

BANCO NACIONAL DE COSTA RICA

Financial Information Required by the
Superintendency General of Financial Entities

Separate 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)



KPMG, S. A.
Multiplaza Boulevard, KPMG Bldg.
San Rafael de Escazú
P.O. Box 10208
San José, Costa Rica 1000

Telephone (506) 2201-4100
Telefax (506) 2201-4131
www.kpmg.co.cr

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 separate financial statements of Banco Nacional de Costa Rica (the Bank), which comprise the separate balance sheet as of December 31, 2016, the separate 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 separate financial statements present fairly, in all material respects, the unconsolidated financial position of the Bank as of December 31, 2016, and of its unconsolidated financial performance and its unconsolidated 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) and the Superintendency General of Financial Entities (SUGEF).

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 Separate 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 separate 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 separate financial statements, which describes the basis of accounting. The separate financial statements have been prepared in accordance with the financial reporting provisions of the accounting regulations issued by CONASSIF and SUGEF.



Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. These matters were addressed in the context of our audit of the separate 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	
The Bank has derivative financial instruments, which are valued through the application of valuation techniques that often entail the use of judgments, estimates, and assumptions.	<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	
The Bank was subject to a review by the Tax Authorities for the years 2010 to 2013 (see note 44). As a result, notices of deficiency and observations were issued in relation to the filed income tax returns. The analysis of the different concepts of the notices of deficiency and observations requires judgments and estimates by management and by its tax advisors.	<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 the range of possible outcomes.

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

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

In preparing the separate 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 Separate Financial Statements


Our objectives are to obtain reasonable assurance about whether the separate 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 separate 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 separate 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 separate 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 separate financial statements, including the disclosures, and whether the separate 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 separate 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
SEPARATE BALANCE SHEET
AS OF DECEMBER 31, 2016
(With corresponding figures for 2015)
(In colones)

	Note	2016	2015
ASSETS			
Cash and due from banks	4	934,649,797,171	845,089,095,231
Cash		56,187,673,566	79,927,683,485
Demand deposits in BCCR		688,408,825,029	640,298,337,809
Demand deposits in local financial entities		5,477,036,191	16,415,516,733
Demand deposits in foreign financial entities		178,136,716,836	103,225,443,701
Other cash and due from banks		6,439,449,875	5,222,073,230
Accrued interest receivable		95,674	40,273
Investments in financial instruments	5	893,072,038,041	1,071,837,259,198
Available for sale		850,022,962,484	1,022,651,635,280
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		10,034,059,816	9,186,793,757
(Allowance for impairment of investments in financial instruments)		(59,433,676)	(134,640,661)
Loan portfolio	7	4,058,209,743,015	3,663,687,932,586
Current		3,923,065,546,472	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		27,223,166,313	25,154,673,605
(Allowance for loan losses)	7-e	(85,464,859,320)	(62,968,882,979)
Accounts and fees and commissions receivable	8	828,306,210	525,766,028
Fees and commissions receivable		126,378,316	103,040,206
Accounts receivable for operations with related parties		18,524,503	179,094,344
Income tax receivable		140,319,872	2,601,873,894
Other receivables		3,933,633,959	3,502,176,241
Accrued interest receivable		1,800,923	1,990,138
(Allowance for impairment of accounts and fees and commissions receivable)		(3,392,351,363)	(5,862,408,795)
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	89,781,830,229	85,284,978,077
Property and equipment, net	11	175,963,244,578	176,855,805,996
Other assets	12	37,921,909,641	26,122,989,140
Deferred charges		11,842,514,323	12,588,815,622
Intangible assets		4,995,212,693	3,755,368,332
Other assets		21,084,182,625	9,778,805,186
TOTAL ASSETS		6,208,177,967,844	5,886,820,570,837

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

Continued...

BANCO NACIONAL DE COSTA RICA
SEPARATE 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	4,165,156,725,291	3,933,670,589,846
Demand obligations		2,606,807,068,581	2,476,060,368,987
Term obligations		1,536,293,998,838	1,437,288,142,195
Finance charges payable		22,055,657,872	20,322,078,664
Obligations with BCCR	14	125,644,412	125,644,412
Term obligations		125,644,412	125,644,412
Obligations with entities	15	1,219,539,250,255	1,198,911,894,975
Demand obligations		217,838,981,195	274,253,607,972
Term obligations		992,139,001,470	917,636,049,359
Finance charges payable		9,561,267,590	7,022,237,644
Accounts payable and provisions		114,805,824,473	102,461,353,818
Deferred tax	16-b	10,795,200,005	14,268,106,656
Provisions	17	25,246,621,581	34,638,216,985
Other sundry accounts payable	18	78,764,002,887	53,555,030,177
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
Finance charges payable		1,412,378,397	1,195,185,713
TOTAL LIABILITIES		5,619,081,119,155	5,347,928,311,631
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 and equipment	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	21-d	8,084,303,314	7,084,626,651
Equity 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		6,208,177,967,844	5,886,820,570,837
DEBIT MEMORANDA ACCOUNTS	22	606,880,388,509	518,562,240,674
TRUST ASSETS	23	1,393,870,987,459	986,665,957,160
TRUST LIABILITIES		51,558,117,672	47,652,828,395
TRUST EQUITY		1,342,312,869,787	939,013,128,765
TRUST MEMORANDA ACCOUNTS		25,632,998,742	20,702,411,738
OTHER DEBIT MEMORANDA ACCOUNTS	24	17,119,227,249,788	15,700,203,531,691
Own debit memoranda accounts		7,267,848,798,638	6,976,071,794,263
Third-party debit memoranda accounts		762,122,776,614	670,787,193,541
Own debit memoranda accounts for custodial activities		169,779,166,913	309,366,155,191
Third-party debit memoranda accounts for custodial activities		8,919,476,507,623	7,743,978,388,696

Juan Carlos Corrales Salas
General Manager

Gerardo Gómez Solís
General Accountant

Ricardo Araya Jiménez
General Auditor

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

BANCO NACIONAL DE COSTA RICA
SEPARATE 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	25	628,899,923	217,971,906
Investments in financial instruments	25	43,144,573,759	43,147,487,874
Loan portfolio	26	351,658,019,112	331,611,391,114
Gain on available-for-sale financial instruments		761,146,332	940,223,185
Gain on derivative financial instruments, net	6	-	10,724,032,941
Other finance income	27	47,396,113,700	28,091,512,413
Total finance income		443,588,752,826	414,732,619,433
Finance costs			
Obligations with the public	28	105,666,127,941	108,441,755,773
Obligations with BCCR		-	556,658
Obligations with financial entities	29	57,340,740,320	46,261,829,956
Subordinated, convertible, and preferred obligations		4,075,879,448	3,673,084,364
Loss on foreign exchange differences and development units, net	42-c	1,626,699,769	469,403,916
Loss on available-for-sale financial instruments		71,216,348	79,181,795
Loss on derivative financial instruments, net	6	9,473,071,759	-
Other finance costs	30	28,339,202,992	27,035,436,416
Total finance costs		206,592,938,577	185,961,248,878
Allowance for impairment of assets	31	39,297,902,715	32,624,982,718
Recovery of assets and decrease in allowances	32	13,098,376,497	11,897,152,398
FINANCE INCOME		210,796,288,031	208,043,540,235
Other operating income			
Service fees and commissions	33	101,990,044,135	94,938,065,962
Foreclosed assets		8,653,833,259	2,281,309,882
Gain on investments in other foreign companies	3	1,690,868,660	4,410,917,651
Gain on investments in SUGEVAL-regulated entities	3	4,038,378,067	4,036,054,819
Gain on investments in SUPEN-regulated entities	3	1,172,980,254	938,518,217
Gain on investments in SUGESE-regulated entities	3	1,376,131,468	763,959,084
Foreign currency exchange and arbitrage		24,144,152,464	23,556,111,037
Other income - Related parties		250,098,527	309,751,688
Other operating income	34	21,744,485,566	15,892,731,200
Total other operating income		165,060,972,400	147,127,419,540

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

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

	Note	2016	2015
Other operating expenses			
Service fees and commissions		4,966,901,889	5,293,350,439
Foreclosed assets	35	22,170,699,085	20,719,730,283
Sundry assets		1,258,790,381	1,272,030,080
Provisions	36	24,159,553,674	24,320,811,364
Foreign currency exchange and arbitrage		5,806,889	1,413,939
Other expenses - Related parties		339,864,101	350,451,427
Other operating expenses	37	60,423,575,464	56,387,687,109
Amortization of deferred direct costs related to credits		426,736,284	7,749,520,906
Total other operating expenses		113,751,927,767	116,094,995,547
GROSS OPERATING INCOME		262,105,332,664	239,075,964,228
Administrative expenses			
Personnel expenses	38	122,975,147,348	123,782,027,967
Other administrative expenses	39	62,944,561,488	60,409,584,674
Total administrative expenses		185,919,708,836	184,191,612,641
NET OPERATING INCOME BEFORE TAXES AND STATUTORY ALLOCATIONS		76,185,623,828	54,884,351,587
Income tax	16-a	10,170,950,461	8,494,098,130
Decrease in income tax for the year	16-a	1,478,222,343	1,248,768,679
Deferred tax income	16-a	1,197,379,657	-
Statutory allocations	40	15,671,368,103	11,207,194,617
Decrease in statutory allocations	40	-	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 Corrales Salas
General Manager

Gerardo Gómez Solís
General Accountant

Ricardo Araya Jiménez
General Auditor

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

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

Note	Equity adjustments					Total equity adjustments	Equity reserves	Retained earnings	Equity of the Development Financing Fund	Total
	Share capital	Surplus from revaluation of property	Adjustment for valuation of available-for-sale investments and restricted financial instruments	Surplus from revaluation of other assets	Adjustment for valuation of investments in other companies					
Balance at January 1, 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 of the Bank booked directly in equity:										
Legal reserves	-	-	-	-	-	-	28,851,029,773	(28,851,029,773)	-	-
Other statutory reserves	-	-	-	-	-	-	2,037,966,560	(2,037,966,560)	-	-
Statutory allocations - Mandatory pension funds, Employee Protection Law No. 7983	-	-	-	-	-	-	-	(380,835,774)	-	(380,835,774)
Equity of the Development Financing Fund	-	-	-	-	-	-	(3,596,689,209)	3,596,689,209	-	-
Total transactions with owners of the Bank booked directly in equity	-	-	-	-	-	-	30,888,996,333	(34,866,521,316)	3,596,689,209	(380,835,774)
Comprehensive income for the year:										
Income for the year	-	-	-	-	-	-	-	36,801,775,377	-	36,801,775,377
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
Adjustment for valuation of investments in other companies	-	-	-	-	754,720,330	754,720,330	-	-	-	754,720,330
Surplus from revaluation of property and equipment	-	(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	-	35,775,032,259	-	43,117,755,496
Balance at December 31, 2015	21	118,130,303,482	63,572,929,305	2,867,809,620	69,678,787	7,084,626,651	73,595,044,363	247,784,553,250	18,144,863,035	538,892,259,206
Transactions with owners of the Bank booked directly in equity:										
Legal reserves	-	-	-	-	-	-	23,820,704,712	(23,820,704,712)	-	-
Other statutory reserves	-	-	-	-	-	-	3,009,050,430	(3,009,050,430)	-	-
Equity of the Development Financing Fund	-	-	-	-	-	-	-	(3,604,956,285)	3,604,956,285	-
Total transactions with owners of the Bank booked directly in equity	-	-	-	-	-	-	26,829,755,142	(30,434,711,427)	3,604,956,285	-
Comprehensive income for the year:										
Income for the year	-	-	-	-	-	-	-	53,018,907,264	-	53,018,907,264
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)
Adjustment for revaluation of investments in other companies	-	-	-	-	999,676,663	999,676,663	-	-	-	999,676,663
Surplus from revaluation of property and equipment	-	(2,766,176,868)	-	-	-	(2,766,176,868)	-	3,303,942,970	-	537,766,102
Realization of surplus from revaluation of other assets	-	-	-	(25,930,157)	-	(25,930,157)	-	-	-	(25,930,157)
Total comprehensive income for the year	-	(2,766,176,868)	(4,325,830,389)	(25,930,157)	999,676,663	(6,118,260,751)	-	56,322,850,234	-	50,204,589,483
Balance at December 31, 2016	21	118,130,303,482	60,806,752,437	(1,458,020,769)	43,748,630	8,084,303,314	67,476,783,612	274,614,308,392	21,749,819,320	589,096,848,689

Juan Carlos Corrales Salas
General Manager

Gerardo Gómez Solís
General Accountant

Ricardo Araya Jiménez
General Auditor

BANCO NACIONAL DE COSTA RICA
SEPARATE 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 and equipment		(578,151)	(796)
Loss (gain) on foreign exchange differences and development units, net		15,726,446,077	(1,748,759,230)
Loss on allowance for loan losses, net		27,904,474,431	19,450,010,909
Gain (loss) on allowance for impairment of investments, net		(76,967,726)	74,289,638
Gain (loss) on allowances for other receivables, net		(1,627,980,487)	1,203,529,773
Gain (loss) on allowances 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
Provision expense, net of payments		(11,362,446,231)	23,339,300,805
Depreciation and amortization		15,478,144,051	14,549,010,236
Share in net profit of subsidiaries		(6,587,489,789)	(5,738,532,120)
Share in net profit of foreign associate		(1,690,868,660)	(4,410,917,651)
Statutory allocations, net		15,671,368,103	10,837,246,759
Income tax expense, net	16 - a	7,495,348,461	7,245,329,451
Finance income on loan portfolio and investments		(394,802,592,871)	(374,758,878,988)
Finance costs on term obligations with the public and financial entities		132,894,584,009	119,284,976,406
		(141,540,669,463)	(142,942,505,749)
Net (increase) decrease in assets			
Credits and cash advances		(399,095,657,832)	(404,694,275,479)
Foreclosed assets		16,672,890,887	17,105,534,747
Accrued interest receivable on other receivables		189,215	582,643
Other assets		(12,788,419,563)	20,679,667,285
		(536,751,666,756)	(509,850,996,553)
Net (increase) decrease in liabilities			
Demand and term obligations		341,377,278,165	294,146,235,844
Other accounts payable and provisions		16,242,779,246	(41,997,673,214)
Other liabilities		4,298,012,868	8,502,560,752
		(174,833,596,477)	(249,199,873,171)
Interest received on loan portfolio and investments		391,886,834,104	371,118,388,129
Income tax paid		(12,637,751,082)	(18,062,332,244)
Interest paid on term obligations with the public and financial entities		(128,621,974,855)	(117,723,015,317)
Net cash from (used in) operating activities		75,793,511,690	(13,866,832,603)
Cash flows from investing activities			
Increase in financial instruments		(15,525,060,035,337)	(10,518,730,089,254)
Decrease in financial instruments		15,645,009,048,828	10,472,151,665,746
Acquisition of property and equipment		(14,302,010,424)	(25,784,373,203)
Sale of property and equipment		1,491,191,820	390,814,806
Net cash from (used in) investing activities		107,138,194,887	(71,971,981,905)
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)
Dividends received		4,781,182,958	1,421,465,793
Net cash (used in) from financing activities		(162,673,501,431)	78,929,923,575
Net increase (decrease) in cash and cash equivalents		20,258,205,146	(6,908,890,933)
Cash and cash equivalents at beginning of year		995,211,203,222	1,002,120,094,155
Cash and cash equivalents at end of year	4	1,015,469,408,368	995,211,203,222

Juan Carlos Corrales Salas
General Manager

Gerardo Gómez Solís
General Accountant

Ricardo Araya Jiménez
General Auditor

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

BANCO NACIONAL DE COSTA RICA

Notes to the Separate 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 major 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 5,452 employees (2015: 183 offices, 472 automated teller machines, and 5,502 employees, respectively). The Bank's website is www.bncr.fi.cr.

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate 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 of closed and open investment funds on behalf of third parties 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

Notes to the Separate 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. The Bank holds 49% ownership interest in BICSA. Banco de Costa Rica owns the remaining 51% of shares.

(b) Basis of preparation of the financial statements

- Statement of compliance

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

- Basis of measurement applied to assets and liabilities

The separate 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 separate 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 and SUGEF.

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

(d) 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 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 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

Notes to the Separate 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.

(e) Financial assets and financial liabilities

i. Recognition

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

ii. Classification

Cash and cash equivalents

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

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

Investments in financial instruments

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

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 Law No. 8703 "Amendment to Law No. 8627 on the Ordinary and Extraordinary Budget of the Republic for Tax Year 2008."

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 separate 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 income statement and accrued interest payable is recognized in the separate 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 separate 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 income statement and accrued interest receivable is recognized in the separate 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.

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

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

Originated loans and other receivables

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

Deposits and debt securities issued

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

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

iii. Derecognition

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

iv. Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the separate 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.

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

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 interest income or interest expense.

vi. Fair value measurement

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

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

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

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

Investments in financial instruments

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

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.

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.

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

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

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

vii. Gains and losses on subsequent measurement

Gains and losses arising from changes in the fair value of available-for-sale assets are recognized directly in equity until an investment is considered to be impaired, at which time the loss is recognized in the separate 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 separate statement of comprehensive income.

viii. Impairment of financial assets

The carrying amount of an asset is reviewed at each separate 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 separate 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.

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

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 separate statement of comprehensive income or the separate statement of changes in equity, as appropriate.

(f) Loan portfolio

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

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

(g) 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.

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

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.

(h) 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.

(i) 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.

(j) Foreclosed assets

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

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.

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.

(k) 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. (Panamá)	49%

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

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.

(I) 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.

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

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 separate statement of comprehensive income when incurred.

iv. Depreciation and amortization

Depreciation and amortization are charged to the separate 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

(m) 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 separate statement of comprehensive income when incurred.

iii. Amortization

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

(n) Impairment of non-financial assets

The carrying amount of an asset is reviewed at each separate 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 separate 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 separate statement of comprehensive or separate statement of changes in equity, as appropriate.

(o) Accounts payable and other liabilities

Accounts payable and other liabilities are carried at cost.

(p) Provisions

A provision is recognized in the separate 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 separate balance sheet date, directly affecting the separate statement of comprehensive income.

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

(q) 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 7 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

Notes to the Separate 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.

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BANCO NACIONAL DE COSTA RICA

Notes to the Separate 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.

(r) Deferred income

Deferred income corresponds to income received in advance by the Bank 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

Notes to the Separate Financial Statements

(s) 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.

(t) Revaluation surplus

Revaluation surplus included in the separate 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 separate 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 the Internal Regulations of the National Banking System (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.

(u) Income tax

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

i. Current tax

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

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.

(v) 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.

(w) Use of estimates

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

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

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BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

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

(x) Recognition of income and costs

i. Finance income and finance costs

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

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

ii. Fee and commission income

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

iii. Income from foreign currency exchange and arbitrage

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

iv. *Operating lease expenses*

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

(y) Statutory allocations

In accordance with SUGEF's Chart of Accounts, statutory allocations on the year's net earnings payable to due 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 separate 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 Law No. 6041 "Law to Create CONAPE", the Bank is required to make statutory allocations equivalent to 5% of earnings before taxes and statutory allocations to CONAPE.

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

Article 78 of Law No. 7983 "Employee Protection Law" 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.

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BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

(z) 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.

(aa) Development Credit Fund (FCD)

The Development Credit Fund (FCD) is comprised of the funds prescribed in article 59 of IRNBS. 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", in agreement with article 35 of Law No. 8634 "Development Banking System Act", 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. Under article 6 of Law No. 8634, the Managing Banks may offer first-tier banking services to the beneficiaries of the Development Banking System.
- b. Under 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.

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BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

- c. Under 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.

(bb) 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 separate financial statements. Fee and commission income derived from trust management is recognized on an accrual basis.

(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
		¢ 661,222,184,060	609,989,447,115
<i>Investments in financial instruments:</i>			
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
		¢ 128,768,778,794	284,002,284,957
<i>Other assets:</i>			
Other assets (note 12)	Guarantee deposits	¢ 510,922,477	491,314,408

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BANCO NACIONAL DE COSTA RICA

Notes to the Separate 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	-
Loan portfolio and accrued interest receivable			
(3)		845,850,192	-
Accounts receivable (4) (note 8)		18,524,503	179,094,344
Allowance for impairment for operations with			
related parties (4)		(12,179,982)	(53,007,296)
Investments in other companies (5) (note 10)		89,781,830,229	85,284,978,077
	¢	<u>105,001,352,571</u>	<u>96,012,861,118</u>
<u>Liabilities:</u>			
Demand obligations with entities (6)	¢	2,436,479,764	1,705,071,380
Term obligations with entities (7)		1,570,672,224	1,610,357,080
	¢	<u>4,007,151,988</u>	<u>3,315,428,460</u>
<u>Income:</u>			
Finance	¢	21,927,200	53,077,769
Operating		515,300,505	514,185,822
Gain on investments in other foreign entities		1,690,868,660	4,410,917,651
Gain on investments in SUGEVAL regulated			
entities		4,038,378,067	4,036,054,819
Gain on investments in SUPEN regulated			
entities		1,172,980,254	938,518,217
Gain on investments in SUGESE regulated			
entities		1,376,131,468	763,959,084
	¢	<u>8,815,586,154</u>	<u>10,716,713,362</u>
<u>Expenses:</u>			
Finance	¢	99,233,264	33,446,527
Operating		339,864,101	391,074,715
	¢	<u>439,097,365</u>	<u>424,521,242</u>

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BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

The referenced balances above are related to:

- 1) Foreign checking accounts with Banco Internacional de Costa Rica, S.A.
- 2) Term certificate of deposit issued by Banco Internacional de Costa Rica, S.A., maturing on January 6, 2017.
- 3) Loan operation No. C0303202100010864781 with BN Valores Puesto de Bolsa, S.A.
- 4) Accounts receivable associated with transactions with employees and related allowance for impairment in accordance with SUGEF Directive 1-05.
- 5) Investments in the share capital of entities over which the Bank exercises control or significant influence (see note 1.k).
- 6) Subsidiaries' checking accounts with the Bank.
- 7) Subsidiaries' term certificate of deposit with the Bank.

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

	2016	2015
Short-term benefits	¢ 844,363,025	873,095,958
Long-term benefits	109,767,194	113,502,474
Per diem – Board of Directors	113,252,071	126,683,366
	¢ 1,067,382,290	1,113,281,798

(4) Cash and cash equivalents

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

	2015	2014
Cash and due from banks	¢ 934,649,797,171	845,089,095,231
Investments with maturities of less than two months	80,819,611,197	150,122,107,991
	¢ 1,015,469,408,368	995,211,203,222

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BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

As of December 31, cash and due from banks is as follows:

	2016	2015
Cash on hand and in vaults	45,600,902,884	58,659,219,451
Cash in transit	10,586,770,682	21,268,464,034
Checking accounts in BCCR (1)	31,972,234,939	21,018,347,628
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	770,841,165	11,032,289,619
Checking accounts in foreign financial entities	162,549,650,880	82,042,623,264
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)	3,477,754,225	2,188,733,037
Local notes receivable	2,154,613,317	2,068,347,562
Foreign notes receivable	807,082,333	964,992,631
Accrued interest receivable	95,674	40,273
	¢ 934,649,797,171	845,089,095,231

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

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BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

(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	¢ 373,584,538,055	444,633,899,606
BCCR	150,462,041,938	179,031,242,137
State-owned banks	85,006,991,995	175,390,259,449
Private banks	7,932,586,072	4,685,744,010
Private issuers	5,403,482,646	5,375,435,082
	<u>622,389,640,706</u>	<u>809,116,580,284</u>
<u>Foreign issuers:</u>		
Governments	37,716,583,192	34,585,082,985
Private issuers	124,832,201,140	71,604,777,235
Private banks	65,084,537,446	107,345,194,776
	<u>227,633,321,778</u>	<u>213,535,054,996</u>
	<u>850,022,962,484</u>	<u>1,022,651,635,280</u>
<i>Held-to-maturity:</i>		
Local issuers	27,181,284,510	27,030,439,007
	<u>27,181,284,510</u>	<u>27,030,439,007</u>
<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
	<u>5,893,164,907</u>	<u>13,103,031,815</u>
<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)
	<u>(59,433,676)</u>	<u>(134,640,661)</u>
Accrued interest receivable	10,034,059,816	9,186,793,757
	<u>¢ 893,072,038,041</u>	<u>1,071,837,259,198</u>

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

	2015	2014
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	<u>¢ 59,433,676</u>	<u>134,640,661</u>

(Continued)

BANCO NACIONAL DE COSTA RICA

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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, 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).

(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 swaps:

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.

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

Derivative financial instruments are as follows:

		December 31, 2016		
Issuing bank		Notional amount	Valuation	Purpose
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)	
		December 31, 2015		
Issuing bank		Notional amount	Valuation	Purpose
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	¢	265,970,000,000	¢ 12,569,192,706	
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	¢	132,985,000,000	¢ 266,523,750	

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).

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BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

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%.

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 rate

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

- 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.

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)
Gain (loss), net	₡ (9,473,071,759)	10,724,032,941

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

(7) Loan portfolio

(a) Loan portfolio by sector

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	144,072,055,018	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
	4,116,451,436,022	3,701,502,141,960
Accrued interest receivable	27,223,161,313	25,154,673,605
Allowance for loan losses	(85,464,859,320)	(62,968,882,979)
¢	<u>4,058,209,743,015</u>	<u>3,663,687,932,586</u>

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

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

Currency	2016		2015	
	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%

(b) Loan portfolio by arrears

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

	2016	2015
Current	¢ 3,923,840,957,083	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	4,116,451,436,022	3,701,502,141,960
Accrued interest receivable	27,223,166,313	25,154,673,605
Allowance for loan losses	(85,464,859,320)	(62,968,882,979)
	¢ 4,058,209,743,015	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	¢ 4,116,394,236,339	3,701,441,568,101
Loans purchased by the Bank	57,199,683	60,573,859
Total direct loans	4,116,451,436,022	3,701,502,141,960
Accrued interest receivable	27,223,166,313	25,154,673,605
Allowance for loan losses	(85,464,859,320)	(62,968,882,979)
	¢ 4,058,209,743,015	3,663,687,932,586

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

(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
Total unearned interest	¢	2,919,903,029	2,037,606,104

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.

(Continued)

BANCO NACIONAL DE COSTA RICA

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(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	¢ 126,378,316	103,040,206
Accounts due from related parties (note 3)	6,247	29,269
Accounts due from related parties (officers, employees, and related branches) (note 3)	18,518,256	179,065,075
Income tax receivable	140,319,872	2,601,873,894
Other sundry accounts receivable	3,933,633,959	3,502,176,241
Accrued interest receivable on other sundry accounts receivable	1,800,923	1,990,138
Allowance for impairment of other accounts receivable	(3,392,351,363)	(5,862,408,795)
	¢ 828,306,210	525,766,028

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

	2016	2015
Opening balance	¢ 5,862,408,795	5,361,359,410
Allowance expense (note 31)	1,601,223,913	1,332,435,789
Decrease in allowance (note 32)	(3,229,204,400)	(128,906,016)
Items settled against allowance	(845,837,775)	(701,172,610)
Foreign exchange differences	3,760,830	(1,307,778)
Closing balance	¢ 3,392,351,363	5,862,408,795

(9) Foreclosed assets

As of December 31, foreclosed assets are presented net of the allowance for impairment and per legal requirements are 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 and per legal requirements	(59,644,951,072)	(61,161,022,915)
	¢ 17,751,098,959	17,416,744,581

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

For the years ended December 31, movement in the allowance for impairment of foreclosed assets and per legal requirements 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

(10) Investments in other companies

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

	2016	2015
BN Valores Puesto de Bolsa, S.A.	¢ 17,560,620,280	18,316,758,339
BN Sociedad Administradora de Fondos de Inversión, S.A.	5,945,831,085	5,384,597,996
BN Vital Operadora de Planes de Pensiones Complementarias, S.A.	7,294,405,422	6,784,875,822
BN Corredora de Seguros, S.A.	1,819,771,469	1,269,667,663
Banco Internacional de Costa Rica, S.A. and Subsidiary (BICSA)	57,140,578,673	53,508,454,957
Investments in other non-financial companies	20,623,300	20,623,300
	¢ 89,781,830,229	85,284,978,077

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
InterClear Central de Valores, S.A.	¢ 15,000,000	15,000,000	Investment to operate as custodian of electronic securities
Depósito Libre Comercial de 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
	¢ 20,623,300	20,623,300	

(Continued)

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Notes to the Separate Financial Statements

(11) Property and equipment

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

	Land	Buildings	Furniture and equipment	Computer hardware	Vehicles	Total
<u>Cost:</u>						
Historical cost at beginning of year	¢ 4,218,965,394	62,430,854,914	58,110,932,319	54,784,136,920	428,423,044	179,973,312,591
Revalued cost at beginning of year	42,395,124,332	57,353,344,058	-	-	-	99,748,468,390
Additions	-	783,223,809	5,688,605,002	7,294,128,510	-	13,765,957,321
Disposals	-	-	(3,808,936,963)	(5,666,407,970)	-	(9,475,344,933)
Sales	(135,459,981)	(168,500,338)	(273,875)	-	(13,644,336)	(317,878,530)
Adjustments	-	611,075,765	130,000,172	(32,891,602)	-	708,184,335
Reclassifications	-	(902,381)	(5,316,909)	6,299,810	(80,520)	-
Closing balance	46,478,629,745	121,009,095,827	60,115,009,746	56,385,265,668	414,698,188	284,402,699,174
<u>Accumulated depreciation:</u>						
Opening balance	-	29,704,829,213	30,563,330,502	42,289,717,108	308,098,162	102,865,974,985
Depreciation expense on historical cost	-	1,355,676,895	5,233,585,844	5,075,048,434	27,162,890	11,691,474,063
Depreciation expense on revaluation	-	1,364,745,840	-	-	-	1,364,745,840
Disposals	-	-	(2,612,598,308)	(5,605,160,550)	-	(8,217,758,858)
Sales	-	(70,932,726)	(273,874)	-	(13,644,336)	(84,850,936)
Adjustments	-	830,436,337	39,675,974	(50,242,809)	-	819,869,502
Reclassifications	-	(902,381)	(5,311,378)	6,294,278	(80,519)	-
Closing balance	-	33,183,853,178	33,218,408,760	41,715,656,461	321,536,197	108,439,454,596
Net closing balance	¢ 46,478,629,745	87,825,242,649	26,896,600,986	14,669,609,207	93,161,991	175,963,244,578

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

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

	Land	Buildings	Furniture and equipment	Computer hardware	Vehicles	Total
<i>Cost:</i>						
Historical cost at beginning of year	¢ 4,219,126,594	47,049,428,522	53,654,914,209	50,648,940,385	428,362,124	155,000,771,834
Revalued cost at beginning of year	38,953,191,243	63,247,844,753	-	-	-	102,201,035,996
Additions	-	15,381,426,392	5,565,204,761	4,840,047,721	-	25,786,678,874
Revaluation of assets	254,025,576	(11,234,412,526)	-	-	-	(10,980,386,950)
Disposals	-	-	(1,130,063,151)	(656,747,376)	-	(1,786,810,527)
Adjustments	3,187,746,313	5,339,911,831	2,099,954	(29,266,345)	-	8,500,491,753
Reclassifications	-	-	18,776,545	(18,837,465)	60,920	-
Closing balance	46,614,089,726	119,784,198,972	58,110,932,319	54,784,136,920	428,423,044	279,721,780,981
<i>Accumulated depreciation:</i>						
Opening balance	-	26,840,836,640	26,514,085,855	38,181,505,277	277,464,239	91,813,892,011
Depreciation expense on historical cost	-	1,132,988,745	4,733,679,289	4,669,480,441	30,603,646	10,566,752,121
Depreciation expense on revaluation	-	1,506,603,638	-	-	-	1,506,603,638
Disposals	-	-	(775,188,905)	(620,807,612)	-	(1,395,996,517)
Adjustments	-	224,400,190	74,796,656	75,526,886	-	374,723,732
Reclassifications	-	-	15,957,607	(15,987,884)	30,277	-
Closing balance	-	29,704,829,213	30,563,330,502	42,289,717,108	308,098,162	102,865,974,985
Net closing balance	¢ 46,614,089,726	90,079,369,759	27,547,601,817	12,494,419,812	120,324,882	176,855,805,996

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

(12) Other assets

As of December 31, other assets are as follows:

	2016	2015
<i><u>Deferred charges:</u></i>		
Leasehold improvements	¢ 1,172,813,330	1,136,869,469
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>11,842,514,323</u>	<u>12,588,815,622</u>
<i><u>Intangible assets:</u></i>		
Software (2)	4,995,212,693	3,755,368,332
	<u>4,995,212,693</u>	<u>3,755,368,332</u>
<i><u>Other assets:</u></i>		
Prepaid interest and fees and commissions	274,408,717	217,253,376
Prepaid insurance policy	205,916,377	204,619,158
Other prepaid expenses	72,774,000	320,004,747
Stationery, office supplies, and other materials	614,904,785	366,758,220
Leased assets	100,810,170	102,151,718
Library and artwork	345,295,762	336,955,762
Construction work-in-progress	5,741,165,428	2,823,622,889
Rights in welfare and trade associations	350,000	350,000
Other sundry assets	3,860,040,520	2,434,869,115
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)	322,936,830	329,713,080
Legal and administrative deposits (1)	187,985,647	161,601,328
	<u>21,084,182,625</u>	<u>16,280,412,525</u>
¢	<u>37,921,909,641</u>	<u>32,624,596,479</u>

(1) As of December 31, 2016, guarantee deposits amount to ¢510,922,477 (2015: ¢491,314,408) (see note 2).

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BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

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

	Software	Other intangible assets	Total
<i><u>Cost:</u></i>			
Opening balance	¢ 20,103,486,657	94,029,559	20,197,516,216
Additions	3,141,092,383	-	3,141,092,383
Disposals	(1,628,244,326)	-	(1,628,244,326)
Adjustments	71,002,631	-	71,002,631
Closing balance	<u>21,687,337,345</u>	<u>94,029,559</u>	<u>21,781,366,904</u>
<i><u>Accumulated amortization:</u></i>			
Opening balance	16,348,118,325	94,029,559	16,442,147,884
Expense for the year	1,999,222,279	-	1,999,222,279
Disposals	(1,627,806,805)	-	(1,627,806,805)
Adjustments	(27,409,147)	-	(27,409,147)
Closing balance	<u>16,692,124,652</u>	<u>94,029,559</u>	<u>16,786,154,211</u>
Net closing balance	¢ <u>4,995,212,693</u>	<u>-</u>	<u>4,995,212,693</u>

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

	Software	Other intangible assets	Total
<i><u>Cost:</u></i>			
Opening balance	¢ 18,614,268,417	94,029,559	18,708,297,976
Additions	1,509,396,164	-	1,509,396,164
Disposals	(5,284,489)	-	(5,284,489)
Adjustments	(14,893,435)	-	(14,893,435)
Closing balance	<u>20,103,486,657</u>	<u>94,029,559</u>	<u>20,197,516,216</u>
<i><u>Accumulated amortization:</u></i>			
Opening balance	14,336,635,851	94,029,559	14,430,665,410
Expense for the year	2,016,766,963	-	2,016,766,963
Disposals	(5,284,489)	-	(5,284,489)
Closing balance	<u>16,348,118,325</u>	<u>94,029,559</u>	<u>16,442,147,884</u>
Net closing balance	¢ <u>3,755,368,332</u>	<u>-</u>	<u>3,755,368,332</u>

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- (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.

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(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
Obligations for trust funds	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	1,454,926,471,107	1,353,535,924,183
Other term deposits	81,367,527,731	83,752,218,012
	<u>1,536,293,998,838</u>	<u>1,437,288,142,195</u>
Charges payable	22,055,657,872	20,322,078,664
	<u>¢ 4,165,156,725,291</u>	<u>3,933,670,589,846</u>

As of December 31, 2016, deposits in checking accounts denominated in colones bear interest at a maximum rate of 1.5% per annum (2015: 1.50% per annum) on balances and at a minimum rate of 0.00% per annum (2015: 0.00% 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 0.00% per annum (2015: 0.00% per annum) on balances greater than or equal to US\$1,000.

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Notes to the Separate Financial Statements

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:

<u>Currency</u>	<u>2016</u>	<u>2015</u>
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%

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:

	<u>2016</u>	<u>2015</u>
Financing for loans using external funds	125,644,412	125,644,412
¢	<u>125,644,412</u>	<u>125,644,412</u>

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

(15) Obligations with financial entities

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

	2016	2015
<i><u>Demand:</u></i>		
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	2,436,481,843	1,705,071,380
Other demand obligations with financial entities	997,169,020	545,192,429
	<u>217,838,981,195</u>	<u>274,253,607,972</u>
<i><u>Term:</u></i>		
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
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
	<u>992,139,001,470</u>	<u>917,636,049,359</u>
Charges payable for other demand and term obligations with financial entities – foreign currency	38,405,885	45,675,752
Charges payable for other demand and term obligations with financial entities – local currency	109,954,422	294,508,162
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
	<u>9,561,267,590</u>	<u>7,022,237,644</u>
¢	<u>1,219,539,250,255</u>	<u>1,198,911,894,975</u>

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate 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			Total
	5-year issue (maturing in 2018)	10-year issue (maturing in 2023)	5-year issue (maturing in 2021)	
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

Notes to the Separate 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 rate
- ✓ 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

Notes to the Separate 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	¢ 10,170,950,461	8,494,098,130
Decrease in current tax	(1,478,222,343)	(1,248,768,679)
Total current tax expense, net	8,692,728,118	7,245,329,451
<u>Deferred tax:</u>		
Increase in deferred tax income	(1,197,379,657)	-
Total current tax expense, net	¢ 7,495,348,461	7,245,329,451

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate 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 income tax	¢ 76,185,623,828	54,884,351,587
Plus (less) tax effect of:		
Non-deductible expenses	35,870,721,965	37,865,472,682
Deductible expenses	(4,254,176,439)	(3,194,018,023)
Non-taxable income	(78,826,408,960)	(65,404,708,081)
Tax base	28,975,760,394	24,151,098,165
Tax rate	30%	30%
Total current tax expense	¢ 8,692,728,118	7,245,329,451

b) Deferred tax

Deferred tax assets arise from temporary differences in the following financial statement items:

As of December 31, 2016			
	Assets	Liabilities	Net
Unrealized losses	¢ 645,872,095	-	645,872,095
Unrealized gains	-	(1,101,843,535)	(1,101,843,535)
Revaluation of assets	-	(10,339,228,565)	(10,339,228,565)
	¢ 645,872,095	(11,441,072,100)	(10,795,200,005)

As of December 31, 2015			
	Assets	Liabilities	Net
Unrealized losses	¢ 479,833,978	-	479,833,978
Unrealized gains	-	(3,223,207,697)	(3,223,207,697)
Revaluation of assets	-	(11,524,732,937)	(11,524,732,937)
	¢ 479,833,978	(14,747,940,634)	(14,268,106,656)

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

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

	December 31, 2015	Included in equity	December 31, 2016
Unrealized losses	¢ 479,833,978	166,038,117	645,872,095
Unrealized gains	(3,223,207,697)	2,121,364,162	(1,101,843,535)
Revaluation of assets	(11,524,732,938)	1,185,504,373	(10,339,228,565)
	¢ (14,268,106,656)	3,306,868,535	(10,795,200,005)

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

	December 31, 2014	Included in equity	December 31, 2015
Unrealized losses	¢ 1,392,591,923	(912,757,945)	479,833,978
Unrealized gains	(855,142,536)	(2,368,065,161)	(3,223,207,697)
Revaluation of assets	(13,283,636,328)	1,758,903,391	(11,524,732,938)
	¢ 14,138,778,864	609,161,770	(14,268,106,656)

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

Tax returns filed by the Bank for the years ended December 31, 2012, 2013, 2014, and 2015 and the tax return that will be filed for the year ended December 31, 2016, are open to review by the Tax Authorities.

(17) Provisions

As of December 31, provisions are as follows:

	2016	2015
Severance benefits	¢ 2,838,355,799	19,345,442,018
Litigation	4,716,809,407	4,338,666,120
Other	17,691,456,375	10,954,108,847
	¢ 25,246,621,581	34,638,216,985

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

Movement in provisions is as follows:

	Severance benefits	Litigation	Other	Total
Balance at December 31, 2014	¢ 28,421,229,753	2,415,808,599	7,860,810,751	38,697,849,103
Increase in provision	8,470,286,486	2,619,318,577	13,231,206,301	24,320,811,364
Used	(14,093,434,655)	(540,345,355)	(6,039,936,840)	(20,673,716,850)
Decrease in provision	(3,452,639,566)	(156,115,701)	(4,097,971,365)	(7,706,726,632)
Balance at December 31, 2015	19,345,442,018	4,338,666,120	10,954,108,847	34,638,216,985
Increase in provision	7,117,315,140	1,927,480,509	15,114,758,025	24,159,553,674
Used	(23,338,547,507)	(760,996,278)	(7,540,869,165)	(31,640,412,950)
Decrease in provision	(285,853,852)	(788,340,944)	(836,541,332)	(1,910,736,128)
Balance at December 31, 2016	¢ 2,838,355,799	4,716,809,407	17,691,456,375	25,246,621,581

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	65,773,034,395	62,174,427,307	3,516,542,877	3,868,686,437
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>258,974,426,081</u>	<u>237,347,172,037</u>	<u>4,716,809,407</u>	<u>4,338,666,120</u>

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate 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	3,022,141,649	2,882,088,533
Employer contributions	8,155,602,954	8,038,006,622
Current tax	3,300,306,487	743,722,112
Court-ordered withholdings	3,161,046,092	3,105,230,262
Tax withholdings	3,318,146,119	2,667,486,803
Employee withholdings	630,193,880	515,637,251
Other third-party withholdings	9,246,889	16,259,093
Compensation	6,668,494,742	6,697,069,229
Statutory allocations	15,671,368,103	10,895,480,959
Clearing house operations	4,617,080,542	513,780,850
Accrued vacation	6,604,450,446	6,283,025,378
Accrued statutory Christmas bonus	1,585,389,728	1,372,967,729
Foreclosed assets	354,942,685	117,483,268
Various creditors - Local currency	6,321,011,335	6,120,375,300
Various creditors - Foreign currency	6,144,447,035	3,584,812,413
Interest rate futures - Hedges (note 6)	9,197,575,451	-
	¢ 78,764,002,887	53,555,030,177

As of December 31, 2016 and 2015, the “Various creditors” account includes ¢2,745.78 million and ¢2,436.35 million, respectively, for the operations of the Bank’s Electronic Means of Payment Division (VISA). The remaining amount corresponds to normal operations of other divisions.

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BANCO NACIONAL DE COSTA RICA

Notes to the Separate 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 (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

Notes to the Separate Financial Statements

(20) Subordinated obligations

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

Annual interest rate	Term	Maturity		2016	2015
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 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)

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Notes to the Separate 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 Law No. 8703 "Amendment to Law No. 8627 on the Ordinary and Extraordinary Budget of the Republic for Tax Year 2008." 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) and denominated in DU maturing in 2013, 2017, 2018, and 2019 (No. 4183, No. 4184, No. 4185, and No. 4190 for DU10,541,265.09 each, at a reference exchange rate of ¢655.02 to DU1.00). As of December 31, 2016 and 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.

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BANCO NACIONAL DE COSTA RICA

Notes to the Separate 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	¢ 30,682,050,717	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
Subtotal	46,948,048,225	49,556,971,417
Pre-approved lines of credit	262,526,260,221	221,702,170,194
Other contingencies - Pending litigation and lawsuits	296,588,055,556	235,016,875,208
Other contingencies not related to credits	818,024,507	636,737,855
Subtotal	559,932,340,284	457,355,783,257
FX futures - Other than hedges (note 6)	-	11,649,486,000
	¢ 606,880,388,509	518,562,240,674

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Notes to the Separate 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 balance sheet until the commitments are fulfilled or expire.

(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 separate 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

Notes to the Separate Financial Statements

As of December 31, 2016, trust capital is invested in the following assets:

Nature of trust	Guaranty and cash management	Cash or property management	Securitization	Portfolio management	Guaranty	Testamentary	Custody of stock with testamentary clause	Custody and management of stock	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
Investments in financial instruments	-	193,209,749,751	7,005,541,450	446,207,611	1,025,988,873,967	1,182,795,790	-	1,984,220	-	-	1,227,835,152,789
Loan portfolio	-	2,683,406,286	-	1,311,997,204	-	-	-	-	-	-	3,995,403,490
Accounts and accrued interest receivable	34,848,960	9,599,521,995	12,834,002,406	1,734,898,256	24,682,121	475,951	-	-	-	548,180	24,228,977,869
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	1,544,041,161	4,560,607,132	49,080,535,436	-	72,930,401,803	-	-	-	-	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
¢	1,578,890,121	213,540,200,491	69,587,667,702	3,498,182,953	1,100,461,667,532	1,187,656,074	2,096,000	1,992,793	5,591,595	4,007,042,198	1,393,870,987,459

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Notes to the Separate Financial Statements

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

Nature of trust	Guaranty and cash management	Cash or property management	Securitization	Portfolio management	Guaranty	Testamentary	Custody of stock with testamentary clause	Custody and management of stock	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	-	-	8,523	53,195	-	160,265,528
Investments in financial instruments	-	173,308,850,241	3,318,357,098	427,551,561	666,494,365,872	1,308,640,716	-	1,910,201	427,474,888	-	845,287,150,577
Loan portfolio	-	2,579,120,499	-	1,101,433,290	-	-	-	-	-	-	3,680,553,789
Accounts and accrued interest receivable	27,607,336	6,543,291,846	4,497,133	1,871,893,300	23,285,645	5,233	-	-	-	-	8,470,580,493
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	1,544,041,161	971,990,872	52,812,621,086	-	69,174,908,361	-	-	-	-	-	124,503,561,480
Other assets	-	636,702,993	-	22,428,776	1,795,655,250	1,739,949	-	-	5,591,597	-	2,462,118,565
¢	1,571,648,497	185,432,077,349	56,139,864,478	3,427,455,710	737,493,654,824	1,312,717,898	2,396,000	1,918,724	433,119,680	851,104,000	986,665,957,160

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BANCO NACIONAL DE COSTA RICA

Notes to the Separate 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.

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BANCO NACIONAL DE COSTA RICA

Notes to the Separate 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
Chattel mortgages	¢ 1,724,533,313	1,890,559,429
Other guarantees received in the Bank's custody	5,367,891,690,514	5,294,420,419,217
Lines of credit granted but unused	441,382,834,335	511,151,808,726
Loans pending settlement	225,619,018,406	274,712,387,759
Investments settled	578,306,470	255,230,131
Loans settled	166,459,634,866	157,432,418,630
Other accounts receivable settled	11,898,442,646	10,774,738,185
Accrued interest receivable settled	16,299,952,949	15,268,996,373
Interest income on non-accrual loans of loan portfolio	11,671,508,267	8,751,605,238
Supporting documentation received in the Bank's custody	1,255	1,027
Securities issued pending placement	9,231,596,560	9,070,950,480
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	196,463,692,833	174,662,904,163
	<u>7,267,848,798,638</u>	<u>6,976,071,794,265</u>
Third-party debit memoranda accounts	762,122,776,614	670,787,193,541
Own debit memoranda accounts for custodial activities	169,779,166,913	309,366,155,191
Third-party debit memoranda accounts for custodial activities	8,919,476,507,623	7,743,978,388,695
	<u>¢ 17,119,227,249,788</u>	<u>15,700,203,531,692</u>

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Notes to the Separate Financial Statements

(25) Income from financial instruments

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

	2016	2015
<i><u>Cash and due from banks:</u></i>		
Interest on checking accounts and demand deposits in foreign entities	¢ 628,899,923	217,971,906
	<u>628,899,923</u>	<u>217,971,906</u>
<i><u>Investments in financial instruments:</u></i>		
Interest on investments in available-for-sale financial instruments	36,389,347,298	34,140,683,610
Interest on past due and restricted financial instruments	6,755,226,461	9,006,804,264
	<u>43,144,573,759</u>	<u>43,147,487,874</u>
	¢ <u>43,773,473,682</u>	<u>43,365,459,780</u>

(26) Income from loan portfolio

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

	2016	2015
<i><u>Current loans:</u></i>		
Checking account overdrafts	¢ 57,373,872	87,028,13
Discounted notes	626,964	-
Loans granted with funds from BCCR	1,165,002,915	1,395,745,717
Loans granted with other funds	285,872,217,497	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
Loans to related parties	-	50,495,345
Other loans	4,509,536	4,268,496
	<u>308,241,609,156</u>	<u>285,862,396,942</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>351,658,019,112</u>	<u>331,611,391,114</u>

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BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

(27) 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	42,806,739,418	23,860,842,948
Other sundry finance income	4,012,419,169	3,371,799,828
	¢ <u>47,396,113,700</u>	<u>28,091,512,413</u>

(28) 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	¢ 28,313,366,781	33,365,132,256
Term deposits	77,352,761,160	75,075,942,604
Other term obligations with the public	-	680,913
	¢ <u>105,666,127,941</u>	<u>108,441,755,773</u>

(29) 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	55,541,822,850	44,207,796,231
	¢ <u>57,340,740,320</u>	<u>46,261,829,956</u>

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BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

(30) Other finance cost

For the years ended December 31, other finance cost is 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	835,549,523	406,892,129
	¢ 28,339,202,992	27,035,436,416

(31) 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-f)	¢ 28,521,685,521	28,082,167,240
General and counter-cyclical allowance for loan portfolio (note 7-f)	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
	¢ 39,297,902,715	32,624,982,718

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Notes to the Separate Financial Statements

(32) 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	973,961	804,919
Decrease in allowance for impairment of other accounts receivable (note 8)	3,229,204,400	128,906,016
Decrease in allowance for stand-by credit losses (note 19)	1,229,913,214	-
Decrease in allowance for investments in financial instruments (note 5)	97,495,429	53,727,022
	¢ 13,098,376,497	11,897,152,398

(33) 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	7,247,970,223
Trusts	739,613,469	785,111,590
Custodial services	1,387,190,986	1,184,289,990
Credit cards	47,048,860,334	42,415,701,900
Administrative services	3,656,010,308	3,544,766,376
Insurance underwriting	899,000,051	1,160,875,383
Transactions with related parties	265,201,978	212,842,184
Other	40,171,253,236	38,386,508,316
	¢ 101,990,044,135	94,938,065,962

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Notes to the Separate Financial Statements

(34) 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	2,387,580,317	3,501,318,599
Net valuation of other assets (note 42-c)	371,907,290	354,466,349
Other income from accounts receivable	1,458,357	2,084,587
Sale of shares - VISA	11,877,381,401	-
Sundry operating income	5,153,461,879	4,275,827,879
Decrease in provisions	1,910,736,128	7,706,726,633
	¢ <u>21,744,485,566</u>	<u>15,892,731,200</u>

(35) 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 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 and per legal requirements (note 9)	4,756,428,898	4,351,007,686
Other expenses	1,053,953,924	113,104,792
	¢ <u>22,170,699,085</u>	<u>20,719,730,283</u>

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Notes to the Separate Financial Statements

(36) Expenses for provisions

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

	2016	2015
Severance benefits	¢ 7,117,315,140	8,470,286,485
Pending litigation	1,927,480,509	2,619,318,578
Other provisions	15,114,758,025	13,231,206,301
	¢ <u>24,159,553,674</u>	<u>24,320,811,364</u>

(37) 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	19,593,206	180,175,575
Net valuation of other liabilities (note 42-c)	572,989,111	348,421,059
Income tax (8%) on interest on investments in financial instruments	2,742,921,270	3,260,948,650
Income tax on foreign remittances	1,246,721,225	939,737,756
Property tax	228,019,133	154,450,874
Licenses	350,756,128	613,092,941
Other local taxes	717,177,444	288,293,425
Transfers to FINADE	3,680,097,576	3,141,546,478
Sundry operating expenses	50,365,300,371	47,461,020,351
	¢ <u>60,423,575,464</u>	<u>56,387,687,109</u>

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Notes to the Separate Financial Statements

(38) Personnel expenses

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

	2016	2015
Salaries and bonuses, permanent staff	¢ 60,182,307,907	59,308,031,394
Salaries and bonuses, contractors	1,682,128,621	1,810,899,385
Compensation for directors and statutory examiners	113,252,071	126,683,366
Overtime	893,465,697	934,992,355
Travel expenses	686,656,128	747,438,203
Statutory Christmas bonus	6,851,466,672	6,840,898,246
Vacation	7,713,255,686	7,984,603,157
Other compensation	3,566,639,900	4,246,526,983
Severance benefits	4,171,192,492	4,104,097,698
Employer social security taxes	26,101,526,841	26,176,761,348
Back-to-school bonus	6,368,136,484	6,672,280,449
Mandatory retirement savings account	2,456,562,656	2,468,933,821
Other personnel expenses	2,188,556,193	2,359,881,562
	¢ <u>122,975,147,348</u>	<u>123,782,027,967</u>

(39) Other administrative expenses

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

	2016	2015
Outsourcing	¢ 12,478,498,328	13,754,520,513
Transportation and communications	3,858,543,335	3,853,307,325
Infrastructure	33,631,791,694	30,755,879,596
Overhead	12,975,728,131	12,045,877,240
	¢ <u>62,944,561,488</u>	<u>60,409,584,674</u>

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Notes to the Separate Financial Statements

(40) 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%)	2,087,944,021	1,552,126,884
INFOCOOP (10%)	6,279,305,016	4,399,474,172
RIVM (7%)	3,494,837,875	2,411,332,154
	¢ 15,671,368,103	11,207,194,617

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

(41) Fair value of financial instruments

As of December 31, the 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	¢ 934,649,797,171	934,649,797,171
Loan portfolio	4,143,674,602,335	3,873,915,582,205
	¢ 5,078,324,399,506	4,808,565,379,376
<i>Financial liabilities:</i>		
Demand deposits from the public and financial entities	¢ 2,833,891,166,847	2,833,891,166,847
Other demand obligations with the public	12,810,540,801	12,810,540,801
Term deposits from the public and financial entities	1,786,193,504,558	1,791,132,075,752
	¢ 4,632,895,212,206	4,637,833,783,400

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BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

	2015	
	Carrying amount	Fair value
<i>Financial assets:</i>		
Cash and due from banks	¢ 845,089,095,231	845,089,095,231
Loan portfolio	3,726,656,815,565	3,549,296,496,223
	¢ 4,571,745,910,796	4,394,385,591,454
<i>Financial liabilities:</i>		
Demand deposits from the public and financial entities	¢ 2,758,362,429,152	2,758,362,429,152
Other demand obligations with the public	12,273,626,471	12,273,626,471
Term deposits from the public and financial entities	1,885,843,832,514	1,894,552,593,407
	¢ 4,656,479,888,137	4,665,188,649,030

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 balance sheet:

- (a) Cash and due from banks, accrued interest receivable, other receivables, demand deposits from the public, accrued interest payable, and other liabilities

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 offered for term deposits with similar maturities.

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Notes to the Separate 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.

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

As of December 31, 2016 and 2015, the following table analyzes financial instruments measured at fair value by the level in the fair value hierarchy:

		2016			
		Level 1	Level 2	Level 3	Total
Available for sale	¢	719,228,202,064	125,165,304,849	5,629,455,571	850,022,962,484
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	¢	813,138,012,734	203,919,187,431	5,594,435,115	1,022,651,635,280
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

The table above sets out information about financial instruments measured at fair value using a valuation method. The fair value hierarchy is as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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Notes to the Separate Financial Statements

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

(42) 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.

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Notes to the Separate Financial Statements

The Bank manages the above risks as follows:

a) Credit risk

This is the risk that the borrower or issuer of a financial asset fails to meet its contractual obligations, 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 investment securities. The exposure to credit risk on those assets is represented by the carrying amount of the assets in the separate balance sheet. The Bank also has exposure to credit risk for off-balance sheet credits, such as commitments, letters of credit, sureties, and guarantees.

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

The Bank has established the following credit risk management procedures:

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

At the 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.

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Notes to the Separate Financial Statements

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

	Note	Direct		Note	Stand-by	
		2016	2015		2016	2015
Loan portfolio						
Principal	7-a	¢ 4,116,451,436,022	3,701,502,141,960	20	309,474,308,446	271,259,141,611
Accounts and accrued interest receivable		27,223,166,313	25,154,673,605		-	-
Carrying amount, gross		4,143,674,602,335	3,726,656,815,565		309,474,308,446	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	¢	4,058,209,743,015	3,663,687,932,586		308,933,467,879	269,713,543,614
Loan portfolio						
Total balances:						
A1	¢	3,379,006,418,154	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		1,804,683,360	1,750,139,665
		4,143,674,602,335	3,726,656,815,565		309,474,308,446	271,259,141,611
Structural allowance (subledger – database)		(77,227,248,420)	(61,485,826,978)		(19,203,816)	(1,293,205,640)
Carrying amount, net	¢	4,066,447,353,915	3,665,170,988,587		309,455,104,630	269,965,935,971
		Direct			Stand-by	
		2016	2015		2016	2015
Individually assessed loans with allowance:						
A1	¢	3,379,006,418,154	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
		4,143,674,602,335	3,726,656,815,565		42,247,263,549	266,159,659,085
Structural allowance (subledger – database)		(77,227,248,420)	(61,485,826,978)		(19,203,816)	(1,293,205,640)
Carrying amount, net	¢	4,066,447,353,915	3,665,170,988,587		42,228,059,733	264,866,453,445

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

	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	¢ -	-	267,227,044,898	5,099,482,526
Carrying amount, gross	4,143,674,602,335	3,726,656,815,565	309,474,308,446	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 ¢ 4,058,209,743,015	3,663,687,932,586	308,933,467,879	269,713,543,614
Restructured loans	¢ 26,915,117,148	24,902,897,819	63,195	4,020,204

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	¢ 3,379,006,418,154	3,358,379,849,233
A2	34,871,377,144	34,759,792,251
B1	295,093,603,945	293,246,883,910
B2	9,985,360,361	9,897,147,137
C1	119,659,479,745	117,178,253,846
C2	4,690,615,409	4,430,775,441
D	115,582,103,273	108,562,478,665
E	184,785,644,304	131,754,562,532
	¢ 4,143,674,602,335	4,058,209,743,015

(Continued)

BANCO NACIONAL DE COSTA RICA

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	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
	¢ 3,726,656,815,565	3,663,687,932,586

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.

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.

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

Loan charge-off policy:

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

Borrower classification

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

The loan portfolio by borrower classification is as follows:

Borrower classification	Direct		Stand-by	
	2016	2015	2016	2015
Group 1	₡ 2,508,125,715,552	2,214,688,539,514	54,593,528,041	54,140,753,444
Group 2	1,635,548,886,783	1,511,968,276,051	254,880,780,405	217,118,388,167
	₡ 4,143,674,602,335	3,726,656,815,565	309,474,308,446	271,259,141,611

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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:

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

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.

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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.

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BANCO NACIONAL DE COSTA RICA

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Analysis of historical payment behavior

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

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

Structural allowance for loan losses

The Bank must calculate the specific allowance for each borrower's loan operations subject to allowances. Such allowance is calculated on the covered and uncovered balance of each loan operation. The allowance on the uncovered balance is equivalent to the total outstanding balance of each loan operation less the adjusted weighted value of the corresponding guarantee, multiplying the resulting amount by the allowance percentage corresponding to the risk rating of the borrower or co-borrower in the lowest risk rating. If the result of this calculation is negative or zero, the allowance is zero. If the total outstanding balance includes a stand-by principal balance, the credit equivalent should be used. 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.

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.

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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%

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

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

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

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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.

Starting January 2014 and as an exception in the case of risk rating E, the minimum specific allowance for borrowers whose historical payment behavior is classified in level 3 should be calculated as follows:

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

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

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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		
		Allowance booked	Structural allowance	Excess of allowance
Direct	¢	85,464,859,320	(77,227,248,420)	8,237,610,900
Stand-by		540,840,567	(19,203,816)	521,636,751
	¢	<u>8,6005,699,887</u>	<u>(77,246,452,236)</u>	<u>8,759,247,651</u>
		2015		
		Allowance booked	Structural allowance	Excess of allowance
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
	¢	<u>64,514,480,976</u>	<u>(62,779,032,618)</u>	<u>1,735,448,358</u>

SUGEF External Circular Letter 021-2009 dated May 30, 2009 indicates that the expense for the allowance for loan losses corresponds to the amount necessary to reach the required minimum allowance. Furthermore, there must be duly documented technical justification for any excess above the minimum required allowance, which is to be sent to SUGEF with the authorization request. The excess may not surpass 15% of the minimum required allowance for the loan portfolio. This notwithstanding, if any additional allowances are required above 15%, they must be taken from net earnings for the period pursuant to article 10 of IRNBS.

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 ¢89,398,051,250 (2015: ¢70,376,889,771).

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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 month-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).

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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		144,671,667,415	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	201,362,269	222,062,352
	¢	<u>4,143,674,602,335</u>	<u>3,726,656,815,565</u>	<u>309,474,308,446</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>4,143,674,602,335</u>	<u>3,726,656,815,565</u>	<u>309,474,308,446</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		592,835,059,651	483,806,443,121	309,172,910,336	270,810,333,529
	¢	<u>4,143,674,602,335</u>	<u>3,726,656,815,565</u>	<u>309,474,308,446</u>	<u>271,259,141,611</u>

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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 or economic interest group 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	1,817,419,985,502	1,603,921,326,561	33,928,158,005	35,324,643,172
	¢ <u>4,143,674,602,335</u>	<u>3,726,656,815,565</u>	<u>309,474,308,446</u>	<u>271,259,141,611</u>

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,

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).

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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.

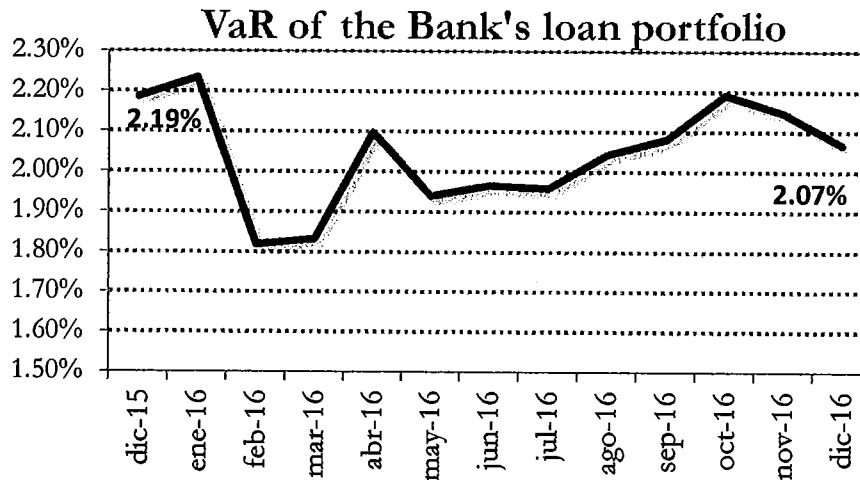
By currency, the VaR of the portfolios in DU and in U.S. dollars increased due to the increase in arrears of more than 90 days and in colones due to the decrease of loans more than 30 days past due.

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate 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

Notes to the Separate Financial Statements

b) Liquidity risk

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

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 ICL 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.

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

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

		Days							Total
		Past due	Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	
Cash and due from banks	¢	-	54,225,040,132	-	-	-	-	-	54,225,040,132
Minimum legal deposit in BCCR	-	-	269,030,756,095	24,889,860,801	27,831,268,268	22,814,602,264	51,681,513,817	31,232,422,636	436,123,207,327
Investments	-	-	-	48,782,684,383	6,123,273,539	95,654,353,599	16,829,802,255	85,017,062,357	446,396,880,552
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	2,610,595,686,048
Total recovery of assets	¢	116,170,017,460	323,255,796,227	118,831,984,465	69,528,657,980	165,252,065,211	161,119,097,354	230,181,044,975	3,547,340,814,059
Obligations with the public	¢	-	1,786,844,782,555	194,237,994,264	155,452,415,543	129,800,193,032	322,316,860,180	254,975,566,075	2,904,244,174,505
Obligations with BCCR	-	-	-	-	-	-	-	125,644,412	125,644,412
Obligations with financial entities	-	-	97,674,940,416	53,210,196	98,359,644	18,000,000	498,582,837	952,617,295	107,044,701,632
Charges payable	-	-	7,287,448,490	4,279,745,998	2,945,263,625	1,192,522,676	1,616,146,244	456,099,091	17,885,878,197
Total maturity of liabilities	¢	-	1,891,807,171,461	198,570,950,458	158,496,038,812	131,010,715,708	324,431,589,261	256,384,282,461	3,029,300,398,746
Difference	¢	116,170,017,460	(1,568,551,375,234)	(79,738,965,993)	(88,967,380,832)	34,241,349,503	(163,312,491,907)	(26,203,237,486)	518,040,415,313

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

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

		Days							Total
		Past due	Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	
Cash and due from banks	¢	-	80,243,350,710	-	-	-	-	-	80,243,350,710
Minimum legal deposit in BCCR	-	-	274,020,938,752	23,241,036,224	26,138,188,851	16,956,621,334	47,384,005,071	31,965,585,591	430,132,085,225
Investments	-	-	-	74,361,728,632	2,265,464,686	34,624,627,094	55,331,296,013	144,568,734,391	544,880,814,158
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	2,273,151,346,712
Total recovery of assets	¢	121,010,298,395	354,264,289,462	132,209,947,674	62,323,192,697	98,061,709,861	173,392,531,949	267,885,588,962	3,328,407,596,805
Obligations with the public	¢	-	1,707,420,703,907	187,049,709,046	115,726,879,344	135,834,864,955	293,812,975,854	233,179,351,373	2,740,318,910,223
Obligations with BCCR	-	-	-	-	-	-	-	-	125,644,412
Obligations with financial entities	-	-	79,001,888,270	8,329,000,000	2,081,708,305	7,688,645,650	5,348,756,008	6,337,970,548	112,118,862,735
Charges payable	-	-	7,467,782,785	4,296,081,305	2,975,484,256	887,129,986	2,070,935,071	473,851,605	18,283,738,579
Total maturity of liabilities	¢	-	1,793,890,374,962	199,674,790,351	120,784,071,905	144,410,640,591	301,232,666,933	239,991,173,526	2,870,847,155,949
Difference	¢	121,010,298,395	(1,439,626,085,500)	(67,464,842,677)	(58,460,879,208)	(46,348,930,730)	(127,840,134,984)	27,894,415,436	2,048,396,600,124
									457,560,440,856

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate 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:

	Days								Total
	Past due	Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	More than 365	
Cash and due from banks	¢ -	192,015,932,008	-	-	-	-	-	-	192,015,932,008
Minimum legal deposit in BCCR	-	152,954,330,851	10,299,210,214	12,461,736,132	6,170,924,617	20,725,007,141	5,895,404,578	43,779,004,169	252,285,617,702
Investments	-	-	18,225,291,779	7,688,361,496	2,181,240,935	77,409,225,718	151,461,231,846	189,769,239,391	446,734,591,165
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	344,970,262,859	56,610,824,345	41,551,327,662	27,928,611,887	170,817,836,219	221,631,509,006	1,491,314,582,882	2,424,115,057,162
Obligations with the public	¢ -	819,962,286,026	92,593,694,235	43,006,355,083	40,553,367,903	144,543,692,263	72,880,372,523	34,514,700,331	1,248,054,468,364
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	915,516,489,588	1,102,933,281,033
Charges payable	-	1,410,480,672	954,886,397	1,638,386,486	226,607,212	9,001,341,528	314,005,543	185,339,428	13,731,047,266
Total maturity of liabilities	¢ -	941,536,807,477	94,403,741,432	44,652,251,635	40,796,420,515	161,784,179,191	131,328,867,066	950,216,529,347	2,364,718,796,663
Difference	¢ 69,290,102,302	(596,566,544,618)	(37,792,917,087)	(3,100,923,973)	(12,867,808,628)	9,033,657,028	90,302,641,940	541,098,053,535	59,396,260,499

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

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:

		Days							Total
		Past due	Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	
Cash and due from banks	¢	-	124,547,406,712	-	-	-	-	-	124,547,406,712
Minimum legal deposit in BCCR		-	141,654,501,484	15,116,277,868	11,369,586,642	8,655,025,343	18,758,326,054	14,612,535,193	210,166,252,584
Investments		-	-	19,739,971,592	53,754,943,081	33,487,124,664	92,792,697,342	95,311,027,269	527,091,085,701
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	1,453,505,468,853
Total recovery of assets	¢	69,913,079,478	266,201,908,196	68,005,042,566	93,256,149,957	76,634,000,141	184,569,890,861	169,138,937,523	2,315,310,213,850
Obligations with the public	¢	-	768,639,665,080	77,255,681,614	54,736,320,959	40,443,356,703	151,578,721,847	68,124,180,758	1,173,029,600,959
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	684,796,084,584
Charges payable		-	772,852,890	629,624,109	1,594,803,517	162,671,485	5,649,097,034	229,986,489	21,542,205
Total maturity of liabilities	¢	-	964,664,237,672	91,721,065,123	103,699,317,596	40,887,956,388	210,432,457,681	153,386,638,037	697,069,300,787
Difference	¢	69,913,079,478	(698,462,329,476)	(23,716,022,557)	(10,443,167,639)	35,746,043,753	(25,862,566,820)	15,752,299,486	690,521,904,341
									53,449,240,566

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

c) Market risks

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	-

• Market risk of investments

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

- Interest rate risk

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate 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):

		Demand	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	¢	-	48,782,684,591	101,777,627,146	16,829,802,253	75,956,634,187	138,587,171,160	37,281,676,704	419,215,596,041
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)	¢	-	200,707,972,141	171,195,957,304	94,675,571,836	179,942,333,566	315,858,363,098	1,965,675,657,626	2,928,055,855,571
Obligations with the public	¢	-	199,116,839,462	288,675,875,896	323,978,413,537	255,259,599,514	50,516,603,627	12,405,715,871	1,129,953,047,907
Obligations with BCCR	¢	-	-	-	-	-	-	125,644,412	125,644,412
Obligations with financial entities	¢	-	233,284,503	186,942,968	282,919,617	437,488,536	647,271,846	6,470,621,117	8,258,528,587
Total maturity of rate-sensitive liabilities LC (B)	¢	-	199,350,123,965	288,862,818,864	324,261,333,154	255,697,088,050	51,163,875,473	19,001,981,400	1,138,337,220,906
LC difference, recovery of assets less maturity of liabilities (A - B)	¢	-	1,357,848,176	(117,666,861,560)	(229,585,761,318)	(75,754,754,484)	264,694,487,625	1,946,673,676,226	1,789,718,634,665
<i>Foreign currency (FC)</i>									
Investments	¢	-	18,225,291,940	9,869,605,239	77,122,591,690	151,026,799,586	84,596,636,377	100,000,501,279	440,841,426,111
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)	¢	-	66,235,907,474	43,006,562,924	143,414,763,204	213,749,858,412	188,700,660,256	1,271,674,988,048	1,926,782,740,318
Obligations with the public	¢	-	94,662,297,604	84,443,060,915	157,944,728,854	72,376,065,490	13,895,928,098	829,205,488,048	1,252,527,569,009
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)	¢	-	96,114,301,170	85,505,159,665	163,227,313,691	133,615,580,583	19,660,690,013	916,631,898,477	1,414,754,943,599
FC difference, recovery of assets less maturity of liabilities (C - D)	¢	-	(29,878,393,696)	(42,498,596,741)	(19,812,550,487)	80,134,277,829	169,039,970,243	355,043,089,571	512,027,796,719
Total recovery of rate-sensitive assets 1/ (A + C)	¢	-	266,943,879,615	214,202,520,228	238,090,335,040	393,692,191,978	504,559,023,354	3,237,350,645,674	4,854,838,595,889
Total recovery of rate-sensitive liabilities 2/ (B + D)	¢	-	295,464,425,135	374,367,978,529	487,488,646,845	389,312,668,633	70,824,565,486	935,633,879,877	2,553,092,164,505
LC + FC difference, recovery of assets less maturity of liabilities (item 1 - item 2)	¢	-	(28,520,545,520)	(160,165,458,301)	(249,398,311,805)	4,379,523,345	433,734,457,868	2,301,716,765,797	2,301,746,431,384

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BANCO NACIONAL DE COSTA RICA

Notes to the Separate 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):

		Demand	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	¢	-	74,349,946,312	36,801,973,439	55,166,409,118	144,566,207,601	151,289,201,811	55,409,322,496	517,583,060,777
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)	¢	-	209,856,862,897	106,671,902,995	117,772,669,092	234,258,942,998	301,572,733,716	1,710,778,701,995	2,680,911,813,693
Obligations with the public	¢	-	200,857,543,276	264,365,693,022	300,225,214,035	240,092,040,537	53,010,821,774	16,289,339,414	1,074,840,652,058
Obligations with BCCR	¢	-	-	-	-	-	-	125,644,412	125,644,412
Obligations with financial entities	¢	-	356,330,022	102,613,896	156,043,789	364,895,417	423,855,441	2,205,396,083	3,609,134,648
Total maturity of rate-sensitive liabilities LC (B)	¢	-	201,213,873,298	264,468,306,918	300,381,257,824	240,456,935,954	53,434,677,215	18,620,379,909	1,078,575,431,118
LC difference, recovery of assets less maturity of liabilities (A - B)	¢	-	8,642,989,599	(157,796,403,923)	(182,608,588,732)	(6,197,992,956)	248,138,056,501	1,692,158,322,086	1,602,336,382,575
<i>Foreign currency (FC)</i>									
Investments	¢	-	19,739,971,734	87,242,068,377	92,225,516,243	94,455,608,599	152,740,462,820	67,851,739,933	514,255,367,706
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)	¢	-	68,581,333,070	144,070,568,960	159,508,523,154	150,220,484,465	255,619,855,775	1,141,450,103,943	1,919,450,869,367
Obligations with the public	¢	-	86,566,223,297	103,687,558,826	156,830,886,487	68,586,421,743	11,520,047,193	540,441,220,251	967,632,357,797
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)	¢	-	93,716,909,676	144,348,205,519	214,017,017,439	152,654,691,913	71,818,130,963	621,092,123,847	1,297,647,079,357
FC difference, recovery of assets less maturity of liabilities (C - D)	¢	-	(25,135,576,606)	(277,636,559)	(54,508,494,285)	(2,434,207,448)	183,801,724,812	520,357,980,096	621,803,790,010
Total recovery of rate-sensitive assets 1/ (A + C)	¢	-	278,438,195,967	250,742,471,955	277,281,192,246	384,479,427,463	557,192,589,491	2,852,228,805,938	4,600,362,683,060
Total recovery of rate-sensitive liabilities 2/ (B + D)	¢	-	294,930,782,974	408,816,512,437	514,398,275,263	393,111,627,867	125,252,808,178	639,712,503,756	2,376,222,510,475
LC + FC difference, recovery of assets less maturity of liabilities (item 1 - item 2)	¢	-	(16,492,587,007)	(158,074,040,482)	(237,117,083,017)	(8,632,200,404)	431,939,781,313	2,212,516,302,182	2,224,140,172,585

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

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

- 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. Additionally, the Bank calculates the SUGEF currency risk indicator on a monthly basis.

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 separate income statement.

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

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\$	786,681,319	604,912,387
Investments in financial instruments		784,750,751	948,774,118
Loan portfolio		2,742,960,429	2,695,383,624
Accounts and accrued interest receivable		509,309	456,573
Investments in other companies		104,236,891	100,591,147
Other assets		6,568,982	6,518,432
	US\$	4,425,707,681	4,356,636,281
<u>Liabilities:</u>			
Obligations with the public	US\$	2,215,362,369	2,149,267,778
Obligations with entities		2,028,061,132	2,040,901,933
Subordinated obligations		132,576,487	132,246,843
Accounts payable and provisions		31,942,238	9,374,930
Other liabilities		36,575,840	22,798,132
Total liabilities	US\$	4,444,518,066	4,354,589,616
(Deficit) Excess of assets over liabilities in U.S. dollars	US\$	(18,810,385)	2,046,665
		Euros	
		2016	2015
<u>Assets:</u>			
Cash and due from banks	€	22,787,076	22,240,002
Investments in financial instruments		28,775,701	38,410,309
	€	51,562,777	60,650,311
<u>Liabilities:</u>			
Obligations with the public	€	50,131,850	55,172,059
Obligations with entities		1,103,297	1,460,620
Accounts payable and provisions		131,176	7,033
Other liabilities		509,588	526,664
	€	51,875,911	57,166,376
(Deficit) Excess of assets over liabilities in euros	€	(313,134)	3,483,935

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

		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
Total assets	DU	57,774,544	66,480,478
<u>Liabilities:</u>			
Accounts payable and provisions		818,804	893,511
Other liabilities		4,486	6,686
Total liabilities	DU	823,290	900,197
Excess of assets over liabilities in DU	DU	56,951,254	65,580,281

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	¢ 117,488,320,893	109,297,896,629
Foreign exchange loss	119,115,020,662	109,767,300,545
Net (loss) gain	¢ (1,626,699,769)	(469,403,916)

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 (note 30)	¢ 371,907,290	354,466,349
Loss on net valuation of other liabilities (note 33)	(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.

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

d) Operational risk

Operational risk is the risk of economic losses resulting from failures or weaknesses in internal processes, persons, internal systems and technology, as well as unforeseen events. This definition includes information technology risk and legal risk, but excludes strategic, business, or reputational risks. In addition, the existing methodologies incorporate the criteria and best practices regarding the taxonomy and classification of operational risks established as recommendations and best practices by the Basel Committee.

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

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

- Business areas with the primary functions of execution and supervision.
- Support areas that have functions including surveillance, internal guideline generation, monitoring and control of key indicators, and regulatory compliance.
- Independent audits, both internal and external, that perform control testing and validation in conformity with that set forth by upper 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, in conformity with SUGEF agreement 18-16, Regulations on operating risk management, are part of the scope of this risk.

(Continued)

BANCO NACIONAL DE COSTA RICA

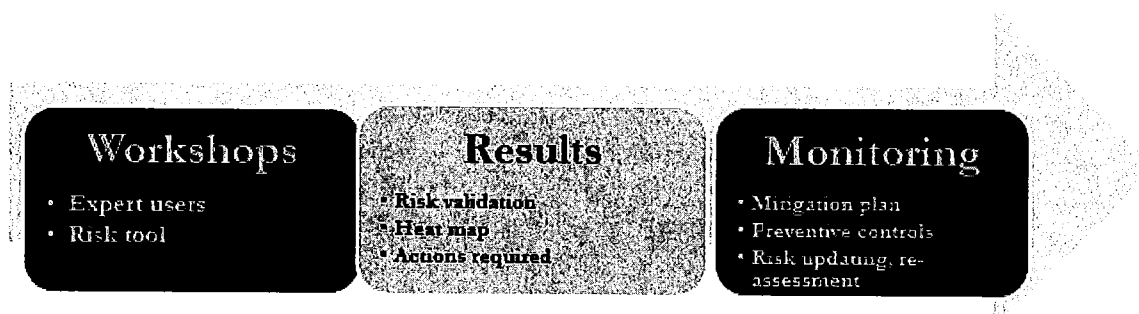
Notes to the Separate Financial Statements

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

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

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

Operational risk management is the assessment 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.

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

(Continued)

BANCO NACIONAL DE COSTA RICA

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For legal risk, the Bank applies a model that enables aligning the management of such risk with compliance of generally accepted accounting policies, as well as 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.

Capital management:

Regulatory capital

The Bank's capital must always comply with the capital adequacy indicators established by SUGEF, which require that banks maintain a Capital Adequacy Ratio (CAR) of at least 10%. That ratio is calculated by dividing the Bank's base capital by total risk-weighted exposures.

Management periodically monitors these requirements and reports to the Board of Directors on compliance. As of December 31, 2016 and 2015, the Bank is above the minimum level required by applicable regulations.

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As of December 31, the Bank's Tier I and Tier II capital (regulatory capital) is as follows:

	2016	2015
<u>Tier I capital:</u>		
Ordinary paid-in capital	¢ 118,130,303,482	118,130,303,482
Legal reserve	274,614,308,392	247,784,553,250
	<u>392,744,611,874</u>	<u>365,914,856,732</u>
<u>Tier II capital:</u>		
Adjustment for revaluation of property and equipment	45,605,064,328	47,679,696,979
Adjustment for valuation of available-for-sale investments	159,197,995	3,303,224,869
Adjustment for valuation of restricted financial instruments	(1,617,218,764)	(435,415,249)
Adjustment for valuation of investments in other companies	8,084,303,314	7,084,626,651
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 FOFIDE	21,749,819,320	18,144,863,035
	<u>181,106,800,076</u>	<u>157,014,491,361</u>
Less: Deductions	<u>(89,781,830,229)</u>	<u>(85,284,978,077)</u>
Regulatory capital	¢ <u>484,069,581,721</u>	<u>437,644,370,016</u>

The Bank's capital, including the capital of its statutorily-created departments, may be increased by law or by capitalization of earnings. In the latter case, the capitalization must be approved by the Board of Directors of BCCR based on an opinion issued by SUGEF.

Financial entities regulated by SUGEF may increase their capital by amending their articles of incorporation and paying such increases in full. Such entities may also decrease their capital, provided that it remains above the minimum required by law.

In accordance with article 135 of the Internal Regulations of BCCR, CONASSIF will establish limits for credit operations, whether direct or stand-by, that financial entities regulated by SUGEF may enter into with individuals or legal entities under the modalities offered by regulated entities.

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BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

The maximum limit will be equivalent to twenty percent (20%) of the entity's subscribed and paid-in capital and its non-redeemable capital reserves. Regulated entities may internally define their own limits, provided that such limits adhere to the above parameters and do not exceed the maximum limits established by CONASSIF.

IAS 1 was amended as of January 1, 2007 in order to comply with the disclosure of objectives, policies, and procedures for managing capital and of quantitative information. The Bank and its subsidiaries adhere to SUGEF's Chart of Accounts, articles 10, 11, and 12 of IRNBS, Decision AGB 8-86, "Regulations for Authorizing the Organization, Opening, and Operation of Private Banks", and SUGEF Circular Letter 043-2005.

The Bank's own contributions to share capital and amounts capitalized from other equity accounts are recognized in share capital (account No. 310) in accordance with article 11 of IRNBS. Debits and credits applied against that account must be generated by operations that comply with all legal requirements for modifying the entity's capital and that have been approved by BCCR or CONASSIF, as appropriate.

Article 11 of the aforementioned regulations establishes that banks must use the calendar year as their financial year and that gains and losses at the close of the last business day of each half of the year must be liquidated. Such liquidations must be reported to SUGEF.

The main purpose of capital management is to maintain an appropriate CAR that is above the current minimum level of 10% established in SUGEF Directive 3-06 "Regulations on Capital Adequacy of Financial Entities".

Internally, as a prudential measure to protect capital, the General Board of Directors adopted a policy establishing a floor of 10.50%, which exceeds the regulation's requirements by 50 basis points. At the administrative level, in 2007 the floor and ceiling were set at 11.50% and 13.50%, respectively, to assess the actions of those with direct responsibility for monitoring the performance of the Bank's CAR for purposes of efficient capital management.

As part of the Bank's approach to capital management, the Bank's CAR is monitored monthly and reported to the General Board of Directors in a detailed financial report that covers all main items of interest: balance sheet, profit or loss for the period, CAMELS indicators, budget execution, and capital adequacy.

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

As of December 31, 2016 and 2015, the Bank's CAR is above the minimum level required by applicable regulations, which indicates that capital levels are above the minimum required by laws and regulations.

Moreover, in applying Law No. 8627 published in the Official Gazette on December 23, 2008, effective immediately, the Government of Costa Rica capitalized State-owned banks. As part of that capitalization, the Bank received Central Bank bonds in DU for a total of DU42,165,060, equivalent to ₡27,618,957,837, which was credited against the "Paid-in capital" account (account No. 311) (see note 21).

(43) Contingencies

As of December 31, the Bank is a defendant and a claimant in lawsuits, as follows:

Number of cases as defendant		Phase	Total estimated amount	
2016	2015		2016	2015
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
1	0	Administrative proceedings	38,458,424,266	-
274	237	(note 22)	₡ 296,588,055,556	235,016,875,208

Number of cases as claimant		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	0	Appeal	4,624,706,759	-
562	135		₡ 997,521,302,192	707,668,143,041

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.

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BANCO NACIONAL DE COSTA RICA

Notes to the Separate 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.

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BANCO NACIONAL DE COSTA RICA

Notes to the Separate 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 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.

(44) 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)”.

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BANCO NACIONAL DE COSTA RICA

Notes to the Separate 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".

b) Dividends paid to the Bank

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

In article No. 2 of meeting No. 12,122 held on November 21, 2016, the Board of Directors authorized the distribution of dividends from retained earnings in the amount of ₡826,027,662.

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BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

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.

(45) 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.

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

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

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

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

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

a) IAS 1: Presentation of Financial Statements

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

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

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

b) IAS 7: Statement of Cash Flows

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

c) IAS 12: Income Taxes

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

d) IAS 16: Property, Plant and Equipment

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

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

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

e) IAS 18: Revenue

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

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Notes to the Separate Financial Statements

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

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

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

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.

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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

Notes to the Separate 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. 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.

(Continued)

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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:

1. The option of classifying loans and receivables as available for sale was established.
2. Securities quoted in an active market may be classified as available for sale, held for trading, or held to maturity.
3. 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).
4. The category of loans and receivables was expanded to include purchased loans and receivables that are not quoted in an active market.

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

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

a) Pooled portfolios

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

b) Own investments of regulated entities

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

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

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

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

The above classifications do not necessarily adhere to IAS 39.

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

n) IAS 40: Investment Property

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

o) Revised IFRS 3: Business Combinations

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

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

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

q) IFRS 9: Financial Instruments

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

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Notes to the Separate 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.

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Notes to the Separate Financial Statements

v) IFRS 14: Regulatory Deferral Accounts

This Standard was approved by the Board 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 by the Board 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, 2017. Early application is permitted. This Standard has not been adopted by the Board.

x) 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.

y) 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.

(46) 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.