,104,000	2,065,786,431
Property and equipment	971,990,872	52,812,621,086	-	69,174,908,361	-	-	-	1,544,041,161	-	-	124,503,561,480
Other assets	636,702,993	-	22,428,776	1,795,655,250	1,739,950	-	-	-	5,591,597	-	2,462,118,566
	185,432,077,349	56,139,864,478	3,651,193,749	737,493,654,824	1,312,717,899	2,396,000	1,918,725	1,571,648,496	433,119,679	851,104,000	986,889,695,199

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

a) Housing mortgage

These trusts are exclusively dedicated to managing housing loan portfolios.

b) Cash or property management

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

c) Securitization

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

d) Portfolio management

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

e) Special accounts

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

f) Guaranty

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

g) Testamentary

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

h) Custody of stock with testamentary clause

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

(24) Other debit memoranda accounts

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

	2016	2015
Pension Fund Manager's own investments in custody – Face value of principal	¢ 6,610,000,000	5,514,300,000
Pension Fund Manager's own investments in custody – Coupons	1,722,639,500	2,105,230,400
Pension Fund Manager's own investments in custody – Number of shares	23	23
Guarantees received in the Bank's custody	1,724,533,313	1,890,559,429
Chattel mortgages	5,367,946,170,309	5,294,473,995,746
Other guarantees received in the Bank's custody	441,382,834,335	511,151,808,726
Loans settled	225,619,018,406	274,712,387,759
Loans pending settlement	578,306,470	255,230,131
Investments settled	166,459,634,866	157,432,418,630
Loans settled	11,898,442,646	10,774,738,185
Other accounts receivable settled	16,299,952,949	15,268,996,373
Accrued interest receivable settled	11,671,508,267	8,751,605,238
Interest income on non-accrual loans of loan portfolio	1,255	1,027
Supporting documentation received in the Bank's custody	9,231,596,560	9,070,950,480
Securities issued pending placement	4,637,615,046	5,319,399,998
Notified letters of credit	15,435,994,146	15,454,594,142
Notional value subject to interest rate futures	688,494,461,153	398,955,000,000
Nondeductible expenses	35,870,721,965	37,865,472,682
Nontaxable income	78,826,408,960	65,404,708,081
Other memoranda accounts	196,534,181,866	174,744,805,188
	<u>7,280,944,022,035</u>	<u>6,989,146,202,238</u>
Third-party debit memoranda accounts	2,268,532,958,984	2,111,396,136,345
Own debit memoranda accounts for custodial activities	231,082,070,315	393,349,566,832
Third-party debit memoranda accounts for custodial activities	9,793,238,351,341	9,303,416,441,952
	<u>12,292,853,380,640</u>	<u>11,808,162,145,129</u>
¢	<u>19,573,797,402,675</u>	<u>18,797,308,347,367</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

	2016	2015
Bank	¢ 17,119,227,249,789	15,700,203,531,691
Brokerage Firm (note 25)	939,715,141,866	1,648,754,705,405
Investment Fund Manager (note 26)	358,296,155,829	405,847,015,646
Pension Fund Manager (note 27)	1,156,558,855,191	1,042,503,094,625
	¢ 19,573,797,402,675	18,797,308,347,367

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

	2016	2015
Management of banking mandates	¢ 762,122,383,713	670,786,800,640
Assets in custody on behalf of third parties	392,901	392,901
“TUDES” securities received in custody from affiliates under article 75 of Law No. 7531	986,274,291	1,322,191,226
Pension funds (note 27)	1,147,185,461,582	1,033,507,796,447
Investment funds (note 26)	358,238,446,497	405,778,955,131
	¢ 2,268,532,958,984	2,111,396,136,345

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

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

	2016	2015
<i>Own</i>		
Trading securities in custody (note 25-a)	¢ 7,525,552,425	7,695,679,364
Trading securities pledged as guarantees	27,185,648,401	39,341,879,040
Repurchase agreements pending settlement (note 25-b)	26,591,702,575	36,945,853,237
Other own memoranda accounts	4,650,394,747	5,333,240,511
	65,953,298,148	89,316,652,152
<i>Third-party</i>		
Trading securities in custody (note 25-a)	608,181,806,524	1,330,297,258,561
Trading securities received as guarantees	73,711,662,718	59,453,764,830
Trading securities pledged as guarantees	72,336,434,299	63,469,761,750
Repurchase agreements pending settlement (note 25-b)	118,093,644,163	104,962,162,434
Cash and accounts receivable	1,438,296,014	1,255,105,678
	873,761,843,718	1,559,438,053,253
	¢ 939,715,141,866	1,648,754,705,405

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

Location	Type of custody	2016	2015
<i>Own custodial activities</i>			
Local	At face value - available	¢ 7,342,146,259	7,578,250,000
Local	At purchase value of shares - available	15,000,002	21,561,315
Local	At purchase value of investments - available	67,576,232	62,244,209
Local	At face value - pledged	100,000,000	31,000,000
Local	Amount of physical coupons - pledged	829,932	2,623,840
		<u>7,525,552,425</u>	<u>7,695,679,364</u>
<i>Custodial activities on behalf of third parties</i>			
Local	At face value - available	572,626,165,295	952,231,676,518
Local	Amount of physical coupons - available	-	355,404
Local	At purchase value of shares - available	21,630,277,811	45,043,488,590
Local	At purchase value of investments - available	12,086,911,480	330,511,879,761
Local	At face value - pledged	1,764,518,041	2,436,549,260
Local	At purchase value of shares - pledged	63,720,864	57,225,237
Local	At purchase value of investments - pledged	10,213,033	16,083,791
		<u>608,181,806,524</u>	<u>1,330,297,258,561</u>
		¢ <u>615,707,358,949</u>	<u>1,337,992,937,925</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

		2016			
		Term buyer		Term seller	
		Colones	U.S. dollars expressed in colones	Colones	U.S. dollars expressed in colones
Own Third parties		16,997,372,601	17,502,152	9,594,329,974	26,591,702,575
		18,433,633,803	70,572,457	38,686,409,247	57,120,043,050
		35,431,006,404	88,074,609	48,280,739,221	83,711,745,625
Own Third parties					

As of December 31, 2016, term buyer and seller positions in tri-party repurchase agreements in U.S. dollars were valued at the exchange rate of ¢548.18 to US\$1.00 (2015: ¢531.94 to US\$1.00).

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of December 31, the maturity structure of term buyer and seller positions in tri-party repurchase agreements involving the Brokerage Firm is as follows:

		2016			
		Term buyer		Term seller	
		Colones	U.S. dollars	Colones	U.S. dollars
<i>Own</i>					
1 to 30 days	¢	6,437,317,658	752,598	-	-
31 to 60 days		9,040,100,002	13,562,802	-	-
61 to 90 days		1,519,954,941	3,186,752	-	-
		<u>16,997,372,601</u>	<u>17,502,152</u>	<u>-</u>	<u>-</u>
<i>Third parties</i>					
1 to 30 days		3,045,727,110	-	4,953,859,965	2,778,460
31 to 60 days		12,236,111,739	35,430,115	9,294,217,383	43,963,584
61 to 90 days		2,747,570,998	22,872,801	2,227,621,378	21,424,911
More than 91 days		404,223,956	12,269,541	404,223,956	12,269,541
		<u>18,433,633,803</u>	<u>70,572,457</u>	<u>16,879,922,682</u>	<u>80,436,496</u>
	¢	<u>35,431,006,404</u>	<u>88,074,609</u>	<u>16,879,922,682</u>	<u>80,436,496</u>
		2015			
		Term buyer		Term seller	
		Colones	U.S. dollars	Colones	U.S. dollars
<i>Own</i>					
1 to 30 days	¢	-	1,983,585	-	-
31 to 60 days		18,737,334,525	6,598,931	-	-
61 to 90 days		12,330,742,981	2,467,181	-	-
		<u>31,068,077,506</u>	<u>11,049,697</u>	<u>-</u>	<u>-</u>
<i>Third parties</i>					
1 to 30 days		74,119,543	-	468,956,795	199,423
31 to 60 days		13,088,245,729	11,855,895	11,416,671,346	9,582,387
61 to 90 days		20,470,178,227	20,851,486	22,368,405,368	21,250,142
More than 91 days		610,461,607	2,027,188	610,461,607	1,637,063
		<u>34,243,005,106</u>	<u>34,734,569</u>	<u>34,864,495,116</u>	<u>32,669,015</u>
	¢	<u>65,311,082,612</u>	<u>45,784,266</u>	<u>34,864,495,116</u>	<u>32,669,015</u>

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(26) Investment fund management agreements

As of December 31, 2016, the Investment Fund Manager's memoranda accounts are as follows:

Fund		Net value	Shares	Value per share
<i>Funds in colones:</i>				
Súper Fondo - colones	¢	88,199,400,617	23,252,481,058	3.793117835
Fon Depósito - colones		53,636,792,605	38,322,215,707	1.399626603
Creci Fondo - colones		3,753,408,629	791,363,877	4.742961786
Redi Fondo - colones		15,292,938,274	4,534,360,488	3.372678091
Diner Fondo - colones		41,580,077,576	16,187,520,727	2.568650152
	¢	<u>202,462,617,701</u>	<u>83,087,941,857</u>	
<i>Funds in U.S. dollars:</i>				
Súper Fondo - U.S. dollars	US\$	22,956,865	15,831,245	1.450098562
Creci Fondo - U.S. dollars		3,051,306	1,788,904	1.705685106
Redi Fondo - U.S. dollars		15,474,216	10,745,047	1.440125492
Diner Fondo - U.S. dollars		75,626,981	59,540,550	1.270176062
Fon Depósito - U.S. dollars		54,448,574	50,655,433	1.074881226
Súper Fondo Plus - U.S. dollars		112,351,336	107,757,853	1.042627826
Fondo Hipotecario - U.S. dollars (mortgage fund)		259,843	258,127	292.95
	US\$	<u>284,169,121</u>	<u>246,577,159</u>	
	¢	<u>155,775,828,796</u>	<u>135,168,667,021</u>	
Total assets of managed funds (note 24)	¢	<u>358,238,446,497</u>	<u>218,256,608,878</u>	
<i>Guarantees:</i>				
Performance bonds		55,734,028		
Outstanding checks		1,975,304		
Total memoranda accounts	¢	<u>358,296,155,829</u>		

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of December 31, 2015, the Investment Fund Manager's memoranda accounts are as follows:

Fund		Net value	Shares	Value per share
<i>Funds in colones:</i>				
Súper Fondo - colones	¢	95,527,406,736	25,827,607,722	3.698654857
Fon Depósito - colones		89,486,248,296	65,175,718,727	1.372999793
Creci Fondo - colones		2,771,764,478	613,572,428	4.517420199
Redi Fondo - colones		14,049,964,980	4,370,391,832	3.214806708
Diner Fondo - colones		55,041,660,562	21,929,230,321	2.509967735
	¢	<u>256,877,045,052</u>	<u>117,916,521,030</u>	
<i>Funds in U.S. dollars::</i>				
Súper Fondo - U.S. dollars	US\$	26,615,129	18,669,372	1.4256039
Creci Fondo - U.S. dollars		1,710,254	1,036,659	1.649773192
Redi Fondo - U.S. dollars		12,234,833	8,779,034	1.393642271
Diner Fondo - U.S. dollars		97,005,658	77,272,991	1.255363055
Fon Depósito - U.S. dollars		62,303,615	58,634,833	1.06257
Súper Fondo Plus - U.S. dollars		79,656,453	77,668,317	1.025597775
Fondo Hipotecario - U.S. dollars (mortgage fund)		<u>396,438</u>	<u>393,555</u>	<u>446.9417249</u>
	US\$	<u>279,922,380</u>	<u>242,454,761</u>	
	¢	<u>148,901,910,079</u>	<u>128,971,385,566</u>	
Total assets of managed funds (note 24)	¢	<u>405,778,955,131</u>	<u>246,887,906,596</u>	
<i>Guarantees:</i>				
Performance bonds		66,085,210		
Outstanding checks		<u>1,975,304</u>		
Total memoranda accounts	¢	<u>405,847,015,646</u>		

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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- BN DinerFondo - Dólares No Diversificado (non-diversified - U.S. dollars): This is an open-end (floating number of outstanding shares) money market fund with a fixed income portfolio. Returns on the investment portfolio are not distributed until the customer requests partial or full redemption of shares.
- BN FonDepósito - Dólares No Diversificado (non-diversified - U.S. dollars): This is an open-end (floating number of outstanding shares) money market fund with a fixed income portfolio. Returns on the investment portfolio are not distributed until the customer requests partial or full redemption of shares.
- BN Fondo de Inversión de Titularización Hipotecaria (FHIPO) - Dólares (mortgage securitization - U.S. dollars): This is mainly a closed-end mortgage investment fund, i.e. investor shares are listed and traded on a stock exchange.
- BN SuperFondo Dólares Plus No Diversificado - Dólares (non-diversified - U.S. dollars): This fund is aimed at conservative investors looking for short-term investments. It allows obtaining reimbursement of the shares one business day and up to a maximum of three business days from the date of receipt of the withdrawal request. Since it is a short-term fund, it allows the investor to manage resources to address its present or future liquidity needs. The goal of the fund is to offer an investment mechanism that seeks to obtain higher returns than other investment alternatives under similar liquidity, term, and risk parameters, taking advantage of the short-term part of the yield curve in the composition of its portfolio.
- BN Inmobiliario CR-2 - Dólares (real estate development – U.S. dollars): This is a long-term, closed-end fund, in U.S. dollars, which has the goal of investing in real estate for its exploitation through leasing and sale. It is aimed at investors interested in diversifying their investments portfolio by including real estate property located in national territory and mainly occupied by public institutions. As of December 31, 2016 and 2015, this fund does not have operations.
- Fondo de Inversión de Desarrollo Inmobiliario BN-1 - Dólares (real estate development - U.S. dollars): This fund invests in the construction of buildings to be occupied by entities of the Banco Nacional Conglomerate (BNCR Conglomerate). Once the works are completed, the buildings will be sold to an entity of the BNCR Conglomerate or a real estate fund managed by BN Fondos, and investors thus realize their potential gains. If the buildings are sold to a real estate fund, such fund will lease the buildings to an entity of the BNCR Conglomerate. As of December 31, 2016 and 2015, this fund does not have operations.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- Fondo de Inversión de Desarrollo Inmobiliario de Infraestructura Pública - 1 - Dólares (real estate development - U.S. dollars): This fund will invest in the construction of buildings to be occupied by the Maximum Deconcentration Organizations and other entities of BCCR. Once the works are completed, the buildings will be leased with a purchase option to BCCR or sold to BCCR or to a real estate fund managed by BN Fondos, and investors thus realize their potential gains. If the buildings are sold to a real estate fund, such fund will lease the buildings to BCCR. As of December 31, 2016 and 2015, this fund does not have operations.

(27) Pension fund management agreements

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

	2016	2015
Mandatory Pension Fund (ROP)	¢ 930,270,446,064	816,353,588,973
ROP erroneous	13,482,533,785	-
Mandatory Retirement Savings Account (FCL)	85,422,137,268	119,886,665,878
FCL erroneous	3,154,448,854	-
Pension Fund in Colones A (FPC A)	60,036,878,001	48,481,400,312
Pension Fund in Colones B (FPC B)	13,447,299,353	10,354,592,860
Notary Fund (NOT)	24,200,252,141	22,064,680,954
Pension Fund in U.S. dollars A (FPD A) (a)	10,750,781,762	9,961,476,990
Pension Fund in U.S. dollars B (FPD B) (b)	7,113,798,267	6,405,390,480
Total assets of managed funds (note 24)	1,147,185,461,582	1,033,507,796,447
Securities and assets in own custody	8,332,639,523	7,619,530,422
Bid and performance bonds – colones	16,674,605	12,910,137
Bid and performance bonds – U.S. dollars (c)	37,805,190	40,666,393
Securities in DU	986,274,291	1,322,191,226
Total memoranda accounts (note 24)	¢ 1,156,558,855,191	1,042,503,094,625

- (a) As of December 31, 2016, this fund amounts to US\$19,611,773 and was valued at the exchange rate of ¢548.18 to US\$1.00 (2015: US\$18,726,693 valued at the exchange rate of ¢531.94 to US\$1.00).
- (b) As of December 31, 2016, this fund amounts to US\$12,977,121 and was valued at the exchange rate of ¢548.18 to US\$1.00 (2015: US\$12,041,566 valued at the exchange rate of ¢531.94 to US\$1.00).
- (c) As of December 31, 2016, this fund amounts to US\$68,965 and was valued at the exchange rate of ¢548.18 to US\$1.00 (2015: US\$76,449 valued at the exchange rate of ¢531.94 to US\$1.00).

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(28) Finance income on financial instruments

For the years ended December 31, finance income on cash and due from banks and financial instruments is as follows:

	2016	2015
<i><u>Cash and due from banks:</u></i>		
Interest on deposits in BCCR	5,174,157	26,234,789
Interest on checking accounts and demand deposits in local entities	80,539,932	66,463,089
Interest on checking accounts and demand deposits in foreign entities	628,899,923	217,971,907
	<u>714,614,012</u>	<u>310,669,785</u>
<i><u>Financial instruments:</u></i>		
Interest on investments in available-for-sale financial instruments	41,123,344,888	39,460,533,173
Interest on past due and restricted financial instruments	6,755,226,462	9,006,804,264
	<u>47,878,571,350</u>	<u>48,467,337,437</u>
¢	<u>48,593,185,362</u>	<u>48,778,007,222</u>

(29) Finance income on loan portfolio

For the years ended December 31, finance income on the loan portfolio is as follows:

	2016	2015
<i><u>Current loans:</u></i>		
Checking account overdrafts	¢ 57,373,872	87,028,132
Discounted notes	626,964	-
Loans granted with funds from BCCR	1,165,002,915	1,395,745,717
Loans granted with other funds	285,867,415,972	264,625,978,009
Credit cards	21,141,765,663	19,697,806,993
Issued letters of credit	112,709	675,574
Loan portfolio sales	-	398,676
Other loans	4,509,536	4,268,496
	<u>308,236,807,631</u>	<u>285,811,901,597</u>
<i><u>Past due loans and loans in legal collection:</u></i>		
Checking account overdrafts	9,883,694	4,016,284
Loans granted with funds from BCCR	177,090,616	303,785,105
Loans granted with other funds	40,879,267,471	42,727,840,496
Credit cards	2,350,168,175	2,712,515,053
Other loans	-	837,234
	<u>43,416,409,956</u>	<u>45,748,994,172</u>
¢	<u>351,653,217,587</u>	<u>331,560,895,769</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(30) Other finance income

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

	2016	2015
Fees and commissions on letters of credit	¢ 54,287,331	60,400,734
Fees and commissions on guarantees granted	420,500,930	606,350,629
Fees and commissions on lines of credit	102,166,852	192,118,274
Gain on fair value hedge for item measured at cost (note 15)	42,806,739,418	23,860,842,948
Other sundry finance income	4,012,419,170	3,371,799,828
	¢ 47,396,113,701	28,091,512,413

(31) Expenses for obligations with the public

For the years ended December 31, expenses for obligations with the public are as follows:

	2016	2015
Demand deposits	¢ 28,214,133,494	33,331,685,727
Term deposits	77,352,761,160	75,075,942,604
Tri-party repurchase agreements and securities lending	1,586,339,492	2,159,692,845
Other term obligations with the public	-	680,913
	¢ 107,153,234,146	110,568,002,089

(32) Expenses for obligations with financial entities

For the years ended December 31, expenses for obligations with financial entities are as follows:

	2016	2015
Demand obligations	¢ 1,798,917,470	2,054,033,725
Term obligations	55,806,822,213	44,479,428,551
	¢ 57,605,739,683	46,533,462,276

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(33) Other finance costs

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

	2016	2015
Fees and commissions on letters of credit obtained	81,692,990	67,913,614
Loss on hedged item measured at cost from fair value hedge of interest rate risk	27,421,960,479	26,560,630,673
Other sundry interest expenses	959,178,923	458,953,065
	<u>28,462,832,392</u>	<u>27,087,497,352</u>

(34) Expenses for allowance for impairment of assets

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

	2016	2015
Allowance for loan losses (note 7)	¢ 28,521,685,521	28,082,167,240
General and counter-cyclical allowance for loan portfolio (note 7)	8,969,130,558	2,853,949,992
Allowance for impairment of other accounts receivable (note 8)	1,601,223,913	1,332,435,789
Allowance for stand-by credit losses (note 19)	130,000,001	159,000,008
General and counter-cyclical allowance for stand-by credit losses (note 19)	55,335,019	69,413,029
Allowance for impairment of derivative financial instruments (note 5)	20,527,703	128,016,660
	<u>¢ 39,297,902,715</u>	<u>32,624,982,718</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

	2016	2015
Recovery of loan write-offs	¢ 8,540,789,493	11,713,714,441
Recovery of receivable write-offs	973,960	804,919
Decrease in allowance for loan losses	1,229,913,215	
Decrease in allowance for impairment of other accounts receivable (note 8)	3,229,204,400	128,906,016
Decrease in allowance for impairment of investments in financial instruments (note 5)	97,495,429	53,727,022
	¢ 13,098,376,497	11,897,152,398

(36) Operating income from service fees and commissions

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

	2016	2015
Drafts and transfers	¢ 7,822,913,773	7,247,970,224
Certified checks	4,755,849	5,089,311
Trusts	744,852,549	790,240,900
Custodial services	1,486,305,841	1,323,469,679
Banking mandates	279,577	150,143
Collections	34,685,858	37,821,135
Credit cards	47,048,860,334	42,415,701,900
Management services	3,656,010,308	3,544,766,376
Management of investment funds	5,147,534,227	4,803,203,181
Management of pension funds	8,635,957,365	8,280,594,731
Insurance underwriting	4,670,446,231	3,754,725,357
Brokerage operations (third parties in local market)	2,760,022,183	2,653,282,468
Brokerage operations (third parties in other markets)	174,148,773	88,203,665
Individual portfolio management	1,132,186	1,317,172
Operations with related parties	-	313,720
Other	40,333,903,337	38,573,572,937
	¢ 122,521,808,391	113,520,422,899

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(37) Other operating income

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

	2016	2015
Leasing of assets	¢ 41,960,194	52,307,153
Recovery of expenses	2,399,421,350	3,501,318,599
Net valuation of other assets (note 46-c)	371,907,290	354,466,349
Other income from accounts receivable	1,458,357	2,166,417
Sale of shares - VISA	11,877,381,401	-
Sundry operating income	5,313,955,420	4,428,419,048
Decrease in provisions	2,162,952,555	7,984,011,234
	¢ <u>22,169,036,567</u>	<u>16,322,688,800</u>

(38) Operating expenses for foreclosed assets

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

	2016	2015
Securities, property, and other assets acquired in lieu of payment	¢ 1,581,436,186	333,525,533
Loss on sale of assets awarded in judicial auctions	6,353,617,713	6,539,741,687
Management of assets acquired in lieu of payment	-	-
Management of assets awarded in judicial auctions	8,275,437,770	8,885,686,053
Loss on impairment of foreclosed assets (note 9)	149,824,594	496,664,532
Loss on allowance for impairment of foreclosed assets and per legal requirements (note 9)	4,756,428,898	4,351,007,686
Other expenses for foreclosed assets	1,053,953,924	113,104,792
	¢ <u>22,170,699,085</u>	<u>20,719,730,283</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(39) Expenses for provisions

For the years ended December 31, expenses for provisions are as follows:

	2016	2015
Severance benefits	¢ 7,122,139,577	8,479,879,789
Pending litigation	1,944,689,188	2,775,512,682
Other provisions	15,799,859,760	14,115,568,586
	¢ 24,866,688,525	25,370,961,057

(40) Other operating expenses

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

	2016	2015
Donations	500,000,000	-
Penalties for noncompliance with regulatory provisions	¢ 28,077,206	221,619,849
Net valuation of other liabilities (note 46-c)	572,989,111	348,421,059
Income tax on foreign remittances	1,246,721,225	939,737,756
Income tax (8%) on interest on investments in financial instruments	2,742,921,270	3,260,948,650
Property tax	228,019,133	154,450,874
Licenses	429,130,865	672,113,645
Other local taxes	720,157,050	291,207,182
Losses due to fraud, phishing, misappropriation of assets or theft	-	58,487,584
Transfers to FINADE	3,680,097,576	3,141,546,478
Sundry operating expenses	50,386,501,130	47,592,954,772
	¢ 60,534,614,566	56,681,487,849

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(41) Personnel expenses

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

	2016	2015
Salaries and bonuses, permanent staff	¢ 66,077,230,929	65,034,325,251
Salaries and bonuses, contractors	1,765,471,615	1,882,616,968
Compensation for directors and statutory examiners	176,173,391	193,634,086
Overtime	918,178,715	955,584,598
Travel expenses	712,741,437	782,275,413
Statutory Christmas bonus	7,458,001,402	7,421,986,545
Vacation	8,020,637,045	8,263,787,507
Other compensation	4,135,650,189	4,804,712,823
Severance benefits	4,470,283,031	4,365,204,250
Employer social security taxes	27,914,392,998	27,940,795,825
Refreshments	439,249,673	527,494,884
Uniforms	219,900,836	294,242,002
Training	886,548,604	997,711,264
Employee insurance	271,297,900	268,497,014
Back-to-school bonus	6,368,136,484	6,672,280,449
Mandatory retirement savings account	2,675,768,146	2,687,100,023
Other personnel expenses	580,695,202	506,802,085
	¢ <u>133,090,357,597</u>	<u>133,599,050,987</u>

(42) Other administrative expenses

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

	2016	2015
Outsourcing	¢ 12,860,315,565	14,117,284,596
Transportation and communications	4,219,336,531	4,248,011,649
Infrastructure	35,049,737,893	32,154,930,453
Overhead	13,753,695,554	12,751,071,118
	¢ <u>65,883,085,543</u>	<u>63,271,297,816</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(43) Statutory allocations

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

	2016	2015
CONAPE (5%)	¢ 3,809,281,191	2,844,261,407
CNE (3%)	2,397,001,050	1,815,414,718
INFOCOOP (10%)	6,279,305,016	4,399,474,172
Public capital pension operators	1,172,980,254	938,518,216
RIVM (7%)	3,494,837,874	2,411,332,155
	¢ 17,153,405,385	12,409,000,668

For the years ended December 31, the decrease in statutory allocations is as follows:

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

(44) Fair value of financial instruments

As of December 31, carrying amounts and fair values of all financial assets and liabilities that are not carried at fair value are compared in the following table:

	2016	
	Carrying amount	Fair value
<i>Financial assets:</i>		
Cash and due from banks	¢ 937,810,183,994	937,810,183,994
Loan portfolio	4,142,828,752,144	3,873,915,582,206
	¢ 6,037,239,142,497	5,768,325,972,559
<i>Financial liabilities:</i>		
Demand deposits from the public and financial entities	¢ 2,831,569,856,629	2,831,569,856,629
Other demand obligations with the public	12,810,540,801	12,810,540,801
Term deposits from the public and financial entities	2,607,387,462,867	2,620,399,593,453
Obligations for tri-party repurchase agreements	26,448,255,041	26,448,255,041
	¢ 5,478,216,115,338	5,491,228,245,924

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	2015	
	Carrying amount	Fair value
<i>Financial assets:</i>		
Cash and due from banks	¢ 850,267,856,821	850,267,856,821
Loan portfolio	3,726,656,815,565	3,549,296,496,223
	¢ 5,725,538,886,732	5,548,178,567,390
<i>Financial liabilities:</i>		
Demand deposits from the public and financial entities	¢ 2,756,846,464,436	2,756,846,464,436
Other demand obligations with the public	12,273,626,471	12,273,626,471
Term deposits from the public and financial entities	2,436,611,864,599	2,418,516,153,107
Obligations for tri-party repurchase agreements	36,683,915,704	36,683,915,704
	¢ 5,242,415,871,210	5,224,320,159,718

Fair value estimates

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

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

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

- (b) Loan portfolio

The fair value of loans is calculated by discounting future cash flows expected for principal and interest. Loan payments are assumed to be made on the contractually agreed payment dates. Future expected cash flows for loans are discounted at the interest rates offered for similar loans to new borrowers as of December 31, 2016 and 2015.

- (c) Term deposits

The fair value of term deposits is calculated by discounting cash flows at the interest rates in effect as of December 31, 2016 and 2015, offered for term deposits with similar maturities.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(d) Obligations with entities

The fair value of obligations with entities is calculated by discounting cash flows at the interest rates in effect as of December 31, 2016 and 2015.

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

As of December 31, 2016 and 2015, financial instruments measured at fair value by the level in the fair value hierarchy are as follows:

		2016			
		Level 1	Level 2	Level 3	Total
Available for sale	¢	781,783,683,132	125,232,881,081	5,629,455,571	912,646,019,784
Held to maturity	¢	-	27,181,284,510	-	27,181,284,510
Derivative financial instruments		-	-	5,893,164,907	5,893,164,907
Term obligations with foreign financial entities		-	-	815,040,918,559	815,040,918,559
		2015			
		Level 1	Level 2	Level 3	Total
Available for sale	¢	888,698,710,735	203,981,431,640	5,594,435,115	1,098,274,577,490
Held to maturity	¢	-	27,030,439,007	-	27,030,439,007
Derivative financial instruments		-	-	13,103,031,815	13,103,031,815
Term obligations with foreign financial entities		-	-	539,553,389,165	539,553,389,165

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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:

December 31,						
2016			2015			
	Available for sale	Derivative financial instruments	Term obligations with foreign financial entities	Available for sale	Derivative financial instruments	Term obligations with foreign financial entities
Opening balance	¢ 5,594,435,115	13,103,031,815	539,553,389,165	5,606,070,339	11,281,570,780	537,734,760,627
Purchases	-	-	269,968,328,000	-	-	-
Valuation	(106,124,271)	(7,334,423,098)	(45,572,091,005)	270,992	2,216,339,514	(7,361,187,069)
Amortizations	-	-	724,094,677	-	-	535,593,662
Exchange differences	141,144,727	124,556,190	50,367,197,722	(11,906,216)	(394,878,479)	8,644,221,945
Closing balance	¢ 5,629,455,571	5,893,164,907	815,040,918,559	5,594,435,115	13,103,031,815	539,553,389,165

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(45) Segments

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

As of December 31, profit or loss, assets, and liabilities of each segment are as follows:

As of December 31, 2016								
	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations	Consolidated
ASSETS								
Cash and due from banks	934,649,797,171	3,063,474,995	184,896,206	407,014,162	1,904,693,235	940,209,875,769	(2,399,692,775)	937,810,182,994
Investments in financial instruments	893,072,038,041	51,752,061,524	5,664,837,291	7,658,230,752	-	958,147,167,608	(1,546,960,249)	956,600,207,359
Loan portfolio, net	4,058,209,743,015	-	-	-	-	4,058,209,743,015	(845,850,191)	4,057,363,892,824
Accounts and fees and commissions receivable, net	828,306,210	134,771,589	94,281,405	903,994,768	394,656,193	2,356,010,165	(295,646,647)	2,060,363,518
Fees and commissions	126,378,316	24,817,894	36,290,993	745,901,450	368,231,193	1,301,619,846	(9,595,935)	1,292,023,911
Brokerage services	-	3,828,079	-	-	-	3,828,079	-	3,828,079
Transactions with related parties	18,524,503	71,262	-	3,089,689	571,851	22,257,305	(1,550,222)	20,707,083
Deferred tax and income tax	140,319,872	105,824,150	57,586,796	154,671,545	25,853,149	484,255,512	(284,559,811)	199,695,701
Other	3,933,633,959	230,204	403,616	59,008,455	-	3,993,276,234	59,321	3,993,335,555
Accrued interest	1,800,923	-	-	-	-	1,800,923	-	1,800,923
Allowance for impairment of accounts and fees and commissions	3,392,351,363	-	-	58,676,371	-	3,451,027,734	-	3,451,027,734
Foreclosed assets, net	17,751,098,959	-	-	-	-	17,751,098,959	-	17,751,098,959
Investments in other companies	89,781,830,229	30,000,000	-	-	-	89,811,830,229	(32,620,628,246)	57,191,201,983
Property, furniture, and equipment, net	175,963,244,578	343,456,948	181,140,982	578,608,796	38,600,142	177,105,051,446	-	177,105,051,446
Other assets	37,921,909,641	108,968,784	497,338,719	143,244,205	141,127,368	38,812,588,717	8,995,540	38,821,584,257
TOTAL ASSETS	6,208,177,967,844	55,432,733,840	6,622,494,603	9,691,092,683	2,479,076,938	6,282,403,365,908	(37,699,782,568)	6,244,703,583,340
LIABILITIES AND EQUITY								
LIABILITIES								
Obligations with the public	4,165,156,725,291	26,526,637,552	-	-	-	4,191,683,362,843	(1,546,960,250)	4,190,136,402,593
Obligations with BCCR	125,644,412	-	-	-	-	125,644,412	-	125,644,412
Obligations with entities	1,219,539,250,255	8,559,576,304	-	-	-	1,228,098,826,559	(3,245,542,921)	1,224,853,283,638
Demand	217,838,981,195	-	-	-	-	217,838,981,195	(2,399,692,729)	215,439,288,466
Term	992,139,001,470	8,544,184,950	-	-	-	1,000,683,186,420	(844,184,950)	999,839,001,470
Finance charges payable	9,561,267,590	15,391,354	-	-	-	9,576,658,944	(1,665,242)	9,574,993,702
Accounts payable and provisions	114,805,824,473	2,785,899,704	676,663,523	2,396,687,260	659,305,471	121,324,380,431	(286,651,147)	121,037,729,284
Other liabilities	46,777,896,327	-	-	-	-	46,777,896,327	-	46,777,896,327
Subordinated obligations	72,675,778,397	-	-	-	-	72,675,778,397	-	72,675,778,397
TOTAL LIABILITIES	5,619,081,119,155	37,872,113,560	676,663,523	2,396,687,260	659,305,471	5,660,685,888,969	(5,079,154,318)	5,655,606,734,651

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	As of December 31, 2016					
	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Consolidated
EQUITY						
Share capital	118,130,303,482	6,600,000,000	3,000,000,000	4,307,463,024	369,700,000	132,407,466,506
Non-capitalized capital contributions	-	-	-	687,461,985	-	687,461,985
Equity adjustments	67,476,783,612	199,598,072	41,694,677	95,061,147	-	67,813,137,508
Capital reserves	274,614,308,392	1,262,017,387	452,648,062	300,000,000	73,940,000	276,702,913,841
Prior period retained earnings	54,106,726,619	7,075,514,723	836,600,372	731,439,013	-	62,750,280,727
Income for the year	53,018,907,264	2,423,490,098	1,614,887,969	1,172,980,254	1,376,131,467	59,606,397,052
FOFIDE	21,749,819,320	-	-	-	-	21,749,819,320
TOTAL EQUITY	589,096,848,689	17,560,620,280	5,945,831,080	7,294,405,423	1,819,771,467	621,717,476,939
TOTAL LIABILITIES AND EQUITY	6,208,177,967,844	55,432,733,840	6,622,494,603	9,691,092,683	2,479,076,938	6,282,403,365,908
Debit memoranda accounts	606,880,388,509	109,558,264	-	288,110,324	-	607,278,057,097
Trust assets	1,393,870,987,459	1,567,221,897	-	-	-	1,395,438,209,356
Trust liabilities	51,558,117,672	800,420	-	-	-	51,558,918,092
Trust equity	1,342,312,869,787	1,566,421,477	-	-	-	1,343,879,291,264
Other debit memoranda accounts	17,119,227,249,788	-	358,238,446,450	1,156,558,855,191	-	19,573,797,402,675

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016									
	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations	Consolidated	
Finance income	443,588,752,826	4,683,161,819	551,504,091	650,406,174	40,069,651	449,513,894,561	(128,675,607)	449,385,218,954	
Finance costs	206,592,938,577	1,858,455,386	123,629,400	14,779,622	1,397,652	208,591,200,637	(128,675,607)	208,462,525,030	
Allowance expense	39,297,902,715	-	-	-	-	39,297,902,715	-	39,297,902,715	
Income from recovery of assets	13,098,376,497	-	-	-	-	13,098,376,497	-	13,098,376,497	
FINANCE INCOME	210,796,288,031	2,824,706,433	427,874,691	635,626,552	38,671,999	214,723,167,706	-	214,723,167,706	
Other operating income	165,060,972,400	3,963,231,015	5,164,536,173	8,852,903,448	4,099,544,227	187,141,187,263	(7,667,701,413)	179,473,485,850	
Other operating expenses	113,751,927,767	604,750,473	650,314,031	1,139,049,707	143,002,809	116,289,044,787	(965,393,089)	115,323,651,698	
GROSS OPERATING INCOME	262,105,332,664	6,183,186,975	4,942,096,833	8,349,480,293	3,995,213,417	285,575,310,182	(6,702,308,324)	278,873,001,858	
Personnel expenses	122,975,147,348	2,753,678,860	1,959,590,209	3,666,145,840	1,735,795,340	133,090,357,597	-	133,090,357,597	
Other administrative expenses	62,944,561,488	885,582,257	696,136,088	1,246,610,664	225,013,582	65,997,904,079	(114,818,536)	65,883,085,543	
Total administrative expenses	185,919,708,836	3,639,261,117	2,655,726,297	4,912,756,504	1,960,808,922	199,088,261,676	(114,818,536)	198,973,443,140	
NET OPERATING INCOME BEFORE STATUTORY ALLOCATIONS AND TAXES	76,185,623,828	2,543,925,858	2,286,370,536	3,436,723,789	2,034,404,495	86,487,048,506	(6,587,489,788)	79,899,558,718	
Income tax	10,170,950,461	138,534,280	658,317,097	1,056,044,605	623,094,042	12,646,940,485	-	12,646,940,485	
Decrease in income tax	2,675,602,000	94,416,296	55,439,934	68,383,037	25,853,149	2,919,694,416	-	2,919,694,416	
Statutory allocations	15,671,368,103	76,317,776	68,605,404	1,276,081,967	61,032,135	17,153,405,385	-	17,153,405,385	
INCOME FOR THE YEAR	53,018,907,264	2,423,490,098	1,614,887,969	1,172,980,254	1,376,131,467	59,606,397,052	(6,587,489,788)	53,018,907,264	

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		As of December 31, 2015							
		Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations	Consolidated
ASSETS									
Cash and due from banks	¢	845,089,095,233	3,175,991,206	212,008,351	2,269,934,288	1,199,965,786	851,946,994,864	1,679,138,043	850,267,856,821
Investments in financial instruments		1,071,837,259,198	66,968,063,321	5,234,692,030	6,184,556,878	-	1,150,224,571,427	1,610,357,081	1,148,614,214,346
Loan portfolio, net		3,663,687,932,586	-	-	-	-	3,663,687,932,586	-	3,663,687,932,586
Accounts and fees and commissions receivable, net		1,005,600,006	83,003,676	105,957,638	966,836,530	222,139,982	2,383,537,832	18,586,915	2,364,950,917
Fees and commissions		103,040,206	29,714,935	30,246,296	765,051,913	159,085,211	1,087,138,561	13,680,615	1,073,457,946
Brokerage services		-	34,120	-	-	-	34,120	-	34,120
Transactions with related parties		179,094,344	566,321	3,436,330	1,891,534	423,943	185,412,472	4,906,300	180,506,172
Deferred tax and income tax		3,081,707,872	46,456,547	71,800,650	199,802,125	62,630,828	3,462,398,022	-	3,462,398,022
Other		3,502,176,241	6,231,753	474,362	58,599,948	-	3,567,482,304	-	3,567,482,304
Accrued interest		1,990,138	-	-	-	-	1,990,138	-	1,990,138
Allowance for impairment of accounts and fees and commissions		(5,862,408,795)	-	-	(58,508,990)	-	(5,920,917,785)	-	(5,920,917,785)
Foreclosed assets, net		17,416,744,581	-	-	-	-	17,416,744,581	-	17,416,744,581
Investments in other companies		85,284,978,077	30,000,000	-	-	-	85,314,978,077	31,755,899,821	53,559,078,256
Property, furniture, and equipment, net		176,855,805,996	451,458,025	259,558,130	410,936,333	49,728,273	178,027,486,757	-	178,027,486,757
Other assets		26,122,989,138	167,709,444	446,833,610	134,311,128	177,174,277	27,049,017,597	-	27,049,017,597
TOTAL ASSETS	¢	5,887,300,404,815	70,876,225,672	6,259,049,759	9,966,575,157	1,649,008,318	5,976,051,263,721	35,063,981,860	5,940,987,281,861
LIABILITIES AND EQUITY									
LIABILITIES									
Obligations with the public	¢	3,933,670,589,846	36,847,089,036	-	-	-	3,970,517,678,882	1,610,357,081	3,968,907,321,801
Obligations with BCCR		125,644,412	-	-	-	-	125,644,412	-	125,644,412
Obligations with entities		1,198,911,894,975	12,852,584,757	-	-	-	1,211,764,479,732	1,679,138,047	1,210,085,341,685
Demand		274,253,607,972	-	-	-	-	274,253,607,972	1,679,138,047	272,574,469,925
Term		917,636,049,359	12,825,000,000	-	-	-	930,461,049,359	-	930,461,049,359
Finance charges payable		7,022,237,644	27,584,757	-	-	-	7,049,822,401	-	7,049,822,401
Accounts payable and provisions		102,941,187,797	2,859,793,543	874,451,757	3,181,699,337	379,340,657	110,236,473,091	18,586,914	110,217,886,177
Other liabilities		42,411,442,867	-	-	-	-	42,411,442,867	-	42,411,442,867
Subordinated obligations		70,347,385,713	-	-	-	-	70,347,385,713	-	70,347,385,713
TOTAL LIABILITIES	¢	5,348,408,145,610	52,559,467,336	874,451,757	3,181,699,337	379,340,657	5,405,403,104,697	3,308,082,042	5,402,095,022,655

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of December 31, 2015								
	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations	Consolidated
EQUITY								
Share capital	¢ 118,130,303,482	6,600,000,000	3,000,000,000	4,028,607,789	369,700,000	132,128,611,271	13,998,307,789	118,130,303,482
Non-capitalized capital contributions	-	-	-	966,317,220	-	966,317,220	966,317,220	-
Equity adjustments	73,595,044,363	974,302,757	95,349,569	208,279,974	-	74,872,976,663	1,277,932,300	73,595,044,363
Capital reserves	247,784,553,250	1,140,842,882	371,903,664	300,000,000	73,940,000	249,671,239,796	1,886,686,546	247,784,553,250
Prior period retained earnings	44,435,719,699	7,003,631,160	479,271,490	343,152,621	62,068,578	52,323,843,548	7,888,123,849	44,435,719,699
Income for the year	36,801,775,376	2,597,981,537	1,438,073,279	938,518,216	763,959,083	42,540,307,491	5,738,532,114	36,801,775,377
FOFIDE	18,144,863,035	-	-	-	-	18,144,863,035	-	18,144,863,035
TOTAL EQUITY	¢ 538,892,259,205	18,316,758,336	5,384,598,002	6,784,875,820	1,269,667,661	570,648,159,024	31,755,899,818	538,892,259,206
TOTAL LIABILITIES AND EQUITY	¢ 5,887,300,404,815	70,876,225,672	6,259,049,759	9,966,575,157	1,649,008,318	5,976,051,263,721	35,063,981,860	5,940,987,281,861
Debit memoranda accounts	¢ 518,562,240,674	133,194,104	-	1,305,143,778	-	520,000,578,556	-	520,000,578,556
Trust assets	¢ 986,665,957,160	223,738,039	-	-	-	986,889,695,199	-	986,889,695,199
Trust liabilities	¢ 47,652,828,395	430,233	-	-	-	47,653,258,628	-	47,653,258,628
Trust equity	¢ 939,013,128,765	223,307,806	-	-	-	939,236,436,571	-	939,236,436,571
Other debit memoranda accounts	¢ 15,700,203,531,691	1,648,754,705,406	405,847,015,645	1,042,503,094,625	-	18,797,308,347,367	-	18,797,308,347,367

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	For the year ended December 31, 2015							
	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations	Consolidated
Finance income	414,732,619,433	5,928,947,301	400,911,603	666,134,314	40,378,137	421,768,990,788	83,941,874	421,685,048,914
Finance costs	185,961,248,878	2,480,070,563	46,305,854	14,719,800	4,229,395	188,506,574,490	83,941,874	188,422,632,616
Allowance expense	32,624,982,718	-	-	-	-	32,624,982,718	-	32,624,982,718
Income from recovery of assets	11,897,152,398	-	-	-	-	11,897,152,398	-	11,897,152,398
FINANCE INCOME	208,043,540,235	3,448,876,738	354,605,749	651,414,514	36,148,742	212,534,585,978	-	212,534,585,978
Other operating income	147,127,419,540	3,893,811,733	4,948,875,336	8,388,829,283	2,857,890,242	167,216,826,134	6,862,942,825	160,353,883,309
Other operating expenses	116,094,995,547	725,688,369	674,862,638	1,485,568,571	117,049,817	119,098,164,942	1,002,125,070	118,096,039,872
GROSS OPERATING INCOME	239,075,964,228	6,617,000,102	4,628,618,447	7,554,675,226	2,776,989,167	260,653,247,170	5,860,817,755	254,792,429,415
Personnel expenses	123,782,027,967	2,860,871,277	1,977,305,675	3,548,147,448	1,430,698,620	133,599,050,987	-	133,599,050,987
Other administrative expenses	60,409,584,674	859,411,301	656,371,711	1,246,749,717	221,466,052	63,393,583,455	122,285,639	63,271,297,816
Total administrative expenses	184,191,612,641	3,720,282,578	2,633,677,386	4,794,897,165	1,652,164,672	196,992,634,442	122,285,639	196,870,348,803
NET OPERATING INCOME BEFORE STATUTORY ALLOCATIONS AND TAXES	54,884,351,587	2,896,717,524	1,994,941,061	2,759,778,061	1,124,824,495	63,660,612,728	5,738,532,116	57,922,080,612
Income tax	8,494,098,131	251,792,691	568,820,204	895,136,253	360,621,228	10,570,468,507	-	10,570,468,507
Decrease in income tax	1,248,768,679	39,958,231	71,800,651	95,187,969	33,500,552	1,489,216,082	-	1,489,216,082
Statutory allocations	11,207,194,617	86,901,526	59,848,232	1,021,311,557	33,744,736	12,409,000,668	-	12,409,000,668
Decrease in statutory allocations	369,947,858	-	-	-	-	369,947,858	-	369,947,858
INCOME FOR THE YEAR	36,801,775,376	2,597,981,538	1,438,073,276	938,518,220	763,959,083	42,540,307,493	5,738,532,116	36,801,775,377

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(46) Risk management

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

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

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

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

The Bank manages the above risks as follows:

a) Credit risk

i. Banco Nacional de Costa Rica

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

The Bank has established the following credit risk management procedures:

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

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

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

	Note	Direct		Note	Stand-by	
		2016	2015		2016	2015
Loan portfolio						
Principal	6-a	¢ 4,115,607,251,072	3,701,502,141,960	20	309,474,308,447	271,259,141,611
Accounts and accrued interest receivable		27,221,501,072	25,154,673,605		-	-
Carrying amount, gross		4,142,828,752,144	3,726,656,815,565		309,474,308,447	271,259,141,611
Allowance for loan losses (accounting records)		(85,464,859,320)	(62,968,882,979)		(540,840,567)	(1,545,597,997)
Carrying amount, net		¢ 4,057,363,892,824	3,663,687,932,586		308,933,467,880	269,713,543,614

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Loan portfolio

A1	¢	3,378,160,567,963	3,048,708,961,115	300,137,003,461	262,042,586,492
A2		34,871,377,144	34,559,206,956	542,981,351	436,696,136
B1		295,093,603,945	285,932,296,978	4,718,672,828	2,210,869,884
B2		9,985,360,361	12,249,809,312	43,339,862	33,798,825
C1		119,659,479,745	90,256,753,384	1,640,405,498	3,989,227,505
C2		4,690,615,409	4,580,449,251	19,170,479	22,720,687
D		115,582,103,273	84,311,863,977	568,051,607	773,102,417
E		184,785,644,304	166,057,474,592	1,804,683,361	1,750,139,665
		<u>4,142,828,752,144</u>	<u>3,726,656,815,565</u>	<u>309,474,308,447</u>	<u>271,259,141,611</u>
Structural allowance (subledger – database)		(77,227,248,420)	(61,485,826,978)	(19,203,816)	(1,293,205,640)
Carrying amount, net	¢	<u>4,065,601,503,724</u>	<u>3,665,170,988,587</u>	<u>309,455,104,631</u>	<u>269,965,935,971</u>
Individually assessed loans with allowance:					
A1	¢	3,378,160,567,963	3,048,708,961,115	39,317,286,627	257,013,873,399
A2		34,871,377,144	34,559,206,956	96,303,807	424,449,716
B1		295,093,603,945	285,932,296,978	2,535,267,214	2,187,022,116
B2		9,985,360,361	12,249,809,312	19,740,000	33,423,825
C1		119,659,479,745	90,256,753,384	105,211,054	3,974,913,505
C2		4,690,615,409	4,580,449,251	3,679,022	22,720,687
D		115,582,103,273	84,311,863,977	75,966,784	773,102,417
E		184,785,644,304	166,057,474,592	93,809,041	1,730,153,420
		<u>4,142,828,752,144</u>	<u>3,726,656,815,565</u>	<u>42,247,263,549</u>	<u>266,159,659,085</u>
Structural allowance (subledger – database)		(77,227,248,420)	(61,485,826,978)	(19,203,816)	(1,293,205,640)
Carrying amount, net	¢	<u>4,065,601,503,724</u>	<u>3,665,170,988,587</u>	<u>42,228,059,733</u>	<u>264,866,453,445</u>
		Direct		Stand-by	
		2016	2015	2016	2015
Current loans without allowance:					
A1	¢	-	-	260,819,716,835	5,028,713,093
A2		-	-	446,677,544	12,246,420
B1		-	-	2,183,405,613	23,847,768
B2		-	-	23,599,862	375,000
C1		-	-	1,535,194,444	14,314,000
C2		-	-	15,491,457	-
D		-	-	492,084,823	-
E		-	-	1,710,874,320	19,986,245
Carrying amount	¢	<u>-</u>	<u>-</u>	<u>267,227,044,898</u>	<u>5,099,482,526</u>
Carrying amount, gross		4,142,828,752,144	3,726,656,815,565	309,474,308,447	271,259,141,611
Allowance for loan losses (database)		(77,227,248,420)	(61,485,826,978)	(19,203,816)	(1,293,205,640)
Excess of allowance over structural allowance		(8,237,610,900)	(1,483,056,001)	(521,636,751)	(252,392,357)
Carrying amount, net	6-a ¢	<u>4,057,363,892,824</u>	<u>3,663,687,932,586</u>	<u>308,933,467,880</u>	<u>269,713,543,614</u>
Restructured loans	¢	<u>26,915,117,148</u>	<u>24,902,897,819</u>	<u>63,195</u>	<u>4,020,204</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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:

		2016	
		Loans to customers	
		Gross	Net
A1	¢	3,378,160,567,963	3,357,593,707,531
A2		34,871,377,144	34,753,588,529
B1		295,093,603,945	293,234,628,822
B2		9,985,360,361	9,896,790,037
C1		119,659,479,745	117,172,148,908
C2		4,690,615,409	4,430,315,563
D		115,582,103,273	108,548,234,893
E		184,785,644,304	131,734,478,541
	¢	<u>4,142,828,752,144</u>	<u>4,057,363,892,824</u>

		2015	
		Loans to customers	
		Gross	Net
A1	¢	3,048,708,961,115	3,041,128,350,459
A2		34,559,206,956	34,490,057,990
B1		285,932,296,978	284,716,298,170
B2		12,249,809,312	12,151,397,996
C1		90,256,753,384	87,355,203,370
C2		4,580,449,251	4,339,948,543
D		84,311,863,977	78,856,093,224
E		166,057,474,592	120,650,582,834
	¢	<u>3,726,656,815,565</u>	<u>3,663,687,932,586</u>

As shown above, as of December 31, 2016, the gross portfolio amounts to ¢4,143 billion. Of that amount, 89.75% is classified in risk ratings “A + B” and 10.25% in risk ratings “C + D + E” (2015: ¢3,726 billion, of which 90.74% is classified in risk ratings “A + B” and 9.26% in risk ratings “C + D + E”).

Individually assessed loans with allowance

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Restructured loans

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

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

Loan charge-off policy

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

Borrower classification

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The loan portfolio by borrower classification is as follows:

Borrower classification	Direct		Stand-by	
	2016	2015	2016	2015
Group 1	¢ 2,507,279,865,361	2,214,688,539,514	54,593,528,042	54,140,753,444
Group 2	1,635,548,886,783	1,511,968,276,051	254,880,780,405	217,118,388,167
	¢ 4,142,828,752,144	3,726,656,815,565	309,474,308,447	271,259,141,611

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.

Pursuant to SUGEF Directive 1-05 and the methodology approved by the board of directors, borrowers in Group 1 and Group 2 are classified based on arrears, historical payment behavior and creditworthiness, as follows:

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

Structural allowance for loan losses

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

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

Allowance percentages based on borrower risk rating are as follows:

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

If a borrower was rated E before subscribing a special loan operation, the borrower should remain in such rating during at least 180 days. During such period, the allowance percentage will be 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, as of December 31, the Bank must maintain a structural allowance, as follows:

2016			
	<u>Allowance</u> <u>booked</u>	<u>Structural</u> <u>allowance</u>	<u>Excess</u> <u>(insufficiency)</u> <u>of allowance</u>
Direct	¢ 85,464,859,320	(77,227,248,420)	8,237,610,900
Stand-by	540,840,567	(19,203,816)	521,636,751
	¢ 86,005,699,887	(77,246,452,236)	8,759,247,651

2015			
	<u>Allowance</u> <u>booked</u>	<u>Structural</u> <u>allowance</u>	<u>Excess</u> <u>(insufficiency)</u> <u>of allowance</u>
Direct	¢ 62,968,882,979	(61,485,826,978)	1,483,056,001
Stand-by	1,545,597,997	(1,293,205,640)	252,392,357
	¢ 64,514,480,976	(62,779,032,618)	1,735,448,358

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of December 31, 2016, the balance of the Bank's allowance for loan losses (direct and stand-by), accrued interest receivable, and other receivables amounts to ¢89,456,727,621 (2015: ¢70,435,398,761).

Credit equivalent

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

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

Allowance for other assets

Allowances should be established for the following assets:

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

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

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

As of December 31, 2016, the carrying amount of the allowance for impairment of foreclosed assets and per legal requirements amounts to ¢59,644,951,072 (2015: ¢61,161,022,915).

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

Sector		Direct		Stand-by	
		2016	2015	2016	2015
Trade	¢	385,823,170,488	378,585,450,748	11,846,917	41,267,478
Services		890,488,809,393	798,910,680,575	46,704,888,190	49,264,750,760
Financial services		143,825,817,224	125,793,878,183	-	-
Mining		1,080,564,191	742,837,628	-	-
Manufacturing and quarrying		164,893,268,463	155,749,107,392	-	1,515,480
Construction		102,779,598,611	88,991,301,100	-	-
Agriculture and forestry		120,686,948,083	111,353,629,330	15,073,475	14,395,399
Livestock, hunting, and fishing		76,369,144,979	65,572,600,886	-	-
Electricity, water, sanitation, and other related sectors		399,236,286,171	349,000,829,890	-	-
Transportation and telecommunications		41,980,505,892	26,519,994,640	-	-
Housing		1,202,794,443,892	1,118,413,210,816	14,877,383	12,979,933
Personal or consumer		450,351,672,494	368,915,877,629	262,526,260,212	221,702,170,209
Tourism		162,518,522,263	138,107,416,748	201,362,270	222,062,352
	¢	<u>4,142,828,752,144</u>	<u>3,726,656,815,565</u>	<u>309,474,308,447</u>	<u>271,259,141,611</u>

As of December 31, the concentration of the loan portfolio by geographic area is as follows:

		Direct		Stand-by	
		2016	2015	2016	2015
Central America	¢	<u>4,142,828,752,144</u>	<u>3,726,656,815,565</u>	<u>309,474,308,447</u>	<u>271,259,141,611</u>

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

Guarantee		Direct		Stand-by	
		2016	2015	2016	2015
Back to back	¢	13,829,691,479	11,105,340,994	1,236,793	6,476,263
Mortgage bond		484,547,012	9,841,189,843	-	-
Assignment of loans		462,803,451,395	410,178,773,376	219,272	212,776
Mortgage		1,710,541,594,795	1,628,313,969,658	190,663,081	285,123,547
Surety		762,062,136,046	699,814,858,417	23,274,642	25,708,571
Trust		368,369,817,770	331,158,834,472	86,004,322	131,286,925
Securities		28,416,281,573	1,150,398,488	-	-
Chattel mortgage		204,332,022,614	151,287,007,196	-	-
Other		591,989,209,460	483,806,443,121	309,172,910,337	270,810,333,529
	¢	<u>4,142,828,752,144</u>	<u>3,726,656,815,565</u>	<u>309,474,308,447</u>	<u>271,259,141,611</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Guarantees:

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

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

The Bank conducts strict credit analyses before granting loans and requires guarantees from its borrowers before disbursing loans. As of December 31, 2016 and 2015, 67.30% and 48.35% of the loan portfolio is secured by collateral guarantees.

As of December 31, the concentration of the loan portfolio by individual borrower is as follows:

Loan portfolio concentration	Direct		Stand-by	
	2016	2015	2016	2015
¢1 to ¢3,000,000	¢ 150,144,009,432	143,195,596,256	97,654,393,260	97,207,597,704
¢3,000,001 to ¢15,000,000	563,931,355,672	516,137,815,750	163,377,395,761	122,211,207,934
¢15,000,001 to ¢30,000,000	452,926,633,531	420,581,497,898	5,694,833,794	5,793,293,538
¢30,000,001 to ¢50,000,000	445,924,835,557	412,880,381,524	2,013,695,688	2,005,968,541
¢50,000,001 to ¢75,000,000	336,037,598,434	289,067,398,184	1,852,516,239	2,492,987,969
¢75,000,001 to ¢100,000,000	151,304,177,727	128,592,157,261	1,490,718,663	1,392,744,988
¢100,000,001 to ¢200,000,000	225,986,006,480	212,280,642,131	3,462,597,036	4,830,697,765
More than ¢200,000,000	1,816,574,135,311	1,603,921,326,561	33,928,158,005	35,324,643,172
	¢ 4,142,828,752,144	3,726,656,815,565	309,474,308,446	271,259,141,611

As of December 31, 2016 and 2015, the portion of the loan portfolio (direct and stand-by loans) corresponding to economic interest groups amounts to ¢470,646,093,550 and ¢233,538,564,153, respectively.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

The monthly decrease in the VaR and EL is due to the recovery of the legal collection. Particularly, the decrease in the balance in arrears of more than 60 days is higher than the increase in the balance of loans more than 30 days past due.

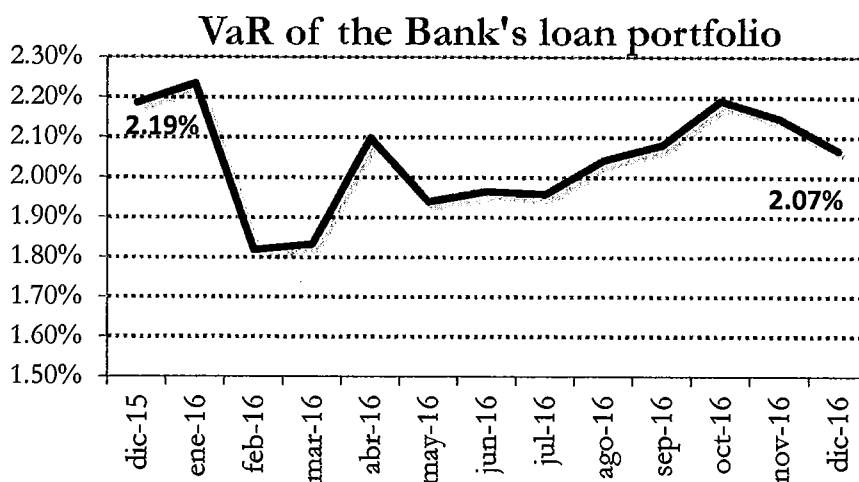
By currency, the VaR of the portfolios in DU and in U.S. dollars increased due to the increase in arrears of more than 90 days and in colones due to the decrease of loans more than 30 days past due.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The VaR decreases on a year-on-year basis considering the decrease in arrears indicators. By currency, the VaR of the portfolios in colones, in U.S. dollars, and in DU increases due to the increase in loans between 151-180 days past due, increase in loans between 61-90 days past due, and impairment of loan portfolio quality in general, respectively.



By economic activity, on a year-on-year basis, Financial Services, Agriculture, and Trade show increases in VaR due to portfolio concentration, increase in accounts in legal collection, and arrears of more than 90 days, respectively. Housing, Industry, Construction, and Consumer present increases in loans between 61-90 days, between 31-120 days, between 16-30 days, and loans more than 91 days past due, respectively.

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

Activity	2016	2015
Agriculture	3.01%	2.63%
Livestock	3.11%	3.39%
Mining	9.11%	13.78%
Industry	3.84%	3.55%
Energy	3.65%	5.48%
Housing	1.51%	1.47%
Construction	3.94%	3.06%
Trade	2.73%	2.58%
Transportation	1.14%	1.61%
Financial services	0.36%	0.27%
Consumer	4.35%	4.15%
Services	1.78%	1.83%
Tourism	6.36%	6.75%
BNCR	2.07%	2.19%

Source: Credit Risk Division

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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.

Local currency

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

As of December 2016, the accounting records showed investments in colones, investments in instruments issued by local issuers in U.S. dollars (\$CR), and investments in instruments issued by foreign issuers in U.S. dollars (\$USA). The Brokerage Firm holds no investments in DU. By currency, the majority (82.64%) of the Brokerage Firm's financial instruments is concentrated in the portfolio denominated in colones.

The consolidated portfolio is comprised of investments in instruments issued by the Government of Costa Rica (67.02%), BCCR (9.98%), BNCR (3.03%), MUCAP (1.65%), and Banco Popular y de Desarrollo Comunal (0.96%). These issuers represent 82.64% of the consolidated portfolio. The portfolio in U.S. dollars represents 17.36%, comprised of investments in instruments issued by the Government of Costa Rica (17.23%) and other issuers (0.13%).

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

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

As of December 31, 2016, the net assets managed by the Pension Fund Manager amount to ¢1,147,185 million (2015: ¢1,033,507 million), growing year-on-year by ¢113,677 million in nominal terms, equivalent to a growth rate of 11%. These data do not include the Pension Fund Manager's own assets.

The pension fund with the highest relative share is ROP, which represents 81.04% (2015: 78.99%), growing year-on-year by ¢113,367.69 million, equivalent to a growth rate of 13.89%.

As of December 31, 2016 and 2015, the Pension Fund Manager portfolio of own funds is represented by available-for-sale investments for ¢6,479 million and ¢5,623 million, respectively. The portfolio was actively managed, performing sales for more than ¢2 billion with capital gains, which decreased volatility and risk of losses to the portfolio during 2016.

In December 2016, for the Pension Fund Manager, the VaR of credit in absolute terms is ¢28.30 million, equivalent to 0.38% (2015: ¢28.12 million, equivalent to 0.46%).

Consolidated VaR (one year)	As of December 31,		
Fund	2016	2015	Variation
FCL	2.06%	0.31%	1.75%
FPC A	0.16%	0.18%	-0.02%
FPC B	4.59%	4.21%	0.38%
FPD A	35.10%	36.84%	-1.74%
FPD B	35.99%	34.73%	1.26%
NOT	0.00%	0.00%	0.00%
ROP	6.66%	4.90%	1.76%
BN Vital (OPC)	0.38%	0.46%	-0.09%
FCL Erroneous	4.97%	0.00%	4.97%
ROP Erroneous	3.95%	0.00%	3.95%

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

v. BN Corredora de Seguros, S.A.

For the Insurance Brokerage Firm, credit risk is the risk that the borrower or issuer of a financial asset will fail to discharge an obligation, fully and on time, in accordance with the terms and conditions agreed upon at the time the financial asset was acquired. Credit risk arises mainly on cash and due from banks and investments in financial instruments and is represented by the carrying amount of the assets in the 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, 2016 and 2015, exposure to credit risk is represented by the carrying amounts of cash and due from banks and available-for-sale investments. Cash and due from banks correspond to checking account deposits with a State-owned bank. As of December 31, 2015, 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.

a) 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.

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of December 31, 2016, the terms of the Bank's assets and liabilities denominated in local currency are matched as follows:

	Past due	Demand	Days						Total
			1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	More than 365	
Cash and due from banks	¢	56,185,829,148	-	-	-	-	-	-	56,185,829,148
Minimum legal deposit in BCCR	-	269,901,461,244	24,889,860,801	27,831,268,268	22,814,602,264	51,681,513,817	31,232,422,636	8,642,783,446	436,993,912,476
Investments	-	-	48,819,837,623	6,615,051,602	102,916,265,683	26,822,219,168	93,979,093,152	221,818,781,013	500,971,248,241
Loan portfolio	116,170,017,460	-	45,159,439,281	35,574,116,173	46,783,109,348	92,607,781,282	113,931,559,982	2,159,523,812,331	2,609,749,835,857
Total recovery of assets	¢	326,087,290,392	118,869,137,705	70,020,436,043	172,513,977,295	171,111,514,267	239,143,075,770	2,389,985,376,790	3,603,900,825,722
Obligations with the public	¢	1,786,844,782,555	208,359,076,157	158,238,514,512	129,800,193,032	322,316,860,180	254,975,566,075	59,069,402,606	2,919,604,395,117
Obligations with BCCR	-	-	-	-	-	-	-	125,644,412	125,644,412
Obligations with financial entities	-	97,674,940,416	8,597,395,146	98,359,644	18,000,000	498,582,837	952,617,295	6,245,949,138	114,085,844,476
Charges payable	-	7,287,448,490	4,340,579,327	2,949,570,566	1,192,522,676	1,616,146,244	456,099,091	108,652,073	17,951,018,467
Total maturity of liabilities	¢	1,891,807,171,461	221,297,050,630	161,286,444,722	131,010,715,708	324,431,589,261	256,384,282,461	65,549,648,229	3,051,766,902,472
Difference	¢	116,170,017,460	(1,565,719,881,069)	(102,427,912,925)	(91,266,008,679)	41,503,261,587	(17,241,206,691)	2,324,435,728,561	552,133,923,250

As of December 31, 2015, the terms of the Bank's assets and liabilities denominated in local currency are matched as follows:

	Past due	Demand	Days						Total
			1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	More than 365	
Cash and due from banks	¢	84,847,669,143	-	-	-	-	-	-	84,847,669,143
Minimum legal deposit in BCCR	-	274,033,343,763	23,241,036,224	26,138,188,851	16,956,621,334	47,384,005,071	31,965,585,591	10,425,709,403	430,144,490,237
Investments	-	-	74,780,781,007	2,460,830,866	35,142,223,205	60,371,335,811	149,226,532,339	294,276,701,543	616,258,404,771
Loan portfolio	121,010,298,395	-	34,607,182,818	33,919,539,160	46,480,461,433	70,677,230,865	91,351,268,980	1,875,105,365,061	2,273,151,346,712
Total recovery of assets	¢	358,881,012,906	132,629,000,049	62,518,558,877	98,579,305,972	178,432,571,747	272,543,386,910	2,179,807,776,007	3,404,401,910,863
Obligations with the public	¢	1,707,420,703,907	208,632,155,288	124,976,785,296	135,834,864,955	293,812,975,854	233,179,351,373	65,684,068,664	2,769,540,905,337
Obligations with BCCR	-	-	-	-	-	-	-	125,644,412	125,644,412
Obligations with financial entities	-	79,001,888,270	21,154,000,000	2,081,708,305	7,688,645,650	5,348,756,008	6,337,970,548	2,342,660,892	123,955,629,673
Charges payable	-	7,467,782,785	4,451,785,421	2,993,949,887	887,129,986	2,070,935,071	473,851,605	112,473,570	18,457,908,325
Total maturity of liabilities	¢	1,793,890,374,962	234,237,940,709	130,052,443,488	144,410,640,591	301,232,666,933	239,991,173,526	68,264,847,538	2,912,080,087,747
Difference	¢	121,010,298,395	(1,435,009,362,056)	(101,608,940,660)	(67,533,884,611)	(45,831,334,619)	32,552,213,384	2,111,542,928,469	492,321,823,116

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of December 31, 2016, the terms of the Bank's assets and liabilities denominated in foreign currency, expressed in local currency, are matched as follows:

	Past due	Demand	Days					181 to 365	More than 365	Total
			1 to 30	31 to 60	61 to 90	91 to 180				
Cash and due from banks	₡ -	192,095,757,966	-	-	-	-	-	-	218,978,305	192,314,736,271
Minimum legal deposit in BCCR	-	152,984,418,282	10,299,210,214	12,461,736,132	6,170,924,617	20,725,007,141	5,895,404,578	43,779,004,169	252,315,705,133	
Investments	-	-	18,225,546,902	7,688,361,496	2,181,240,935	77,409,225,718	151,461,231,846	198,722,785,897	455,688,392,794	
Loan portfolio	69,290,102,302	-	28,086,322,352	21,401,230,034	19,576,446,335	72,683,603,360	64,274,872,582	1,257,766,339,322	1,533,078,916,287	
Total recovery of assets	₡ 69,290,102,302	345,080,176,248	56,611,079,468	41,551,327,662	27,928,611,887	170,817,836,219	221,631,509,006	1,500,487,107,693	2,433,397,750,485	
Obligations with the public	-	819,962,286,026	99,887,979,325	44,754,793,979	41,051,718,097	144,543,692,263	72,880,372,523	34,514,700,331	1,257,595,542,544	
Obligations with financial entities	-	120,164,040,779	855,160,800	7,510,066	16,445,400	8,239,145,400	58,134,489,000	913,775,654,015	1,101,192,445,460	
Charges payable	-	1,410,480,672	977,820,660	1,643,324,066	227,368,962	9,001,341,528	314,005,543	185,339,428	13,759,680,859	
Total maturity of liabilities	₡ -	941,536,807,477	101,720,960,785	46,405,628,111	41,295,532,459	161,784,179,191	131,328,867,066	948,475,693,774	2,372,547,668,863	
Difference	₡ 69,290,102,302	(596,456,631,229)	(45,109,881,317)	(4,854,300,449)	(13,366,920,572)	9,033,657,028	90,302,641,940	552,011,413,919	60,850,081,622	

As of December 31, 2015, the terms of the Bank's assets and liabilities denominated in foreign currency, expressed in local currency, are matched as follows:

	Past due	Demand	Days					181 to 365	More than 365	Total
			1 to 30	31 to 60	61 to 90	91 to 180				
Cash and due from banks	₡ -	125,020,991,095	-	-	-	-	-	-	58,446,541	125,079,437,636
Minimum cash reserve in BCCR	-	141,684,508,703	15,116,277,868	11,369,586,642	8,655,025,343	18,758,326,054	14,612,535,195	-	210,196,259,805	
Investments	-	-	19,740,300,379	53,754,943,081	33,487,124,664	92,792,697,342	95,311,027,269	237,404,357,501	532,490,450,236	
Loan portfolio	69,913,079,478	-	33,148,793,106	28,131,620,234	34,491,850,134	73,018,867,465	59,215,375,061	1,155,585,883,375	1,453,505,468,853	
Total recovery of assets	₡ 69,913,079,478	266,705,499,798	68,005,371,353	93,256,149,957	76,634,000,141	184,569,890,861	169,138,937,525	1,393,048,687,417	2,321,271,616,530	
Obligations with the public	₡ -	768,639,665,080	82,032,697,057	55,810,869,026	40,443,356,703	151,578,721,847	68,124,180,758	12,251,673,998	1,178,881,164,469	
Obligations with financial entities	-	195,251,719,702	13,835,759,400	47,368,193,120	281,928,200	53,204,638,800	85,032,470,790	684,105,179,599	1,079,079,889,611	
Charges payable	-	772,852,890	643,340,981	1,597,674,987	162,671,485	5,649,097,034	229,986,489	21,542,205	9,077,166,071	
Total maturity of liabilities	₡ -	964,664,237,672	96,511,797,438	104,776,737,133	40,887,956,388	210,432,457,881	153,386,638,037	696,378,395,802	2,267,038,220,151	
Difference	₡ 69,913,079,478	(697,958,737,874)	(28,506,426,085)	(11,520,587,176)	35,746,043,733	(25,862,566,820)	15,752,299,488	696,670,291,615	54,233,396,379	

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

i. Banco Nacional de Costa Rica

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

Indicator	December 31, 2016	December 31, 2015	Variation	Level
LCR in colones	77.57%	88.17%	(10.60)%	Capacity
LCR in U.S. dollars	160.71%	78.00%	82.71%	Appetite

All of 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.

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

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

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

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

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

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

Marketability of 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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

Set out below are the main results of the VaR of liquidity assessment, which uses a new methodology with a three-year historical data. This new methodology concludes that the results obtained by decreasing the amount of data to be used (historical data) and the historical VaR calculated with the original data (without filters by currency drops and without truncation) are similar. Additionally, the VaR by simulation, using three-year historical data parameters, is the risk measure that offers best results. It was implemented with calculations obtained for the month indicated below.

Historical VaR of liquidity	
Fund	As of December 31, 2016
ROP	0.04%
FCL	0.45%
NOT	0.07%
FPC A	0.34%
FPC B	0.72%
FPD A	1.08%
FPD B	1.20%
FCL Erroneous	0.08%
ROP Erroneous	0.05%

According to the results, as of December 31, 2016, the VaR of liquidity would not exceed 1% for most funds, except for the funds in U.S. dollars, where the VaR at 99%, eliminating two standard deviations, would reach 1.08% for FPD A and 1.20% for FPD B (fund with the highest VaR). ROP shows the lowest VaR (0.04%).

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of December 31, 2015, FPD A showed the highest liquidity risk exposure (1.32%), using the methodology that considers all historical observations, while NOT showed the lowest exposure (0.09%).

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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

b) Market risk

i. Banco Nacional de Costa Rica

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

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

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

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

Currency	Face value by currency		Variation
	December 31, 2016	December 31, 2015	
Colones	402,018,100,000	496,609,200,000	(94,591,100,000)
Local U.S. dollars	375,303,064	512,358,000	(137,054,936)
Intl. U.S. dollars	389,023,923	397,770,996	(8,747,072)
Euros	27,650,000	36,726,000	(9,076,000)
DU	34,823,795	34,823,795	-

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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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.

As of December 31, the VaR of the Investment Fund Manager's portfolio is as follows:

	2016	2015
VaR (99% confidence level)	0.34%	0.61%

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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, 2016 and 2015, the carrying amount of the following financial instruments approximates fair value: cash, investments in financial instruments, interest receivable, obligations under repurchase agreements, interest payable, fees and commissions, and other accounts payable. Investments are carried at the fair value determined using the method described above.

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

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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.

As of December 31, 2016, net assets managed by the Pension Fund Manager amount to a total of ₡1,147,185 million (2015: ₡1,033,507 million). That amount is distributed among nine funds, i.e. ROP, FCL, FPC A, FPC B, FPD A, FPD B, NOT, and more recently as of June 2016, ROP erroneous and FCL erroneous. ROP represents 81.04% of the balance managed.

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

v. BN Corredora de Seguros, S.A.

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

• Market risk of investments

i. Banco Nacional de Costa Rica.

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

Type of risk	December 31, 2016	December 31, 2015	Variation	Level
Consolidated VaR	0.12%	0.22%	(0.10)%	Appetite

• Interest rate risk

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

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

Type of risk	December 31, 2016	December 31, 2015	Variation	Level
Interest rate risk in colones	1.63%	1.86%	(0.23)%	Normal
Interest rate risk in foreign currency	0.48%	0.76%	(0.29)%	Normal

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of December 31, 2016, the interest rate terms for the Bank's assets and liabilities are matched as follows (differences between the recovery of assets and the maturity of liabilities):

	1 to 30 days	31 to 90 days	91 to 180 days	181 to 360 days	361 to 720 days	More than 720 days	Total
<i>Local currency (LC)</i>							
Investments	48,812,693,591	109,317,565,716	26,800,503,393	84,761,333,218	161,141,334,136	43,764,668,956	474,598,099,010
Loan portfolio	151,925,287,550	69,418,330,158	77,845,769,583	103,985,699,379	177,271,191,938	1,928,393,980,922	2,508,840,259,530
Total recovery of rate-sensitive assets LC (A)	200,737,981,141	178,735,895,874	104,646,272,976	188,747,032,597	338,412,526,074	1,972,158,649,878	2,983,438,358,540
Obligations with the public	213,237,921,355	291,461,974,865	323,978,413,537	255,259,599,514	50,516,603,627	12,405,715,871	1,146,860,228,769
Obligations with BCCR	-	-	-	-	-	125,644,412	125,644,412
Obligations with financial entities	7,942,886,645	186,942,968	282,919,617	437,488,536	647,271,846	6,470,621,117	15,968,130,729
Total maturity of rate-sensitive liabilities LC (B)	221,180,808,000	291,648,917,833	324,261,333,154	255,697,088,050	51,163,875,473	19,001,981,400	1,162,954,003,910
LC difference, recovery of assets less maturity of liabilities (A - B)	(20,442,826,859)	(112,913,021,959)	(219,615,060,178)	(66,950,055,453)	287,248,650,601	1,953,156,668,478	1,820,484,354,630
<i>Foreign currency (FC)</i>							
Investments	18,225,547,063	9,869,605,239	77,122,591,690	151,026,799,586	93,463,236,274	100,045,134,095	449,752,913,947
Loan portfolio	48,010,615,534	33,136,957,685	66,292,171,514	62,723,058,826	104,104,023,879	1,171,674,486,769	1,485,941,314,207
Total recovery of rate-sensitive assets FC (C)	66,236,162,597	43,006,562,924	143,414,763,204	213,749,858,412	197,567,260,153	1,271,719,620,864	1,935,694,228,154
Obligations with the public	101,956,582,694	86,191,499,811	158,443,079,045	72,376,065,490	13,895,928,098	829,205,488,048	1,262,068,643,186
Obligations with entities	1,452,003,566	1,062,098,750	5,282,584,837	61,239,515,093	5,764,761,915	87,426,410,429	162,227,374,590
Total maturity of rate-sensitive liabilities FC (D)	103,408,586,260	87,253,598,561	163,725,663,882	133,615,580,583	19,660,690,013	916,631,898,477	1,424,296,017,776
FC difference, recovery of assets less maturity of liabilities (C - D)	(37,172,423,663)	(44,247,035,637)	(20,310,900,678)	80,134,277,829	177,906,570,140	355,087,722,387	511,398,210,378
Total recovery of rate-sensitive assets 1/ (A + C)	266,974,143,738	221,742,458,798	248,061,036,180	402,496,891,009	535,979,786,227	3,243,878,270,742	4,919,132,586,694
Total maturity of rate-sensitive liabilities 2/ (B + D)	324,589,394,260	378,902,516,394	487,986,997,036	389,312,668,633	70,824,565,486	935,633,879,877	2,587,250,021,686
LC + FC difference, recovery of assets less maturity of liabilities (item 1 - item 2)	(57,615,250,522)	(157,160,057,596)	(239,925,960,856)	13,184,222,376	465,155,220,741	2,308,244,390,865	2,331,882,565,008

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of December 31, 2015, the interest rate terms for the Bank's assets and liabilities are matched as follows (differences between the recovery of assets and the maturity of liabilities):

	1 to 30 days	31 to 90 days	91 to 180 days	181 to 360 days	361 to 720 days	More than 720 days	Total
<i>Local currency (LC)</i>							
Investments	74,768,946,312	37,501,495,619	60,182,497,358	149,122,339,295	204,942,231,351	63,022,395,597	589,539,905,532
Loan portfolio	135,506,916,585	69,869,929,556	62,606,259,974	89,692,735,397	150,283,531,905	1,655,369,379,499	2,163,328,752,916
Total recovery of rate-sensitive assets LC (A)	210,275,862,897	107,371,425,175	122,788,757,332	238,815,074,692	355,225,763,256	1,718,391,775,096	2,752,868,658,448
Obligations with the public	222,439,989,518	273,615,598,974	300,225,214,035	240,092,040,537	53,010,821,774	16,289,339,414	1,105,673,004,252
Obligations with BCCR	12,825,000,000	-	-	-	-	125,644,412	12,950,644,412
Obligations with financial entities	370,039,905	102,613,896	156,043,789	364,895,417	423,855,441	2,205,396,083	3,622,844,531
Total maturity of rate-sensitive liabilities LC (B)	235,635,029,423	273,718,212,870	300,381,257,824	240,456,935,954	53,434,677,215	18,620,379,909	1,122,246,493,195
LC difference, recovery of assets less maturity of liabilities (A - B)	(25,359,166,526)	(166,346,787,695)	(177,592,500,492)	(1,641,861,262)	301,791,086,041	1,699,771,395,187	1,630,622,165,253
<i>Foreign currency (FC)</i>							
Investments	19,740,300,521	87,242,068,377	92,225,516,243	94,455,608,599	158,069,879,506	67,896,090,308	519,629,463,554
Loan portfolio	48,841,361,336	56,828,500,583	67,283,006,911	55,764,875,866	102,879,392,955	1,073,598,364,010	1,405,195,501,661
Total recovery of rate-sensitive assets FC (C)	68,581,661,857	144,070,568,960	159,508,523,154	150,220,484,465	260,949,272,461	1,141,494,454,318	1,924,824,965,215
Obligations with the public	91,343,238,740	104,762,106,893	156,830,886,487	68,586,421,743	11,520,047,193	540,441,220,251	973,483,921,307
Obligations with entities	7,150,686,379	40,660,646,693	57,186,130,952	84,068,270,170	60,298,083,770	80,650,903,596	330,014,721,560
Total maturity of rate-sensitive liabilities FC (D)	98,493,925,119	145,422,753,586	214,017,017,439	152,654,691,913	71,818,130,963	621,092,123,847	1,303,498,642,867
FC difference, recovery of assets less maturity of liabilities (C - D)	(29,912,263,262)	(1,352,184,626)	(54,508,494,285)	(2,434,207,448)	189,131,141,498	520,402,330,471	621,326,322,348
Total recovery of rate-sensitive assets 1/ (A + C)	278,857,524,754	251,441,994,135	282,297,280,486	389,035,559,157	616,175,035,717	2,859,886,229,414	4,677,693,623,663
Total maturity of rate-sensitive liabilities 2/ (B + D)	334,128,954,542	419,140,966,456	514,398,275,263	393,111,627,867	125,252,808,178	639,712,503,756	2,425,745,136,062
LC + FC difference, recovery of assets less maturity of liabilities (item 1 - item 2)	(55,271,429,788)	(167,698,972,321)	(232,100,994,777)	(4,076,068,710)	490,922,227,539	2,220,173,725,658	2,251,948,487,601

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

The consolidated VaR of the Pension Fund Manager's own funds presents a downward trend with a maximum of 1.58% and a minimum of 0.10%, for an average of 0.63% (2015: 1.63%).

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

iv. BN Corredora de Seguros, S.A.

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

• Currency risk

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

Type of risk	December 31, 2016	December 31, 2015	Variation	Level
Currency risk	0.12%	0.22%	(0.10)%	Appetite

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

As of December 31, assets and liabilities denominated in foreign currency are as follows:

		U.S. dollars	
		2016	2015
<u>Assets:</u>			
Cash and due from banks	US\$	787,278,782	605,963,861
Investments in financial instruments		801,084,440	958,924,445
Loan portfolio		2,742,960,429	2,695,383,624
Accounts and accrued interest receivable		555,045	492,766
Investments in other companies		104,236,891	100,591,147
Other assets		6,595,807	6,545,257
	US\$	4,442,711,394	4,367,901,100
<u>Liabilities:</u>			
Obligations with the public	US\$	2,232,819,607	2,160,299,383
Obligations with entities		2,024,886,784	2,039,772,336
Accounts payable and provisions		34,199,464	10,763,149
Other liabilities		36,575,840	22,798,131
Subordinated obligations		132,576,487	132,246,843
	US\$	4,461,058,182	4,365,879,842
Excess (deficit) of assets over liabilities in U.S. dollars	US\$	(18,346,788)	2,021,258

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		Euros	
		2016	2015
<u>Assets:</u>			
Cash and due from banks	€	22,789,474	22,244,673
Investments in financial instruments		28,775,701	38,410,309
Accounts and accrued interest receivable		-	-
Other assets		-	-
	€	<u>51,565,175</u>	<u>60,654,982</u>
<u>Liabilities:</u>			
Obligations with the public	€	50,131,849	55,172,059
Obligations with entities		1,102,038	1,305,849
Accounts payable and provisions		131,176	7,032
Other liabilities		509,588	526,666
	€	<u>51,874,651</u>	<u>57,011,606</u>
Excess (deficit) of assets over liabilities in euros	€	<u>(309,476)</u>	<u>3,643,376</u>

		DU	
		2016	2015
<u>Assets:</u>			
Investments in financial instruments	DU	34,822,825	34,749,595
Loan portfolio		22,951,719	31,730,883
	DU	<u>57,774,544</u>	<u>66,480,478</u>
<u>Liabilities:</u>			
Accounts payable and provisions		818,804	893,511
Other liabilities		4,486	6,686
	DU	<u>823,290</u>	<u>900,197</u>
Excess of assets over liabilities in DU	DU	<u>56,951,254</u>	<u>65,580,281</u>

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

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

	2016	2015
Foreign exchange gain	¢ 118,087,779,312	109,692,081,513
Foreign exchange loss	119,706,015,540	(110,169,288,634)
Net (loss) gain	¢ <u>(1,618,236,228)</u>	<u>(477,207,121)</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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:

	2016	2015
Gain on net valuation of other assets	¢ 371,907,290	354,466,349
Loss on net valuation of other liabilities (note 40)	(572,989,111)	(348,421,059)
Net gain (loss)	¢ (201,081,821)	6,045,290

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

i. Banco Nacional de Costa Rica

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

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

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

iii. BN Corredora de Seguros, S.A.

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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.

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

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

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

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

v. BN Vital Operadora de 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, 2016, 0.56% of the Pension Fund Manager's portfolio of own funds is represented by investments in U.S. dollars (2015: 0.73%). By adding cash and due from banks denominated in foreign currency, the percentage increases to 2.72%, which is a relatively low currency risk for the size of the managed portfolio.

c) 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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

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

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

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

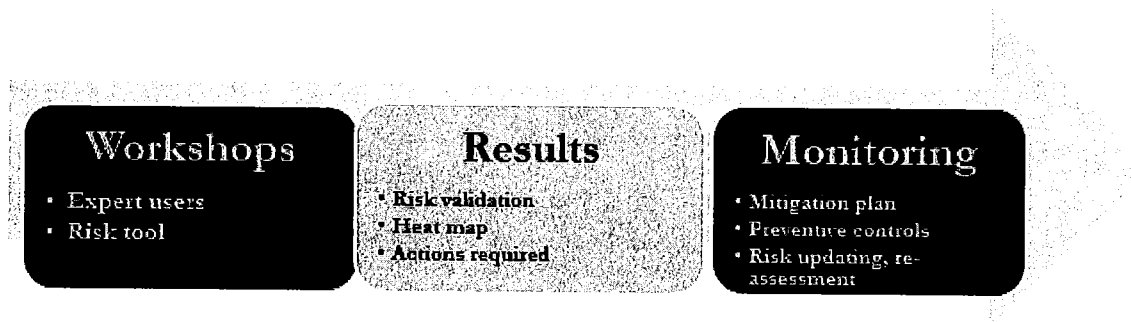
All potential events must be identified and assessed so as to establish preventive controls and mitigating actions.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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



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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- 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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

iv. BN Corredora de Seguros, S.A.

For the Insurance Brokerage Firm, operational risk is 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.

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

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

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

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

As of December 31, 2016, the Bank's General Risk Division presented the results of the VaR by legal risk for the Pension Fund Manager, which indicate that the amount to be provisioned is the EL of ¢288.11 million. Furthermore, the Pension Fund Manager is a defendant in seven lawsuits, most of which are in first instance.

Capital management

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(47) Contingencies

As of December 31, 2016 and 2015, the Bank, Pension Fund Manager, and Investment Fund Manager are defendants in ordinary, labor, and criminal lawsuits, as follows:

	Number of cases		Phase	Total estimated amount	
	2016	2015		2016	2015
Bank	251	212	First instance	¢ 235,166,531,230	202,930,479,423
	19	22	Second instance	19,363,100,060	26,997,348,570
	3	3	Appeal	3,600,000,000	5,089,047,215
			Administrative proceedings (see note 48)	38,458,424,266	-
	<u>274</u>	<u>237</u>		<u>296,588,055,556</u>	<u>235,016,875,208</u>
Pension Fund Manager	1	3	First instance	288,110,324	1,305,143,777
	<u>1</u>	<u>3</u>		<u>288,110,324</u>	<u>1,305,143,777</u>
Investment Fund Manager	1	1	First instance	109,558,263	133,194,104
	<u>1</u>	<u>1</u>		<u>109,558,263</u>	<u>133,194,104</u>
	<u>276</u>	<u>241</u>	(see note 22)	¢ <u>296,985,724,143</u>	<u>236,455,213,089</u>

As of December 31, 2016 and 2015, the legal actions filed against the Bank are booked in memoranda accounts under “Other contingencies - pending litigation and lawsuits”.

As of December 31, 2016 and 2015, the Bank is a claimant in ordinary, labor, and criminal lawsuits, which outcome is uncertain and are not booked in the accounting records, as follows:

Number of cases		Phase	Total estimated amount	
2016	2015		2016	2015
542	134	First instance	¢ 971,611,945,366	707,292,303,441
14	1	Second instance	21,284,650,067	375,839,600
6	-	Appeal	4,624,706,759	-
<u>562</u>	<u>135</u>		¢ <u>997,521,302,192</u>	<u>707,668,143,041</u>

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of December 31, 2016, the Bank does not book a provision for litigation because a reliable estimate for the proceedings has not been determined by the legal counsel and the probability of a loss is low.

The following lawsuits can also be mentioned:

- *File No. 11-001042-0612-PE*
 - Court: Office of Economic, Tax, and Customs Crimes, Public Prosecutor's Office, First Judicial Circuit of San José
 - Statement of facts: The plaintiffs argue that the Bank's officers and employees and representatives of the developer companies defrauded them by purchasing land that does not have the value stated in the appraisal, that the project is abandoned, and that they used fake documents.
 - Current status: The investigation by the Office of Economic and Tax Crimes continues, and the Economic and Financial Crimes Section of the Judicial Investigation Agency (OIJ) has not issued a financial accounting report prepared by an expert.
- *File No. 08-000388-0419-AG*
 - Court: Agrarian Court of Corredores
 - Statement of facts: The proceedings seek to declare the liability of CORBANA, as Trustee of a banana plantation Management Trust, in which the Bank was the Trust Beneficiary.
 - Current status: An appeal was filed and is being discussed by the Agrarian Court of the Second Judicial Circuit of San José, Goicoechea. No judicial records exist for this case. It seems clear that, since the case relates to a contractual commercial liability, it has lapsed.
- *File No. 08-000232-0419-AG*
 - Court: Agrarian Court of Corredores
 - Statement of facts: This process was filed by the Bank against Surcoop R.L. It seeks to nullify the auction, awarding, and registration of lots of the Agrarian Court of Corredores processed through file No. 97-010656-1701 AG.
 - Current status: First instance ruling 56-2014 in favor of the Bank upheld the objection due to lack of legal grounds given that no damages caused by the defendants were demonstrated since there is no direct relationship between the factual substance of the complaint and the legal claims. The motion for appeal is under consideration of the Agrarian Court.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- File No. 01-160127-0638-AG
 - Court: Agrarian Court of San Ramón
 - Statement of facts: Claim for breach of contract.
 - Current status: This process was filed before the First Chamber of the Supreme Court of Justice since June 9, 2015. Due to the delay of the justice administration, there is certainty that no payment will be required.
- File No. 14-008626-1027-CA
 - Statement of the facts: The plaintiffs seek that the Bank be ordered to pay damages caused to all of the investors of the Trust for Management of the Real Estate Development and Private Issue of Securities of the Coyote Beach Project, due to noncompliance with the due diligence as Trustee.
 - Current status: The response to petition was filed and the preliminary hearing held. The oral and public proceedings are pending before the Finance Administrative Law and Civil Court.

(48) Significant events

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

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

On October 31, 2016, tax adjustments are calculated for a tax contribution to be declared in the amount of ₡29,089,100,723, corresponding to principal, and ₡9,369,323,543, corresponding to related interest calculated as of that date, for a total of ₡38,458,424,266.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

b) Dividends paid to the Bank

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

In article No. 4 of meeting No. 12,127 held on December 5, 2016, the board of directors authorized the distribution of dividends from retained earnings in the amount of ¢826,027,662.

In article No. 2 of meeting No. 12,007 held on July 13, 2015, the Board of Directors authorized the distribution of dividends from retained earnings in the amount of ¢800,000,000.

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

In article No. 3 of meeting No. 12,120 held on November 21, 2016, the Board of Directors authorized the distribution of dividends from retained earnings in the amount of ¢1,000,000,000.

In article No. 3 of meeting No. 11,989 held on May 25, 2015, the Board of Directors authorized the distribution of dividends from retained earnings in the amount of ¢600,000,000.

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

In article No. 2 of meeting No. 12,119 held on November 21, 2016, the Board of Directors authorized the distribution of dividends from retained earnings in accordance with Official letter SGRF-047-2014 dated February 6, 2014 in the amount of ¢2,404,923,470.

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

In article No. 2 of meeting No. 12,121 held on November 21, 2016, the Board of Directors authorized the distribution of dividends from retained earnings in the amount of ¢550,231,826.

In article No. 3 of meeting No. 11,996 held on June 15, 2015, the Board of Directors authorized the distribution of dividends from retained earnings in accordance with Official letter SGRF-212-2015 in the amount of ¢21,465,798.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

a) IAS 1: Presentation of Financial Statements

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

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

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

b) IAS 7: Statement of Cash Flows

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

c) IAS 12: Income Taxes

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

d) IAS 16: Property, Plant and Equipment

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

e) IAS 18: Revenue

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

g) IAS 27: Consolidated and Separate Financial Statements

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

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

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

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

h) IAS 28: Investments in Associates

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

i) Revised IAS 32: Financial Instruments - Presentation

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

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

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

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

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

l) IAS 38: Intangible Assets

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

m) IAS 39: Financial Instruments: Recognition and Measurement

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

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

a) Pooled portfolios

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

b) Own investments of regulated entities

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The above classifications do not necessarily adhere to IAS 39.

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

n) IAS 40: Investment Property

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

o) Revised IFRS 3: Business Combinations

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

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

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

q) IFRS 9: Financial Instruments

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

r) IFRS 10: Consolidated Financial Statements

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

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

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

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

s) IFRS 11: Joint Arrangements

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

t) IFRS 12: Disclosure of Interests in Other Entities

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

u) IFRS 13: Fair Value Measurement

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

v) IFRS 14: Regulatory Deferral Accounts

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

w) IFRS 15: Revenue from Contracts with Customers

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

x) IFRS 16: Leases

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

y) IFRIC 10: Interim Financial Reporting and Impairment

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

z) IFRIC 21: Levies

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(50) Disclosure of economic impact of departure from IFRSs

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

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