

BANCO NACIONAL DE COSTA RICA

Financial Information Required by the
Superintendency General of Financial Entities
Separate Financial Statements

December 31, 2017

(With corresponding figures for 2016)

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



KPMG, S. A.
KPMG Building
San Rafael de Escazú
Costa Rica
+506 2201 4100

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, 2017, 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, 2017, and 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. As a result, the separate financial statements may not be suitable for another purpose. Our opinion has not been modified in this regard.

Key Audit Matters

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

Key Audit Matter	Auditor's Response
1. Valuation of derivative financial instruments	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> • Our specialists assessed the methodologies, inputs, and assumptions used by the Bank in the fair value determination; • We questioned the observable inputs in the valuation models, i.e. quoted prices; and • For a sample of derivative instruments, we assessed that the Bank's valuations fall within a reasonable range, compared to the valuations derived from our valuation model, considering the inherent uncertainties disclosed in the financial statements.
2. Income tax notice of deficiency	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> • We analyzed the confirmations received from the tax advisors regarding the status and probability of success. • We reviewed management's analysis, including judgments, estimates, and conclusions reached, for each of the concepts included in the notices of deficiency and observations. • Our tax specialists reviewed each of the items in dispute.

Key Audit Matter	Auditor's Response
<p>3. Provisions</p> <p>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>	<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.



- 5 -

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 23, 2018

San José, Costa Rica
Erick Brenes Flores
Member No. 2520
Policy No. 0116 FIG 7
Expires 9/30/2018

KPMG



€1,000 tax stamp paid pursuant to Law No. 6663
and affixed to the original document



BANCO NACIONAL DE COSTA RICA
SEPARATE BALANCE SHEET
AS OF DECEMBER 31, 2017
(With corresponding figures for 2016)
(In colones)

ASSETS	Note	2017	2016
Cash and due from banks	4	1,277,462,115,311	934,649,797,171
Cash		67,730,408,897	56,187,673,566
Demand deposits in BCCR		856,892,961,788	688,408,825,029
Demand deposits in local financial entities		12,592,798,278	5,477,036,191
Demand deposits in foreign financial entities		321,399,272,857	178,136,716,836
Other cash and due from banks		18,846,673,491	6,439,449,875
Accrued interest receivable		-	95,674
Investments in financial instruments	5	1,032,533,580,919	893,072,038,041
Available-for-sale		997,259,212,014	850,022,962,484
Held-to-maturity		18,562,535,348	27,181,284,510
Derivative financial instruments	6	6,321,903,607	5,893,164,907
Accrued interest receivable		10,463,404,146	10,034,059,816
(Allowance for impairment of investments in financial instruments)		(73,474,196)	(59,433,676)
Loan portfolio	7	4,384,681,312,469	4,058,209,743,015
Current		4,261,225,313,188	3,923,065,546,472
Past due		131,836,522,732	105,532,644,255
In legal collection		100,044,384,206	87,853,245,295
Accrued interest receivable		31,743,485,704	27,223,166,313
(Allowance for loan losses)		(140,168,393,361)	(85,464,859,320)
Accounts and fees and commissions receivable	8	606,391,517	828,306,210
Fees and commissions receivable		169,681,180	126,378,316
Accounts receivable for transactions with related parties		26,593,557	18,524,503
Income tax receivable		134,516,249	140,319,872
Other receivables		3,807,538,777	3,933,633,959
Accrued interest receivable		1,724,156	1,800,923
(Allowance for impairment of accounts and fees and commissions receivable)		(3,533,662,402)	(3,392,351,363)
Foreclosed assets	9	18,784,905,854	17,751,098,959
Assets and securities acquired in lieu of payment		81,249,127,569	77,394,578,153
Other foreclosed assets		1,832,418	1,471,878
(Allowance for impairment of foreclosed assets and per legal requirements)		(62,466,054,133)	(59,644,951,072)
Investments in other companies	10	93,954,215,527	89,781,830,229
Property and equipment, net	11	178,876,193,757	175,963,244,578
Other assets	12	47,078,879,186	37,921,909,641
Deferred charges		8,855,801,593	11,842,514,323
Intangible assets		6,678,802,730	4,995,212,693
Other assets		31,544,274,863	21,084,182,625
TOTAL ASSETS		7,033,977,594,540	6,208,177,967,844

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

Continúa...

BANCO NACIONAL DE COSTA RICA
SEPARATE BALANCE SHEET
AS OF DECEMBER 31, 2017
(With corresponding figures for 2016)
(In colones)

LIABILITIES AND EQUITY	Note	2017	2016
LIABILITIES			
Obligations with the public	13	4,831,290,315,009	4,165,156,725,291
Demand obligations		2,723,524,433,301	2,606,807,068,581
Term obligations		2,071,922,423,304	1,536,293,998,838
Finance charges payable		35,843,458,404	22,055,657,872
Obligations with BCCR	14	125,644,412	125,644,412
Term obligations		125,644,412	125,644,412
Obligations with entities	15	1,311,009,191,006	1,219,539,250,255
Demand obligations		208,155,264,672	217,838,981,195
Term obligations		1,093,084,927,602	992,139,001,470
Finance charges payable		9,768,998,732	9,561,267,590
Accounts payable and provisions		93,638,596,234	114,805,824,473
Deferred tax	16-b	9,451,493,556	10,795,200,005
Provisions	17	20,659,785,456	25,246,621,581
Other sundry accounts payable	18	63,527,317,222	78,764,002,887
Other liabilities	19	98,542,307,102	46,777,896,327
Deferred income		32,055,196,858	24,745,614,291
Allowance for stand-by credit losses		265,681,489	540,840,567
Other liabilities		66,221,428,755	21,491,441,469
Subordinated obligations	20	75,136,063,242	72,675,778,397
Subordinated obligations		73,634,600,000	71,263,400,000
Finance charges payable		1,501,463,242	1,412,378,397
TOTAL LIABILITIES		6,409,742,117,005	5,619,081,119,155
EQUITY			
Share capital		172,237,030,102	118,130,303,482
Paid-in capital	21-a	172,237,030,102	118,130,303,482
Equity adjustments		68,259,558,421	67,476,783,612
Surplus from revaluation of property	21-b	61,425,174,760	60,806,752,437
Adjustment for valuation of available-for-sale investments	21-c	(1,998,318,958)	159,197,995
Adjustment for valuation of restricted financial instruments	21-c	(306,670,697)	(1,617,218,764)
Surplus from revaluation of other assets		43,748,630	43,748,630
Adjustment for valuation of investments in other companies	21-d	9,095,624,686	8,084,303,314
Equity reserves	21-e	311,121,806,369	274,614,308,392
Prior period retained earnings		12,741,841,466	54,106,726,619
Income for the year		32,763,283,164	53,018,907,264
Equity of the Development Financing Fund	21-f	27,111,958,013	21,749,819,320
TOTAL EQUITY		624,235,477,535	589,096,848,689
TOTAL LIABILITIES AND EQUITY		7,033,977,594,540	6,208,177,967,844
DEBIT MEMORANDA ACCOUNTS	22	657,166,271,363	606,880,388,509
TRUST ASSETS	23	1,637,626,670,096	1,393,870,987,459
TRUST LIABILITIES		122,035,092,750	51,558,117,672
TRUST EQUITY		1,515,591,577,346	1,342,312,869,787
TRUST MEMORANDA ACCOUNTS		48,139,163,742	25,632,998,742
OTHER DEBIT MEMORANDA ACCOUNTS	24	17,983,845,225,595	17,119,227,249,788
Own debit memoranda accounts		7,051,133,434,491	7,267,848,798,638
Third-party debit memoranda accounts		830,355,188,266	762,122,776,614
Own debit memoranda accounts for custodial activities		319,056,166,408	169,779,166,913
Third-party debit memoranda accounts for custodial activities		9,783,300,436,430	8,919,476,507,623

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, 2017
(With corresponding figures for 2016)
(In colones)

	Note	2017	2016
Finance income			
Cash and due from banks	25	2,917,621,830	628,899,923
Investments in financial instruments	25	46,386,734,725	43,144,573,759
Loan portfolio	26	403,941,507,525	351,658,019,112
Gain on available-for-sale financial instruments		929,417,641	761,146,332
Gain on derivative financial instruments, net	6	5,358,047,633	-
Other finance income	27	21,529,123,297	47,396,113,700
Total finance income		<u>481,062,452,651</u>	<u>443,588,752,826</u>
Finance costs			
Obligations with the public	28	149,322,742,402	105,666,127,941
Obligations with BCCR		525,157,625	-
Obligations with financial entities	29	68,637,591,138	57,340,740,320
Subordinated, convertible, and preferred obligations		4,533,029,823	4,075,879,448
Loss on foreign exchange differences and development units, net	42-c	922,012,444	1,626,699,769
Loss on available-for-sale financial instruments		219,010,423	71,216,348
Loss on derivative financial instruments, net	6	-	9,473,071,759
Other finance costs	30	14,963,049,708	28,339,202,992
Total finance costs		<u>239,122,593,563</u>	<u>206,592,938,577</u>
Allowance for impairment of assets	31	71,531,245,221	39,297,902,715
Recovery of assets and decrease in allowances	32	13,161,810,394	13,098,376,497
FINANCE INCOME		<u>183,570,424,261</u>	<u>210,796,288,031</u>
Other operating income			
Service fees and commissions	33	111,691,674,240	101,990,044,135
Foreclosed assets		4,173,235,947	8,653,833,259
Gain on investments in other foreign companies	3	2,615,822,520	1,690,868,660
Gain on investments in SUGEVAL-regulated entities	3	3,518,479,302	4,038,378,067
Gain on investments in SUPEN-regulated entities	3	726,185,039	1,172,980,254
Gain on investments in SUGESE-regulated entities	3	2,260,896,828	1,376,131,468
Foreign currency exchange and arbitrage		23,725,946,569	24,144,152,464
Other income - related parties		371,442,545	250,098,527
Other operating income	34	9,881,966,413	21,744,485,566
Total other operating income		<u>158,965,649,403</u>	<u>165,060,972,400</u>

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

Continued...

BANCO NACIONAL DE COSTA RICA
SEPARATE STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2017
(With corresponding figures for 2016)
(In colones)

	Note	2017	2016
Other operating expenses			
Service fees and commissions		3,805,214,322	4,966,901,889
Foreclosed assets	35	21,447,997,288	22,170,699,085
Sundry assets		37,083,882	1,258,790,381
Provisions	36	9,531,744,092	24,159,553,674
Foreign currency exchange and arbitrage		924,837	5,806,889
Other expenses - related parties		358,530,258	339,864,101
Other operating expenses	37	71,707,621,217	60,423,575,464
Amortization of deferred direct costs related to credits		737,233,459	426,736,284
Total other operating expenses		107,626,349,355	113,751,927,767
GROSS OPERATING INCOME		234,909,724,309	262,105,332,664
Administrative expenses			
Personnel expenses	38	119,573,313,610	122,975,147,348
Other administrative expenses	39	67,612,059,619	62,944,561,488
Total administrative expenses		187,185,373,229	185,919,708,836
NET OPERATING INCOME BEFORE TAXES			
AND STATUTORY ALLOCATIONS			
Income tax	16-a	47,724,351,080	76,185,623,828
Decrease in income tax for the year	16-a	4,110,475,565	10,170,950,461
Deferred tax income	16-a	1,356,106,263	1,478,222,343
Statutory allocations	40	353,343,229	1,197,379,657
Decrease in statutory allocations	40	12,661,154,904	15,671,368,103
		101,113,061	-
INCOME FOR THE YEAR		32,763,283,164	53,018,907,264
OTHER COMPREHENSIVE INCOME, NET OF TAX			
Surplus from revaluation of property		2,210,993,196	537,766,102
Adjustment for valuation of available-for-sale investments, net of income tax		(2,157,516,952)	(3,144,026,874)
Adjustment for valuation of restricted financial instruments, net of income tax		1,310,548,066	(1,181,803,515)
Surplus from revaluation of other assets		-	(25,930,157)
Adjustment for valuation of investments in other companies		1,011,321,372	999,676,663
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		2,375,345,682	(2,814,317,781)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		35,138,628,846	50,204,589,483

Juan Carlos Cortales 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, 2017
(With corresponding figures for 2016)
(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, 2016	118,130,303,482	63,572,929,305	2,867,809,620	69,678,787	7,084,626,651	73,595,044,363	247,784,553,250	81,237,495,076	18,144,863,035	538,892,259,206
Transactions with owners 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	5	-	(3,144,026,874)	-	-	(3,144,026,874)	-	-	-	(3,144,026,874)
Adjustment for valuation of restricted financial instruments, net of income tax	5	-	(1,181,803,515)	-	-	(1,181,803,515)	-	-	-	(1,181,803,515)
Adjustment for valuation of investments in other companies	-	-	-	-	999,676,663	999,676,663	-	-	-	999,676,663
Surplus from revaluation of property	-	537,766,102	-	-	-	537,766,102	-	-	-	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	-	(3,303,942,970)	-	-	-	(3,303,942,970)	-	3,303,942,970	-	-
Balance at December 31, 2016	-	(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
	21	118,130,303,482	60,806,752,437	(1,458,020,769)	43,748,630	8,084,303,314	67,476,783,612	107,125,633,883	21,749,819,320	589,096,848,689
directly in equity:										
Legal reserves	-	-	-	-	-	-	33,747,788,494	(33,747,788,494)	-	-
Other statutory reserves	-	-	-	-	-	-	2,759,709,483	(2,759,709,483)	-	-
Capitalization of retained earnings for capital increase	-	-	-	-	-	-	-	(54,106,726,620)	-	-
Equity of the Development Financing Fund	54,106,726,620	-	-	-	-	-	-	(5,362,138,693)	5,362,138,693	-
Total transactions with owners of the Bank booked directly in equity	-	-	-	-	-	-	-	(5,362,138,693)	5,362,138,693	-
Comprehensive income for the year:										
Income for the year	-	-	-	-	-	-	-	32,763,283,164	-	32,763,283,164
Adjustment for valuation of available-for-sale investments, net of income tax	5	-	(2,157,516,952)	-	-	(2,157,516,952)	-	-	-	(2,157,516,952)
Adjustment for valuation of restricted financial instruments, net of income tax	5	-	1,310,548,066	-	-	1,310,548,066	-	-	-	1,310,548,066
Adjustment for revaluation of investments in other companies	-	-	-	-	1,011,321,372	1,011,321,372	-	-	-	1,011,321,372
Surplus from revaluation of property	-	2,210,993,196	-	-	-	2,210,993,196	-	-	-	2,210,993,196
Total comprehensive income for the year	-	(1,592,570,873)	-	-	-	(1,592,570,873)	-	1,592,570,873	-	-
Balance at December 31, 2017	-	618,422,323	(846,968,886)	-	1,011,321,372	782,774,809	-	34,355,854,037	-	35,138,628,846
Total resultado integral del año	-	-	-	-	-	-	-	-	-	-
Saldos al 31 de diciembre de 2017	21	172,237,030,102	61,425,174,760	(2,304,989,655)	43,748,630	9,095,624,686	68,259,558,421	311,121,806,369	45,505,124,630	624,235,477,535

Juan Carlos Corrales Salas
General Manager

Gerardo Gómez Solís
General Accountant

Ricardo Arredondo Jiménez
General Auditor

BANCO NACIONAL DE COSTA RICA
SEPARATE STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017
(With corresponding figures for 2016)
(In colones)

	Note	2017	2016
Cash flows from operating activities			
Income for the year		32,763,283,164	53,018,907,264
Items not requiring cash			
Gain on sale of idle property and equipment		(990)	(578,151)
Loss on foreign exchange differences and development units, net		25,918,571,115	15,726,446,077
Loss on allowance for loan losses, net		57,098,285,134	27,904,474,431
Loss (gain) on allowance for impairment of investments, net		12,077,667	(76,967,726)
Loss (gain) on allowances for other receivables, net		1,259,072,026	(1,627,980,487)
Loss (gain) on allowances for foreclosed assets, net		2,821,103,061	(1,516,071,844)
Loss on sale of foreclosed assets		9,379,473,223	7,935,053,900
Provision expense, net of payments		(395,954,847)	(11,362,446,231)
Depreciation and amortization		20,205,679,742	15,478,144,051
Share in net profit of subsidiaries		(6,505,561,169)	(6,587,489,789)
Share in net profit of foreign associate		(2,615,822,520)	(1,690,868,660)
Statutory allocations, net		12,560,041,843	15,671,368,103
Income tax expense, net	16 - a	2,401,026,073	7,495,348,461
Finance income on loan portfolio and investments		(450,328,242,250)	(394,802,592,871)
Finance costs on term obligations with the public and financial entities		178,765,846,533	132,894,584,009
		<u>(116,661,122,195)</u>	<u>(141,540,669,463)</u>
Net decrease (increase) in assets			
Credits and cash advances		(361,163,228,668)	(399,095,657,832)
Foreclosed assets		18,799,882,657	16,672,890,887
Accrued interest receivable on other receivables		76,767	189,215
Other assets		(10,059,808,290)	(12,788,419,563)
		<u>(469,084,199,729)</u>	<u>(536,751,666,756)</u>
Net increase (decrease) in liabilities			
Demand and term obligations		716,239,591,040	341,377,278,165
Other accounts payable and provisions		(36,895,505,933)	16,242,779,246
Other liabilities		51,363,536,836	4,298,012,868
		<u>261,623,422,214</u>	<u>(174,833,596,477)</u>
Interest received on loan portfolio and investments		445,378,578,529	391,886,834,104
Income tax paid		(15,776,017,311)	(12,637,751,082)
Interest paid on term obligations with the public and financial entities		(164,770,314,859)	(128,621,974,855)
Net cash from operating activities		<u>526,455,668,573</u>	<u>75,793,511,690</u>
Cash flows from investing activities			
Increase in financial instruments		(17,497,727,017,752)	(15,525,060,035,337)
Decrease in financial instruments		17,513,819,601,480	15,645,009,048,828
Acquisition of property and equipment		(5,618,511,452)	(14,302,010,424)
Sale of property and equipment		90,885,750	1,491,191,820
Dividends received		5,960,319,768	4,781,182,958
Net cash from investing activities		<u>16,525,277,794</u>	<u>111,919,377,845</u>
Cash flows from financing activities			
Other new financial obligations		(52,971,581,352)	107,351,729,914
Settlement of obligations		(9,697,922,608)	(274,806,414,303)
Net cash used in financing activities		<u>(62,669,503,960)</u>	<u>(167,454,684,389)</u>
Net increase in cash and cash equivalents		480,311,442,407	20,258,205,146
Cash and cash equivalents at beginning of year		1,015,469,408,368	995,211,203,222
Cash and cash equivalents at end of year		<u>1,495,780,850,775</u>	<u>1,015,469,408,368</u>

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, 2017

(With corresponding figures for 2016)

(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, 2017, the Bank has 176 offices, 474 automated teller machines, and a total of 5,442 employees (2016: 175 offices, 476 automated teller machines, and 5,452 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, 2017, the exchange rate was established at ¢566.42 and ¢572.56 (2016: ¢548.18 and ¢561.10) 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, 2017, assets and liabilities denominated in U.S. dollars were valued at the exchange rate of ¢566.42 to US\$1.00 (2016: ¢548.18 to US\$1.00), which is the reference buy rate published by BCCR for that date.

As of December 31, 2017, assets and liabilities denominated in euros were valued at the exchange rate of ¢676.70 to €1.00 (2016: ¢573.07 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, 2017, assets and liabilities denominated in Development Units (DU) were valued at the exchange rate of ₡880.47 to DU1.00 (2016: ₡859.52 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, 2017, the Bank no longer classifies financial instruments as held-to-maturity, except for the securities denominated in DU received from the Central Government to capitalize the Bank. Those securities were authorized by the Executive Branch of the Government of Costa Rica as a capital contribution and are funded under the *Amendment to Law No. 8627 on the Ordinary and Extraordinary Budget of the Republic for Tax Year 2008* (Law No. 8703).

Securities sold under repurchase agreements

The Bank sells securities under agreements to repurchase them on a certain date in the future at a fixed price. The obligation to repurchase securities sold is reflected as a liability in the 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, 2017 and 2016, the market price valuation methodology established by VALMER Costa Rica, S.A. is used. This methodology has been duly approved by SUGEVAL.

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

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

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

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.

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

(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.

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, 2017 and 2016, increases in the allowance for loan losses are included in the accounting records in accordance with Article 10 of IRNBS.

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

(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.

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

ii. *Leased assets*

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

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

iii. *Subsequent expenditure*

Expenditure incurred to replace a component of an item of property and equipment is capitalized and accounted for separately. Subsequent expenditure is capitalized only when it increases the future economic benefits. All other expenditure is recognized in the 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	25 to 120 years (1)
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

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

(m) Intangible assets

i. *Other intangible assets*

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

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.

(n) Impairment of non-financial assets

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

(o) Accounts payable and other liabilities

Accounts payable and other liabilities are carried at cost.

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

(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.

(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, 2017 and 2016, severance is included in the provisions account (see note 17), which meets the legal provisioning requirements in effect as of those dates.

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

ii. *Short-term employee benefits*

Statutory Christmas bonus

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

Vacation

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

Back-to-school bonus

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

Incentives and Performance Assessment System (SEDI)

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

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

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

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

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.

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.

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

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.

(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 transferring the revaluation surplus to prior period retained earnings, for subsequent capitalization, in accordance with Article No. 8 of IRNBS (Law No. 1644) and SUGEF Directive 33-07.

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

(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.

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.

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

(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.

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.

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

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.

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 SUGEVAL'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.

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

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

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

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

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

(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.

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

(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 the *Development Banking System Act* (Law No. 8634), in meeting No. 119 of January 16, 2013, through agreement No. AG-1015-119-2013, Banco de Costa Rica and Banco Nacional de Costa Rica are appointed as managers for five years from the date of signing of the respective management agreements. Each bank is awarded the management of fifty percent (50%) of such fund.

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

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

- a. 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.
- 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.

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

- 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) of 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	2017 Carrying amount	2016 Carrying amount
<i>Cash and due from banks:</i>			
Checking account – colones (note 4)	Minimum legal deposit	¢ 506,614,839,613	435,159,276,456
Checking account – U.S. dollars (note 4)	Minimum legal deposit	277,771,308,370	221,712,351,226
Checking account – euros (note 4)	Minimum legal deposit	4,005,701,580	4,350,556,378
Other cash and due from banks (note 4)	Custody of BCAC liabilities	8,900,457,858	-
		¢ 797,292,307,421	661,222,184,060
<i>Investments in financial instruments:</i>			
External debt bonds	Nomura Bank guarantee	82,461,472,891	71,767,100,042
External debt bonds	Credit Suisse guarantee	-	57,001,678,752
		¢ 82,461,472,891	128,768,778,794
<i>Other assets:</i>			
Other assets (note 12)	Guarantee deposits	¢ 542,775,939	510,922,477

(Continued)

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:

	2017	2016
<u>Assets:</u>		
Checking accounts in foreign financial entities (1) (note 4)	¢ 17,091,195,563	9,738,754,875
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)	18,492	18,524,503
Allowance for impairment for operations with related parties (4)	(18,809,847)	(12,179,982)
Investments in other companies (5) (note 10)	93,954,215,527	89,781,830,229
	¢ <u>111,026,619,735</u>	<u>105,854,607,665</u>
<u>Liabilities:</u>		
Demand obligations with entities (6)	1,582,200,515	2,436,479,764
Term obligations with entities (7)	29,500,000	1,570,672,224
Charges payable for obligations with the public	722,095	-
	¢ <u>1,612,422,610</u>	<u>4,007,151,988</u>
<u>Income:</u>		
Finance	878,776	21,927,200
Operating	618,411,455	515,300,505
Gain on investments in other foreign entities	2,615,822,520	1,690,868,660
Gain on investments in SUGEVAL regulated entities	3,518,479,302	4,038,378,067
Gain on investments in SUPEN regulated entities	726,185,039	1,172,980,254
Gain on investments in SUGESE regulated entities	2,260,896,828	1,376,131,468
	¢ <u>9,740,673,920</u>	<u>8,815,586,154</u>
<u>Expenses:</u>		
Finance	56,568,198	99,233,264
Operating	358,530,258	339,864,101
	¢ <u>415,098,456</u>	<u>439,097,365</u>

(Continued)

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

	2017	2016
Short-term benefits	¢ 1,001,837,144	844,363,025
Long-term benefits	130,238,828	109,767,194
Per diem – Board of Directors	112,671,114	113,252,071
	¢ <u>1,244,747,086</u>	<u>1,067,382,290</u>

(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:

	2017	2016
Cash and due from banks	¢ 1,277,462,115,311	934,649,797,171
Investments with maturities of less than two months	218,318,735,464	80,819,611,197
	¢ <u>1,495,780,850,775</u>	<u>1,015,469,408,368</u>

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

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

	2017	2016
Cash on hand and in vaults	¢ 49,777,383,331	45,600,902,884
Cash in transit	17,953,025,566	10,586,770,682
Checking accounts in BCCR (1)	78,972,490,806	31,972,234,939
Minimum legal deposits in BCCR (1)	777,920,470,982	656,436,590,090
Checking accounts and demand deposits in State-owned commercial Banks and banks created under special laws	71,384,979	4,706,195,026
Checking accounts and other demand accounts in private financial entities	12,521,413,299	770,841,165
Checking accounts in foreign financial entities	299,621,722,805	162,549,650,880
Checking accounts and demand deposits with related parties (note 3)	17,091,195,563	9,738,754,875
Overnight deposits in foreign financial entities	4,686,354,489	5,848,311,081
Transfers through the Interbank Electronic Payment System (SINPE)	4,178,591,649	3,477,754,225
Local notes receivable	4,357,069,947	2,154,613,317
Foreign notes receivable	1,410,554,037	807,082,333
Other restricted cash and due from banks (2)	8,900,457,858	-
Accrued interest receivable	-	95,674
	¢ <u>1,277,462,115,311</u>	<u>934,649,797,171</u>

- (1) Checking accounts and demand deposits in BCCR include the balances of the minimum legal deposits required for each year (see note 2).
- (2) Other restricted cash and due from banks includes the banking mandate for custody of liabilities, checking accounts, savings accounts, and term certificates of deposit of Banco Crédito Agrícola de Cartago.

As of December 31, 2017 and 2016, 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.

(Continued)

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:

	2017	2016
<i>Available-for-sale:</i>		
<u>Local issuers:</u>		
Government of Costa Rica	¢ 531,012,942,485	373,584,538,055
BCCR	92,228,208,168	150,462,041,938
State-owned banks	44,591,301,705	85,006,991,995
Private banks	-	7,932,586,072
Private issuers	5,884,509,934	5,403,482,646
	<u>673,716,962,292</u>	<u>622,389,640,706</u>
<u>Foreign issuers:</u>		
Governments	74,980,395,187	37,716,583,192
Private issuers	88,709,226,103	124,832,201,140
Private banks	159,852,628,432	65,084,537,446
	<u>323,542,249,722</u>	<u>227,633,321,778</u>
	<u>997,259,212,014</u>	<u>850,022,962,484</u>
<i>Held-to-maturity:</i>		
Local issuers	18,562,535,348	27,181,284,510
	<u>18,562,535,348</u>	<u>27,181,284,510</u>
<i>Derivative financial instruments:</i>		
Interest rate futures - Hedges (note 6)	6,179,274,815	5,893,164,907
Purchase of FX futures - Other than hedges (note 6)	22,730,053	-
Sale of FX futures - Other than hedges (note 6)	119,898,739	-
	<u>6,321,903,607</u>	<u>5,893,164,907</u>
<i>Allowance for impairment:</i>		
Allowance for impairment of investments	(58,720,472)	(59,433,676)
Allowance for impairment of derivative instruments other than hedges	(14,753,724)	-
	<u>(73,474,196)</u>	<u>(59,433,676)</u>
Accrued interest receivable	10,463,404,146	10,034,059,816
	<u>¢ 1,032,533,580,919</u>	<u>893,072,038,041</u>

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

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

	2017	2016
Opening balance	¢ 59,433,676	134,640,661
Allowance expense (note 31)	29,794,522	20,527,703
Decrease in allowance (note 32)	(17,716,855)	(97,495,429)
Foreign exchange differences	1,962,853	1,760,741
Closing balance	¢ 73,474,196	59,433,676

As of December 31, 2017, the allowance for impairment of investments in non-derivative financial instruments amounts to ¢58,720,472 (2016: ¢59,433,676) and is booked for investments in Z Bonds related to the Mortgage Securitization Trust (impairment of 26% for both years).

As of December 31, 2017, the Bank recognized an allowance for impairment of derivative instruments other than hedges in the amount of ¢14,753,724 for sales of FX futures other than hedges in accordance with SUGEF Directive 09-08 (2016: nil).

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

Currency	2017	2016
Colones	4.00% to 11.13%	0.75% to 11.13%
U.S. dollars	0.50% to 6.85%	0.63% to 6.55%
Euros	1.10% to 2.00%	1.10% to 5.50%
DU	0.00% to 0.74%	0.00% to 0.74%

As of December 31, 2017, valuation of available-for-sale investments and restricted financial instruments gave rise to an unrealized loss, net of deferred tax, in the amount of ¢846,968,886 (2016: unrealized loss in the amount of ¢4,325,830,389). Accordingly, as of that date, the cumulative balance of equity adjustments arising from valuation of these investments is an unrealized loss in the amount of ¢2,304,989,655 (2016: unrealized loss in the amount of ¢1,458,020,769).

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

(6) Derivative financial instruments

As of December 31, 2017 and 2016, 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.

Derivative financial instruments are as follows:

Issuing bank	2017		Purpose
	Notional amount	Valuation	
CitiBank	US\$ 100,000,000	US\$ 2,175,372	Swaps to hedge 10-year issues (maturing in 2023)
JP Morgan	200,000,000	4,349,026	
Bank of America	200,000,000	4,350,745	
	US\$ 500,000,000	US\$ 10,875,143	
Amount in colones	¢ 283,210,000,000	¢ 6,159,898,720	
Bank of America	250,000,000	(6,845,495)	Swaps to hedge 5-year issues (maturing in 2021)
JP Morgan	250,000,000	(6,845,495)	
	US\$ 500,000,000	US\$ (13,690,990)	
Amount in colones	¢ 283,210,000,000	¢ (7,754,850,556)	
Chicago Board of Trade	US\$ 18,000,000	US\$ (2,871)	Standardized futures contracts (maturing in 2017)
Amount in colones	¢ 10,195,560,000	¢ (1,626,192)	

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

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

As of December 31, 2017, total notional amounts of US\$1,018,000,000, equivalent to ¢576,615,560,000 (2016: US\$1,255,964,211, equivalent to ¢688,494,461,186) are booked under "Other debit memoranda accounts" (see note 24).

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

As of December 31, 2017, the Bank books an increase in the fair value of these hedges in the amount of US\$10,875,143, equivalent to ¢6,159,898,720 (see note 5) and a decrease in the fair value of these hedges in the amount of US\$13,690,990, equivalent to ¢7,754,850,556 (see note 18).

As of December 31, 2016, the Bank booked an increase in the fair value of these hedges in the amount of US\$10,750,419, equivalent to ¢5,893,164,907 (see note 5) and a decrease in the fair value of these hedges in the amount of US\$16,778,385, equivalent to ¢9,197,575,451 (see note 18).

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

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	
	2017	2016
5-year issue (maturing in 2018)	-	83.62%
10-year issue (maturing in 2023)	105.40%	98.00%
5-year issue (maturing 2021)	84.60%	93.97%

A valuation was performed as of December 31, 2017 and 2016 to calculate the change in the fair value of the primary and derivative instruments based on the following inputs:

- a 5- or 10-year LIBOR rate at the issue of the bond
- discount rates from Bloomberg
- zero rates corresponding to the swap curve as of December 31, 2017 and 2016
- only a portion of the bond cash flows is hedged (corresponding to the 5- and 10-year LIBOR rate in effect at the issue of the bond) rather than the total interest rate
- accrued and earned interest were segregated from the instruments to obtain variations in clean prices
- forward rate to calculate variable interest.

As of December 31, 2017, standardized futures contracts are negotiated as part of the management of the financial derivatives portfolio. The Bank booked a notional amount for the sale and purchase of these futures contracts in the amount of US\$18,000,000, equivalent to ¢10,195,560.000.

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

As of December 31, 2017, the Bank booked an increase in the fair value due to the negotiation of these futures contracts in the amount of US\$34,208, equivalent to ₡19,376,095 and a decrease in the fair value of these contracts in the amount of US\$37,079, equivalent to ₡21,002,287, which is booked under "Other sundry accounts payable" (see note 18), establishing the net position of these instruments at US\$2,871, equivalent to ₡1,626,192.

✓ Derivatives for trading purposes:

Currency forwards:

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

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

As of December 31, 2017, the total notional amount is US\$27,906,944, equivalent to ₡15,807,051,435. As of December 2016, the Bank had no currency forwards (see note 22).

As of December 31, 2017, the Bank booked an increase in the fair value of these forwards in the amount of ₡142,628,792 under an asset account, and a decrease in the fair value of these forwards in the amount of ₡46,913,808 under a liability account (2016: nil) (see note 18).

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

As of December 31, the effect on profit or loss of derivative financial instruments is as follows:

	2017	2016
Gain on derivative financial instruments	¢ 24,217,078,104	32,487,947,468
Loss on derivative financial instruments	(18,859,030,471)	(41,961,019,227)
Gain (loss), net	¢ 5,358,047,633	(9,473,071,759)

(7) Loan portfolio

(a) Loan portfolio by sector

The loan portfolio by sector is as follows:

	2017	2016
Trade	¢ 410,062,171,620	383,913,120,090
Services	925,588,456,250	886,844,738,498
Financial services	136,448,769,907	144,072,055,018
Mining	911,515,744	1,078,059,706
Manufacturing and quarrying	179,083,732,196	164,439,989,019
Construction	106,205,953,983	102,337,598,821
Agriculture and forestry	125,660,078,600	119,200,690,631
Livestock, hunting, and fishing	83,621,737,863	75,554,660,408
Electricity, water, sanitation, and other related sectors	438,885,802,997	397,442,725,153
Transportation and telecommunications	46,069,196,429	41,876,391,133
Housing	1,304,758,486,194	1,192,797,400,089
Personal or consumer loans	554,958,089,721	445,416,562,419
Tourism	180,852,228,622	161,477,445,037
	4,493,106,220,126	4,116,451,436,022
Accrued interest receivable	31,743,485,704	27,223,166,313
Allowance for loan losses	(140,168,393,361)	(85,464,859,320)
	¢ 4,384,681,312,469	4,058,209,743,015

(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	2017		2016	
	Rates	Average (1)	Rates	Average (1)
Colones	4.40% to 40.56%	14.96%	4.45% to 39.00%	13.23%
U.S. dollars	3.00% to 34.92%	9.44%	3.00% to 34.92%	8.93%
DU	3.85% to 11.00%	6.57%	3.85% to 11.00%	6.58%

(1) Correspond to the simple average between the minimum and maximum values of the portfolio as of December 31, 2017 and 2016.

(b) Loan portfolio by arrears

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

	2017	2016
Current	¢ 4,261,582,917,145	3,923,840,957,083
1 to 30 days	56,313,279,440	46,067,740,682
31 to 60 days	44,153,684,890	38,346,524,164
61 to 90 days	23,102,210,055	19,993,513,410
91 to 120 days	15,367,490,160	10,101,589,852
121 to 180 days	10,774,616,091	12,237,325,773
More than 180 days	81,812,022,345	65,863,785,058
Total gross portfolio	4,493,106,220,126	4,116,451,436,022
Accrued interest receivable	31,743,485,704	27,223,166,313
Allowance for loan losses	(140,168,393,361)	(85,464,859,320)
	¢ 4,384,681,312,469	4,058,209,743,015

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

(c) Allowance for loan losses

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

	2017	2016
Opening balance	¢ 85,464,859,320	62,968,882,979
Expense for the year (note 31)	69,399,079,403	37,490,816,079
Settlements	(14,982,163,099)	(15,733,523,078)
Decrease in allowance charged to profit or loss	(720,000,000)	-
Foreign exchange differences	1,006,617,737	738,683,340
Closing balance	¢ 140,168,393,361	85,464,859,320

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

(8) Accounts and fees and commissions receivable

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

	2017	2016
Fees and commissions	¢ 169,681,180	126,378,316
Accounts due from related parties (note 3)	18,492	6,247
Accounts due from related parties (officers, employees, and related branches)	26,575,065	18,518,256
Income tax receivable	134,516,249	140,319,872
Other sundry accounts receivable	3,807,538,777	3,933,633,959
Accrued interest receivable on other sundry accounts receivable	1,724,156	1,800,923
Allowance for impairment of other accounts receivable	(3,533,662,402)	(3,392,351,363)
	¢ 606,391,517	828,306,210

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

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

	2017	2016
Opening balance	¢ 3,392,351,363	5,862,408,795
Allowance expense (note 31)	2,026,114,296	1,601,223,913
Decrease in allowance (note 32)	(767,042,270)	(3,229,204,400)
Items settled against allowance	(1,120,015,549)	(845,837,775)
Foreign exchange differences	2,254,562	3,760,830
Closing balance	¢ 3,533,662,402	3,392,351,363

(9) Foreclosed assets

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

	2017	2016
Assets received in lieu of payment	¢ 81,249,127,569	77,394,578,153
Idle property and equipment	1,832,418	1,471,878
Allowance for impairment and per legal requirements	(62,466,054,133)	(59,644,951,072)
	¢ 18,784,905,854	17,751,098,959

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

	2017	2016
Opening balance	¢ 59,644,951,072	61,161,022,915
Allowance expense (note 35)	6,059,997,296	4,906,253,492
Decrease in allowance	(3,238,894,235)	(6,422,325,335)
Closing balance	¢ 62,466,054,133	59,644,951,072

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

(10) Investments in other companies

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

	2017	2016
BN Valores Puesto de Bolsa, S.A. ¢	15,532,064,277	17,560,620,280
BN Sociedad Administradora de Fondos de Inversión, S.A.	6,616,923,474	5,945,831,085
BN Vital Operadora de Planes de Pensiones Complementarias, S.A.	7,347,992,475	7,294,405,422
BN Corredora de Seguros, S.A.	2,704,536,834	1,819,771,469
Investments in other non-financial companies	20,623,300	20,623,300
Banco Internacional de Costa Rica, S.A. and Subsidiary (BICSA)	61,732,075,167	57,140,578,673
¢	<u>93,954,215,527</u>	<u>89,781,830,229</u>

The Bank holds 49% ownership interest in BICSA, represented in 2017 and 2016 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:

	2017	2016	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
¢	<u>20,623,300</u>	<u>20,623,300</u>	

(Continued)

Notes to the Separate Financial Statements

(11) Property and equipment

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

	2017				
	Land	Buildings	Furniture and equipment	Computer hardware	Vehicles
					Total
<i>Cost:</i>					
Historical cost at beginning of year	4,207,876,870	63,103,140,736	60,115,009,746	56,385,265,668	414,698,188
Revalued cost at beginning of year	42,270,752,875	57,905,955,091	-	-	-
Additions	331,825,827	2,352,349,672	5,507,774,828	7,468,493,744	-
Revaluation of assets	1,011,670,989	3,851,382,933	-	-	-
Disposals	-	-	(4,014,578,077)	(15,280,172,889)	(20,576,060)
Sales	-	-	(6,125,849)	-	(152,345,563)
Adjustments	-	73,745,123	215,513,048	135,619,383	424,877,554
Closing balance	47,822,126,561	127,286,573,555	61,817,593,696	48,709,205,906	285,877,276,283
<i>Accumulated depreciation:</i>					
Opening balance	-	33,183,853,179	33,218,408,760	41,715,656,461	321,536,197
Depreciation expense on historical cost	-	1,583,624,839	5,689,424,308	6,204,651,294	23,697,311
Depreciation expense on revaluation	-	1,406,062,470	-	-	-
Disposals	-	-	(3,967,490,536)	(15,252,921,431)	(20,576,059)
Sales	-	-	(4,520,023)	-	(137,405,629)
Adjustments	-	2,747,891,278	186,872,150	102,259,945	58,012
Closing balance	-	38,921,431,766	35,122,694,659	32,769,646,269	187,309,832
Net closing balance	47,822,126,561	88,365,141,789	26,694,899,037	15,939,559,637	54,466,733

(Continued)

Notes to the Separate Financial Statements

	2016					
	Land	Buildings	Furniture and equipment	Computer hardware	Vehicles	Total
<i>Cost:</i>						
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
<i>Accumulated depreciation:</i>						
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 the December close, appraisals of the Bank's land and buildings were performed by an independent appraiser, obtaining the NRV, which was compared to the carrying amount to determine the proportionality of the equity increase, affecting the related accounts for accumulated depreciation and revaluation.

As of December 31, 2017, for buildings the total equity increase amounts to ¢991,879,746, which includes retained earnings, revaluation surplus, and deferred tax in the amount of ¢768,103,339, ¢319,680,581, and (¢95,904,174), respectively. For land, the increase due to revaluation surplus amounts to ¢1,011,670,989, which was performed with the balances as of August 4, 2017.

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

(12) Other assets

As of December 31, the breakdown of other assets is as follows:

	2017	2016
<u>Deferred charges:</u>		
Leasehold improvements	¢ 800,451,555	1,172,813,330
Cost of issue of financial instruments, net (3)	1,440,638,368	1,888,423,058
Cost of subordinated debt project	396,529,566	474,798,764
Deferred direct costs related to loans	4,957,012,106	5,673,603,092
Other deferred charges	1,261,169,998	2,632,876,079
	<u>8,855,801,593</u>	<u>11,842,514,323</u>
<u>Intangible assets:</u>		
Software (2)	5,859,211,275	4,995,212,693
Other intangible assets	819,591,455	-
	<u>6,678,802,730</u>	<u>4,995,212,693</u>
<u>Other assets:</u>		
Prepaid interest and fees and commissions	178,093,729	274,408,717
Prepaid insurance policy	156,197,256	205,916,377
Other prepaid expenses	544,488,716	72,774,000
Stationery, office supplies, and other materials	613,850,126	614,904,785
Leased assets	99,453,445	100,810,170
Library and artwork	425,295,762	345,295,762
Construction work-in-progress	6,121,061,364	5,741,165,428
Rights in welfare and trade associations	350,000	350,000
Other sundry assets	6,981,567,844	3,860,040,520
Cash shortage	-	3,000
Operations pending settlement	8,746,539,036	5,676,583,226
Other operations pending application	1,971,307,457	3,681,008,163
Guarantee deposits (1)	359,733,879	322,936,830
Legal and administrative deposits (1)	183,042,060	187,985,647
	<u>26,380,980,674</u>	<u>21,084,182,625</u>
	<u>¢ 41,915,584,997</u>	<u>37,921,909,641</u>

(1) As of December 31, 2017, guarantee deposits amount to ¢542,775,939 (2016: ¢510,922,477) (see note 2).

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

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

	2017		
	Software	Other intangible assets	Total
<u>Cost:</u>			
Opening balance	¢ 21,687,337,345	94,029,559	21,781,366,904
Additions	4,291,067,983	1,990,436,395	6,281,504,378
Adjustments	(358,172,121)	-	(358,172,121)
Closing balance	25,620,233,207	2,084,465,954	27,704,699,161
<u>Accumulated amortization:</u>			
Opening balance	16,692,124,652	94,029,559	16,786,154,211
Expense for the year	3,066,370,108	1,170,844,940	4,237,215,048
Adjustments	2,527,172	-	2,527,172
Closing balance	19,761,021,932	1,264,874,499	21,025,896,431
Net closing balance	¢ 5,859,211,275	819,591,455	6,678,802,730
	2016		
	Software	Other intangible assets	Total
<u>Cost:</u>			
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	21,687,337,345	94,029,559	21,781,366,904
<u>Accumulated amortization:</u>			
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	16,692,124,652	94,029,559	16,786,154,211
Net closing balance	¢ 4,995,212,693	-	4,995,212,693

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

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

	2017			
	5-year issue (maturing in 2018)	10-year issue (maturing in 2023)	5-year issue (maturing 2021)	Total
Commission - structuring banks	¢ 283,210,000	283,210,000	481,457,000	1,047,877,000
Commission - Moody's Investors Service	141,605,000	141,605,000	-	283,210,000
Commission - Société de la Bourse de Luxembourg, S.A.	6,922,219	6,922,219	-	13,844,438
RR Donelley	6,200,600	6,200,577	3,711,906	16,113,083
BNY Mellon	2,239,058	2,239,058	3,266,544	7,744,660
Moody's - issuer rating	18,748,502	18,748,502	141,605,000	179,102,004
Fitch Ratings	141,605,000	141,605,000	141,605,000	424,815,000
Milbank	83,354,367	83,354,367	111,596,414	278,305,148
Shearman & Sterling	83,462,553	83,462,553	124,155,922	291,081,028
External audit	107,619,800	107,619,800	131,409,440	346,649,040
Perkins Cole (Broker)	-	-	7,429,759	7,429,759
Printing of documents	-	-	8,957,842	8,957,842
	874,967,099	874,967,076	1,155,194,827	2,905,129,002
Amortization	(723,529,495)	(334,347,616)	(406,613,523)	(1,464,490,634)
	¢ 151,437,604	540,619,460	748,581,304	1,440,638,368

	2016			
	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

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

(13) Obligations with the public

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

	2017	2016
<i><u>Demand obligations:</u></i>		
Checking accounts	¢ 1,315,990,860,052	1,278,957,424,500
Certified checks	129,984,033	122,039,022
Savings deposits	1,356,884,997,468	1,296,486,039,607
Matured term deposits	23,250,148,019	17,819,303,823
Other demand deposits	504,652,034	611,720,829
Drafts and transfers	60,778,419	163,530,110
Cashier's checks	5,351,772,739	4,084,392,512
Advance collections from customers for credit cards	12,442,854,649	8,526,828,123
Banking mandates	8,900,457,858	-
Obligations for trust funds	7,928,030	35,790,055
	<u>2,723,524,433,301</u>	<u>2,606,807,068,581</u>
<i><u>Term obligations:</u></i>		
Deposits from the public	1,918,045,001,978	1,454,926,471,107
Other term deposits	153,877,421,326	81,367,527,731
	<u>2,071,922,423,304</u>	<u>1,536,293,998,838</u>
Charges payable	35,843,458,404	22,055,657,872
	<u>¢ 4,831,290,315,009</u>	<u>4,165,156,725,291</u>

As of December 31, 2017, deposits in checking accounts denominated in colones bear interest at a maximum rate of 2.55% per annum (2016: 1.50% per annum) on balances and at a minimum rate of 0.00% per annum (2016: 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 0.45% per annum (2016: 0.40% per annum) on balances and at a minimum rate of 0.00% *per annum (2016: 0.00% per annum) on balances greater than or equal to US\$1,000.

(Continued)

BANCO NACIONAL DE COSTA RICA

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:

Currency	2017	2016
Colones	4.00% to 8.20%	1.15% to 7.40%
U.S. dollars	0.50% to 5.10%	0.45% to 5.85%

The Bank has term certificates of deposit that are restricted to secure certain loan operations. As of December 31, 2017, the balance of those term certificates of deposit amounts to ₡40,267,805,245 (2016: ₡32,221,517,946). 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:

	2017	2016
Financing for loans using external funds	125,644,412	125,644,412
	₡ 125,644,412	125,644,412

According to contract MAG/AID 515-T-027 signed on December 15, 1981, the obligations with BCCR correspond to the agreement between the Government of Costa Rica and the Bank regarding the management of funds for the Agricultural Production Systems Project. This loan bears no interest and shall be maintained until otherwise agreed.

(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:

	2017	2016
<i><u>Demand:</u></i>		
Checking accounts with local financial entities	¢ 60,409,743,140	67,079,202,786
Savings deposits with local financial entities	67,571,081	34,068,844
Development Credit Fund (FCD) management	144,413,540,280	145,344,840,301
Outstanding checks	1,682,209,656	1,947,218,401
Checking accounts and obligations with related parties	1,582,200,515	2,436,481,843
Other demand obligations with financial entities	-	997,169,020
	<u>208,155,264,672</u>	<u>217,838,981,195</u>
<i><u>Term:</u></i>		
Term deposits from local financial entities	117,218,311,392	2,702,114,143
Term deposits from foreign financial entities	5,664,200,000	5,481,800,000
Term obligations with foreign financial entities (2)	841,601,971,462	815,040,918,559
Loans from local financial entities	30,494,577,678	8,138,797,739
Loans from foreign financial entities (1)	98,105,867,070	160,775,371,029
	<u>1,093,084,927,602</u>	<u>992,139,001,470</u>
Charges payable for other demand and term obligations with financial entities – foreign currency	180,661,307	38,405,885
Charges payable for other demand and term obligations with financial entities – local currency	1,034,317,268	109,954,422
Charges payable for loans with foreign financial entities (1)	438,383,591	1,413,597,675
Charges payable for loans with local financial entities	91,353,129	9,776,425
Charges payable for term deposits from foreign financial entities (2)	8,024,283,437	7,989,533,183
	<u>9,768,998,732</u>	<u>9,561,267,590</u>
	<u>¢ 1,311,009,191,006</u>	<u>1,219,539,250,255</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 2.76% and 6.65% per annum (2016: between 2.54% and 6.65% 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 according to the term of the obligations are as follows:

	2017			Total
	5-year issue (maturing in 2018)	10-year issue (maturing in 2023)	5-year issue (maturing in 2021)	
Issue	¢ 281,315,325,100	280,581,811,200	282,020,508,371	843,917,644,671
Adjustment to fair value of hedged item measured at cost of international issues	(648,209,761)	4,515,695,088	(8,898,709,124)	(5,031,223,797)
Amortization of discount in traded amount of issues	1,543,736,361	897,534,405	274,279,822	2,715,550,588
	282,210,851,700	285,995,040,693	273,396,079,069	841,601,971,462
Charges payable	2,301,081,250	2,950,103,978	2,773,098,209	8,024,283,437
	¢ 284,511,932,950	288,945,144,671	276,169,177,278	849,626,254,899

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

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

Maturities of loans due to entities

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

	2017		
	Local	Foreign	Total
Less than 1 year	¢ -	2,288,044,850	2,288,044,850
Between 1 and 2 years	-	6,948,572,303	6,948,572,303
Between 3 and 5 years	125,644,413	-	125,644,413
More than 5 years	30,585,930,806	89,307,633,508	119,893,564,314
	¢ 30,711,575,219	98,544,250,661	129,255,825,880

	2016		
	Local	Foreign	Total
Less than 1 year	¢ 397,938,239	61,328,159,986	61,726,098,225
Between 1 and 2 years	-	2,745,006,304	2,745,006,304
Between 3 and 5 years	125,644,413	8,783,221,884	8,908,866,297
More than 5 years	7,750,635,924	89,332,580,530	97,083,216,454
	¢ 8,274,218,576	162,188,968,704	170,463,187,280

As of December 31, 2017 and 2016, loans due to local entities correspond to obligations with Banco Crédito Agrícola de Cartago.

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

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

	2017	2016
<u>Current tax:</u>		
Current tax expense	¢ 3,276,101,267	10,170,950,461
Prior-period income tax expense	834,374,298	-
	<u>4,110,475,565</u>	<u>10,170,950,461</u>
<u>Current tax:</u>		
Current tax expense	¢ 3,276,101,267	10,170,950,461
Decrease in current tax	(1,356,106,263)	(1,478,222,343)
Total current tax expense, net	<u>1,919,995,004</u>	<u>8,692,728,118</u>
<u>Deferred tax:</u>		
Increase in deferred tax income	(353,343,229)	(1,197,379,657)
Total current tax expense, net	¢ <u>1,566,651,775</u>	<u>7,495,348,461</u>

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

For the year 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:

	2017	2016
Profit before income tax	¢ 47,724,351,080	76,185,623,828
<i>Plus (less) tax effect of:</i>		
Non-deductible expenses	36,298,578,684	35,870,721,965
Deductible expenses	(2,809,091,015)	(4,254,176,439)
Non-taxable income	(74,813,855,403)	(78,826,408,960)
Tax base	6,399,983,346	28,975,760,394
Tax rate	30%	30%
Subtotal income tax expense	1,919,995,004	8,692,728,118
Deferred tax income	(353,343,229)	(1,197,379,657)
Total current tax expense	¢ 1,566,651,775	7,495,348,461

b) Deferred tax

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

	2017		
	Assets	Liabilities	Net
Unrealized losses	¢ 920,527,963	-	920,527,963
Unrealized gains	-	(290,232,008)	(290,232,008)
Revaluation of assets	-	(10,081,789,511)	(10,081,789,511)
	¢ 920,527,963	(10,372,021,519)	(9,451,493,556)
	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)

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

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

	2016	Included in equity	2017
Unrealized losses	¢ 645,872,096	274,655,868	920,527,964
Unrealized gains	(1,101,843,535)	811,611,527	(290,232,008)
Revaluation of assets	(10,339,228,565)	257,439,054	(10,081,789,511)
	¢ (10,795,200,004)	1,343,706,449	(9,451,493,555)

	2015	Included in equity	2016
Unrealized losses	¢ 479,833,979	166,038,117	645,872,096
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)	3,472,906,652	(10,795,200,004)

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, 2014, 2015, 2016, and 2017 and the tax return that will be filed for the year ended December 31, 2018, are open to review by the Tax Authorities.

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

(17) Provisions

As of December 31, provisions are as follows:

	2017	2016
Severance benefits	¢ 1,205,299,015	2,838,355,799
Litigation	4,515,893,295	4,716,809,407
Other	14,938,593,146	17,691,456,375
	<u>¢ 20,659,785,456</u>	<u>25,246,621,581</u>

The movement in provisions is as follows:

	Severance benefits	Litigation	Other (1)	Total
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	<u>(285,853,852)</u>	<u>(788,340,944)</u>	<u>(836,541,332)</u>	<u>(1,910,736,128)</u>
Balance at December 31, 2016	¢ 2,838,355,799	4,716,809,407	17,691,456,375	25,246,621,581
Increase in provision	1,333,340,629	452,354,055	7,746,049,408	9,531,744,092
Used	(1,516,397,413)	(636,657,412)	(9,718,980,107)	(11,872,034,932)
Decrease in provision	<u>(1,450,000,000)</u>	<u>(16,612,755)</u>	<u>(779,932,530)</u>	<u>(2,246,545,285)</u>
Balance at December 31, 2017	<u>¢ 1,205,299,015</u>	<u>4,515,893,295</u>	<u>14,938,593,146</u>	<u>20,659,785,456</u>

- (1) As of December 31, the “Other provisions” account includes the amount of ¢4,176,197,247 (2016: ¢2,098,131,236) due to the variation in the methodology for the calculation of the social security contribution and the Disability, Old Age, and Death Benefit System (RIVM).

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

As of December 31, 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	
	2017	2016	2017	2016
Ordinary - in colones	¢ 64,816,814,231	65,773,034,323	3,407,405,879	3,516,542,877
Ordinary - in U.S. dollars	194,802,842,755	190,575,986,905	452,922,717	423,919,453
Criminal - in colones	1,020,877,223	1,009,129,410	487,964,155	496,046,408
Labor - in colones	679,128,688	1,616,275,443	167,600,544	280,300,669
	¢ <u>261,319,662,897</u>	<u>258,974,426,081</u>	<u>4,515,893,295</u>	<u>4,716,809,407</u>

(18) Other sundry accounts payable

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

	2017	2016
Professional fees	¢ 2,675,117	2,558,750
Creditors - goods and services	3,113,797,401	3,022,141,649
Current tax	-	3,300,306,487
Employer contributions	5,581,584,938	8,155,602,954
Court-ordered withholdings	3,541,023,002	3,161,046,092
Tax withholdings	3,960,234,298	3,318,146,119
Employee withholdings	655,881,976	630,193,880
Other third-party withholdings	3,354,073	9,246,889
Compensation	5,816,880,401	6,668,494,742
Statutory allocations	12,642,654,144	15,671,368,103
Clearing house operations	487,367,695	4,617,080,542
Accrued vacation	6,208,429,137	6,604,450,446
Accrued statutory Christmas bonus	1,121,395,346	1,585,389,728
Foreclosed assets	398,477,384	354,942,685
Various creditors - Local currency	5,510,551,314	6,321,011,335
Various creditors - Foreign currency	6,660,244,345	6,144,447,035
Interest rate futures - Hedges (note 6)	7,775,852,843	9,197,575,451
Purchase of FX futures (other than hedges) (note 6)	46,913,808	-
	¢ <u>63,527,317,222</u>	<u>78,764,002,887</u>

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

As of December 31, 2017, the "Various creditors" account includes ¢4,185 million (2016: ¢2,745 million) for the operations of the Bank's Electronic Means of Payment Division (VISA). The remaining amount corresponds to normal operations of other divisions.

(19) Other liabilities

As of December 31, other liabilities are as follows:

	2017	2016
<i>Deferred income:</i>		
Deferred finance income	¢ 32,021,086,861	24,722,362,957
Deferred fees and commissions for trust management	34,109,997	23,251,334
	<u>32,055,196,858</u>	<u>24,745,614,291</u>
Allowance for stand-by credit losses (1)	<u>265,681,489</u>	<u>540,840,567</u>
<i>Operations pending application:</i>		
Operations pending settlement	56,259,287,268	19,153,979,611
Other	9,962,141,487	2,337,461,858
	<u>66,221,428,755</u>	<u>21,491,441,469</u>
	<u>¢ 98,542,307,102</u>	<u>46,777,896,327</u>

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

	2017	2016
Opening balance	¢ 540,840,567	1,545,597,997
Allowance (note 31)	76,257,000	185,335,020
Decrease in allowance (note 32)	(360,000,141)	-
Reclassification of allowances	-	(1,229,913,214)
Adjustment for foreign exchange differences	8,584,063	39,820,764
Closing balance	<u>¢ 265,681,489</u>	<u>540,840,567</u>

(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		2017	2016
6-month LIBOR + 4.50% in the first 5 years and 6-month LIBOR + 5.00% thereafter	10 years	27/05/2024	US\$	100,000,000	100,000,000
6-month LIBOR + 5.25% in the first 5 years and 6-month LIBOR + 5.75% thereafter	15 years	23/10/2029		30,000,000	30,000,000
			US\$	130,000,000	130,000,000
	Total in colones		¢	73,634,600,000	71,263,400,000
	Finance charges payable			1,501,463,242	1,412,378,397
			¢	75,136,063,242	72,675,778,397

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)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

(21) Equity

(a) Share capital

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

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

On December 23, 2008, the Executive Branch of the Costa Rican Government authorized a capital contribution funded under the *Amendment to Law No. 8627 on the Ordinary and Extraordinary Budget of the Republic for Tax Year 2008* (Law No. 8703). Such law grants funds to capitalize three State-owned banks, including the Bank, in order to stimulate productive sectors, particularly small and medium-sized enterprises. For such purposes, the Bank received four securities for a total of US\$50,000,000 (equivalent to ¢27,619,000,002) 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, 2017, based on the exchange rate as of that date, the balance of those investments is ¢18,562,535,348 (2016: ¢27,181,284,510) (see note 5).

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

(b) Revaluation surplus

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

As of December 31, 2017, revaluation surplus amounts to ¢61,425,174,760 (2016: ¢60,806,752,437).

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

(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, 2017 and 2016, the adjustment for valuation of available-for-sale investments and restricted financial instruments amounts to ₡2,304,989,655 and ₡1,458,020,769, respectively, corresponding to unrealized losses.

(d) Adjustment for valuation of investments in other companies

As of December 31, 2017 and 2016, the adjustment for valuation of investments in foreign associates using the equity method amounts to ₡9,095,624,686 and ₡8,084,303,314, 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:

	2017	2016
Legal reserve	₡ 295,477,646,483	261,729,857,989
Statutory reserve for foreclosed assets	154,543,607	142,801,520
Excess of statutory reserve for loans	7,219,571,030	4,770,983,124
Statutory dynamic provision	8,270,045,249	7,970,665,759
	₡ 311,121,806,369	274,614,308,392

(f) Equity of the Development Financing Fund

As of December 31, 2017, the allocation of the Bank's earnings for the creation of the Development Financing Fund (FOFIDE) amounts to ₡27,111,958,013 (2016: ₡21,749,819,320).

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

(22) Commitments and contingencies

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

	2017	2016
Performance bonds	¢ 34,914,023,653	30,682,050,717
Bid bonds	2,380,121,728	1,342,107,486
Other guarantees	4,422,676,186	3,980,030,923
Letters of credit	19,229,683,722	10,690,229,800
Credits pending disbursement	224,551,326	253,629,299
	<u>61,171,056,615</u>	<u>46,948,048,225</u>
Pre-approved lines of credit	280,374,178,087	262,526,260,221
Other contingencies not related to credits	25,898,061	818,024,507
Other contingencies - Pending litigation and lawsuits (note 43)	299,788,087,164	296,588,055,556
Subtotal	<u>580,188,163,312</u>	<u>559,932,340,284</u>
Sales of FX futures - Other than hedges (note 6)	15,807,051,436	-
	<u>¢ 657,166,271,363</u>	<u>606,880,388,509</u>

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.

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

(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, 2017, trust capital is invested in the following assets:

Nature of trust	Cash or property management	Securitization	Portfolio management	Guaranty	Testamentary	Custody of stock with testamentary clause	Custody of stock and cash management	Guaranties and cash management	Guaranty and custody of stock	Total
<i>Trust assets</i>										
Cash and due from banks	¢ 102,952,351	2,760,570	627,856	-	86,274	-	8,573	-	-	106,435,624
Investments in financial instruments	296,554,249,029	11,871,035,819	18,175,440	1,140,795,534,106	1,235,181,316	-	2,064,730	-	-	1,450,476,240,440
Loan portfolio	2,570,177,368	-	1,481,422,233	-	-	-	-	-	-	4,051,599,601
Accounts and accrued interest receivable	18,444,686,904	17,250,670,197	1,638,196,305	25,958,821	283,699	-	-	43,992,978	1,925,827	37,405,714,731
Foreclosed assets	85,634,655	-	-	-	-	-	-	-	-	85,634,655
Investments in other companies	-	-	-	-	2,320,000	614,329,393	-	-	906,272,000	1,522,921,393
Property and equipment	4,559,678,241	53,889,119,388	-	72,948,120,617	-	-	-	1,544,041,161	1,454,901,292	134,395,860,699
Other assets	6,388,269,009	8,896,450	-	1,508,767,715	1,825,053	-	-	-	1,674,504,726	9,582,262,953
	¢ 328,705,647,557	83,022,482,424	3,138,421,834	1,215,278,381,259	1,239,696,342	614,329,393	2,073,303	1,588,034,139	4,037,603,845	1,637,626,670,096

(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	Cash or property management	Securitization	Portfolio management	Guaranty	Testamentary	Custody of stock with testamentary clause	Custody of stock and cash management	Guaranties and cash management	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 term certificates of deposit	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	9,599,521,995	12,834,002,406	1,734,898,256	24,682,121	475,951	-	-	34,848,960	-	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	4,560,607,132	49,080,535,436	-	72,930,401,803	-	-	-	1,544,041,161	-	1,454,901,292	129,570,486,824
Other assets	2,790,238,017	-	-	1,517,709,641	1,172,011	-	-	-	5,591,595	1,674,504,726	5,989,215,990
¢ 213,540,200,491	69,587,667,702	3,498,182,953	1,100,461,667,532	1,187,656,074	1,992,793	1,578,890,121	5,591,595	4,007,042,198	1,393,870,987,459		

(Continued)

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.

(Continued)

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:

	2017	2016
Chattel mortgages	¢ 1,323,290,684	1,724,533,313
Other guarantees received in the Bank's custody	5,214,124,613,840	5,367,891,690,514
Lines of credit granted but unused	400,321,411,495	441,382,834,335
Loans pending disbursement	233,983,980,165	225,619,018,406
Investments settled	207,927,441	578,306,470
Loans settled	173,858,782,945	166,459,634,866
Other accounts receivable settled	9,765,571,761	11,898,442,646
Accrued interest receivable settled	16,739,182,013	16,299,952,949
Interest income on non-accrual loans of loan portfolio	16,099,998,875	11,671,508,267
Supporting documentation received in the Bank's custody	1,255	1,255
Securities issued pending placement	21,250,026,640	9,231,596,560
Notified letters of credit	14,877,914,261	15,435,994,146
Notional value subject to interest rate futures (note 6)	576,615,560,000	688,494,461,153
Reversals made to income accounts for the period	16,866,526,419	-
Reversals made to expense accounts for the period	43,316,609,467	-
Nondeductible expenses	36,206,722,661	35,870,721,965
Nontaxable income	74,296,511,843	78,826,408,960
Other memoranda accounts	200,669,603,143	196,463,692,833
	<u>7,050,524,234,908</u>	<u>7,267,848,798,638</u>
Third-party debit memoranda accounts	830,355,188,266	762,122,776,614
Own debit memoranda accounts for custodial activities	319,056,166,408	169,779,166,913
Third-party debit memoranda accounts for custodial activities	9,783,300,436,430	8,919,476,507,623
	<u>¢ 17,983,236,026,012</u>	<u>17,119,227,249,788</u>

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

(25) Income from financial instruments

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

	2017	2016
<i>Cash and due from banks:</i>		
Interest on checking accounts and demand deposits in foreign entities	¢ 2,917,621,830	628,899,923
	<u>2,917,621,830</u>	<u>628,899,923</u>
<i>Financial instruments:</i>		
Interest on available-for-sale investment securities	43,962,887,357	36,389,347,298
Interest on past due and restricted financial instruments	2,423,847,368	6,755,226,461
	<u>46,386,734,725</u>	<u>43,144,573,759</u>
	¢ <u>49,304,356,555</u>	<u>43,773,473,682</u>

(26) Income from loan portfolio

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

	2017	2016
<i>Current loans:</i>		
Checking account overdrafts	¢ 68,710,086	57,373,872
Discounted notes	-	626,964
Loans granted with funds from BCCR	993,429,685	1,165,002,915
Loans granted with other funds	331,989,878,208	285,872,217,497
Credit cards	24,699,442,068	21,141,765,663
Issued letters of credit	579,034	112,709
Loans to related parties	370,054	-
Other loans	4,545,784	4,509,536
	<u>357,756,954,919</u>	<u>308,241,609,156</u>
<i>Past due loans and loans in legal collection:</i>		
Checking account overdrafts	2,419,700	9,883,694
Loans granted with funds from BCCR	141,433,591	177,090,616
Loans granted with other funds	43,313,062,194	40,879,267,471
Credit cards	2,727,402,948	2,350,168,175
Other loans	234,173	-
	<u>46,184,552,606</u>	<u>43,416,409,956</u>
	¢ <u>403,941,507,525</u>	<u>351,658,019,112</u>

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

(27) Other finance income

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

	2017	2016
Fees and commissions on letters of credit	¢ 73,454,058	54,287,331
Fees and commissions on guarantees granted	464,886,999	420,500,930
Fees and commissions on lines of credit	82,075,764	102,166,852
Gain on fair value hedge for item measured at cost	16,126,462,658	42,806,739,418
Other sundry finance income	4,782,243,818	4,012,419,169
	¢ <u>21,529,123,297</u>	<u>47,396,113,700</u>

(28) Finance costs for obligations with the public

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

	2017	2016
Demand deposits	¢ 37,426,650,671	28,313,366,781
Term deposits	111,896,091,731	77,352,761,160
	¢ <u>149,322,742,402</u>	<u>105,666,127,941</u>

(29) Finance costs for obligations with financial entities

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

	2017	2016
Demand obligations	¢ 2,292,993,961	1,798,917,470
Term obligations	66,344,597,177	55,541,822,850
	¢ <u>68,637,591,138</u>	<u>57,340,740,320</u>

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

(30) Other finance costs

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

	2017	2016
Fees and commissions on letters of credit obtained	¢ 78,631,720	81,692,990
Loss on hedged item measured at cost from fair value hedge of interest rate risk	14,664,767,883	27,421,960,479
Other sundry interest expenses	219,650,105	835,549,523
	¢ 14,963,049,708	28,339,202,992

(31) Expenses for allowance for impairment of assets

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

	2017	2016
Allowance for loan losses (note 7-c)	¢ 30,132,320,888	28,521,685,521
Allowance for impairment of other accounts receivable (note 8)	2,026,114,296	1,601,223,913
Allowance for stand-by credit losses (note 19)	18,050,000	130,000,001
General and counter-cyclical allowance for loan portfolio (note 7-c)	13,739,953,211	8,969,130,558
General and counter-cyclical allowance for stand-by credit losses (note 19)	58,207,000	55,335,019
Allowance for impairment of derivative financial instruments (note 5)	29,794,522	20,527,703
	¢ 46,004,439,917	39,297,902,715

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

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

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

	2017	2016
Recovery of loan write-offs	¢ 11,290,264,850	8,540,789,494
Recovery of receivable write-offs	6,786,278	973,960
Decrease in allowance for loan portfolio (note 7)	720,000,000	-
Decrease in allowance for other accounts receivable (note 8)	767,042,270	3,229,204,400
Decrease in allowance for stand-by credit losses (note 19)	230,000,141	1,229,913,214
Decrease in general and counter-cyclical allowance for stand-by credit losses (note 19)	130,000,000	-
Decrease in allowance for investments in financial instruments (note 5)	17,716,855	97,495,429
	¢ <u>13,161,810,394</u>	<u>13,098,376,497</u>

(33) Operating income from service fees and commissions

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

	2017	2016
Drafts and transfers	¢ 8,458,568,610	7,822,913,773
Certified checks	5,936,946	4,755,849
Trusts	973,162,064	739,613,469
Custodial services	1,528,076,053	1,387,190,986
Mandates	231,919	279,577
Collections	32,139,006	34,685,858
Credit cards	55,057,266,544	47,048,860,334
Administrative services	3,470,572,705	3,656,010,308
Insurance underwriting	1,033,118,562	899,000,051
Transactions with related parties	246,968,909	265,201,978
Other	40,885,632,922	40,131,531,952
	¢ <u>111,691,674,240</u>	<u>101,990,044,135</u>

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

(34) Other operating income

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

	2017	2016
Leasing of assets	¢ 54,690,392	41,960,194
Recovery of expenses	2,237,693,397	2,387,580,317
Net valuation of other assets (note 42-c)	414,076,427	371,907,290
Other income from accounts receivable	1,524,889	1,458,357
Sundry operating income	4,927,436,024	17,030,843,280
Decrease in provisions	2,246,545,284	1,910,736,128
	¢ <u>9,881,966,413</u>	<u>21,744,485,566</u>

(35) Expenses for foreclosed assets

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

	2017	2016
Loss on sale of assets received in lieu of payment	¢ 2,262,926,272	1,581,436,186
Loss on sale of assets awarded in judicial auctions	7,116,546,951	6,353,617,713
Management of assets awarded in judicial auctions	5,678,480,406	8,275,437,770
Loss on impairment of foreclosed assets (note 9)	85,930,007	149,824,594
Loss on allowance for impairment and per legal requirements (note 9)	5,974,067,289	4,756,428,898
Other expenses	330,046,363	1,053,953,924
	¢ <u>21,447,997,288</u>	<u>22,170,699,085</u>

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

(36) Expenses for provisions

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

	2017	2016
Severance benefits	¢ 1,333,340,629	7,117,315,140
Pending litigation	452,354,055	1,927,480,509
Other provisions	12,501,415,298	15,114,758,025
	¢ 14,287,109,982	24,159,553,674

(37) Other operating expenses

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

	2017	2016
Donations	¢ -	500,000,000
Penalties for noncompliance with regulatory provisions	355,623,608	19,593,206
Net valuation of other liabilities (note 42-c)	867,162,063	572,989,111
Income tax (8%) on interest from investments in financial instruments	76,955,195	2,742,921,270
Income tax on foreign remittances	2,939,100,615	1,246,721,225
Property tax	228,777,095	228,019,133
Licenses	477,032,254	350,756,128
Other local taxes	894,047,965	717,177,444
Transfers to FINADE	3,577,151,802	3,680,097,576
Sundry operating expenses	62,291,770,620	50,365,300,371
	¢ 71,707,621,217	60,423,575,464

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

(38) Personnel expenses

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

	2017	2016
Salaries and bonuses, permanent staff	¢ 60,585,387,794	60,182,307,907
Salaries and bonuses, outsourcing	1,629,683,026	1,682,128,621
Compensation for directors and statutory examiners	112,671,113	113,252,071
Overtime	888,345,803	893,465,697
Travel expenses	584,593,681	686,656,128
Statutory Christmas bonus	6,707,131,116	6,851,466,672
Vacation	6,678,973,958	7,713,255,686
Other compensation	3,933,117,852	3,566,639,900
Severance benefits	4,140,799,429	4,171,192,492
Employer social security taxes	25,791,262,063	26,101,526,841
Refreshments	440,847,564	412,100,636
Uniforms	364,780,055	218,304,921
Training	605,688,018	802,958,124
Personnel insurance	184,517,947	211,032,088
Back-to-school bonus	6,236,757,407	6,368,136,484
Mandatory retirement savings account	2,429,790,397	2,456,562,656
Other personnel expenses	515,623,300	544,160,424
	¢ <u>121,829,970,523</u>	<u>122,975,147,348</u>

(39) Other administrative expenses

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

	2017	2016
Outsourcing	¢ 12,161,287,715	12,478,498,328
Transportation and communications	4,054,096,589	3,858,543,335
Infrastructure	34,923,534,021	33,631,791,694
Overhead	16,473,141,294	12,975,728,131
	¢ <u>67,612,059,619</u>	<u>62,944,561,488</u>

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

(40) Statutory allocations

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

	2017	2016
CONAPE - 5%	¢ 3,294,092,356	3,809,281,191
CNE - 3%	1,802,506,402	2,087,944,021
INFOCOOP - 10%	5,382,012,521	6,279,305,016
RIVM - 15% (2016: 7%)	6,367,484,262	3,494,837,875
	¢ 16,846,095,541	15,671,368,103

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

(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:

		2017	
		Carrying amount	Fair value
<i>Financial assets:</i>			
Cash and due from banks	¢	1,277,462,115,311	1,277,462,115,311
Investments in financial instruments		1,032,533,580,919	1,032,533,580,919
Loan portfolio		4,524,849,705,830	4,266,690,384,883
	¢	<u>6,834,845,402,060</u>	<u>6,576,686,081,113</u>
<i>Financial liabilities:</i>			
Demand deposits from the public and financial entities	¢	2,940,759,364,683	2,940,759,364,683
Other demand obligations with the public		26,763,791,694	26,763,791,694
Term deposits from the public and financial entities		<u>3,238,767,595,318</u>	<u>3,285,295,781,289</u>
	¢	<u>6,206,290,751,695</u>	<u>6,252,818,937,666</u>
		2016	
		Carrying amount	Fair value
<i>Financial assets:</i>			
Cash and due from banks	¢	934,649,797,171	934,649,797,171
Investments in financial instruments		893,072,038,041	893,072,038,041
Loan portfolio		4,143,674,602,335	3,873,915,582,205
	¢	<u>5,971,396,437,547</u>	<u>5,701,637,417,417</u>
<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		<u>2,601,234,423,117</u>	<u>1,791,132,075,752</u>
	¢	<u>5,447,936,130,765</u>	<u>4,637,833,783,400</u>

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

Fair value estimates

The following assumptions were used by management to estimate the fair value of each class of financial instruments, both on and off the 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, 2017 and 2016.

- (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.

- (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.

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

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

		2017			
		Level 1	Level 2	Level 3	Total
Available for sale	¢	917,267,975,323	74,106,726,757	5,884,509,934	997,259,212,014
Held to maturity		-	18,562,535,348	-	18,562,535,348
Derivative financial instruments		-	-	6,159,898,498	6,159,898,498
Term obligations with foreign financial entities		-	-	841,601,971,462	841,601,971,462
		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

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).

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

As of December 31, financial instruments categorized as Level 3 in the fair value hierarchy are measured as follows:

	December 31,					
	2017			2016		
	Available for sale	Derivative financial instruments	Term obligations with foreign financial entities	Available for sale	Derivative financial instruments	Term obligations with foreign financial entities
Opening balance	¢ 5,629,455,571	5,893,164,907	815,040,918,559	5,594,435,115	12,835,716,456	539,553,389,165
Purchases	-	-	-	-	-	269,968,328,000
Valuation	63,384,957	89,782,668	39,811,482,772	(106,124,270)	(7,354,517,184)	(45,572,091,005)
Amortizations	-	-	863,192,777	-	-	724,094,677
Exchange differences	191,669,406	176,950,923	(14,113,622,646)	141,144,726	411,965,635	50,367,197,722
Closing balance	¢ 5,884,509,934	6,159,898,498	841,601,971,462	5,629,455,571	5,893,164,907	815,040,918,559

(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.

(Continued)

BANCO NACIONAL DE COSTA RICA

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.

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

As of December 31, the Bank's financial instruments with credit risk exposure are as follows:

	Note	Direct		Note	Stand-by	
		2017	2016		2017	2016
Loan portfolio						
Principal	7-a	¢ 4,493,106,220,126	4,116,451,436,022	22	341,545,234,702	309,474,308,446
Accounts and accrued interest receivable		31,743,485,704	27,223,166,313		-	-
Carrying amount, gross		4,524,849,705,830	4,143,674,602,335		341,545,234,702	309,474,308,446
Allowance for loan losses (accounting records)		(134,030,406,147)	(82,909,492,079)		(265,681,489)	(540,840,567)
Carrying amount, net		¢ 4,390,819,299,683	4,060,765,110,256		341,279,553,213	308,933,467,879
Loan portfolio						
Total balances:						
0		¢ 17,635,841,583	-		-	-
A1		3,561,582,919,978	3,379,006,418,154		330,118,317,660	300,137,003,461
A2		34,027,425,779	34,871,377,144		577,610,597	542,981,351
B1		390,309,401,449	295,093,603,945		6,118,195,520	4,718,672,828
B2		8,855,274,683	9,985,360,361		23,933,080	43,339,862
C1		168,161,658,897	119,659,479,745		1,605,199,856	1,640,405,498
C2		4,562,010,037	4,690,615,409		43,233,893	19,170,479
D		136,407,728,578	115,582,103,273		845,612,382	568,051,607
E		203,307,444,846	184,785,644,304		2,213,131,714	1,804,683,360
		4,524,849,705,830	4,143,674,602,335		341,545,234,702	309,474,308,446
Structural allowance (subledger - database)		(131,599,796,825)	(77,227,248,420)		(144,078,976)	(19,203,816)
Carrying amount, net		¢ 4,393,249,909,005	4,066,447,353,915		341,401,155,726	309,455,104,630
		Direct			Stand-by	
		2017	2016		2017	2016
Individually assessed loans with allowance:						
0		¢ 17,635,841,583	-		-	-
A1		3,561,580,560,806	3,379,006,418,154		49,140,799,991	39,317,286,627
A2		34,027,425,779	34,871,377,144		108,979,998	96,303,807
B1		390,309,401,449	295,093,603,945		1,659,921,607	2,535,267,214
B2		8,855,274,683	9,985,360,361		-	19,740,000
C1		110,371,269,122	119,659,479,745		82,156,711	105,211,054
C2		4,562,010,037	4,690,615,409		-	3,679,022
D		136,407,728,578	115,582,103,273		18,679,022	75,966,784
E		261,097,834,621	184,785,644,304		90,496,820	93,809,041
		4,524,847,346,658	4,143,674,602,335		51,101,034,149	42,247,263,549
Structural allowance (subledger - database)		(131,599,796,825)	(77,227,248,420)		(144,078,976)	(19,203,816)
Carrying amount, net		¢ 4,393,247,549,833	4,066,447,353,915		50,956,955,173	42,228,059,733

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

	Direct		Stand-by	
	2017	2016	2017	2016
Current loans without allowance:				
A1	¢ 2,359,172	-	280,977,517,669	260,819,716,835
A2	-	-	468,630,600	446,677,544
B1	-	-	4,458,273,913	2,183,405,613
B2	-	-	23,933,080	23,599,862
C1	-	-	1,523,043,145	1,535,194,444
C2	-	-	43,233,893	15,491,457
D	-	-	826,933,360	492,084,823
E	-	-	2,122,634,894	1,710,874,320
Carrying amount	¢ 2,359,172	-	290,444,200,554	267,227,044,898
Carrying amount, gross	4,524,849,705,830	4,143,674,602,335	341,545,234,702	309,474,308,446
Allowance for loan losses (database)	(31,599,796,825)	(77,227,248,420)	(144,078,976)	(19,203,816)
Excess of allowance over structural allowance	(2,430,609,322)	(5,682,243,659)	(121,602,513)	(521,636,751)
Carrying amount, net	7-a ¢ 4,390,819,299,683	4,060,765,110,256	341,279,553,213	308,933,467,879
Restructured loans	¢ 32,567,020,338	26,915,117,148	-	63,195

Set out below is an analysis as of December 31 of the gross and net (of allowance for loan losses) amounts of loans by risk rating according to SUGEF Directive 1-05:

	2017	
	Loans to customers	
	Gross	Net
0	¢ 17,635,841,583	17,532,596,174
A1	3,561,582,919,978	3,538,623,193,907
A2	34,027,425,779	33,845,983,332
B1	390,309,401,449	386,938,024,903
B2	8,855,274,683	8,752,950,710
C1	168,161,658,897	164,908,471,950
C2	4,562,010,037	4,316,672,266
D	136,407,728,578	126,928,627,250
E	203,307,444,846	108,972,779,191
	¢ 4,524,849,705,830	4,390,819,299,683

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

	2016	
	Loans to customers	
	Gross	Net
A1	¢ 3,379,006,418,154	3,360,994,924,963
A2	34,871,377,144	34,753,588,529
B1	295,093,603,945	293,234,628,822
B2	9,985,360,361	9,896,790,037
C1	119,659,479,745	117,172,148,908
C2	4,690,615,409	4,430,315,563
D	115,582,103,273	108,548,234,893
E	184,785,644,304	131,734,478,541
	¢ 4,143,674,602,335	4,060,765,110,256

As shown above, as of December 31, 2017, the gross portfolio amounts to ¢4,524 billion. Of that amount, 88.68% is classified in risk ratings “A + B” and 11.32% in risk ratings “C + D + E” (2016: ¢4,143 billion, of which 89.75% is classified in risk ratings “A + B” and 10.25% 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.

Past due loans without allowance:

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

Restructured loans:

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

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

Loan charge-off policy:

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

Borrower classification

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

The loan portfolio by borrower classification is as follows:

Borrower classification	Direct		Stand-by	
	2017	2016	2017	2016
Group 1	¢ 2,748,857,867,558	2,508,125,715,552	68,576,315,183	54,593,528,041
Group 2	1,775,991,838,272	1,635,548,886,783	277,968,919,519	254,880,780,405
	¢ 4,524,849,705,830	4,143,674,602,335	341,545,234,702	309,474,308,446

Risk ratings

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

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

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

Analysis of creditworthiness

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

- a. *Financial position and expected cash flows:* Analysis of the stability and continuity of main sources of income. The effectiveness of the analysis depends on the quality and timeliness of information.
- b. *Experience in the line of business and quality of management:* Analysis of the capacity of management to lead the business with appropriate controls and adequate support from the owners.
- c. *Business environment:* Analysis of the main sector variables that affect the borrower's creditworthiness.
- d. *Vulnerability to changes in interest rates and foreign exchange rates:* Analysis of the borrower's ability to confront unexpected adverse changes in interest rates and foreign exchange rates.
- e. *Other factors:* Analysis of other factors that affect the borrower's creditworthiness. In the case of legal entities, considerations include, but are not limited to, environmental issues, technological aspects, operating licenses and permits, representation of products or foreign offices, relationship with significant customers and suppliers, sales agreements, legal risks, and country risk (the latter for foreign-domiciled borrowers). In the case of individuals, the following borrower characteristics may be taken into consideration: marital status, age, level of education, profession, gender, etc.

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

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

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

Analysis of historical payment behavior

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

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

Structural allowance for loan losses

Such allowance is calculated on the covered and uncovered balance of each loan operation.

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

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

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

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

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

Risk rating	Specific allowance percentage -	Specific allowance percentage -
	Uncovered portion	Covered portion
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:

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

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

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

In accordance with Article 11 bis, *General allowance*, of CONASSIF 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.

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

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:

		2017		
		Allowance booked	Structural allowance	Excess of allowance
Direct	¢	134,030,406,147	(131,599,796,825)	2,430,609,322
Stand-by		265,681,489	(144,078,976)	121,602,513
		134,296,087,636	(131,743,875,801)	2,552,211,835
Counter-cyclical per SUGEF 19-16		6,137,987,214	(6,137,987,214)	-
	¢	140,434,074,850	(137,881,863,015)	2,552,211,835
		2016		
		Allowance booked	Structural allowance	Excess of allowance
Direct	¢	82,909,492,079	(77,227,248,420)	5,682,243,659
Stand-by		540,840,567	(19,203,816)	521,636,751
		83,450,332,646	(77,246,452,236)	6,203,880,410
Counter-cyclical per SUGEF 19-16		2,555,367,241	(2,555,367,241)	-
	¢	86,005,699,887	(79,801,819,477)	6,203,880,410

As of December 31, 2017, the balance of the Bank's allowance for loan losses (direct and stand-by), accrued interest receivable, and other receivables amounts to ¢143,967,737,252 (2016: ¢89,398,051,250).

Cyclical allowance

As of December 31, 2017, the counter-cyclical allowance is valued pursuant to the provisions set forth in SUGEF Directive 19-16 *Regulations to Determine and Book Counter-cyclical Allowances*, approved by CONASSIF through Article 6 of minutes of meeting No. 1258-2016 held on June 7, 2016, published in Alcance No. 100 of the Official Gazette No. 117 of June 17, 2016. Those provisions are summarized as follows:

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

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

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

Transition Provision II of SUGEF Directive 19-16 indicates that starting July 2016 each entity must perform the monthly booking of the expense for the counter-cyclical component equivalent to a minimum of 7% of the difference between the balance of income accounts less expenses plus taxes and monthly statutory allocations, until the balance of the analytical account reaches the amount corresponding to the counter-cyclical allowance provided in the regulations (¢24,485,623,483 based on the calculation of the counter-cyclical allowance made by management as of December 31, 2017). Once the entity reach that level, it shall continue booking the counter-cyclical account as indicated by this regulation.

As of December 31, 2017, the counter-cyclical allowance booked amounts to ¢7,489,681,910 (2016: ¢2,555,367,241).

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

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 all booked assets each month until the allowance is equivalent to 100% of the assets' carrying amount. The booking of the allowance shall begin at month-end of the month in which the assets were acquired.

As of December 31, 2017, the carrying amount of the allowance for impairment of foreclosed assets and per legal requirements amounts to ₡62,466,054,133 (2016: ₡59,644,951,072).

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

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

Sector	Direct		Stand-by	
	2017	2016	2017	2016
Trade	¢ 412,215,871,716	385,823,170,488	3,066,960	11,846,917
Services	929,716,008,520	890,488,809,393	60,958,147,070	46,704,888,190
Financial services	137,077,253,224	144,671,667,415	-	-
Mining	913,028,462	1,080,564,191	-	-
Manufacturing and quarrying	179,577,802,951	164,893,268,463	-	-
Construction	106,709,787,747	102,779,598,611	-	-
Agriculture and forestry	127,376,468,783	120,686,948,083	-	15,073,475
Livestock, hunting, and fishing	84,543,749,108	76,369,144,979	-	-
Electricity, water, sanitation, and other related sectors	440,807,243,205	399,236,286,171	-	-
Transportation and telecommunications	46,223,170,011	41,980,505,892	-	-
Housing	1,316,287,378,607	1,202,794,443,892	17,196,188	14,877,383
Personal or consumer	561,393,107,868	450,351,672,494	280,374,178,080	262,526,260,212
Tourism	182,008,835,628	162,518,522,263	192,646,404	201,362,269
	¢ <u>4,524,849,705,830</u>	<u>4,143,674,602,335</u>	<u>341,545,234,702</u>	<u>309,474,308,446</u>

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

	Direct		Stand-by	
	2017	2016	2017	2016
Central America	¢ <u>4,524,849,705,830</u>	<u>4,143,674,602,335</u>	<u>341,545,234,702</u>	<u>309,474,308,446</u>

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

Guarantee	Direct		Stand-by	
	2017	2016	2017	2016
Back to back	¢ 44,538,351,577	13,829,691,479	1,078,695	1,236,793
Mortgage bond	329,841,726	484,547,012	-	-
Assignment of loans	372,439,090,207	462,803,451,395	-	219,272
Mortgage	1,825,152,619,518	1,710,541,594,795	171,227,876	190,663,081
Surety	874,822,084,146	762,062,136,046	1,599,874	23,274,642
Trust	382,507,943,648	368,369,817,770	19,821,732	86,004,322
Securities	1,061,598,736	28,416,281,573	-	-
Chattel mortgage	244,493,000,879	204,332,022,614	-	-
Other	779,505,175,393	592,835,059,651	341,351,506,525	309,172,910,336
	¢ <u>4,524,849,705,830</u>	<u>4,143,674,602,335</u>	<u>341,545,234,702</u>	<u>309,474,308,446</u>

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

Guarantees:

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

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

The Bank conducts strict credit analyses before granting loans and requires guarantees from its borrowers before disbursing loans. As of December 31, 2017 and 2016, 55.21% and 67.30% of the loan portfolio is secured by collateral guarantees, respectively.

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	
	2017	2016	2017	2016
¢1 to ¢3,000,000	¢ 164,701,590,388	150,144,009,432	103,660,719,262	97,654,393,260
¢3,000,001 to ¢15,000,000	630,696,858,704	563,931,355,672	175,793,736,125	163,377,395,761
¢15,000,001 to ¢30,000,000	474,923,823,398	452,926,633,531	6,522,609,211	5,694,833,794
¢30,000,001 to ¢50,000,000	480,160,993,326	445,924,835,557	2,506,185,273	2,013,695,688
¢50,000,001 to ¢75,000,000	389,300,510,481	336,037,598,434	1,900,742,296	1,852,516,239
¢75,000,001 to ¢100,000,000	192,387,223,209	151,304,177,727	1,621,318,004	1,490,718,663
¢100,000,001 to ¢200,000,000	243,112,076,993	225,986,006,480	4,427,307,836	3,462,597,036
More than ¢200,000,000	1,949,566,629,331	1,817,419,985,502	45,112,616,695	33,928,158,005
	¢ <u>4,524,849,705,830</u>	<u>4,143,674,602,335</u>	<u>341,545,234,702</u>	<u>309,474,308,446</u>

As of December 31, 2017 and 2016, the portion of the loan portfolio (direct and stand-by loans) corresponding to economic interest groups amounts to ¢481,020,452,451 and ¢470,646,093,550, 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).

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

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.

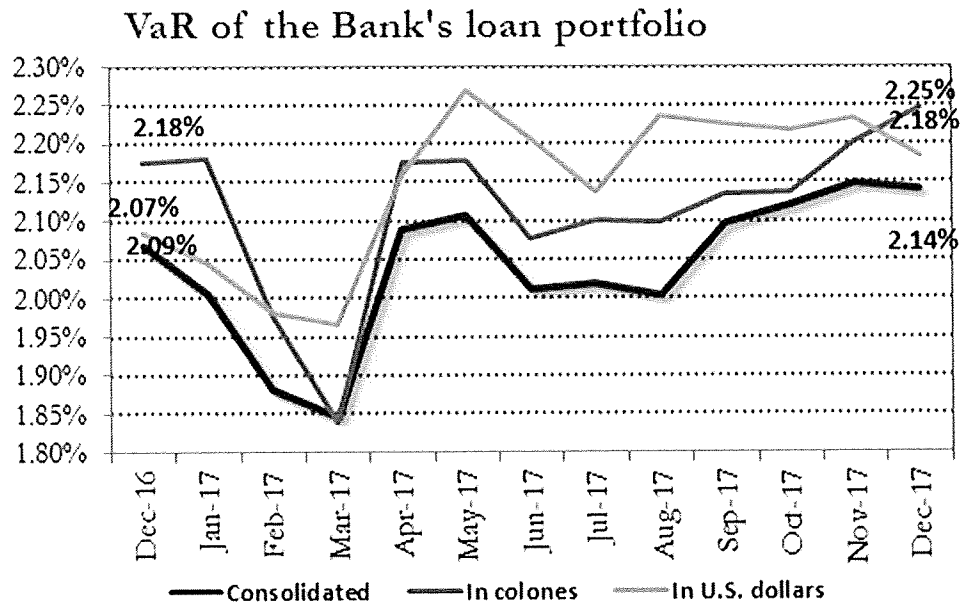
Various technical tools are used to provide other angles for the analysis. Other types of estimates are made in addition to those obtained using the VaR methodology, such as the performance of the portfolio in legal collection, concentration of the portfolio by economic activity, vintage analysis, stress 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 quarterly increase of the VaR is due to the impairment of arrears more than 90 days in the entire loan portfolio between September and December 2017. Legal collection for the entire portfolio decreased from 5.82% in September 2017 to 5.15% in December 2017, while arrears more than 90 days increased from 2.29% to 2.44%. For that same period, by currency, portfolios also showed similar behaviors in arrears indicators for both legal collection and arrears more than 90 days. In colones, legal collection decreased from 6.29% to 5.65% and arrears more than 90 days increased from 2.16% to 2.46%. In U.S. dollars, legal collection decreased from 4.79% to 4.07% and arrears more than 90 days decreased from 2.48% to 2.35%. On a year-on-year basis, the consolidated VaR of the loan portfolio also increased during the period from December 2016 to December 2017. By currency, the VaR of the portfolios in colones, in U.S. dollars, and in DU increased.

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements



By economic activity, on a year-on-year basis, most activities show increases in VaR, particularly, Agriculture, Energy, Services, and Construction. Industry and Tourism show decreases in VaR. In consolidated terms, the VaR increased from 2.09% in December 2016 to 2.14% in December 2017.

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

Activity	2017	2016
Agriculture	4.07%	3.01%
Livestock	3.18%	3.11%
Mining	9.15%	9.11%
Industry	3.09%	3.84%
Energy	4.30%	3.65%
Housing	1.52%	1.51%
Construction	4.19%	3.94%
Trade	2.91%	2.73%
Transportation	1.33%	1.14%
Financial services	0.37%	0.36%
Consumer	4.57%	4.35%
Services	2.10%	1.78%
Tourism	5.46%	6.36%
BNCR	2.14%	2.07%

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

<u>Indicator</u>	<u>2017</u>	<u>2016</u>	<u>Variation</u>	<u>Level</u>
LCR in colones	110.00%	77.57%	32.43%	Appetite
LCR in U.S. dollars	278.00%	160.71%	117.29%	Appetite

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

As of December 31, 2017, the terms of the Bank's assets and liabilities denominated in local currency are matched as follows:

	Past due	Demand	Days							More than 365	Total
			1 to 30	31 to 60	61 to 90	91 to 180	181 to 365				
Cash and due from banks	¢	80,440,696,110	-	-	-	-	-	-	-	-	80,440,696,110
Minimum legal deposit in BCCR		323,504,602,379	25,393,150,720	35,772,718,849	25,895,395,415	57,743,568,550	60,614,088,948	24,298,583,589			553,222,108,450
Investments	-	-	112,551,341,206	29,835,624,817	42,701,311,439	34,657,870,205	47,017,680,084	190,048,332,776			456,812,160,527
Loan portfolio	144,568,723,210	-	46,892,391,275	42,121,884,476	35,005,298,609	106,622,738,480	132,633,716,014	2,485,448,469,783			2,993,293,221,847
Recoveries	¢	403,945,298,489	184,836,883,201	107,730,228,142	103,602,005,463	199,024,177,235	240,265,485,046	2,699,795,386,148			4,083,768,186,934
Obligations with the public	¢	1,819,782,210,980	265,693,014,771	158,482,807,707	156,912,286,465	334,709,008,383	360,782,278,962	137,924,991,130			3,234,286,598,398
Obligations with BCCR	-	-	-	-	-	-	-	125,644,412			125,644,412
Obligations with financial entities	-	87,053,086,275	1,859,127,691	18,570,517,452	20,809,400,000	41,982,956,360	1,369,332,729	30,499,577,677			202,143,998,184
Charges payable	-	9,308,146,296	9,220,945,017	3,225,599,985	2,894,751,515	3,826,367,413	1,339,344,906	225,771,966			30,040,927,098
Maturities	-	1,916,143,443,551	276,773,087,479	180,278,925,144	180,616,437,980	380,518,332,156	363,490,956,597	168,775,985,185			3,466,597,168,092
Difference	¢	(1,512,198,145,062)	(91,936,204,278)	(72,548,697,002)	(77,014,432,517)	(181,494,154,921)	(123,225,471,551)	2,531,019,400,963			617,171,018,842

(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:

	Past due	Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	More than 365	Total
Days									
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	8,642,783,446	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	193,989,704,419	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	2,160,369,662,522	2,610,595,686,048
Recoveries	¢	323,255,796,227	118,831,984,465	69,528,657,980	165,252,065,211	161,119,097,354	230,181,044,975	2,363,002,150,387	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	60,616,362,856	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	7,748,991,244	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	108,652,073	17,885,878,197
Maturities	-	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	68,599,650,585	3,029,300,398,746
Difference	¢	(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)	2,294,402,499,802	518,040,415,313

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

As of December 31, 2017, the terms of the Bank's assets and liabilities denominated in foreign currency, expressed in local currency, are matched as follows:

	Past due	Demand	Days							Total
			1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	More than 365		
Cash and due from banks	¢	340,128,457,416	-	-	-	-	-	-	340,128,457,416	
Minimum legal deposit in BCCR										
Investments	-	161,068,524,723	15,094,422,049	13,662,120,072	16,013,349,929	32,472,245,663	15,168,041,954	50,192,148,949	303,670,853,339	
Loan portfolio	-	-	37,361,624,104	38,570,145,337	12,476,212,006	90,067,795,557	148,384,638,100	248,934,479,482	575,794,894,586	
Recoveries	110,135,043,081	-	30,068,851,148	22,543,980,773	28,030,909,105	73,702,646,159	64,418,771,727	1,202,656,281,991	1,531,556,483,984	
	110,135,043,081	501,196,982,139	82,524,897,301	74,776,246,182	56,520,471,040	196,242,687,379	227,971,451,781	1,501,782,910,422	2,751,150,689,325	
Obligations with the public	¢									
Obligations with financial entities	-	903,742,222,321	98,102,573,084	107,979,927,166	78,416,357,091	201,360,863,204	100,280,511,275	79,100,572,042	1,568,983,026,183	
Charges payable	-	121,102,178,397	2,837,764,200	5,253,828,710	398,060,151	22,387,750,500	9,674,453,600	937,442,158,532	1,099,096,194,090	
Maturities	-	1,917,335,606	1,318,185,756	1,612,436,577	552,100,478	9,225,288,541	490,059,300	456,123,779	15,571,530,037	
Difference	¢	1,026,761,736,324	102,258,523,040	114,846,192,453	79,366,517,720	232,973,902,245	110,445,024,175	1,016,998,854,353	2,683,650,750,310	
	¢	110,135,043,081	(525,564,754,185)	(19,733,625,739)	(40,069,946,271)	(22,846,046,680)	(36,731,214,866)	484,784,056,069	67,499,939,015	

(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:

		Past due	Demand	Days							Total
				1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	More than 365		
Cash and due from banks	¢	-	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	
Recoveries	¢	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	
Maturities	¢	-	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

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.

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

Below is the variation of the portfolios in each currency for December 2017 and December 2016.

<u>Currency</u>	<u>Face value of investments by currency</u>		<u>Variation</u>
	<u>December 2017</u>	<u>December 2016</u>	
Colones	425,852,400,000	402,018,100,000	23,834,300,000
Local U.S. dollars	426,017,729	375,303,064	50,714,665
Intl U.S. dollars	557,607,036	389,023,923	168,583,112
Euros	11,000,000	27,650,000	(16,650,000)
DU	24,282,530	34,823,795	(10,541,265)

Duration by currency varies according to portfolio management, with a decrease in the last year in colones, euros, and DU and an increase in U.S. dollars.

<u>Duration</u>	<u>December 2017</u>	<u>December 2016</u>	<u>Variation</u>
Colones	0.32	0.79	(0.47)
Local U.S. dollars	0.99	0.88	0.10
Intl U.S. dollars	1.32	1.28	0.04
Euros	0.94	1.06	(0.12)
DU	1.29	1.86	(0.57)

- Market risk of investments

The Bank's consolidated VaR regarding the market value of investments is at the risk appetite level, showing a slight increase in the last year. Increases in the monetary policy rate and a higher pressure on the liquidity in colones may give rise to higher pressure on local interest rates, increasing VaR due to movements in the curves.

<u>Type of risk</u>	<u>December 2017</u>	<u>December 2016</u>	<u>Variation</u>	<u>Level</u>
Consolidated VaR	0.24%	0.12%	0.12%	Appetite

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

The individual VaR by currency and variations with respect to the prior year are as follows:

<u>Currency</u>	<u>VaR by currency</u>		<u>Variation</u>
	<u>December 2017</u>	<u>December 2016</u>	
Colones	0.07%	0.15%	(0.08%)
Local U.S. dollars	0.35%	0.08%	0.27%
Intl U.S. dollars	0.55%	0.25%	0.30%
Euros	0.01%	0.03%	(0.02%)
DU	0.06%	0.26%	(0.21%)

- 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.

<u>Type of risk</u>	<u>December 2016</u>	<u>December 2017</u>	<u>Variation</u>	<u>Level</u>
Interest rate risk in colones	1.63%	0.14%	(1.49%)	Normal
Interest rate risk in foreign currency	0.48%	0.70%	0.22%	Normal

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

As of December 31, 2017, the interest rate terms for the Bank's assets and liabilities are matched as follows (differences between the recovery of assets and the maturity of liabilities):

	1 to 30 days	31 to 90 days	91 to 180 days	181 to 360 days	361 to 720 days	More than 720 days	Total
<i>Local currency (LC)</i>							
Investments	112,509,834,994	72,511,496,247	34,582,187,635	37,736,412,410	29,651,922,248	151,115,142,855	438,106,996,389
Loan portfolio	2,565,056,362,078	103,136,230,043	98,705,850,847	16,237,894,212	17,827,018,976	69,033,666,086	2,869,997,022,242
Total recovery of rate-sensitive assets LC (A)	2,677,566,197,072	175,647,726,290	133,288,038,482	53,974,306,622	47,478,941,224	220,148,808,941	3,308,104,018,631
Obligations with the public	276,681,195,162	359,911,030,838	379,228,579,456	361,856,489,734	117,853,166,515	26,386,847,813	1,521,917,309,518
Obligations with BCCR	-	-	-	-	-	125,644,412	125,644,412
Obligations with financial entities	1,273,702,993	284,957,555	431,114,246	901,229,134	1,852,649,947	26,876,594,199	31,620,248,074
Total maturity of rate-sensitive liabilities LC (B)	277,954,898,155	360,195,988,393	379,659,693,702	362,757,718,868	119,705,816,462	53,389,086,424	1,553,663,202,004
LC difference, recovery of assets less maturity of liabilities (A - B)	2,399,611,298,917	(184,548,262,103)	(246,371,655,220)	(308,783,412,246)	(72,226,875,238)	166,759,722,517	1,754,440,816,627
<i>Foreign currency (FC)</i>							
Investments	37,219,268,621	50,491,679,901	90,267,262,864	147,981,191,473	86,273,162,850	157,383,055,269	569,615,620,978
Loan portfolio	1,302,177,235,933	48,468,965,584	28,347,786,928	3,116,546,562	26,038,902,776	72,292,589,480	1,480,442,027,263
Total recovery of rate-sensitive assets FC (C)	1,339,396,504,554	98,960,645,485	118,615,049,792	151,097,738,035	112,312,065,626	229,675,644,749	2,050,057,648,241
Obligations with the public	101,352,066,504	193,254,462,476	231,963,542,889	108,375,623,814	44,094,385,416	872,773,706,255	1,551,813,787,354
Obligations with entities	2,318,304,983	1,097,438,750	2,130,854,810	2,722,236,763	5,619,145,656	84,836,931,091	98,724,912,053
Total maturity of rate-sensitive liabilities FC (D)	103,670,371,487	194,351,901,226	234,094,397,699	111,097,860,577	49,713,531,072	957,610,637,346	1,650,538,699,407
FC difference, recovery of assets less maturity of liabilities (C - D)	1,235,726,133,067	(95,391,255,741)	(115,479,347,907)	39,999,877,458	62,598,534,554	(727,934,992,597)	399,518,948,834
Total recovery of rate-sensitive assets 1/ (A + C)	4,016,962,701,626	274,608,371,775	251,903,088,274	205,072,044,657	159,791,006,850	449,824,453,690	5,358,161,666,872
Total recovery of rate-sensitive liabilities 2/ (B + D)	381,625,269,642	554,547,889,619	613,754,091,401	473,855,579,445	169,419,347,534	1,010,999,723,770	3,204,201,901,411
LC + FC difference, recovery of assets less maturity of liabilities (item 1 - item 2)	3,635,337,431,984	(279,939,517,844)	(361,851,003,127)	(268,783,534,788)	(9,628,340,684)	(561,175,270,080)	2,153,959,765,461

(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):

	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

(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, which has been ratified annually by the Bank's Corporate Risk Committee. This is to minimize the adverse effect on the Bank of any variation in the foreign currency position, which is monitored daily by the Market Risk Division.

Due to the amendments to BCCR's Foreign Exchange Operations and the new regulations of SUGEF Directive 23-17 on market risk, interest rates, and exchange rate, the Bank will eventually modify its appetite in the foreign currency position to a higher level (a long position).

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

<u>Type of risk</u>	<u>December 2017</u>	<u>December 2016</u>	<u>Variation</u>	<u>Level</u>
Currency risk	0.08%	0.12%	(0.04%)	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.

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	
		2017	2016
<u>Assets:</u>			
Cash and due from banks	US\$	1,100,282,866	786,681,319
Investments in financial instruments		1,002,932,073	784,750,751
Loan portfolio		2,683,160,687	2,742,960,429
Accounts and accrued interest receivable		409,954	509,309
Investments in other companies		108,986,397	104,236,891
Other assets		6,211,003	6,568,982
	US\$	<u>4,901,982,980</u>	<u>4,425,707,681</u>
<u>Liabilities:</u>			
Obligations with the public	US\$	2,721,573,920	2,215,362,369
Obligations with entities		1,954,733,268	2,028,061,132
Subordinated obligations		132,650,795	132,576,487
Accounts payable and provisions		28,944,379	31,942,238
Other liabilities		46,941,196	36,575,840
Total liabilities	US\$	<u>4,884,843,558</u>	<u>4,444,518,066</u>
(Deficit) excess of assets over liabilities in U.S. dollars	US\$	<u>17,139,412</u>	<u>(18,810,385)</u>
		Euros	
		2017	2016
<u>Assets:</u>			
Cash and due from banks	€	30,407,993	22,787,076
Investments in financial instruments		11,312,826	28,775,701
Other assets		1,008	-
	€	<u>41,721,827</u>	<u>51,562,777</u>
<u>Liabilities:</u>			
Obligations with the public	€	39,281,032	50,131,850
Obligations with entities		797,258	1,103,297
Accounts payable and provisions		138,795	131,176
Other liabilities		994,789	509,588
	€	<u>41,211,874</u>	<u>51,875,911</u>
Excess (deficit) of assets over liabilities in euros	€	<u>509,953</u>	<u>(313,134)</u>

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

		DU	
		2017	2016
<u>Assets:</u>			
Investments in financial instruments	DU	24,293,913	34,822,825
Loan portfolio		14,691,220	22,951,719
Total assets	DU	38,985,133	57,774,544
<u>Liabilities:</u>			
Accounts payable and provisions		692,698	818,804
Other liabilities		3,151	4,486
Total liabilities	DU	695,849	823,290
Excess of assets over liabilities in DU	DU	38,289,284	56,951,254

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 and losses, as follows:

	2017	2016
Foreign exchange gain	¢ 189,745,942,203	117,488,320,893
Foreign exchange loss	(190,667,954,647)	(119,115,020,662)
Net (loss)	¢ (922,012,444)	(1,626,699,769)

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", as follows:

	2017	2016
Gain on net valuation of other assets (note 34)	¢ 414,076,427	371,907,290
Loss on net valuation of other liabilities (note 37)	(867,162,063)	(572,989,111)
Net (loss)	¢ (453,085,636)	(201,081,821)

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 time band.

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.

BANCO NACIONAL DE COSTA RICA

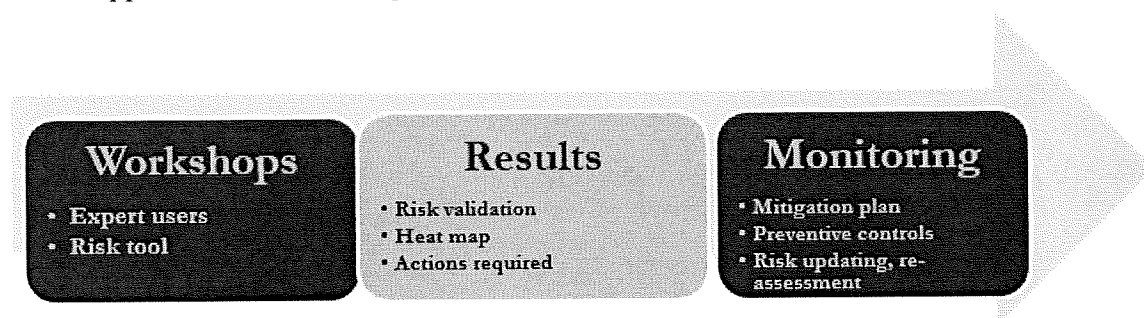
Notes to the Separate Financial Statements

One of the Bank's fundamental principles for operational risk management 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.

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

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, 2017 and 2016, the Bank is above the minimum level required by applicable regulations.

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

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

	2017	2016
<u>Tier I capital:</u>		
Ordinary paid-in capital	¢ 172,237,030,102	118,130,303,482
Legal reserve	311,121,806,369	274,614,308,392
	<u>483,358,836,471</u>	<u>392,744,611,874</u>
<u>Tier II capital:</u>		
Adjustment for revaluation of property and equipment	46,068,881,070	45,605,064,328
Adjustment for valuation of available-for-sale investments	(1,998,318,958)	159,197,995
Adjustment for valuation of restricted financial instruments	(306,670,697)	(1,617,218,764)
Adjustment for valuation of investments in other companies	9,095,624,686	8,084,303,314
Prior period retained earnings	12,741,841,466	54,106,726,619
Income for the year	32,763,283,164	53,018,907,264
Equity of FOFIDE	27,111,958,013	21,749,819,320
	<u>125,476,598,744</u>	<u>181,106,800,076</u>
Less: Deductions	<u>(93,954,215,527)</u>	<u>(89,781,830,229)</u>
Regulatory capital	¢ <u>514,881,219,688</u>	<u>484,069,581,721</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 a report 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.

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 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 official communication 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 be presented on a net basis 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.

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

As of December 31, 2017 and 2016, 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 party to several lawsuits, as follows:

Number of cases as defendant		Phase	Total estimated amount	
2017	2016		2017	2016
234	251	First instance	¢ 237,497,530,073	235,166,531,230
21	19	Second instance	20,207,132,825	19,363,100,060
7	3	Appeal	3,615,000,000	3,600,000,000
1	1	Administrative proceedings	38,458,424,266	38,458,424,266
263	274	(note 22)	¢ 299,778,087,164	296,588,055,556

Number of cases as claimant		Phase	Total estimated amount	
2017	2016		2017	2016
161	542	First instance	¢ 721,160,935,180	971,611,945,366
1	14	Second instance	375,839,600	21,284,650,067
-	6	Appeal	-	4,624,706,759
162	562		¢ 721,536,774,780	997,521,302,192

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.

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

As of December 31, 2017, 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 are also worth noting:

- *File No. 14-003379-1027-CA*
 - ✓ Statement of facts: The plaintiffs seek that the Bank be ordered to pay damages caused to all the plaintiffs and to pay compensation for pain and suffering caused due to the inability to acquire decent housing, as a result of apparent anomalies regarding the management of credits to Grupo Zion, S.A. to build the Bariloche Real condominium. Additionally, it has had media coverage.
 - ✓ Current status: In ruling issued at 14:46 hours of July 3, 2017, Nancy Rodríguez Cruz was appointed as expert witness, who must accept this position within a term of three days and issue the corresponding expert opinion within 15 business days.
- *File No. 08-000388-0419-AG*
 - ✓ Court: Agrarian Court of Corredores
 - ✓ Statement of facts: The proceedings seek to declare the liability of CORBANA, as Trustee of a banana plantation Management Trust, in which the Bank was the Trust Beneficiary.
 - ✓ Current status: An appeal was filed and is being discussed by the Agrarian Court of the Second Judicial Circuit of San José, Goicoechea. No judicial records exist for this case. It seems clear that, since the case relates to a contractual commercial liability, it has lapsed.

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

- File No. 08-000232-0419-AG
 - ✓ Court: Agrarian Court of Corredores
 - ✓ Statement of facts: This process was filed by the Bank against Surcoop R.L. It seeks to nullify the auction, awarding, and registration of lots of the Agrarian Court of Corredores processed through file No. 97-010656-1701 AG.
 - ✓ Current status: First instance ruling 56-2014 in favor of the Bank upheld the objection due to lack of legal grounds, given that no damages caused by the defendants were demonstrated since there is no direct relationship between the factual substance of the complaint and the legal claims. No jurisprudence exists regarding issues like this. A motion for appeal was filed and is under consideration by the Agrarian Court of the Second Judicial Circuit of San José, Goicoechea.
- File No. 08-001455-1027-CA
 - ✓ Court: Administrative Court and Civil Court of the Public Treasury
 - ✓ Statement of facts: External notaries filed a lawsuit against the Bank due to the termination of their contracts for professional services, since they considered that their contracts were for indefinite terms and that they had an acquired right.
 - ✓ Current status: The appeal for annulment filed by the Bank was admitted, and the judgment of first instance sentencing the Bank was revoked. A decision was made on the merits of the case, rejecting the lawsuit against the Bank in all respects.
- File No. 08-000382-0419-AG
 - ✓ Statement of facts: Lawsuit for breach of contract and fiduciary responsibility.
 - ✓ Current status: The plaintiff filed an appeal.

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

(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 of fiscal years 2010, 2011, 2012, and 2013 periods. Through Notice No. 1-10-015-14-077-011-03 and Notice No. 1-10-015-14-078-111-03 issued by the Large Taxpayer Administration, the Bank received the "Notification of the Start of the Tax Audit and Initial Information Requirements" for the 2012 and 2013 periods, which involved confirming the veracity of the tax returns filed.

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

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

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

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

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 and interest as of that date amount to ₡29,089,100,723 and ₡9,036,647,719, respectively.

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

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

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

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.

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

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

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

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

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

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

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

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

- On May 18, 2017, through file No. GC-02/10, management of the Bank filed an appeal for reversal against Ruling No. DT10R-030-17 before the Large Taxpayer Administration in accordance with Article 145 of the Code of Tax Standards and Procedures and in light of the considerations of fact and of law and claims filed, to admit the appeal and annul the aforementioned ruling, and accept the claims for annulment due to procedural defects and statute of limitations described in the aforementioned file and declare the annulment of the administrative-tax procedure and the statute of limitations of tax periods already closed to the tax audit.
- On May 23, 2017, through file No. 2-10-015-14 management of the Bank filed an appeal for reversal against Sanctioning Ruling No. 2-10-15-14-5178-03 and 2-10-15-14-03-582-03 to annul the sanction imposed to the Bank.
- On June 7, 2017, as a supplement to file No. GC-02/100, management presented the documentation required according to DTR-030-17 to be analyzed together with the arguments developed by the Bank.
- On July 26, 2017, ruling AUR-066-17 of June 23, 2017 rejects the objection of statute of limitations on the motion for dismissal and motion for reconsideration against determination ruling DT-R-030-17 filed by the Bank on May 18, 2017.
- On August 31, 2017, a formal motion for reconsideration was filed before the Large Taxpayer Administration against sanctioning ruling No. 2-10-15-14-1-5178-03 and No. 2-10-15-14-03-582-03 dated April 5, 2017, notified to the Bank on April 19, 2017.
- On November 10, 2017, an appeal is filed before the Tax Court against Ruling No. AU10R-066-17 (which was confirmed by Official Letter No. DT10R-030-17, both issued by the Large Taxpayer Administration) in accordance with file No. 1-10-050-14 (No. GC-02/10 in accordance with the final resolution).

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

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

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

On November 15, 2017, the National Large Taxpayer Audit Area issued the “Provisional Regularization Proposal and Proposed Sanctioning Ruling Based on Article 81 of the Tax Code of Standards and Procedures (CNPT) for periods 2014-2016” No. DGCN-SF-PD-18-2017-28-31-03 and No. DGCN-SF-PS-18-2017-20-31-03, claiming that the income tax returns filed by the Bank for the indicated periods were inaccurate and, thus, detrimental to the treasury.

On November 9, 2017, the Bank’s management presented 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 Standards and Procedures Code (CNPT)”.

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

c) Dividends paid to the Bank

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

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

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

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

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

On May 11, 2010, CONASSIF issued official letter C.N.S. 413-10 to revise the Regulations, whereby regulated entities adopted 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 aforementioned Regulations.

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

Subsequently, through official letter C.N.S. 1034-08 dated April 4, 2013, CONASSIF published a number of amendments to SUGEF Directive 31-04 *Regulations on the Financial Reporting of Financial Entities, Groups, and Conglomerates* in respect of the presentation of annual financial statements, unaudited interim consolidated and separate financial statements prepared by the entity, and audited consolidated and separate financial statements. Also, CONASSIF amended SUGEF Directive 34-02 *Accounting Regulations Applicable to Entities Regulated by SUGEF, SUGEVAL, SUPEN, and SUGESE and to Non-financial Issuers* to adopt 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 CONASSIF 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 CONASSIF.

A summary of some of the main differences between the accounting regulations issued by CONASSIF and IFRSs, as well as the IFRSs or Interpretations of the International Financial Reporting Interpretations Committee (IFRICs) yet to be adopted, is presented below:

a) IAS 1: Presentation of Financial Statements

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

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

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

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

b) IAS 7: Statement of Cash Flows

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

c) IAS 12: Income Taxes

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

d) IAS 16: Property, Plant and Equipment

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

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

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

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

e) IAS 18: Revenue

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

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

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

- CONASSIF requires that fee and commission income be recognized as a liability and booked under "Deferred income" (liability) and incremental direct costs be amortized in "Deferred charges" (asset). Under IAS 39, fees and commissions and incremental costs are part of the amortized cost of financial instruments, rather than separate assets and liabilities.
- CONASSIF requires that fee and commission income be deferred in "Other income" and costs be amortized in "Other expenses". Under IAS 18 and IAS 39, income and costs must be booked as part of "Finance income on financial instruments".

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

- Under SUGEF regulations, the effective interest rate must be calculated over the financial instrument's contractual life. Under IAS 39, the effective interest rate for financial instruments is calculated over their expected life (or over a shorter period, if appropriate).
- Under SUGEF regulations, in the event of issuance of a credit-related guarantee, deferred income and incremental costs pending deferral or amortization as of the issue date are not included in the instrument's amortized cost or the calculation of the foreclosed asset's carrying amount. As a result, upon issuance, fees and commissions pending deferral and costs pending amortization are booked in profit or loss for the year.

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

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

g) IAS 27: Consolidated and Separate Financial Statements

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

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

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

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

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

h) IAS 28: Investments in Associates

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

i) Revised IAS 32: Financial Instruments - Presentation

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

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

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

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

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

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

l) IAS 38: Intangible Assets

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

m) IAS 39: Financial Instruments: Recognition and Measurement

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

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

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

- The option of classifying loans and receivables as available for sale was established.

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

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

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

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

a) Pooled portfolios

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

b) Own investments of regulated entities

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

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

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

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

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

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

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

n) IAS 40: Investment Property

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

o) Revised IFRS 3: Business Combinations

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

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

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

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

q) IFRS 9: Financial Instruments

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

r) IFRS 10: Consolidated Financial Statements

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

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

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

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

s) IFRS 11: Joint Arrangements

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

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

t) IFRS 12: Disclosure of Interests in Other Entities

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

u) IFRS 13: Fair Value Measurement

This Standard clarifies the definition of fair value, establishes a single procedure for measuring fair value and defines the measurements and applications required or permitted in 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 CONASSIF.

v) IFRS 14: Regulatory Deferral Accounts

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

w) IFRS 15: Revenue from Contracts with Customers

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

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

x) IFRS 16: Leases

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

y) IFRS 17: Insurance Contracts

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

z) IFRIC 10: Interim Financial Reporting and Impairment

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

aa) IFRIC 21: Levies

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

bb) IFRIC 22: Foreign currency transactions and advance considerations

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

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

cc) IFRIC 23: Uncertainty over Income Tax Treatments

The Interpretation clarifies application of recognition and measurement requirements in IAS 12 Income Taxes when there is uncertainty over income tax treatments. In these circumstances, an entity shall recognize and measure its current or deferred tax assets or liabilities applying the requirements of IAS 12 on the taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined applying this Interpretation. This Interpretation is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. This Interpretation has not been adopted by CONASSIF.