BANCO NACIONAL DE COSTA RICA

Financial Information Required by the
Superintendency General of Financial Entities

Separate Financial Statements

As of December 31, 2018
(With corresponding figures for 2017)

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

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Independent Auditors' Report

To the Superintendency General of Financial Entities (SUGEF)
and the Board of Directors of 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, 2018, and 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, 2018, and of its unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with the financial reporting provisions of the accounting regulations issued by the National Financial System Oversight Board (CONASSIF) and the Superintendency General of Financial Entities (SUGEF).

Basis for Opinion

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

Emphasis of Matter – Basis of Accounting

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 issued by CONASSIF and SUGEF. As a result, the separate financial statements may not be suitable for other purposes. 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 separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matter	How the matter was addressed in our audit
1. Valuation of derivative financial instruments	
The Bank has derivative financial instruments, which are valued through the application of valuation techniques that often entail the use of judgments, estimates, and assumptions.	Our procedures in this area included: • involving our specialists to assess the methodologies, inputs and assumptions used by the Bank in the fair value determination; • questioning the observable inputs in the valuation models, i.e. quoted prices; and • for a sample of derivative instruments, assessing that the Bank's valuations fall within a reasonable range, compared to the valuations derived from our valuation model, considering the inherent uncertainties disclosed in the financial statements; • submitting confirmations to the financial entities with which the Bank holds derivative financial instruments.
2. Compliance with the regulation to determine the allowance for loan losses	
We have established compliance with SUGEF Directive 1-05, Regulations for Borrower Classification, which provides guidelines to determine the allowance for loan losses, as a key audit matter (see note 3). According to this regulation, the allowance for loan losses is determined through the application of pre-established percentages to each borrower, according to their risk rating, which considers the days of arrears, creditworthiness, and historical payment behavior.	Our procedures in this area included: • assessing the design and operating efficiency of IT controls on the information systems used by management to calculate arrears in the loan portfolio; performing detailed testing of a sample to confirm the days of arrears used in the calculation; • testing the transfer of data between the interfaces of the loan information systems and the systems used by the Bank to determine the borrower classification and to calculate the allowance for loan losses;

The elements to be considered as basis for the allowance are: the balance of the loan for each borrower, current interest, and stand-by credits. The allowance percentage is applied to the net balance not covered by collaterals eligible for risk mitigation, in conformity with the mitigation percentages established in the aforementioned regulation.	• recalculating the minimum allowance for loan losses on direct and stand-by credits, based on the information furnished by management; testing the integrity of data for this information; • performing detailed testing of a sample of borrowers, to confirm whether management complied with the analysis of creditworthiness required by the regulation, as well as the assessment of the collaterals that can be used to mitigate credit risk. This procedure included an assessment of the work performed by external experts on the valuation of collaterals; • comparing the level of historical payment behavior used by management with the information provided by SUGEF's Credit Information Center.
3. Provisions	
The Bank operates within a regulatory environment and noncompliance with certain regulations may result in fines, penalties, litigation, etc. that require judgments and estimates to determine the relevance and the liability, based on management's assessment of the most likely outcome.	Our procedures in this area included: • assessing management's estimates and judgments that consider the most recent information available, and assessing the accuracy and reliability of the sources of such information; • verifying the adequacy of management's assumptions regarding the confirmations by the Legal Department; • considering management's estimates based on the most likely outcomes within the range of possible outcomes;

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

Management is responsible for the preparation and fair presentation of the separate financial statements in accordance with the financial reporting provisions 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 scepticism 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, then we are required to draw attention in our auditors' report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

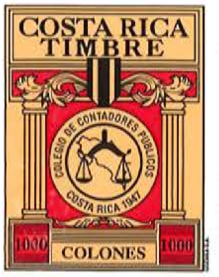
- Evaluate the overall presentation, structure, and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

KPMG



February 18, 2019

San José, Costa Rica
Erick Brenes Flores
Member No. 2520
Policy No. 0116 FIG 7
Expires 9/30/2019

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BANCO NACIONAL DE COSTA RICA
SEPARATE BALANCE SHEET
AS OF DECEMBER 31, 2018
(With corresponding figures for 2017)
(In colones)

	Note	2018	2017
ASSETS			
Cash and due from banks	4	**1,020,863,217,469**	**1,277,462,115,311**
Cash		79,715,005,250	67,730,408,897
Demand deposits in BCCR		855,051,762,135	856,892,961,788
Demand deposits in local financial entities		3,465,306,134	12,592,798,278
Demand deposits in foreign financial entities		71,005,775,876	321,399,272,857
Other cash and due from banks		11,625,368,074	18,846,673,491
Investments in financial instruments	5	**1,093,578,721,175**	**1,032,533,580,919**
Held for trading		12,096,981,603	-
Available for sale		1,067,472,994,195	997,259,212,014
Held to maturity		-	18,562,535,348
Derivative financial instruments	6	678,813,152	6,321,903,607
Accrued interest receivable		13,340,633,910	10,463,404,146
(Allowance for impairment of investments in financial instruments)		(10,701,685)	(73,474,196)
Loan portfolio	7	**4,416,292,531,288**	**4,384,681,312,469**
Current		4,223,554,423,932	4,261,225,313,188
Past due		149,989,262,621	131,836,522,732
In legal collection		147,602,847,205	100,044,384,206
Accrued interest receivable		36,776,953,763	31,743,485,704
(Allowance for loan losses)		(141,630,956,233)	(140,168,393,361)
Accounts and fees and commissions receivable	8	**455,023,174**	**606,391,517**
Fees and commissions receivable		191,445,673	169,681,180
Accounts receivable for transactions with related parties		24,496,285	26,593,557
Income tax receivable		156,399,541	134,516,249
Other receivables		3,935,763,699	3,807,538,777
Accrued interest receivable		2,082,892	1,724,156
(Allowance for impairment of accounts and fees and commissions receivable)		(3,855,164,916)	(3,533,662,402)
Foreclosed assets	9	**20,074,903,998**	**18,784,905,854**
Assets and securities acquired in lieu of payment		79,173,439,587	81,249,127,569
Other foreclosed assets		1,840,189	1,832,418
(Allowance for impairment of foreclosed assets and per legal requirements)		(59,100,375,778)	(62,466,054,133)
Investments in other companies	10	**100,067,692,891**	**93,954,215,527**
Property and equipment, net	11	**184,587,503,037**	**178,876,193,757**
Other assets	12	**104,494,751,527**	**47,078,879,186**
Deferred charges		77,610,175,879	8,855,801,593
Intangible assets, net		4,394,746,145	6,678,802,730
Other assets		22,489,829,503	31,544,274,863
TOTAL ASSETS		6,940,414,344,559	7,033,977,594,540

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

Continued...

BANCO NACIONAL DE COSTA RICA
SEPARATE BALANCE SHEET
AS OF DECEMBER 31, 2018
(With corresponding figures for 2017)
(In colones)

LIABILITIES AND EQUITY	**Note**	**2018**	**2017**
LIABILITIES			
Obligations with the public	13	**4,771,356,180,436**	**4,831,290,315,009**
Demand obligations		2,741,094,583,154	2,723,524,433,301
Term obligations		1,989,376,199,821	2,071,922,423,304
Finance charges payable		40,885,397,461	35,843,458,404
Obligations with BCCR	14	**150,630,088,856**	**125,644,412**
Term obligations		150,525,644,412	125,644,412
Finance charges payable		104,444,444	-
Obligations with entities	15	**1,130,402,120,101**	**1,311,009,191,006**
Demand obligations		182,977,952,929	208,155,264,672
Term obligations		938,891,105,985	1,093,084,927,602
Finance charges payable		8,533,061,187	9,768,998,732
Accounts payable and provisions		**93,023,386,283**	**93,638,596,234**
Deferred tax	16-b	8,594,685,130	9,451,493,556
Provisions	17	24,612,544,383	20,659,785,456
Other sundry accounts payable	18	59,816,156,770	63,527,317,222
Other liabilities	19	**67,159,254,065**	**98,542,307,102**
Deferred income		33,255,354,768	32,055,196,858
Allowance for stand-by credit losses		169,073,348	265,681,489
Other liabilities		33,734,825,949	66,221,428,755
Subordinated obligations	20	**80,488,169,915**	**75,136,063,242**
Subordinated obligations		78,570,700,000	73,634,600,000
Finance charges payable		1,917,469,915	1,501,463,242
TOTAL LIABILITIES		**6,293,059,199,656**	**6,409,742,117,005**
EQUITY			
Share capital		**172,237,030,102**	**172,237,030,102**
Paid-in capital	21-a	172,237,030,102	172,237,030,102
Equity adjustments		**69,226,390,881**	**68,259,558,421**
Surplus from revaluation of property	21-b	66,193,911,011	61,425,174,760
Adjustment for valuation of available-for-sale investments	21-c	(5,106,902,948)	(1,998,318,958)
Adjustment for valuation of restricted financial instruments	21-c	(1,053,043,002)	(306,670,697)
Surplus from revaluation of other assets		66,585,248	43,748,630
Adjustment for valuation of investments in other companies	21-d	9,125,840,572	9,095,624,686
Equity reserves	21-e	**334,043,304,638**	**311,121,806,369**
Prior period retained earnings		**19,485,203,956**	**12,741,841,466**
Income for the year		**21,391,220,879**	**32,763,283,164**
Equity of the Development Financing Fund	21-f	**30,971,994,447**	**27,111,958,013**
TOTAL EQUITY		**647,355,144,903**	**624,235,477,535**
TOTAL LIABILITIES AND EQUITY		**6,940,414,344,559**	**7,033,977,594,540**
DEBIT MEMORANDA ACCOUNTS	22	635,829,244,154	657,166,271,363
TRUST ASSETS	23	**2,276,346,824,986**	**1,637,626,670,096**
TRUST LIABILITIES		**209,979,452,284**	**122,035,092,750**
TRUST EQUITY		**2,066,367,372,702**	**1,515,591,577,346**
TRUST MEMORANDA ACCOUNTS		**99,050,091,503**	**48,139,163,742**
OTHER DEBIT MEMORANDA ACCOUNTS	24	**20,173,855,220,768**	**17,983,845,225,595**
Own debit memoranda accounts		7,573,578,366,354	7,051,133,434,491
Third-party debit memoranda accounts		1,116,600,990,381	830,355,188,266
Own debit memoranda accounts for custodial activities		201,063,061,342	319,056,166,408
Third-party debit memoranda accounts for custodial activities		11,282,612,802,691	9,783,300,436,430

Gustavo Vargas Fernández
General Manager

Alejandra Morales Centeno
General Accountant
CPI 21119

Ricardo Araya Jiménez
General Auditor

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

BANCO NACIONAL DE COSTA RICA
SEPARATE STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2018
(With corresponding figures for 2017)
(In colones)

	Note	2018	2017
Finance income			
Cash and due from banks	25	5,320,576,991	2,917,621,830
Investments in financial instruments	25	57,271,191,508	46,386,734,725
Loan portfolio	26	444,852,003,318	403,941,507,525
Gain on available-for-sale financial instruments		289,624,841	929,417,641
Gain on derivative financial instruments, net	6	-	5,358,047,633
Other finance income	27	27,496,461,334	21,529,123,297
Total finance income		**535,229,857,992**	**481,062,452,651**
Finance costs			
Obligations with the public	28	182,207,475,421	149,322,742,402
Obligations with BCCR		851,735,569	525,157,625
Obligations with financial entities	29	70,715,221,528	68,637,591,138
Subordinated obligations		5,254,174,406	4,533,029,823
Loss on foreign exchange differences and development units, net	42-c	3,292,042,819	922,012,444
Loss on available-for-sale financial instruments		492,566,247	219,010,423
Loss on derivative financial instruments, net	6	6,063,007,599	-
Other finance costs	30	18,574,080,851	14,963,049,708
Total finance costs		**287,450,304,440**	**239,122,593,563**
Allowance for impairment of assets	31	88,526,619,673	71,531,245,221
Recovery of assets and decrease in allowances	32	7,380,138,319	13,161,810,394
FINANCE INCOME		**166,633,072,198**	**183,570,424,261**
Other operating income			
Service fees and commissions	33	118,719,657,873	111,691,674,240
Foreclosed assets		8,275,132,995	4,173,235,947
Gain on investments in other foreign companies	3	3,160,852,893	2,615,822,520
Gain on investments in SUGEVAL-regulated entities	3	3,723,210,931	3,518,479,302
Gain on investments in SUPEN-regulated entities	3	1,146,194,956	726,185,039
Gain on investments in SUGESE-regulated entities	3	2,550,045,147	2,260,896,828
Foreign currency exchange and arbitrage		23,266,093,047	23,725,946,569
Other income - related parties		549,050,778	371,442,545
Other operating income	34	11,704,273,953	9,881,966,413
Total other operating income		**173,094,512,573**	**158,965,649,403**

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

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BANCO NACIONAL DE COSTA RICA
SEPARATE STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2018
(With corresponding figures for 2017)
(In colones)

	Note	2018	2017
Other operating expenses			
Service fees and commissions		3,510,752,502	3,805,214,322
Foreclosed assets	35	18,677,786,643	21,447,997,288
Sundry assets		938,332,246	37,083,882
Provisions	36	15,502,946,524	9,531,744,092
Foreign currency exchange and arbitrage		13,357,555	924,837
Other expenses - related parties		510,971,253	358,530,258
Other operating expenses	37	71,509,405,855	71,707,621,217
Amortization of deferred direct costs related to credits		500,928,818	737,233,459
Total other operating expenses		**111,164,481,396**	**107,626,349,355**
GROSS OPERATING INCOME		**228,563,103,375**	**234,909,724,309**
Administrative expenses			
Personnel expenses	38	121,444,150,181	119,573,313,610
Other administrative expenses	39	74,881,857,467	67,612,059,619
Total administrative expenses		**196,326,007,648**	**187,185,373,229**
NET OPERATING INCOME BEFORE TAXES AND STATUTORY ALLOCATIONS		**32,237,095,727**	**47,724,351,080**
Current tax	16-a	3,472,773,276	3,276,101,267
Prior period income tax	16-a	-	834,374,298
Decrease in current income tax	16-a	-	1,356,106,263
Deferred tax income	16-a	99,647,590	353,343,229
Statutory allocations	40	8,080,465,682	12,661,154,904
Decrease in statutory allocations	40	607,716,520	101,113,061
INCOME FOR THE YEAR		**21,391,220,879**	**32,763,283,164**
OTHER COMPREHENSIVE INCOME, NET OF TAX			
Surplus from revaluation of property		5,530,350,280	2,210,993,196
Adjustment for valuation of available-for-sale investments, net of income tax		(3,108,583,992)	(2,157,516,952)
Adjustment for valuation of restricted financial instruments, net of income tax		(746,372,303)	1,310,548,066
Surplus from revaluation of other assets		22,836,618	-
Adjustment for valuation of investments in other companies		30,215,886	1,011,321,372
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**1,728,446,489**	**2,375,345,682**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**23,119,667,368**	**35,138,628,846**

Gustavo Vargas Fernández
General Manager

Alejandra Morales Centeno
General Accountant
CPI 21119

Ricardo Araya Jiménez
General Auditor

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

BANCO NACIONAL DE COSTA RICA
SEPARATE STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2018
(With corresponding figures for 2017)
(In colones)

	Note	Share capital	Equity adjustments: Surplus from revaluation of property	Equity adjustments: Adjustment for valuation of available-for-sale investments and restricted financial instruments	Equity adjustments: Surplus from revaluation of other assets	Equity adjustments: Adjustment for valuation of investments in other companies	Total equity adjustments	Equity reserves	Retained earnings	Equity of the Development Financing Fund	Total
Balance at January 1, 2017		118,130,303,482	60,806,752,437	(1,458,020,769)	43,748,630	8,084,303,314	67,476,783,612	274,614,308,392	107,125,633,883	21,749,819,320	589,096,848,689
Transactions with owners of the Bank booked 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 increases		54,106,726,620	-	-	-	-	-	-	(54,106,726,620)	-	-
Equity of the Development Financing Fund		-	-	-	-	-	-	-	(5,362,138,693)	5,362,138,693	-
Total transactions with owners of the Bank booked directly in equity		54,106,726,620	-	-	-	-	-	36,507,497,977	(95,976,363,290)	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 valuation 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
Realization of surplus from revaluation of property		-	(1,592,570,873)	-	-	-	(1,592,570,873)	-	1,592,570,873	-	-
Total comprehensive income for the year		-	618,422,323	(846,968,886)	-	1,011,321,372	782,774,809	-	34,355,854,037	-	35,138,628,846
Balance at December 31, 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	27,111,958,013	624,235,477,535
Transactions with owners of the Bank booked directly in equity:											
Legal reserves		-	-	-	-	-	-	22,904,968,835	(22,904,968,835)	-	-
Other statutory reserves		-	-	-	-	-	-	16,529,434	(16,529,434)	-	-
Equity of the Development Financing Fund		-	-	-	-	-	-	-	(3,860,036,434)	3,860,036,434	-
Total transactions with owners of the Bank booked directly in equity		-	-	-	-	-	-	22,921,498,269	(26,781,534,703)	3,860,036,434	-
Comprehensive income for the year:											
Income for the year		-	-	-	-	-	-	-	21,391,220,879	-	21,391,220,879
Adjustment for valuation of available-for-sale investments, net of income tax	5	-	-	(3,108,583,992)	-	-	(3,108,583,992)	-	-	-	(3,108,583,992)
Adjustment for valuation of restricted financial instruments, net of income tax	5	-	-	(746,372,303)	-	-	(746,372,303)	-	-	-	(746,372,303)
Adjustment for valuation of investments in other companies		-	-	-	-	30,215,886	30,215,886	-	-	-	30,215,886
Surplus from revaluation of property		-	5,530,350,280	-	-	-	5,530,350,280	-	-	-	5,530,350,280
Surplus from revaluation of other assets		-	-	-	22,836,618	-	22,836,618	-	-	-	22,836,618
Realization of surplus from revaluation of property		-	(761,614,029)	-	-	-	(761,614,029)	-	761,614,029	-	-
Total comprehensive income for the year		-	4,768,736,251	(3,854,956,295)	22,836,618	30,215,886	966,832,460	-	22,152,834,908	-	23,119,667,368
Balance at December 31, 2018	21	172,237,030,102	66,193,911,011	(6,159,945,950)	66,585,248	9,125,840,572	69,226,390,881	334,043,304,638	40,876,424,835	30,971,994,447	647,355,144,903

Gustavo Vargas Fernández
General Manager

Alejandra Morales Centeno
General Accountant
CPI 21119

Ricardo Araya Jiménez
General Auditor

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

BANCO NACIONAL DE COSTA RICA
SEPARATE STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018
(With corresponding figures for 2017)
(In colones)

	Note	2018	2017
Cash flows from operating activities			
Income for the year		21,391,220,879	32,763,283,164
Items not requiring cash			
Unrealized loss on foreign exchange differences and development units, net		37,962,349,851	25,918,571,115
Loss on allowance for loan losses, net		80,412,185,345	57,105,071,412
(Gain) loss on allowance for impairment of investments, net		(62,772,512)	12,077,667
Loss on allowances for other receivables, net		797,068,521	1,252,285,748
(Gain) loss on allowances for foreclosed assets, net		(2,409,494,382)	2,821,103,061
Loss on sale of foreclosed assets		9,492,720,684	9,379,473,223
Provision expense, net of payments		(10,851,409,263)	(395,954,847)
Depreciation and amortization		23,119,944,962	20,205,679,742
Share in net profit of subsidiaries		(7,419,451,034)	(6,505,561,169)
Share in net profit of foreign associate		(3,160,852,893)	(2,615,822,520)
Statutory allocations, net		7,472,749,162	12,560,041,843
Income tax expense, net	16 -a	3,472,773,276	2,754,369,302
Deferred tax	16 -a	(99,647,590)	(353,343,229)
Finance income on loan portfolio and investments		(502,123,194,826)	(450,328,242,250)
Finance costs on term obligations with the public and financial entities		204,384,691,619	178,765,846,533
		(137,621,118,201)	**(116,661,121,205)**
Net (increase) decrease in assets			
Credits and cash advances		(44,986,090,009)	(361,163,228,668)
Foreclosed assets		20,143,910,135	18,799,882,657
Accrued interest receivable on other receivables		(358,736)	76,767
Other assets		(61,232,614,714)	(3,778,303,912)
		(223,696,271,525)	**(462,802,694,361)**
Net increase (decrease) in liabilities			
Demand and term obligations		(399,751,097,330)	716,239,591,040
Other accounts payable and provisions		21,820,721,499	(21,306,748,807)
Other liabilities		(32,064,108,260)	51,363,536,836
		(633,690,755,616)	**283,493,684,708**
Interest received on loan portfolio and investments		494,212,497,003	445,378,578,529
Income tax paid		(4,488,233,045)	(15,776,017,311)
Interest paid on term obligations with the public and financial entities		(200,474,245,663)	(164,770,314,859)
Statutory allocations paid		(12,642,654,144)	(15,588,757,126)
Net cash (used in) from operating activities		**(357,083,391,465)**	**532,737,173,941**
Cash flows from investing activities			
Increase in financial instruments		(26,784,460,943,751)	(17,497,727,017,752)
Decrease in financial instruments		26,631,017,001,260	17,513,819,601,480
Acquisition of property and equipment		(26,694,266,813)	(5,618,511,452)
Sale of property and equipment		1,654,491,495	90,884,760
Acquisition of intangible asset		(2,050,972,902)	(6,281,504,378)
Dividends received		4,497,042,448	5,960,319,768
Net cash (used in) from investing activities		**(176,037,648,263)**	**10,243,772,426**
Cash flows from financing activities			
Other new financial obligations		3,054,362,059,337	(52,971,581,352)
Settlement of obligations		(2,903,681,031,037)	(9,697,922,608)
Net cash from (used in) financing activities		**150,681,028,300**	**(62,669,503,960)**
Net (decrease) increase in cash and cash equivalents		**(382,440,011,428)**	**480,311,442,407**
Cash and cash equivalents at beginning of year		**1,495,780,850,775**	**1,015,469,408,368**
Cash and cash equivalents at end of year	4	**1,113,340,839,347**	**1,495,780,850,775**

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

(1) Summary of operations and significant accounting policies

(a) Operations

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

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

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

Currently, due to 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, 2018, the Bank has 167 offices, 479 automated teller machines, and a total of 5,307 employees (2017: 176 offices, 474 automated teller machines, and 5,442 employees, respectively). The Bank's website is www.bncr.fi.cr.

(Continued)

The following subsidiaries are wholly owned by the Bank:

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

BN Sociedad Administradora de Fondos de Inversión, S.A. (the Investment Fund Manager) was organized as a corporation on April 29, 1998 under the laws of the Republic of Costa Rica. Its main activity is the management 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)

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, derivative instruments and term obligations with foreign financial entities are measured at fair value (see Note 41)
- 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 accounting provisions issued by CONASSIF and SUGEF.

(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 (BCCR) through a managed float regime. Under the managed float regime, the exchange rate is determined by the market, but BCCR still reserves the right to intervene in the foreign currency market to moderate significant fluctuations in the exchange rate and prevent deviations from the behavior of the variables that explain its medium- and long-term trends.

In accordance with the Chart of Accounts, assets and liabilities denominated in foreign currency should be expressed in colones using the reference buy rate published by BCCR. As of December 31, 2018, the exchange rate was established at ¢604.39 and ¢611.75 (2017: ¢566.42 and ¢572.56) to US$1.00 for the purchase and sale of US dollars, respectively.

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

As of December 31, 2018, assets and liabilities denominated in US dollars were valued at the exchange rate of ¢604.39 to US$1.00 (2017: ¢566.42 to US$1.00), which is the reference buy rate published by BCCR for that date.

As of December 31, 2018, assets and liabilities denominated in euro were valued at the exchange rate of ¢693.11 to €1.00 (2017: ¢676.70 to €1.00). This exchange rate was calculated by multiplying the international exchange rate published by Reuters by the reference buy rate for US dollars published by BCCR on the last business day of the month.

As of December 31, 2018, assets and liabilities denominated in Development Units (DU) were valued at the exchange rate of ¢899.90 to DU1.00 (2017: ¢880.47 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.

(Continued)

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

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

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

As of December 31, 2018, the Bank has no financial instruments classified as held to maturity. 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 separate statement of comprehensive income 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 separate statement of comprehensive income 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.

Valuation gains or losses are recorded in the separate 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.

(Continued)

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.

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.

(Continued)

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.

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. Starting April 1, 2018, the Bank uses the methodology established by Proveedor Integral de Precios Centroamérica (PIPCA) for this measurement. As of December 31, 2017, the market price valuation methodology established by VALMER Costa Rica, S.A. was 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.

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

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

(Continued)

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.

(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.

(Continued)

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, 2018 and 2017, increases in the allowance for loan losses are included in the accounting records in accordance with Article 10 of IRNBS.

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

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

(Continued)

(i) Other receivables

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

(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.

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. As of December 31, 2018 and 2017, the Bank's investments in other companies are as follows:

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

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.

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, 2018 and 2017, 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.

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

ii. Leased assets

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

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

iii. Subsequent expenditure

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

(Continued)

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:

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

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

(m) Intangible assets

i. Other intangible assets

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

ii. Subsequent expenditure

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

iii. Amortization

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

(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 separate statement of comprehensive income for assets carried at cost and treated as a revaluation decrease for assets carried at revalued amounts.

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

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

(o) Accounts payable and other liabilities

Accounts payable and other liabilities are carried at amortized cost.

(p) Provisions

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

(Continued)

(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 seven days' salary for employees with between three and six months of service, 14 days' salary for employees with between six months and one year of service, and an amount prescribed by the *Employee Protection Law* for employees with more than one 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, 2018 and 2017, 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.

i. *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 year.

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

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

The method applied considers the above conditions and income after income tax and statutory allocations. The incentive to be granted to each employee is determined based on salaries earned during the year and the score obtained by the employee. Incentives are paid to employees in a lump sum. Expenses are booked against a provision account on a monthly basis and, in the following year that account is cleared upon payment of incentives to employees that met the aforementioned conditions. As of December 31, 2018 and 2017, no payments related to SEDI were made and the corresponding provision was reversed.

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

ii. *Employee Protection and Retirement Fund*

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

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

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

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

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

(r) Deferred income

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

(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.

(Continued)

(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 8 of IRNBS (Law No. 1644) and SUGEF Directive 33-07.

(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 separate 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.

(Continued)

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 and Banco de Costa Rica.

(v) Combination of financial statements of departments

The separate 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 separate 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 separate 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.

(Continued)

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. Interest income and interest expense

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

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

DU are valued using the rates provided by SUGEVAL for such purposes. The effect of valuation of assets and liabilities denominated in DU is directly booked in the corresponding foreign exchange gain and foreign exchange loss accounts in the 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 SUGEF's Chart of Accounts, statutory allocations on the year's net earnings payable to the National Institute for Cooperative Development (INFOCOOP), the National Emergency Commission (CNE), the National Commission for Educational Loans (CONAPE), and the Disability, Old Age, and Death Benefit System (RIVM) are recognized as expenses in the separate statement of comprehensive income.

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

Pursuant to paragraph a) of Article 20 of 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.

(Continued)

(z) Development Financing Fund (FOFIDE)

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

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

(aa) Development Credit Fund (FCD)

The Development Credit Fund (FCD) is comprised of the funds prescribed in Article 59 of IRNBS. The FCD will be managed by State-owned banks. Accordingly, in compliance with Law No. 9094 *Repeal of Transition Provision VII of Law No. 8634*, in agreement with Article 35 of 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.

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. Income derived from trust management is recognized on an accrual basis.

(Continued)

(2) Collateralized or restricted assets

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

Restricted asset	Cause of restriction	2018	2017
Cash and due from banks:			
Checking account – colones (Note 4)	Minimum legal deposit	¢ 490,472,341,154	506,614,839,613
Checking account – US dollars (Note 4)	Minimum legal deposit	283,010,610,003	277,771,308,370
Checking account – euro (Note 4)	Minimum legal deposit	4,152,775,150	4,005,701,580
Other cash and due from banks (Note 4)	Custody of BCAC liabilities	1,198,002,163	8,900,457,858
		¢ 778,833,728,470	797,292,307,421
Investments in financial instruments:			
External debt bonds	Nomura Bank guarantee	¢ 45,173,015,838	82,461,472,891
External debt bonds	SINPE guarantee	180,308,749,905	-
Monetary stabilization bonds	SINPE guarantee	29,739,359,400	-
Central bank bonds (global bonds)	SINPE guarantee	96,089,536,625	-
		¢ 351,310,661,768	82,461,472,891
Other assets:			
Other assets (see Note 12)	Security deposits	¢ 509,113,547	542,775,939

(3) Balances and transactions with related parties

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

		2018	2017
Assets:			
Checking accounts in foreign financial entities *(1)* (Note 4)	¢	17,945,463,302	17,091,195,563
Held-for-trading investments *(2)* (Note 5)		12,096,981,603	-
Other commissions receivable		20,959,838	-
Accounts receivable *(3)* (Note 8)		543,229	18,492
Allowance for impairment for operations with related parties *(3)*		(10,865)	(370)
Investments in other companies *(4)* (Note 10)		100,047,069,591	93,933,592,227
	¢	118,014,025,095	111,024,805,912
Liabilities:			
Demand obligations with entities *(5)*		1,816,350,554	1,582,200,515
Term obligations with entities *(6)*		40,900,000	29,500,000
Charges payable for obligations with the public		-	722,095
	¢	1,857,250,554	1,612,422,610
Income:			
Finance *(7)*		647,151	878,776
Operating *(8)*		831,875,951	618,411,455
Gain on investments in other foreign entities		3,160,852,893	2,615,822,520
Gain on investments in SUGEVAL-regulated entities		3,723,210,931	3,518,479,302
Gain on investments in SUPEN-regulated entities		1,146,194,956	726,185,039
Gain on investments in SUGESE-regulated entities		2,550,045,147	2,260,896,828
	¢	11,412,827,029	9,740,673,920
Expenses:			
Finance *(9)*		10,285,704	56,568,198
Operating *(10)*		510,971,253	358,530,258
	¢	521,256,957	415,098,456

(Continued)

The balances and transactions with related parties detailed above correspond to:

(1) Balances in foreign checking accounts with Banco Internacional de Costa Rica, S.A.
(2) Balances in open investment funds held with BN Sociedad Administradora de Fondos de Inversión, S.A.
(3) Accounts receivable from transactions with subsidiaries, and the corresponding allowance for impairment in conformity with SUGEF Directive 1-05.
(4) Investments in shares and ownership interest in entities on which the Bank exercises control or significant influence.
(5) Subsidiaries' checking accounts with the Bank.
(6) Subsidiaries' term certificate of deposit (CD) with the Bank.
(7) Interest earned on term certificates of deposit and balances held with the Bank.
(8) Commissions on the placement of investment funds, lease of physical space and services provided by Banco Nacional to the subsidiaries.
(9) Commissions on the placement of funds and issue of term certificates of deposit.
(10) Services provided by the procedures and self-issue insurance policy unit ("unidad de trámites y auto expedibles") and lease of the Bank's custody system.

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

		2018	2017
Short-term benefits	¢	1,002,919,033	1,001,837,144
Long-term benefits		130,379,474	130,238,828
Per diem – Board of Directors		119,736,112	112,671,114
	¢	1,253,034,619	1,244,747,086

The price for services in transactions with subsidiaries are established by the Bank at market value. In conformity with Directive 20/03 dated June 10, 2003 and Decree No. 37898-H dated June 5, 2013, the Bank performs a transfer pricing study.

(4) Cash and cash equivalents

For purposes of reconciliation with the separate statement of cash flows, as of December 31, cash and cash equivalents are as follows:

		2018	2017
Cash and due from banks	¢	1,020,863,217,469	1,277,462,115,311
Investments with maturities of less than two months		92,477,621,878	218,318,735,464
	¢	1,113,340,839,347	1,495,780,850,775

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

		2018	2017
Cash on hand and in vaults	¢	54,920,152,609	49,777,383,331
Cash in transit		24,794,852,641	17,953,025,566
Checking accounts in BCCR *(1)*		67,803,271,916	78,972,490,806
Minimum legal deposits in BCCR *(1)*		787,248,490,219	777,920,470,982
Checking accounts and demand deposits in State-owned commercial Banks and banks created under special laws		231,547,826	71,384,979
Checking accounts and other demand accounts in private financial entities		3,233,758,308	12,521,413,299
Checking accounts in foreign financial entities		49,891,592,911	299,621,722,805
Checking accounts and demand deposits with related parties (Note 3)		17,945,463,302	17,091,195,563
Overnight deposits in foreign financial entities		3,168,719,663	4,686,354,489
Transfers through the Interbank Electronic Payment System (SINPE)		1,785,642,086	4,178,591,649
Local notes receivable		6,098,464,304	4,357,069,947
Foreign notes receivable		2,543,259,521	1,410,554,037
Other restricted cash and due from banks *(2)*		1,198,002,163	8,900,457,858
	¢	1,020,863,217,469	1,277,462,115,311

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

As of December 31, 2018 and 2017, 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.

(2) Other restricted cash and due from Banks include the Commission Agreement for the custody of liabilities, checking accounts, savings accounts and term certificates of deposit of BCAC.

(5) Investments in financial instruments

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

		2018	2017
Held for trading:			
Open investment funds *(1)*	¢	12,096,981,603	-
		12,096,981,603	-
Available for sale:			
Local issuers:			
Government of Costa Rica		432,699,173,807	531,012,942,485
BCCR		116,807,202,473	92,228,208,168
State-owned banks		35,562,979,775	44,591,301,705
Private issuers		4,760,401,518	5,884,509,934
		589,829,757,573	673,716,962,292
Foreign issuers:			
Governments		250,699,141,701	74,980,395,187
Private issuers		145,841,940,179	88,709,226,103
Private banks		81,102,154,742	159,852,628,432
		477,643,236,622	323,542,249,722
		1,067,472,994,195	997,259,212,014
Held to maturity:			
Government of Costa Rica (Note 21)		-	18,562,535,348
		-	18,562,535,348
Derivative financial instruments:			
Interest rate futures - Hedges (Note 6)		564,329,586	6,179,274,814
Purchase of FX futures - Other than hedges (Note 6)		106,663,896	22,730,054
Sale of FX futures - Other than hedges (Note 6)		7,819,670	119,898,739
		678,813,152	6,321,903,607
Allowance for impairment:			
Allowance for impairment of investments		-	(58,720,472)
Allowance for impairment of derivative instruments other than hedges		(10,701,685)	(14,753,724)
		(10,701,685)	(73,474,196)
Accrued interest receivable		13,340,633,910	10,463,404,146
	¢	1,093,578,721,175	1,032,533,580,919

(Continued)

(1) Held-for-trading investments correspond to investment funds held with BN Sociedad Administradora de Fondos de Inversión, S.A. (the Investment Fund Manager) (see Note 3).

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

		2018	2017
Opening balance	¢	73,474,196	59,433,676
Allowance expense (Note 31)		27,236,249	29,794,522
Decrease in allowance (Note 32)		(90,008,760)	(17,716,855)
Foreign exchange differences		-	1,962,853
Closing balance	¢	10,701,685	73,474,196

As of December 31, 2018, due to the maturity of investments in financial instruments named "Z Bonds" related to the Mortgage Securitization Trust, no allowance was recognized for impairment of investments in non-derivative financial instruments (2017: allowance of ¢58,720,472, with an impairment of 26%).

As of December 31, 2018, the Bank recognized an allowance for impairment of derivative instruments other than hedges in the amount of ¢10,701,685 for sales of FX futures other than hedges in accordance with SUGEF Directive 09-08 (2017: ¢14,753,724).

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

Currency	2018	2017
Colones	4.87% to 11.21%	4.00% to 11.13%
US dollars	0.75% to 6.85%	0.50% to 6.85%
Euro	1.62% to 2.00%	1.10% to 2.00%
DU	-	0.00% to 0.74%

As of December 31, 2018, the valuation of available-for-sale investments and restricted financial instruments gave rise to an unrealized loss, net of deferred tax, in the amount of ¢3,854,956,295 (2017: unrealized loss of ¢846,968,886). Accordingly, as of that date, the cumulative balance of equity adjustments arising from the valuation of those investments is an unrealized loss in the amount of ¢6,159,945,950 (2017: unrealized loss in the amount of ¢2,304,989,655).

(Continued)

(6) Derivative financial instruments

As of December 31, 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 US dollars at a fixed rate. The purpose of these financial instruments is to offset the changes in fair value attributable to fluctuations in such reference rate.

As of December 31, derivative financial instruments are as follows:

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

		2017			
Issuing bank		Notional amount		Valuation	Purpose
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	¢	6,159,898,718	
Bank of America	US$	250,000,000	US$	(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 2018)
Amount in colones	¢	10,195,560,000	¢	(1,626,191)	

As of December 31, 2018, total notional amounts of US$1,006,700,000, equivalent to ¢608,439,413,000 (2017: US$1,018,000,000, equivalent to ¢576,615,560,000) are booked under "Other debit memoranda accounts" (see Note 24).

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

As of December 31, 2018, the Bank booked an increase in the fair value of these swaps in the amount of US$849,679 equivalent to ¢513,537,219 (2017: US$10,875,143, equivalent to ¢6,159,898,718) (see Note 5) and a decrease in the fair value of these hedges in the amount of US$15,741,800 equivalent to ¢9,514,186,508 (2017: US$13,690,990, equivalent to ¢7,754,850,556) (see Note 18).

As of December 31, 2018, the Bank booked an increase in the fair value of futures contracts in the amount of US$84,039 equivalent to ¢50,792,367 (2017: US$34,208 equivalent to ¢19,376,096) (see Note 5) and booked no decrease in the fair value of those contracts (2017: decrease in fair value of US$37,079 equivalent to ¢21,002,287) (see Note 18). This leaves the net position of those instruments at US$84,039, equivalent to ¢50,792,367 (2017: US$2,871 equivalent to ¢1,626,191).

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:

	Effectiveness rate	
	2018	2017
10-year issue (maturing in 2023)	114.70%	105.40%
5-year issue (maturing 2021)	90.40%	84.60%

A valuation was performed as of December 31, 2018 and 2017 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, 2018 and 2017
- 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.

✓ *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.

(Continued)

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, 2018, the total notional amount is US$8,853,765, equivalent to ¢5,351,126,744 (2017: US$27,906,944, equivalent to ¢15,807,051,435) (see Note 22).

As of December 31, 2018, the Bank booked an increase in the fair value of these forwards in the amount of ¢114,483,566 (2017: ¢142,628,792) under an asset account (see Note 5) and a decrease in the fair value of these forwards in the amount of ¢760,675 (2017: ¢46,913,807) under a liability account (see Note 18).

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

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

		2018	2017
Gain on derivative financial instruments	¢	20,850,704,979	24,217,078,104
Loss on derivative financial instruments		(26,913,712,578)	(18,859,030,471)
(Loss) gain, net	¢	(6,063,007,599)	5,358,047,633

(7) Loan portfolio

(a) Loan portfolio by sector

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

		2018	2017
Trade	¢	396,785,279,700	410,062,171,620
Services		939,030,870,995	925,588,456,250
Financial services		136,874,986,400	136,448,769,907
Mining		884,454,369	911,515,744
Manufacturing and quarrying		193,446,458,802	179,083,732,196
Construction		116,304,451,617	106,205,953,983
Agriculture and forestry		121,629,572,584	125,660,078,600
Livestock, hunting, and fishing		81,952,751,313	83,621,737,863
Electricity, water, sanitation, and other related sectors		412,573,611,859	438,885,802,997
Transportation and telecommunications		45,062,571,105	46,069,196,429
Housing		1,304,945,620,152	1,304,758,486,194
Personal or consumer loans		580,323,359,989	554,958,089,721
Tourism		191,332,544,873	180,852,228,622
		4,521,146,533,758	4,493,106,220,126
Accrued interest receivable		36,776,953,763	31,743,485,704
Allowance for loan losses		(141,630,956,233)	(140,168,393,361)
	¢	4,416,292,531,288	4,384,681,312,469

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

	2018		2017	
Currency	Rates	Average *(1)*	Rates	Average *(1)*
Colones	4.00% to 47.28%	15.28%	4.40% to 40.56%	14.96%
US dollars	2.89% to 38.40%	10.46%	3.00% to 34.92%	9.44%
DU	3.85% to 11.00%	6.53%	3.85% to 11.00%	6.57%

(1) Correspond to the simple average between the minimum and maximum values of the portfolio as of December 31, 2018 and 2017.

(b) Loan portfolio by arrears

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

		2018	2017
Current	¢	4,223,913,959,985	4,261,582,917,145
1 to 30 days		68,387,417,598	56,313,279,440
31 to 60 days		53,200,289,272	44,153,684,890
61 to 90 days		27,612,191,520	23,102,210,055
91 to 120 days		14,006,115,691	15,367,490,160
121 to 180 days		16,987,435,996	10,774,616,091
More than 180 days		117,039,123,696	81,812,022,345
		4,521,146,533,758	4,493,106,220,126
Accrued interest receivable		36,776,953,763	31,743,485,704
Allowance for loan losses		(141,630,956,233)	(140,168,393,361)
	¢	4,416,292,531,288	4,384,681,312,469

(c) Allowance for loan losses

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

		2018	2017
Opening balance	¢	140,168,393,361	85,464,859,320
Expense for the year (Note 31)		86,529,016,148	69,399,079,403
Settlements		(91,064,341,598)	(14,982,163,099)
Decrease in allowance charged to profit or loss		-	(720,000,000)
Foreign exchange differences		5,997,888,322	1,006,617,737
Closing balance	¢	141,630,956,233	140,168,393,361

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

(Continued)

(8) Accounts and fees and commissions receivable

As of December 31, other accounts receivable are as follows:

		2018	2017
Fees and commissions	¢	191,445,673	169,681,180
Accounts due from related parties (Note 3)		543,229	18,492
Accounts due from related parties		23,953,056	26,575,065
Income tax receivable		156,399,541	134,516,249
Sundry accounts receivable related to credit cards		82,482,719	239,569,385
Other expenses receivable		21,163,480	46,269,888
Other accounts receivable (1)		3,832,117,500	3,521,699,504
Accrued interest receivable on other sundry accounts receivable		2,082,892	1,724,156
Allowance for impairment of other accounts receivable		(3,855,164,916)	(3,533,662,402)
	¢	455,023,174	606,391,517

(1) As of December 31, 2018, other accounts receivable include ¢2,821 million corresponding to theft and fraud (2017: ¢2,712 million corresponding to theft or misappropriation, malicious acts, scams and fraud).

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

		2018	2017
Opening balance	¢	3,533,662,402	3,392,351,363
Allowance expense (Note 31)		1,949,617,277	2,026,114,296
Decrease in allowance (Note 32)		(1,149,713,455)	(767,042,270)
Items settled against allowance		(483,865,137)	(1,120,015,549)
Foreign exchange differences		5,463,829	2,254,562
Closing balance	¢	3,855,164,916	3,533,662,402

(Continued)

(9) Foreclosed assets

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

		2018	2017
Assets received in lieu of payment	¢	79,173,439,587	81,249,127,569
Idle property, furniture, and equipment		1,840,189	1,832,418
Allowance for impairment and per legal requirements		(59,100,375,778)	(62,466,054,133)
	¢	20,074,903,998	18,784,905,854

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

		2018	2017
Opening balance	¢	62,466,054,133	59,644,951,072
Allowance expense (Note 35)		4,111,275,986	6,059,997,296
Sale or disposal of foreclosed assets		(956,183,973)	-
Decrease in allowance		(6,520,770,368)	(3,238,894,235)
Closing balance	¢	59,100,375,778	62,466,054,133

(10) Investments in other companies

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

		2018	2017
BN Valores Puesto de Bolsa, S.A.	¢	15,011,983,983	15,532,064,277
BN Sociedad Administradora de Fondos de Inversión, S.A.		7,671,447,911	6,616,923,474
BN Vital Operadora de Planes de Pensiones Complementarias, S.A.		7,925,091,637	7,347,992,475
BN Corredora de Seguros, S.A.		2,993,685,161	2,704,536,834
Investments in other non-financial entities		20,623,300	20,623,300
Banco Internacional de Costa Rica, S.A. *(1)*		66,444,860,899	61,732,075,167
	¢	100,067,692,891	93,954,215,527

(1) The Bank holds 49% ownership interest in BICSA, represented in 2018 and 2017 by 6,506,563 ordinary shares with a par value of US$10.

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

		2018	2017	Concept
Interclear Central de Valores	¢	15,000,000	15,000,000	To operate as custodian of electronic securities
Depósito Libre Comercial Golfito (Golfito Duty Free Shopping Center) per Article 24 of Law No. 7131		5,200,000	5,200,000	Golfito Duty Free Shopping Center
Other financial entities		423,300	423,300	Various cooperatives
	¢	20,623,300	20,623,300	

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Notes to the Separate Financial Statements

(11) Property and equipment, net

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

		2018					
		Land	Buildings	Furniture and equipment	Computer hardware	Vehicles	Total
Cost:							
Historical cost at beginning of year	¢	4,421,981,503	65,365,769,139	61,817,593,696	48,709,205,906	241,776,565	180,556,326,809
Revalued cost at beginning of year		43,400,145,058	61,920,804,416	-	-	-	105,320,949,474
Additions		-	7,165,927,553	6,540,307,975	3,491,980,676	-	17,198,216,204
Revaluation		6,558,097,036	1,561,779,065	-	-	-	8,119,876,101
Disposals		-	(39,919,164)	(4,118,869,505)	(5,283,513,198)	-	(9,442,301,867)
Sales		(355,489,489)	(357,880,881)	(467,191)	-	-	(713,837,561)
Reclassifications *(i)*		(508,727,979)	(154,316,248)	2,444,456	(24,708,440)	-	(685,308,209)
Closing balance		53,516,006,129	135,462,163,880	64,241,009,433	46,892,964,944	241,776,565	300,353,920,951
Accumulated depreciation:							
Opening balance		-	38,921,431,766	35,122,694,659	32,769,646,269	187,309,832	107,001,082,526
Depreciation expense on historical cost		-	1,433,440,133	6,152,561,309	6,030,399,973	16,918,052	13,633,319,467
Depreciation expense on revalued cost		-	1,462,409,623	-	-	-	1,462,409,623
Disposals		-	(20,459,937)	(3,133,446,364)	(5,245,700,856)	-	(8,399,607,157)
Sales		-	(101,779,142)	(261,634)	-	-	(102,040,776)
Reclassifications *(ii)*		-	2,202,469,872	9,531,499	(40,747,140)	-	2,171,254,231
Closing balance	¢	-	43,897,512,315	38,151,079,469	33,513,598,246	204,227,884	115,766,417,914
Net closing balance	¢	53,516,006,129	91,564,651,565	26,089,929,964	13,379,366,698	37,548,681	184,587,503,037

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		2017					
		Land	Buildings	Furniture and equipment	Computer hardware	Vehicles	Total
Cost:							
Historical cost at beginning of year	¢	4,207,876,870	63,103,140,735	60,115,009,746	56,385,265,668	414,698,188	184,225,991,207
Revalued cost at beginning of year		42,270,752,875	57,905,955,092	-	-	-	100,176,707,967
Additions		331,825,827	2,352,349,672	5,507,774,828	7,468,493,744	-	15,660,444,071
Revaluation of assets		1,011,670,989	3,851,382,933	-	-	-	4,863,053,922
Disposals		-	-	(4,014,578,077)	(15,280,172,889)	(20,576,060)	(19,315,327,026)
Sales		-	-	(6,125,849)	-	(152,345,563)	(158,471,412)
Reclassifications *(i)*		-	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	241,776,565	285,877,276,283
Accumulated depreciation:							
Opening balance		-	33,183,853,179	33,218,408,760	41,715,656,461	321,536,197	108,439,454,597
Depreciation expense on historical cost		-	1,583,624,839	5,689,424,308	6,204,651,294	23,697,311	13,501,397,752
Depreciation expense on revalued cost		-	1,406,062,470	-	-	-	1,406,062,470
Disposals		-	-	(3,967,490,536)	(15,252,921,431)	(20,576,059)	(19,240,988,026)
Sales		-	-	(4,520,023)	-	(137,405,629)	(141,925,652)
Reclassifications *(ii)*		-	2,747,891,278	186,872,150	102,259,945	58,012	3,037,081,385
Closing balance	¢	-	38,921,431,766	35,122,694,659	32,769,646,269	187,309,832	107,001,082,526
Net closing balance	¢	47,822,126,561	88,365,141,789	26,694,899,037	15,939,559,637	54,466,733	178,876,193,757

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

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

(12) Other assets

As of December 31, other assets are as follows:

		2018	2017
Deferred charges:			
Leasehold improvements *(1)*	¢	644,238,414	800,451,555
Cost of issue of financial instruments, net *(2)*		1,020,486,226	1,440,638,368
Cost of subordinated debt project		340,742,717	396,529,566
Deferred direct costs related to loans		4,488,822,065	4,957,012,106
Other deferred charges *(3)*		71,115,886,457	1,261,169,998
		77,610,175,879	8,855,801,593
Intangible assets:			
Software *(4)*		4,394,746,145	5,859,211,275
Other intangible assets *(4)*		-	819,591,455
		4,394,746,145	6,678,802,730
Other assets:			
Prepaid interest and fees and commissions		365,324,853	178,093,729
Prepaid tax		1,015,459,769	5,163,294,189
Prepaid insurance policy		113,628,619	156,197,256
Other prepaid expenses		609,700,773	544,488,716
Stationery, office supplies, and other materials		430,986,529	613,850,126
Leased assets		121,011,254	99,453,445
Library and artwork		425,295,762	425,295,762
Construction work-in-progress		2,471,766,478	6,121,061,364
Rights in welfare and trade associations		350,000	350,000
Other sundry assets		6,979,507,295	6,981,567,844
Operations pending settlement		9,222,713,009	8,746,539,036
Other operations pending application		224,971,615	1,971,307,457
Security deposits (Note 2)		348,941,489	359,733,879
Legal and administrative deposits (Note 2)		160,172,058	183,042,060
		22,489,829,503	31,544,274,863
	¢	104,494,751,527	47,078,879,186

(1) As of December 31, 2018, the expense for amortization of leasehold improvements amounts to ¢300,986,175 (2017: ¢372,361,775).

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

		2018			
		5-year issue (maturing in 2018)	10-year issue (maturing in 2023)	5-year issue (maturing 2021)	Total
Commission - structuring banks	¢	302,195,000	302,195,000	513,731,500	1,118,121,500
Commission - Moody's Investors Service		151,097,500	151,097,500	-	302,195,000
Commission - Société de la Bourse de Luxembourg, S.A.		7,386,250	7,386,250	-	14,772,500
RR Donelley		6,616,257	6,616,233	3,960,734	17,193,224
BNY Mellon		2,389,154	2,389,154	3,485,516	8,263,824
Moody's - issuer rating		20,005,309	20,005,309	151,097,500	191,108,118
Fitch Ratings		151,097,500	151,097,500	151,097,500	453,292,500
Milbank		88,942,032	88,942,032	119,077,287	296,961,351
Shearman & Sterling		89,057,471	89,057,471	132,478,722	310,593,664
External audit		114,834,100	114,834,100	140,218,480	369,886,680
Perkins Cole (Broker)		-	-	7,927,814	7,927,814
Printing of documents		-	-	9,558,331	9,558,331
		933,620,573	933,620,549	1,232,633,384	3,099,874,506
Amortization		(933,620,573)	(469,459,691)	(676,308,016)	(2,079,388,280)
	¢	-	464,160,858	556,325,368	1,020,486,226

		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

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

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

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

		2018		
		Software	Other intangible assets	Total
Cost:				
Opening balance	¢	25,620,233,207	2,084,465,954	27,704,699,161
Additions		2,050,972,902	-	2,050,972,902
Disposals		(320,000)	-	(320,000)
Adjustments		319,714,207	-	319,714,207
Closing balance		27,990,600,316	2,084,465,954	30,075,066,270
Accumulated amortization:				
Opening balance		19,761,021,932	1,264,874,499	21,025,896,431
Expense for the year		5,812,165,042	819,591,455	6,631,756,497
Disposals		(320,000)	-	(320,000)
Adjustments		(1,977,012,803)	-	(1,977,012,803)
Closing balance		23,595,854,171	2,084,465,954	25,680,320,125
Net closing balance	¢	4,394,746,145	-	4,394,746,145

		2017		
		Software	Other intangible assets	Total
Cost:				
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
Accumulated amortization:				
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

(Continued)

(13) Obligations with the public

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

		2018	2017
Demand obligations:			
Checking accounts	¢	1,266,981,098,817	1,315,990,860,052
Certified checks		73,507,572	129,984,033
Savings deposits		1,429,099,932,052	1,356,884,997,468
Matured term deposits		26,930,306,912	23,250,148,019
Other demand deposits		331,158,380	504,652,034
Drafts and transfers		210,113,339	60,778,419
Cashier's checks		3,573,252,271	5,351,772,739
Advance collections from customers for credit cards		12,462,263,255	12,442,854,649
Banking mandates		1,198,002,163	8,900,457,858
Obligations for trust funds		234,948,393	7,928,030
		2,741,094,583,154	2,723,524,433,301
Term obligations:			
Deposits from the public		1,862,962,601,087	1,918,045,001,978
Other term deposits		126,413,598,734	153,877,421,326
		1,989,376,199,821	2,071,922,423,304
Finance charges payable		40,885,397,461	35,843,458,404
	¢	4,771,356,180,436	4,831,290,315,009

As of December 31, 2018, deposits in checking accounts denominated in colones bear interest at a maximum rate of 3.05% per annum (2017: 2.55% per annum) on balances and at a minimum rate of 0.00% per annum (2017: 0.00% per annum) on balances greater than or equal to ¢500,001. Deposits in checking accounts denominated in US dollars bear interest at a maximum rate of 0.45% per annum (2017: 0.45% per annum) on balances and at a minimum rate of 0.00% per annum (2017: 0.00% per annum) on balances greater than or equal to US$1,000.

(Continued)

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

Currency	2018	2017
Colones	4.00% to 8.20%	4.00% to 8.20%
US dollars	0.50% to 5.10%	0.50% to 5.10%

The Bank has term certificates of deposit that are restricted to secure certain loan operations. As of December 31, 2018, the balance of those term certificates of deposit amounts to ¢45,565,025,114 (2017: ¢40,267,805,245). 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:

		2018	2017
Financing of loans using external funds *(i)*	¢	125,644,412	125,644,412
Other term obligations with BCCR *(ii)*		150,400,000,000	-
Finance charges payable		104,444,444	-
	¢	150,630,088,856	125,644,412

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

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

(15) Obligations with financial entities

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

		2018	2017
Demand:			
Checking accounts with local financial entities	¢	46,734,855,631	60,409,743,140
Savings deposits with local financial entities		77,408,367	67,571,081
Development Credit Fund (FCD) management		132,343,259,393	144,413,540,280
Outstanding checks		1,912,750,821	1,682,209,656
Matured term deposits		93,328,163	-
Checking accounts and obligations with related parties		1,816,350,554	1,582,200,515
		182,977,952,929	208,155,264,672
Term:			
Term deposits from local financial entities		111,103,688,101	117,218,311,392
Term deposits from foreign financial entities		-	5,664,200,000
Term obligations with foreign financial entities *(1)*		590,621,555,714	841,601,971,462
Loans from local financial entities *(2)*		34,750,337,565	30,494,577,678
Loans from foreign financial entities *(2)(3)*		96,774,624,605	98,105,867,070
Obligations with related financial entities		40,900,000	-
Obligations for deferred liquidity operations *(2)*		105,600,000,000	-
		938,891,105,985	1,093,084,927,602
Charges payable for other demand and term obligations with financial entities – foreign currency		96,502,933	180,661,307
Charges payable for other demand and term obligations with financial entities – local currency		1,444,128,742	1,034,317,268
Charges payable for loans with foreign financial entities *(2)(3)*		436,983,682	438,383,591
Charges payable for loans with local financial entities *(2)*		152,689,267	91,353,129
Charges payable for term deposits from foreign financial entities *(1)*		6,402,756,563	8,024,283,437
		8,533,061,187	9,768,998,732
	¢	1,130,402,120,101	1,311,009,191,006

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

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

		2018		
		5-year issue (maturing in 2018)	10-year issue (maturing in 2023)	Total
Issue	¢	299,390,630,400	301,227,976,000	600,618,606,400
Adjustment to fair value of hedged item measured at cost of international issues		(918,500,797)	(10,728,073,748)	(11,646,574,545)
Amortization of discount in traded amount of issues		1,196,480,126	453,043,733	1,649,523,859
		299,668,609,729	290,952,945,985	590,621,555,714
Finance charges payable		3,147,864,581	3,254,891,982	6,402,756,563
	¢	302,816,474,310	294,207,837,967	597,024,312,277

		2017			
		5-year issue (maturing in 2018)	10-year issue (maturing in 2023)	5-year issue (maturing in 2021)	Total
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
Finance 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

On June 27, 2018, the Bank made a partial repurchase of the 5-year issue of securities maturing in 2018, in the amount of US$10,720,000, corresponding to issue BNALCR 4 7/8 maturing November 1, 2018, ISIN No. USP14623AA33.

(2) As of December 31, the maturity of loans and term obligations payable with financial entities is as follows:

		2018		
		Local	Foreign	Total
Less than 1 year	¢	105,667,412,889	-	105,667,412,889
1 to 2 years		-	5,141,281,219	5,141,281,219
3 to 5 years		34,835,613,943	92,070,327,068	126,905,941,011
	¢	140,503,026,832	97,211,608,287	237,714,635,119

		2017		
		Local	Foreign	Total
Less than 1 year	¢	-	2,288,044,850	2,288,044,850
1 to 2 years		-	6,948,572,303	6,948,572,303
More than 5 years		30,585,930,806	89,307,633,508	119,893,564,314
	¢	30,585,930,806	98,544,250,661	129,130,181,467

(3) As of December 31, 2018, loans due to foreign financial entities bear interest at rates ranging between 3.32% and 7.11% per annum (2017: between 2.76% and 6.65% per annum).

(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) Income tax for the current period

As of December 31, the income tax expense is as follows:

		2018	2017
Current tax:			
Income tax expense for the year	¢	3,472,773,276	3,276,101,267
Decrease in income tax for the year		-	(1,356,106,263)
		3,472,773,276	1,919,995,004
Prior period income tax:			
Prior-period income tax expense		-	834,374,298
Prior-period income tax expense, net		-	834,374,298
		3,472,773,276	2,754,369,302
Deferred tax:			
Deferred tax income		(99,647,590)	(353,343,229)
Deferred tax expense, net		(99,647,590)	(353,343,229)
Income tax expense, net	¢	3,373,125,686	2,401,026,073

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:

		2018	2017
Profit before income tax	¢	32,237,095,727	47,724,351,080
Plus (less) tax effect of:			
Non-deductible expenses		60,426,069,494	36,298,578,684
Deductible expenses		(2,161,792,739)	(2,809,091,015)
Non-taxable income		(78,925,461,561)	(74,813,855,403)
Tax base		11,575,910,921	6,399,983,346
Tax rate		30%	30%
Subtotal income tax expense		3,472,773,276	1,919,995,004
Prior-period income tax expense		-	834,374,298
Deferred tax income		(99,647,590)	(353,343,229)
Income tax expense, net	¢	3,373,125,686	2,401,026,073

a) Deferred tax

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

		2018		
		Assets	Liabilities	Net
Unrealized losses	¢	1,352,100,421	-	1,352,100,421
Unrealized gains		-	(183,698,322)	(183,698,322)
Revaluation of assets		-	(9,763,087,229)	(9,763,087,229)
	¢	1,352,100,421	(9,946,785,551)	(8,594,685,130)

		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)

(Continued)

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

		2017	Included in equity	2018
Unrealized losses	¢	920,527,963	431,572,458	1,352,100,421
Unrealized gains		(290,232,008)	106,533,686	(183,698,322)
Revaluation of assets		(10,081,789,511)	318,702,282	(9,763,087,229)
	¢	(9,451,493,556)	856,808,426	(8,594,685,130)

		2016	Included in equity	2017
Unrealized losses	¢	645,872,096	274,655,867	920,527,963
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)	1,343,706,448	(9,451,493,556)

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

As of December 31, 2018, the Bank did not recognize a deferred tax liability in the amount of ¢2,896,083,005 (2017: ¢2,276,401,619), given that the Bank controls the moment when the subsidiaries pay dividends.

Tax returns filed by the Bank for the years ended December 31, 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)

(17) Provisions

As of December 31, provisions are as follows:

		2018	2017
Severance benefits	¢	601,361,186	1,205,299,015
Litigation		6,816,139,409	4,515,893,295
Inactive checking and savings accounts liquidated		772,565,219	742,975,900
Manager commissions		12,787,348,741	10,633,343,574
Variation in RIVM methodology		2,852,491,877	2,917,407,494
Other		782,637,951	644,866,178
	¢	24,612,544,383	20,659,785,456

Movement in provisions is as follows:

		Severance benefits	Litigation	Other	Total
Balance as of 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		(1,450,000,000)	(16,612,755)	(779,932,530)	(2,246,545,285)
Balance as of December 31, 2017	¢	1,205,299,015	4,515,893,295	14,938,593,146	20,659,785,456
Increase in provision		1,543,572,944	2,413,099,440	11,546,274,140	15,502,946,524
Used		(2,006,085,375)	(112,853,326)	(7,149,121,310)	(9,268,060,011)
Decrease in provision		(141,425,398)	-	(2,140,702,188)	(2,282,127,586)
Balance as of December 31, 2018	¢	601,361,186	6,816,139,409	17,195,043,788	24,612,544,383

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:

		Claimed amount		Provision	
Type		2018	2017	2018	2017
Ordinary - in colones	¢	65,950,347,534	64,816,814,231	4,296,402,391	3,407,405,879
Ordinary - in US dollars		214,868,706,304	194,802,842,755	1,877,804,885	452,922,717
Criminal - in colones		1,020,877,223	1,020,877,223	506,644,203	487,964,155
Labor - in colones		731,328,688	679,128,688	135,287,930	167,600,544
	¢	282,571,259,749	261,319,662,897	6,816,139,409	4,515,893,295

(18) Other sundry accounts payable

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

		2018	2017
Professional fees	¢	-	2,675,119
Creditors - goods and services		3,382,839,954	3,113,797,401
Employer contributions		5,358,923,304	5,581,584,938
Court-ordered withholdings		3,697,873,283	3,541,023,002
Tax withholdings		3,419,396,165	3,960,234,298
Employee withholdings		553,116,964	655,881,976
Other third-party withholdings		5,847,527	3,354,073
Compensation		5,597,476,225	5,816,880,401
Statutory allocations		7,472,749,162	12,642,654,144
Clearing house operations		173,998,387	487,367,695
Accrued vacation		6,238,227,230	6,208,429,137
Accrued statutory Christmas bonus		950,634,626	1,121,395,346
Foreclosed assets		783,217,563	398,477,384
Provisional deposits for the payment of premiums		3,525,879,600	3,840,732,424
Direct contracts with the Government Purchases department - various *(1)*		1,172,877,958	1,075,356,681
Bid bonds and performance bonds		1,270,064,536	1,614,297,000
Customer accounts payable		1,804,936,443	767,270,617
Various creditors *(2)*		4,893,150,660	4,873,138,936
Interest rate futures - Hedges (Note 6)		9,514,186,508	7,775,852,843
Purchase of FX futures (other than hedges) (Note 6)		-	46,913,807
Sale of FX futures (other than hedges) (Note 6)		760,675	-
	¢	59,816,156,770	63,527,317,222

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

(2) As of December 31, 2018, the "Various creditors" account includes ¢3,721 million (2017: ¢4,185 million) for the operations of the Bank's Electronic Means of Payment Division (VISA). The remaining amount corresponds to normal operations of other divisions.

(Continued)

(19) Other liabilities

As of December 31, other liabilities are detailed as follows:

		2018	2017
Deferred income:			
Deferred finance income	¢	33,218,566,310	32,021,086,861
Deferred fees and commissions for trust management		36,788,458	34,109,997
		33,255,354,768	32,055,196,858
Allowance for stand-by credit losses *(1)*		169,073,348	265,681,489
Operations pending application:			
Operations pending settlement		19,899,787,694	56,259,287,268
Other operations pending settlement		13,835,038,255	9,962,141,487
		33,734,825,949	66,221,428,755
	¢	67,159,254,065	98,542,307,102

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

		2018	2017
Opening balance	¢	265,681,489	540,840,567
Allowance (Note 31)		20,750,000	76,257,000
Decrease in allowance (Note 32)		(130,000,000)	(360,000,141)
Adjustment for foreign exchange differences		12,641,859	8,584,063
Closing balance	¢	169,073,348	265,681,489

(20) Subordinated obligations

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

Annual interest rate	Term	Maturity		2018	2017
6-month LIBOR + 4.50% in the first 5 years and 6-month LIBOR + 5.00% thereafter	10 years	15/02/2024	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
		Equivalent in colones	¢	78,570,700,000	73,634,600,000
		Finance charges payable		1,917,469,915	1,501,463,242
			¢	80,488,169,915	75,136,063,242

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.

(21) Equity

(a) Share capital

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

		2018	2017
Capital under Law No. 1644	¢	144,618,072,265	144,618,072,265
Bank capitalization bonds		27,618,957,837	27,618,957,837
	¢	172,237,030,102	172,237,030,102

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, 2018, there is no balance for those investments due to their early redemption in October 2018 (2017: ¢18,562,535,348) (see Note 5).

(b) Revaluation surplus

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

As of December 31, 2018, revaluation surplus amounts to ¢66,193,911,011 (2017: ¢61,425,174,760).

(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, 2018, the adjustment for valuation of available-for-sale investments and restricted financial instruments amounts to ¢6,159,945,950 (2017: ¢2,304,989,655), corresponding to unrealized losses.

(Continued)

(d) Adjustment for valuation of investments in other companies

As of December 31, 2018, the adjustment for valuation of investments in foreign associates using the equity method amounts to ¢9,125,840,572 (2017: ¢9,095,624,686). These investments correspond to the Bank's 49% ownership interest in BICSA.

(e) Equity reserves

As of December 31, equity reserves are as follows:

		2018	2017
Legal reserve	¢	318,382,615,318	295,477,646,483
Statutory reserve for foreclosed assets		247,445,202	154,543,607
Excess of statutory reserve for loans		5,739,879,198	7,219,571,030
Statutory dynamic provision		9,673,364,920	8,270,045,249
	¢	334,043,304,638	311,121,806,369

(f) Equity of the Development Financing Fund

As of December 31, 2018, the allocation of the Bank's earnings for the creation of the Development Financing Fund (FOFIDE) amounts to ¢30,971,994,447 (2017: ¢27,111,958,013).

(22) Commitments and contingencies

As of December 31, 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:

		2018	2017
Performance bonds	¢	32,794,951,309	34,914,023,653
Bid bonds		5,632,858,532	2,380,121,728
Other guarantees		3,517,184,123	4,422,676,186
Letters of credit		17,288,986,781	19,229,683,722
Credits pending disbursement		212,097,543	224,551,326
		59,446,078,288	61,171,056,615
Pre-approved lines of credit		288,433,381,312	280,374,178,087
Other contingencies not related to credits		27,398,060	25,898,061
Other contingencies - Pending litigation and lawsuits (Note 43)		282,571,259,750	299,788,087,164
		571,032,039,122	580,188,163,312
Sales of FX futures - Other than hedges (Note 6)		5,351,126,744	15,807,051,436
	¢	635,829,244,154	657,166,271,363

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

(Continued)

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

(23) Trust assets

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

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

- Management and investment trusts
- Management trusts with a testamentary clause
- Guaranty trusts
- Housing trusts
- Management and investment public trusts

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

As of December 31, 2018, 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	Custody of stock	Guaranty and custody of stock	Total
Trust assets											
Cash and due from banks	¢ 349,558,362	2,814,638	34,391,034	2,367,431	340,036	-	8,633	-	-	-	389,480,134
Investments in financial instruments	389,014,806,688	15,130,037,490	-	1,648,104,217,294	1,276,799,016	-	2,204,105	-	-	-	2,053,528,064,593
Loan portfolio	2,961,287,844	-	1,483,501,217	-	-	-	-	-	-	-	4,444,789,061
Accounts and accrued interest receivable	33,495,449,219	21,944,782,699	1,680,654,557	28,501,954	222,564	-	-	109,483,978	-	3,505,466	57,262,600,437
Foreclosed assets	83,913,469	-	-	-	-	-	-	-	-	-	83,913,469
Investments in other companies	-	-	-	200,000,000	2,380,439	2,120,000	-	-	36,000	967,024,000	1,171,560,439
Property and equipment	792,308,175	47,596,681,660	-	61,660,877,229	93,224,756	-	-	1,544,041,161	-	1,738,460,805	113,425,593,786
Other assets	42,586,424,748	292,376,158	-	1,486,136,781	1,380,654	-	-	-	-	1,674,504,726	46,040,823,067
	¢ 469,283,748,505	84,966,692,645	3,198,546,808	1,711,482,100,689	1,374,347,465	2,120,000	2,212,738	1,653,525,139	36,000	4,383,494,997	2,276,346,824,986

(Continued)

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
Trust assets											
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

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.

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:

		2018	2017
Chattel mortgages	¢	270,568,076	1,323,290,684
Other guarantees received in the Bank's custody		5,376,469,395,862	5,214,124,613,840
Lines of credit granted but unused		357,850,484,895	400,321,411,495
Loans pending disbursement		210,781,440,052	233,983,980,165
Investments settled		97,787,627	207,927,441
Loans settled		255,710,265,939	173,858,782,945
Other accounts receivable settled		10,649,584,424	9,765,571,761
Accrued interest receivable settled		22,232,785,736	16,739,182,013
Interest income on non-accrual loans of loan portfolio		22,737,769,740	16,099,998,875
Supporting documentation received in the Bank's custody		1,255	1,255
Securities issued pending placement		14,224,000,000	21,250,026,640
Notified letters of credit		14,794,547,717	14,877,914,261
Notional value subject to interest rate futures (Note 6)		608,439,413,000	576,615,560,000
Reversals made to income accounts for the year		42,203,949,449	16,866,526,419
Reversals made to expense accounts for the year		309,182,251,803	43,316,609,467
Nondeductible expenses		60,426,069,492	36,298,578,684
Nontaxable income		78,925,461,561	74,813,855,404
Other memoranda accounts		188,582,589,726	200,669,603,142
		7,573,578,366,354	7,051,133,434,491
Third-party debit memoranda accounts		1,116,600,990,381	830,355,188,266
Own debit memoranda accounts for custodial activities		201,063,061,342	319,056,166,408
Third-party debit memoranda accounts for custodial activities		11,282,612,802,691	9,783,300,436,430
		12,600,276,854,414	10,932,711,791,104
	¢	20,173,855,220,768	17,983,845,225,595

(25) Income from financial instruments

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

		2018	2017
Cash and due from banks:			
Checking accounts and demand deposits in foreign entities	¢	5,320,576,991	2,917,621,830
		5,320,576,991	2,917,621,830
Financial instruments:			
Available-for-sale investment securities		53,536,735,825	43,962,887,357
Investments in securities and committed deposits		3,734,455,683	2,423,847,368
		57,271,191,508	46,386,734,725
	¢	62,591,768,499	49,304,356,555

(26) Income from loan portfolio

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

		2018	2017
Current loans:			
Checking account overdrafts	¢	34,107,623	68,710,086
Loans granted with funds from BCCR		858,898,268	993,429,685
Loans granted with other funds		360,078,868,324	331,989,878,208
Credit cards		25,311,294,353	24,699,442,068
Issued letters of credit		837,336	579,034
Loans to related parties		-	370,054
Other loans		4,560,235	4,545,784
		386,288,566,139	357,756,954,919
Past due loans and loans in legal collection:			
Checking account overdrafts		1,674,029	2,419,700
Loans granted with funds from BCCR		147,724,580	141,433,591
Loans granted with other funds		55,191,135,488	43,313,062,194
Credit cards		3,212,866,799	2,727,402,948
Other loans		10,036,283	234,173
		58,563,437,179	46,184,552,606
	¢	444,852,003,318	403,941,507,525

(Continued)

(27) Other finance income

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

		2018	2017
Fees and commissions on letters of credit	¢	29,704,170	73,454,058
Fees and commissions on guarantees granted		413,222,662	464,886,999
Fees and commissions on lines of credit		252,417,496	82,075,764
Valuation of held for trading financial instruments		9,056,425	-
Gain on fair value hedge for item measured at cost		22,637,455,147	16,126,462,658
Other sundry finance income		4,154,605,434	4,782,243,818
	¢	27,496,461,334	21,529,123,297

(28) Finance costs for obligations with the public

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

		2018	2017
Demand deposits	¢	46,744,681,301	37,426,650,671
Term deposits		135,462,794,120	111,896,091,731
	¢	182,207,475,421	149,322,742,402

(29) Finance costs for obligations with financial entities

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

		2018	2017
Demand obligations	¢	2,645,059,598	2,292,993,961
Term obligations		68,070,161,930	66,344,597,177
	¢	70,715,221,528	68,637,591,138

(30) Other finance costs

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

		2018	2017
Fees and commissions on letters of credit obtained	¢	190,188,506	78,631,720
Loss on hedged item measured at cost from fair value hedge of interest rate risk		16,959,960,171	14,664,767,883
Other sundry interest expenses		1,423,932,174	219,650,105
	¢	18,574,080,851	14,963,049,708

(31) Expenses for allowance for impairment of assets

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

		2018	2017
Allowance for loan losses (Note 7-c)	¢	82,459,783,695	55,659,126,192
Allowance for impairment of other accounts receivable (Note 8)		1,949,617,277	2,026,114,296
Allowance for stand-by credit losses (Note 19)		17,140,000	18,050,000
General and counter-cyclical allowance for loan portfolio (Note 7-c)		4,069,232,453	13,739,953,211
General and counter-cyclical allowance for stand-by credit losses (Note 19)		3,610,000	58,207,000
Allowance for impairment of derivative financial instruments (Note 5)		27,236,248	29,794,522
	¢	88,526,619,673	71,531,245,221

(Continued)

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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:

		2018	2017
Recovery of loan write-offs	¢	6,007,580,803	11,290,264,850
Recovery of accounts receivable write-offs		2,835,301	6,786,278
Decrease in allowance for loan portfolio (Note 7)		-	720,000,000
Decrease in allowance for other accounts receivable (Note 8)		1,149,713,455	767,042,270
Decrease in allowance for stand-by credit losses (Note 19)		50,000,000	230,000,141
Decrease in general and counter-cyclical allowance for stand-by credit losses (Note 19)		80,000,000	130,000,000
Decrease in allowance for investments in financial instruments (Note 5)		90,008,760	17,716,855
	¢	7,380,138,319	13,161,810,394

(33) Operating income from service fees and commissions

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

		2018	2017
Drafts and transfers	¢	8,873,032,052	8,458,568,610
Certified checks		3,949,358	5,936,946
Trusts		1,201,113,509	973,162,064
Custodial services		1,453,088,347	1,528,076,053
Mandates		424,165	231,919
Collections		28,152,153	32,139,006
Credit cards		60,059,446,475	55,057,266,544
Administrative services		3,320,859,273	3,470,572,705
Insurance underwriting		983,834,098	1,033,118,562
Transactions with related parties and fees and commissions for sundry custodial services		528,716,248	246,968,909
Other *(1)*		42,267,042,195	40,885,632,922
	¢	118,719,657,873	111,691,674,240

(1) "Other" corresponds to Servibanca local interchange fees and commissions for agreements with affiliated businesses

(34) Other operating income

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

		2018	2017
Leasing of assets	¢	32,166,340	54,690,392
Recovery of expenses		2,885,783,041	2,237,693,397
Net valuation of other assets (Note 42-c)		1,035,396,519	414,076,427
Other income from accounts receivable		4,989,553	1,524,889
Sundry operating income		5,463,810,914	4,927,436,024
Decrease in provisions		2,282,127,586	2,246,545,284
	¢	11,704,273,953	9,881,966,413

(35) Expenses for foreclosed assets

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

		2018	2017
Loss on sale of assets received in lieu of payment	¢	946,583,591	2,262,926,272
Loss on sale of assets awarded in judicial auctions		8,546,137,093	7,116,546,951
Management of assets received in lieu of payment		41,697,139	-
Management of assets awarded in judicial auctions		4,930,738,008	5,678,480,406
Loss on impairment of foreclosed assets (Note 9)		54,286,095	85,930,007
Loss on allowance for impairment and per legal requirements (Note 9)		4,056,989,891	5,974,067,289
Other expenses		101,354,826	330,046,363
	¢	18,677,786,643	21,447,997,288

In July 2018, the "Expenses for sundry assets" account was adjusted in the amount of ¢899 million corresponding to work-in-progress adjustments for 2012.

(36) Expenses for provisions

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

		2018	2017
Severance benefits	¢	1,543,572,944	1,333,340,629
Pending litigation		2,413,099,440	452,354,055
Provision for "BN Premios" points program		4,319,043,806	2,731,743,028
Incentives and Performance Evaluation System (SEDI)		1,185,358,808	-
Case on the manager commissions with CCSS		2,154,005,167	1,351,863,574
Case on the RIVM contribution		2,855,573,956	3,073,535,983
Notice of deficiency		954,435,974	-
Other provisions		77,856,429	588,906,823
	¢	15,502,946,524	9,531,744,092

(37) Other operating expenses

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

		2018	2017
Penalties for noncompliance with regulatory provisions		50,000	355,623,608
Net valuation of other liabilities (Note 42-c)		1,587,413,836	867,162,063
Income tax on foreign remittances		23,020,682	76,955,195
Income tax (8%) on interest from investments in financial instruments		2,827,853,029	2,939,100,615
Property tax		254,757,504	228,777,095
Licenses		667,137,127	477,032,254
Other local taxes		674,856,728	894,047,965
Transfers to FINADE		2,905,963,322	3,577,151,802
Sundry operating expenses		62,568,353,627	62,291,770,620
	¢	71,509,405,855	71,707,621,217

(Continued)

(38) Personnel expenses

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

		2018	2017
Salaries and bonuses, permanent staff	¢	61,893,185,014	60,585,387,794
Salaries and bonuses, outsourcing		1,574,906,571	1,629,683,026
Compensation for directors and statutory examiners		119,736,112	112,671,113
Overtime		644,479,647	888,345,803
Travel expenses		506,385,491	584,593,681
Statutory Christmas bonus		6,595,300,643	6,416,121,859
Vacation		6,426,276,806	6,391,958,558
Other compensation		3,597,337,872	3,933,117,852
Severance benefits		4,032,103,248	3,954,596,196
Employer social security taxes		25,360,925,582	24,679,282,904
Refreshments		479,205,734	440,847,564
Uniforms		238,189,425	364,780,055
Training		617,744,109	605,688,018
Personnel insurance		200,667,028	184,517,947
Back-to-school bonus		6,204,068,890	5,961,112,365
Compulsory retirement savings account		2,393,050,074	2,324,985,575
Other personnel expenses		560,587,935	515,623,300
	¢	121,444,150,181	119,573,313,610

(39) Other administrative expenses

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

		2018	2017
Outsourcing	¢	15,893,874,988	12,161,287,715
Transportation and communications		3,826,764,684	4,054,096,589
Infrastructure		35,547,568,344	34,923,534,021
Overhead		19,613,649,451	16,473,141,294
	¢	74,881,857,467	67,612,059,619

(40) Statutory allocations

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

		2018	2017
CONAPE - 5%	¢	1,611,854,786	2,394,220,409
CNE - 3%		745,269,369	1,247,062,928
INFOCOOP - 10%		2,855,558,087	4,253,491,805
RIVM - 15%		2,867,783,440	4,766,379,762
	¢	8,080,465,682	12,661,154,904

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

		2018	2017
CNE - 3%		740,029	6,857,889
INFOCOOP - 10%		204,799,495	63,669,806
RIVM - 15%		402,176,996	30,585,366
	¢	607,716,520	101,113,061

(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:

		2018	
		Carrying amount	Fair value
Financial assets:			
Cash and due from banks	¢	1,020,863,217,469	1,020,863,217,469
Loan portfolio		4,557,923,487,521	4,259,230,366,631
	¢	5,578,786,704,990	5,280,093,584,100
Financial liabilities:			
Demand deposits from the public and financial entities	¢	2,947,279,354,123	2,947,279,354,123
Other demand obligations with the public		17,678,579,421	17,678,579,421
Term deposits from the public and financial entities		2,566,742,094,504	2,601,698,337,721
	¢	5,531,700,028,048	5,566,656,271,265

		2017	
		Carrying amount	Fair value
Financial assets:			
Cash and due from banks	¢	1,277,462,115,311	1,277,462,115,311
Loan portfolio		4,524,849,705,830	4,266,690,384,883
	¢	5,802,311,821,141	5,544,152,500,194
Financial liabilities:			
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		2,397,165,623,856	2,443,693,809,827
	¢	5,364,688,780,233	5,411,216,966,204

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 separate 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 date. Future expected cash flows for loans are discounted at the interest rates offered for similar loans to new borrowers as of December 31, 2018 and 2017.

(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 based on discounting cash flows at the interest rates in effect.

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

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

		2018			
		Level 1	Level 2	Level 3	Total
Available for sale	¢	995,481,465,212	67,231,127,301	4,760,401,682	1,067,472,994,195
Held for trading		12,096,981,603	-	-	12,096,981,603
Derivative financial instruments		-	-	678,813,152	678,813,152
Term obligations with foreign financial entities		-	-	590,621,555,713	590,621,555,713

		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

(Continued)

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).

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

		2018			2017		
		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	¢	5,884,509,934	6,159,898,498	841,601,971,462	5,629,455,571	5,893,164,907	815,040,918,559
Maturities		(1,194,835,544)	-	-	-	-	-
Valuation		(243,645,323)	(6,008,498,091)	(6,615,350,748)	63,384,957	89,782,668	39,811,482,772
Amortizations		-	-	(1,066,026,729)	-	-	863,192,777
Exchange differences		314,372,615	527,412,745	(243,299,038,272)	191,669,406	176,951,923	(14,113,622,646)
Closing balance	¢	4,760,401,682	678,813,152	590,621,555,713	5,884,509,934	6,159,898,498	841,601,971,462

(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.

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 separate 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)

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

	Note		Direct 2018	Direct 2017	Note	Stand-by 2018	Stand-by 2017
Loan portfolio							
Principal	7-a	¢	4,521,146,533,758	4,493,106,220,126	22	347,879,459,600	341,545,234,702
Accounts and accrued interest receivable			36,776,953,763	31,743,485,704		-	-
Carrying amount, gross			4,557,923,487,521	4,524,849,705,830		347,879,459,600	341,545,234,702
Allowance for loan losses (accounting records)			(132,340,850,374)	(134,030,406,147)		(169,073,348)	(265,681,489)
Carrying amount, net		¢	4,425,582,637,147	4,390,819,299,683		347,710,386,252	341,279,553,213

		Direct 2018	Direct 2017	Stand-by 2018	Stand-by 2017
Loan portfolio					
Total balances:					
0	¢	37,427,442,169	17,635,841,583	-	-
A1		3,440,849,168,342	3,561,582,919,978	328,283,656,992	330,118,317,660
A2		30,738,749,865	34,027,425,779	744,669,032	577,610,597
B1		483,983,067,681	390,309,401,449	12,479,532,229	6,118,195,520
B2		10,867,686,829	8,855,274,683	32,806,568	23,933,080
C1		113,649,733,779	110,371,269,122	2,068,420,664	1,605,199,856
C2		22,345,923,687	4,562,010,037	54,884,838	43,233,893
D		152,210,409,626	136,407,728,578	1,181,773,349	845,612,382
E		265,851,305,543	261,097,834,621	3,033,715,928	2,213,131,714
		4,557,923,487,521	4,524,849,705,830	347,879,459,600	341,545,234,702
Structural allowance (subledger – database)		(131.396.734.202)	(131,599,796,825)	(136,183,805)	(144,078,976)
Carrying amount, net	¢	4.426.526.753.319	4,393,249,909,005	347,743,275,795	341,401,155,726
Individually assessed loans with allowance					
0	¢	37,427,442,169	17,635,841,583	-	-
A1		3,440,849,168,342	3,561,585,279,150	38,945,363,455	49,140,799,990
A2		30,738,749,865	34,027,425,779	141,522,178	108,979,998
B1		483,983,067,681	390,309,401,449	8,382,243,815	1,659,921,607
B2		10,867,686,829	8,855,274,683	-	-
C1		113,649,733,779	110,371,269,122	67,559,784	82,156,711
C2		22,345,923,687	4,562,010,037	-	-
D		152,210,409,626	136,407,728,578	109,787,259	18,679,022
E		265,851,305,543	261,097,834,621	23,884,195	90,496,820
		4,557,923,487,521	4,524,852,065,002	47,670,360,686	51,101,034,148
Structural allowance (subledger – database)		(131.396.734.202)	(131,599,796,825)	(136,183,805)	(144,078,976)
Carrying amount, net		4,426,526,753,319	4,393,252,268,177	47,534,176,881	50,956,955,172

(Continued)

			Direct			Stand-by	
			2018	2017	Note	2018	2017
Current loans without allowance::							
A1		¢	-	2,359,172		289,338,293,538	280.977.517.66
A2			-	-		603,146,854	468.630.60
B1			-	-		4,097,288,414	4.458.273.91
B2			-	-		32,806,568	23.933.08
C1			-	-		2,000,860,879	1.523.043.14
C2			-	-		54,884,838	43.233.89
D			-	-		1,071,986,090	826.933.36
E			-	-		3,009,831,733	2.122.634.89
Carrying amount		¢	-	2,359,172		300,209,098,914	290.444.200.55
Carrying amount, gross			4,557,923,487,521	4,524,849,705,830		347,879,459,600	341,545,234,70
Allowance for loan losses (database)			(131,396,734,202)	(131,599,796,825)		(136,183,805)	(144,078,97
Excess of allowance over structural allowance			(944,116,172)	(2,430,609,322)		(32,889,543)	(121,602,51
Carrying amount, net	7-a	¢	4,425,582,637,147	4,390,819,299,683		347,710,386,252	341,279,553,21
Restructured loans		¢	48,865,106,445	32,567,020,338		-	-

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:

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

(Continued)

		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		110,371,269,122	107,118,082,175
C2		4,562,010,037	4,316,672,266
D		136,407,728,578	126,928,627,250
E		261,097,834,621	166,763,168,966
	¢	4,524,849,705,830	4,390,819,299,683

As shown above, as of December 31, 2018, the gross portfolio amounts to ¢4,558 billion. Of that amount, 87.81% is classified in risk ratings "A + B" and 12.19% in risk ratings "C + D + E" (2017: ¢4,524 billion, of which 88.68% is classified in risk ratings "A + B" and 11.32% 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.

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

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

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

Loan charge-off policy:

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

Borrower classification

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

The loan portfolio by borrower classification is as follows:

Borrower classification		Direct		Stand-by	
		2018	2017	2018	2017
Group 1	¢	2,742,352,824,524	2,748,857,867,558	66,044,930,654	68,576,315,183
Group 2		1,815,570,662,997	1,775,991,838,272	281,834,528,946	272,968,919,519
	¢	4,557,923,487,521	4,524,849,705,830	347,879,459,600	341,545,234,702

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.

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

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

Analysis of creditworthiness

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

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

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

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

Analysis of historical payment behavior

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

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

Structural allowance for loan losses

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.

(Continued)

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

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

Risk rating	Specific allowance percentage - Uncovered portion	Specific allowance percentage - Covered portion
A1	0%	0%
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.

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

Risk rating	General allowance	Specific allowance percentage - Uncovered portion	Specific allowance percentage - Covered portion
A1	0.5%	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 Letter 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 SUGEF Directive 1-05 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:

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

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

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

As of December 31, pursuant to the provisions of SUGEF Directive 1-05, the Bank must maintain a structural allowance, as follows:

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

	2017		
	Allowance booked	Structural allowance	Excess of allowance
Allowance for direct loans	¢ 134,030,406,147	(131,599,796,825)	2,430,609,322
Allowance for stand-by credits	265,681,489	(144,078,976)	121,602,513
	134,296,087,636	(131,743,875,801)	2,552,211,835
Counter-cyclical allowance per SUGEF Directive 19-16	6,137,987,214	(6,137,987,214)	-
	¢ 140,434,074,850	(137,881,863,015)	2,552,211,835

Cyclical allowance

As of December 31, 2018, 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)

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 (¢3,731,878,928 based on the calculation of the counter-cyclical allowance made by management as of December 31, 2018). Once the entity reach that level, it shall continue booking the counter-cyclical account as indicated by this regulation.

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

Date of application	Percentage (%)
Starting from the date when the amendment is effective	5.00%
Starting from June 1, 2019	6.00%
Starting from June 1, 2020	7.00%

As of December 31, 2018, the counter-cyclical allowance booked amounts to ¢9,290,105,859 (2017: ¢6,137,987,214).

Credit equivalent

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

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

Allowance for other assets

Allowances should be established for the following assets:

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

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

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

As of December 31, 2018, the carrying amount of the allowance for impairment of foreclosed assets and per legal requirements amounts to ¢59,100,375,778 (2017: ¢62.466.054.133).

(Continued)

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

		Direct		Stand-by	
Sector		2018	2017	2018	2017
Trade	¢	399,405,456,179	412,215,871,716	2,439,692	3,066,960
Services		943,942,869,178	929,716,008,520	59,243,927,489	60,958,147,070
Financial services		137,540,968,729	137,077,253,224	-	-
Mining		889,942,613	913,028,462	-	-
Manufacturing and quarrying		194,076,459,450	179,577,802,951	-	-
Construction		117,180,507,280	106,709,787,747	-	-
Agriculture and forestry		123,697,356,395	127,376,468,783	850,890	-
Livestock, hunting, and fishing		83,199,780,004	84,543,749,108	-	-
Electricity, water, sanitation, and other related sectors		414,357,886,412	440,807,243,205	-	-
Transportation and telecommunications		45,315,876,468	46,223,170,011	-	-
Housing		1,317,206,969,622	1,316,287,378,607	19,726,133	17,196,188
Personal or consumer		588,550,522,201	561,393,107,868	288,433,381,312	280,374,178,080
Tourism		192,558,892,990	182,008,835,628	179,134,084	192,646,404
	¢	4,557,923,487,521	4,524,849,705,830	347,879,459,600	341,545,234,702

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

		Direct		Stand-by	
		2018	2017	2018	2017
Central America	¢	4,557,923,487,521	4,524,849,705,830	347,879,459,600	341,545,234,702

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

		Direct		Stand-by	
Guarantee		2018	2017	2018	2017
Back to back	¢	45,712,041,762	44,538,351,577	598,107	1,078,693
Mortgage bond		200,637,096	329,841,726	-	-
Assignment of loans		332,360,804,301	372,439,090,207	-	-
Mortgage		1,794,906,112,324	1,825,152,619,518	159,823,064	171,227,876
Surety		915,411,187,722	874,822,084,146	6,034,974	1,599,874
Trust		521,893,896,757	382,507,943,648	165,417	19,821,732
Securities		774,413,025	1,061,598,736	-	-
Chattel mortgage		271,705,255,213	244,493,000,879	-	-
Other		674,959,139,321	779,505,175,393	347,712,838,038	341,351,506,523
	¢	4,557,923,487,521	4,524,849,705,830	347,879,459,600	341,545,234,702

(Continued)

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, 2018 and 2017, 57.82% and 55.21% of the loan portfolio is secured by collateral guarantees, respectively.

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

		Direct		Stand-by	
Loan portfolio concentration		2018	2017	2018	2017
¢1 to ¢3,000,000	¢	172,087,411,541	164,701,590,388	95,255,908,944	103,660,719,262
¢3,000,001 to ¢15,000,000		642,446,435,057	630,696,858,704	190,963,989,929	175,793,736,125
¢15,000,001 to ¢30,000,000		470,424,108,164	474,923,823,398	6,617,590,541	6,522,609,211
¢30,000,001 to ¢50,000,000		475,298,298,216	480,160,993,326	3,278,346,354	2,506,185,273
¢50,000,001 to ¢75,000,000		400,385,017,945	389,300,510,481	1,940,694,062	1,900,742,296
¢75,000,001 to ¢100,000,000		197,191,798,087	192,387,223,209	593,926,334	1,621,318,004
¢100,000,001 to ¢200,000,000		249,115,461,435	243,112,076,993	2,630,291,575	4,427,307,836
More than ¢200,000,000		1,950,974,957,076	1,949,566,629,331	46,598,711,861	45,112,616,695
	¢	4,557,923,487,521	4,524,849,705,830	347,879,459,600	341,545,234,702

As of December 31, 2018 and 2017, the portion of the loan portfolio (direct and stand-by loans) corresponding to economic interest groups amounts to ¢592,501,711,854 and ¢481,020,452,451, 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)

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

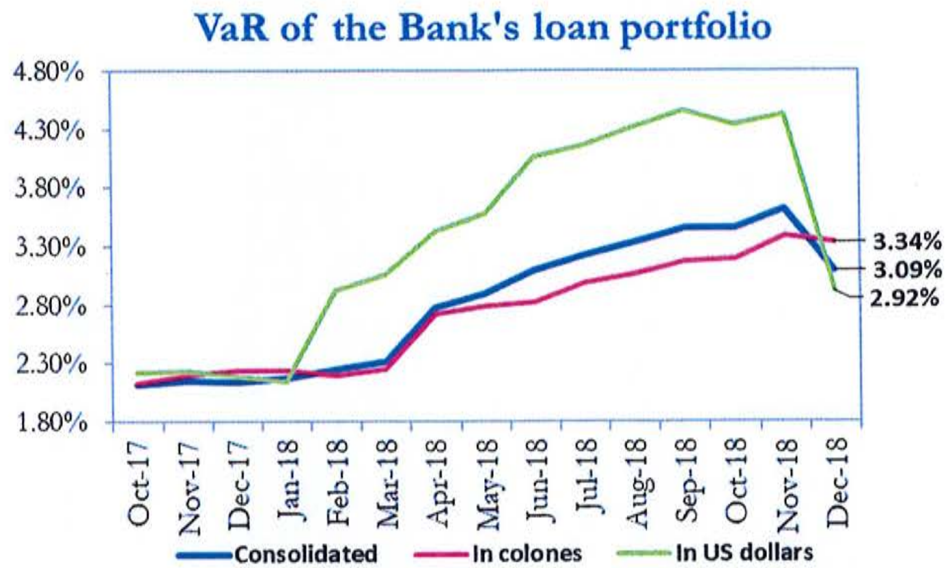
The Bank's loan portfolio is comprised of operations in various currencies, i.e. the Costa Rican colon, the US dollar, and DU. Consequently, the VaR analysis is performed separately for each currency. The data is then consolidated to determine a maximum loss for the entire portfolio, expressed in colones,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

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

The year-on-year growth observed in the VaR of the entire loan portfolio is due to the increase in arrears, mainly in US dollars, between December 2017 and December 2018. Legal collection increased from 5.15% to 6.58% during the aforementioned period, while arrears more than 90 days increased from 2.44% to 3.31%.

Based on the foregoing, by currency, the VaR of the portfolio in US dollars increased by 0.74% due to the increase of arrears indicators. A similar behavior was observed in the portfolios in colones and DU, with an increase in the VaR in December 2018 with respect to the prior period.

On a year-on-year basis, the risk indicator shows growth in the consolidated portfolio and in different currencies due to the results observed in arrears.



By economic activity, with respect to December 2018, massive portfolios such as Housing, Consumer, and Trade show increases in VaR due to the deterioration of the quality of the portfolio in line with the behavior of the economic environment.

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

Activity	2018	2017
Agriculture	6.91%	4.07%
Livestock	4.16%	3.18%
Mining	9.73%	9.15%
Industry	5.30%	3.09%
Energy	2.34%	4.30%
Housing	1.91%	1.52%
Construction	6.21%	4.19%
Trade	5.07%	2.91%
Transportation	2.07%	1.33%
Financial services	0.49%	0.37%
Consumer	9.43%	4.57%
Services	2.18%	2.10%
Tourism	6.98%	5.46%
BNCR	**3.09%**	**2.14%**

(Continued)

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 as of December 2018, which increased in colones and decreased in US dollars with respect to December 2017, remaining above the appetite level during the last year.

The LCR indicator in colones shows a downward, trend especially during the second half of the year, as a result of the stagnation of deposits from the public during 2018. At year-end, the LCR indicator closed at 124%, considerably above the risk appetite.

The LCR indicator in US dollars was affected by the payment of the maturity of the international issue, closing at 183% at month-end. Additionally, it was influenced by the payment of notices of deficiency because the Bank adhered to the Tax Amnesty (see Note 44) and to the pledge of instruments in US dollars to capture colones in the Integrated Liquidity Market (MIL). From being considerably above, at levels above US$500, the LCR indicator decreased to US$354 million during December 2018.

Indicator	December 2018	December 2017	Variation	Level
LCR in colones	124%	110%	14.0%	Appetite
LCR in US dollars	183.4%	278%	(94.6)%	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.

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

				Days						
		Past due	Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	More than 365	Total
Cash and due from banks	¢	-	67,635,704,760	-	-	-	-	-	-	67,635,704,760
Minimum legal deposit in BCCR		-	313,979,584,023	24,597,772,230	43,251,408,923	28,139,027,017	56,456,765,822	59,130,821,240	13,632,519,516	539,187,898,771
Investments		-	-	45,574,697,445	1,503,700,922	16,533,921,212	3,961,769,388	54,155,951,997	352,752,765,619	474,482,806,583
Loan portfolio		193,766,214,722	-	51,991,311,753	40,253,906,014	50,196,732,922	103,802,848,120	139,357,819,476	2,518,461,695,495	3,097,830,528,502
Recovery of assets	¢	193,766,214,722	381,615,288,783	122,163,781,428	85,009,015,859	94,869,681,151	164,221,383,330	252,644,592,713	2,884,846,980,630	4,179,136,938,616
Obligations with the public	¢	-	1,761,053,463,853	294,180,548,674	178,090,460,001	135,070,706,387	332,187,985,968	345,181,140,475	62,760,497,448	3,108,524,802,806
Obligations with BCCR		-	-	150,400,000,000	-	-	-	-	125,644,412	150,525,644,412
Obligations with financial entities		-	75,674,454,813	120,256,645,142	15,475,874,498	7,133,245,771	33,623,072,804	26,939,568,885	34,759,337,565	313,862,199,478
Charges payable		-	9,687,358,104	13,090,822,153	4,458,891,747	2,760,903,723	2,943,035,036	1,257,265,315	372,652,496	34,570,928,574
Maturities of liabilities	¢	-	1,846,415,276,770	577,928,015,969	198,025,226,246	144,964,855,881	368,754,093,808	373,377,974,675	98,018,131,921	3,607,483,575,270
Difference	¢	193,766,214,722	(1,464,799,987,987)	(455,764,234,541)	(113,016,210,387)	(50,095,174,730)	(204,532,710,478)	(120,733,381,962)	2,786,828,848,709	571,653,363,346

(Continued)

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

		Days								
		Past due	Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	More than 365	Total
Cash and due from banks	¢	-	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
Recovery of assets	¢	144,568,723,210	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 of liabilities	¢	-	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	¢	144,568,723,210	(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, 2018, the terms of the Bank's assets and liabilities denominated in foreign currency, expressed in local currency, are matched as follows:

					Days					
		Past due	Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	More than 365	Total
Cash and due from banks	¢	-	98,175,750,575	-	-	-	-	-	-	98,175,750,575
Minimum legal deposit in BCCR		-	180,617,188,957	10,249,628,136	19,905,848,160	11,346,517,697	24,709,454,340	17,933,811,822	51,101,414,251	315,863,863,363
Investments		-	-	16,375,557,387	29,023,666,124	15,936,099,242	253,754,320,770	52,915,668,829	251,101,303,925	619,106,616,277
Loan portfolio		125,165,885,515	-	30,796,578,646	26,423,822,186	22,912,408,879	69,140,154,006	78,551,581,108	1,107,102,528,679	1,460,092,959,019
Recovery of assets	¢	125,165,885,515	278,792,939,532	57,421,764,169	75,353,336,470	50,195,025,818	347,603,929,116	149,401,061,759	1,409,305,246,855	2,493,239,189,234
Obligations with the public	¢	-	980,041,119,301	143,594,665,173	83,731,765,048	51,861,546,469	174,999,318,319	121,294,361,388	75,938,151,655	1,631,460,927,353
Obligations with financial entities		-	105,691,227,352	6,043,900	7,863,113,900	29,044,566	5,357,605,485	48,351,200	689,011,473,032	808,006,859,435
Charges payable		-	2,031,375,901	2,600,359,848	1,110,149,922	431,783,426	7,729,943,055	556,561,065	491,801,300	14,951,974,517
Maturities of liabilities	¢	-	1,087,763,722,554	146,201,068,921	92,705,028,870	52,322,374,461	188,086,866,859	121,899,273,653	765,441,425,987	2,454,419,761,305
Difference	¢	125,165,885,515	(808,970,783,022)	(88,779,304,752)	(17,351,692,400)	(2,127,348,643)	159,517,062,257	27,501,788,106	643,863,820,868	38,819,427,929

(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 1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	More than 365	Total
Cash and due from banks	¢	-	340,128,457,416	-	-	-	-	-	-	340,128,457,416
Minimum legal deposit in BCCR		-	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
Investments		-	-	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
Loan portfolio		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
Recovery of assets	¢	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	¢	-	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
Obligations with financial entities		-	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
Charges payable		-	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
Maturities of liabilities	¢	-	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
Difference	¢	110,135,043,081	(525,564,754,185)	(19,733,625,739)	(40,069,946,271)	(22,846,046,680)	(36,731,214,866)	117,526,427,606	484,784,056,069	67,499,939,015

(Continued)

c) *Market risks*

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

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

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

Below is the variation of the portfolios in each currency for December 2018 and December 2017.

Face value of investments by currency

Currency	December 2018	December 2017	Variation
Colones	464,988,850,000	425,852,400,000	39,136,450,000
US dollars - local issuers	233,574,000	426,017,729	(192,443,729)
US dollars - international issuers	761,563,725	557,607,036	203,956,689
Euro	6,000,000	11,000,000	(5,000,000)
DU	-	24,282,530	(24,282,530)

Duration by currency varies according to portfolio management, with a decrease in the last year in all of the currencies, except in colones.

Duration	December 2018	December 2017	Variation
Colones	0.58	0.32	0.26
US dollars - local issuers	0.81	0.99	(0.18)
US dollars - international issuers	0.99	1.32	(0.33)
Euro	0.16	0.94	(0.78)
DU	-	1.29	(1.29)

- *Market risk of investments*

The Bank's consolidated VaR regarding the market value of investments is at the risk appetite level at the December close (1.55%), showing a slight increase in the last year.

Type of risk	December 2018	December 2017	Variation
Consolidated VaR	0.28%	0.24%	0.04%

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

	VaR by currency		
Currency	December 2018	December 2017	Variation
Colones	0.28%	0.07%	0.21%
US dollars - local issuers	0.68%	0.35%	0.33%
US dollars - international issuers	0.25%	0.55%	(0.30) %
Euro	0.003%	0.01%	(0.01) %
DU	0.00%	0.06%	(0.06) %

- *Interest rate risk*

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

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

Type of risk	December 2018	December 2017	Variation	Level
Interest rate risk in colones	0.18%	0.14%	0.04%	Normal
Interest rate risk in foreign currency	0.95%	0.70%	0.25%	Normal

Both indicators closed considerably below the regulatory limits of SUGEF Directive 24-00 dated September 2017 (5%, 20%, and 35%). The interest rate risk indicator in colones increased, resulting from an increase in the duration of capital and the expected spread of the lending rate due to its stability during the last year. In US dollars, the increase is due to changes in the 3-month LIBOR rate.

(Continued)

As of December 31, 2018, 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
Local currency (LC)								
Investments	¢	45,474,860,238	17,982,311,222	4,002,433,943	54,155,951,997	46,194,513,314	306,558,252,303	474,368,323,017
Loan portfolio		2,627,377,708,141	105,133,944,923	100,425,336,043	15,240,161,162	16,303,571,594	68,192,567,203	2,932,673,289,066
Recovery of rate-sensitive assets LC (A)	¢	2,672,852,568,379	123,116,256,145	104,427,769,986	69,396,113,159	62,498,084,908	374,750,819,506	3,407,041,612,083
Obligations with the public	¢	323,144,805,176	342,989,321,452	368,809,089,623	372,574,981,780	42,338,520,397	21,606,622,442	1,471,463,340,870
Obligations with BCCR		150,504,444,444	-	-	-	-	125,644,412	150,630,088,856
Obligations with financial entities		105,752,689,267	-	-	-	-	34,750,337,565	140,503,026,832
Maturity of rate-sensitive liabilities LC (B)	¢	579,401,938,887	342,989,321,452	368,809,089,623	372,574,981,780	42,338,520,397	56,482,604,419	1,762,596,456,558
Difference in LC, recovery of assets less maturity of liabilities (A - B)	¢	2,093,450,629,492	(219,873,065,307)	(264,381,319,637)	(303,178,868,621)	20,159,564,511	318,268,215,087	1,644,445,155,525
Foreign currency (FC)								
Investments	¢	16,308,003,966	42,257,309,704	250,682,862,619	58,935,090,891	134,083,922,621	116,275,096,558	618,542,286,359
Loan portfolio		1,224,683,279,346	45,572,233,975	26,653,590,870	2,930,287,193	24,482,696,411	67,972,046,911	1,392,294,134,706
Recovery of rate-sensitive assets FC (C)	¢	1,240,991,283,312	87,829,543,679	277,336,453,489	61,865,378,084	158,566,619,032	184,247,143,469	2,010,836,421,065
Obligations with the public	¢	146,539,386,988	145,077,958,131	186,506,788,420	119,531,916,936	32,315,678,706	628,914,485,415	1,258,886,214,596
Obligations with entities		-	41,740,594	393,755,884	295,948,043	-	98,386,895,369	99,118,339,890
Maturity of rate-sensitive liabilities FC (D)	¢	146,539,386,988	145,119,698,725	186,900,544,304	119,827,864,979	32,315,678,706	727,301,380,784	1,358,004,554,486
Difference in LC, recovery of assets less maturity of liabilities (C - D)	¢	1,094,451,896,324	(57,290,155,046)	90,435,909,185	(57,962,486,895)	126,250,940,326	(543,054,237,315)	652,831,866,579
Recovery of rate-sensitive assets 1/ (A + C)	¢	3,913,843,851,691	210,945,799,824	381,764,223,475	131,261,491,243	221,064,703,940	558,997,962,975	5,417,878,033,148
Maturity of rate-sensitive liabilities 2/ (B + D)	¢	725,941,325,875	488,109,020,177	555,709,633,927	492,402,846,759	74,654,199,103	783,783,985,203	3,120,601,011,044
Difference in LC + FC, recovery of assets less maturity of liabilities (item 1 - item 2)	¢	3,187,902,525,816	(277,163,220,353)	(173,945,410,452)	(361,141,355,516)	146,410,504,837	(224,786,022,228)	2,297,277,022,104

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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
Local currency (LC)								
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
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
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
Difference in LC, 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
Foreign currency (FC)								
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
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
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
Difference in LC, 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
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
Maturity 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
Difference in LC + FC, 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

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.

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

The Bank calculates the SUGEF currency risk indicator on a monthly basis, which remained at the appetite level for both years. The indicator shows a year-on-year decrease due to the decrease in the foreign currency position between 2018 and 2017.

Type of risk	December 2018	December 2017	Variation	Level
Currency risk	0.01%	0.08%	(0.07) %	Appetite

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

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

		US dollars	
		2018	2017
Assets:			
Cash and due from banks	US$	644,447,976	1,100,282,866
Investments in financial instruments		1,017,342,639	1,002,932,073
Loan portfolio		2,331,253,151	2,683,160,687
Accounts and accrued interest receivable		230,343	409,954
Investments in other companies		109,937,062	108,986,397
Other assets		5,514,457	6,211,003
	US$	4,108,725,628	4,901,982,980
Liabilities:			
Obligations with the public	US$	2,651,419,812	2,721,573,920
Obligations with entities		1,347,253,267	1,954,733,268
Subordinated obligations		133,172,571	132,650,795
Accounts payable and provisions		29,706,827	28,944,379
Other liabilities		31,080,852	46,941,196
	US$	4,192,633,329	4,884,843,558
(Deficit) excess of assets over liabilities in US dollars	US$	(83,907,701)	17,139,422

		Euro	
		2018	2017
Assets:			
Cash and due from banks	€	35,408,090	30,407,993
Investments in financial instruments		6,109,995	11,312,826
Other assets		1,127,452	1,008
	€	42,645,537	41,721,827
Liabilities:			
Obligations with the public	€	39,634,187	39,281,032
Obligations with entities		976,325	797,258
Accounts payable and provisions		293,909	138,795
Other liabilities		947,048	994,789
	€	41,851,469	41,211,874
Excess of assets over liabilities in euro	€	794,068	509,953

(Continued)

		DU	
		2018	2017
Assets:			
Investments in financial instruments	DU	-	24,293,913
Loan portfolio		8,102,290	14,691,220
	DU	8,102,290	38,985,133
Liabilities:			
Accounts payable and provisions		554,430	692,698
Other liabilities		1,797	3,151
	DU	556,227	695,849
Excess of assets over liabilities in DU	DU	7,546,063	38,289,284

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:

		2018	2017
Foreign exchange gain	¢	282,707,758,618	189,745,942,203
Foreign exchange loss		(285,999,801,437)	(190,667,954,647)
Net loss	¢	(3,292,042,819)	(922,012,444)

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

		2018	2017
Gain on net valuation of other assets (Note 34)	¢	1,035,396,519	414,076,427
Loss on net valuation of other liabilities (Note 37)		(1,587,413,836)	(867,162,063)
Net loss	¢	(552,017,317)	(453,085,636)

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 Directive 18-16, Regulations on operating risk management, are part of the scope of this risk.

(Continued)

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.

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, 2018 and 2017, the Bank is above the minimum level required by applicable regulations.

The Bank's Tier I and Tier II capital (regulatory capital) is as follows:

		2018	2017
Tier I capital:			
Ordinary paid-in capital	¢	172,237,030,102	172,237,030,102
Legal reserve		334,043,304,638	311,121,806,369
		506,280,334,740	483,358,836,471
Tier II capital:			
Adjustment for revaluation of property and equipment		49,645,433,258	46,068,881,070
Adjustment for valuation of available-for-sale investments		(5,106,902,948)	(1,998,318,958)
Adjustment for valuation of restricted financial instruments		(1,053,043,002)	(306,670,697)
Adjustment for valuation of investments in other companies		9,125,840,572	9,095,624,686
Prior period retained earnings		19,485,203,960	12,741,841,466
Income for the year		21,391,220,875	32,763,283,164
Equity of FOFIDE		30,971,994,447	27,111,958,013
		124,459,747,166	125,476,598,744
Less: Deductions		(100,067,692,891)	(93,954,215,527)
Regulatory capital	¢	530,672,389,011	514,881,219,688

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.

(Continued)

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.

(Continued)

As of December 31, 2018 and 2017, 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			Total estimated amount	
2018	2017	Phase	2018	2017
244	234	First instance	¢ 256,975,645,152	237,497,530,073
17	21	Second instance	19,772,872,880	20,207,132,825
8	7	Appeal	5,822,741,718	3,615,000,000
-	1	Administrative proceedings	-	38,458,424,266
269	263	(Note 22)	¢ 282,571,259,750	299,778,087,164

Number of cases as claimant			Total estimated amount	
2018	2017	Phase	2018	2017
300	228	First instance	¢ 108,968,476,944	35,364,482,556
1	1	Second instance	375,839,600	375,839,600
301	229		¢ 109,344,316,544	35,740,322,156

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

As of December 31, 2018, the Bank booked a provision in the amount of ¢729,304,083 for lawsuit No. 15-008666-1027-CA. No provision was booked for the other two lawsuits; the legal counsel indicated that the probability of a loss is low and that they do not need to be included in the calculation of the provision.

The following lawsuits are also worth noting:

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

  ✓ Statement of facts: The plaintiffs seek the payment of damages by the Bank to all the plaintiffs as well as compensation for pain and suffering caused due to the inability to acquire decent housing, as a result of apparent anomalies regarding the management of credits for Grupo Zion, S.A. to build the Bariloche Real condominium. Additionally, it has had media coverage.

  ✓ Current status: The resolution of April 10, 2018, at 17:15, ordered the separation of the case into separate files for each of the group members. This resolution was unsuccessfully challenged by the plaintiff's representatives. Currently, there are a number of documents on the separate complaints in the file, for which the Bank has not been granted a hearing.

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

  ✓ Court: Agrarian Court of Corredores

  ✓ Statement of facts: The proceedings seek to declare the liability of CORBANA, as Trustee of a banana plantation Management Trust, in which the Bank was the Trust Beneficiary.

  ✓ Current status: Vote No. 055-F-18 of January 31, 2018, at 11:55, denied the negative statute of limitations exception, in its commercial and decennial common modality. The judge of first instance must issue a ruling on the appeal concerning new facts and claims of the case, as applicable. Since the parties were not in conformity with the resolution, all parties filed appeals for review before the First Chamber.

(Continued)

- *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: Through Vote No. 000061-F-2018, the Agrarian Court dismissed the motion for appeal filed by the plaintiff. The plaintiff filed an appeal for review. The Bank appeared before the First Chamber in relation to the appeal for review filed by the plaintiff.

- *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 Bank won the trial. The execution of judgment to collect the legal costs from the plaintiffs was submitted. The execution was approved by the Administrative Court and was declared final by the Administrative Court of Appeals. Once the term for payment elapsed, a request for seizure was filed for those plaintiffs who did not deposit the corresponding amount.

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

  - ✓ Court: Office of Economic, Tax, and Customs Crimes
  - ✓ Statement of facts: Irregularities were reported with respect to the company Zion and the process to grant credits to that company, misuse of resources, presentation of fake documents to the Bank to obtain credit approval, and the apparent participation of some of the employees of Bank.
  - ✓ Current status: The final report on economic crimes was concluded. In a meeting with the prosecutor Andrina Guillen and the coordinating prosecutor Criss González, it was determined that it is difficult to demonstrate the embezzlement. Regarding injury, additional information was requested in order to determine whether any of the parties affected has sold the plot, to update this information. There is no conclusive document yet.

(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. 1-10-015-14-077-011-0c3 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."

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.

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".

On January 30, 2018, the National Large Taxpayer Audit Area issued Regularization Proposal No. DGCN-SF-PD-18-2017-1-341-03 with details on the tax adjustments or corrections to the tax base declared by the Bank for fiscal years 2014, 2015, and 2016, for a total tax amount pending declaration of ¢35,999,804,522, calculating the corresponding interest as of that date of ¢7,281,607,516.

(Continued)

In conformity with the *Law to Strengthen Public Finance*, published in the Official Gazette No. 225 of December 4, 2013, which grants a tax amnesty period for fiscal years 2010, 2011, 2012, 2013, 2014, 2015, 2016, and 2017, the General Board of Directors, in Article 19 of minutes of meeting No. 12,310, held on December 10, 2018, agreed to *"...adhere to the Tax Amnesty according to the term established in Transition Provision XXIV of the Law to Strengthen Public Finance..."* concerning the tax assessment for tax periods 2010 through 2016, paying the total amounts determined by the National Large Taxpayer Division on December 19, 2018, by means of a bank transfer in the amount of US$119,235,289 (equivalent to ¢70,946,189,660).

On December 19, 2018, the Bank submitted to the Administrative Court a request to discontinue the proceedings under file No. 18-7810-1027-CA filed by the Bank against the State. The document was brought to the attention of the National Large Taxpayer Division through Official Letter No. GG-572-18 dated December 19, 2018, which requested the shelving of the legal collection process for periods 2010 through 2016.

b) Dividends paid to the Bank

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

Subsidiary.		Amount 2018	Amount 2017
BN Corredora de Seguros, S.A.	¢	2,260,896,821	1,376,131,467
BN Sociedad Administradora de Fondos de Inversión, S.A.		1,000,000,000	1,000,000,000
BN Valores Puesto de Bolsa, S.A.		675,205,850	3,024,096,802
BN Vital Operadora de Planes de Pensiones Complementarias, S.A.		560,939,777	560,091,499
	¢	4,497,042,448	5,960,319,768

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

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.

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

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

(Continued)

Pursuant to the Regulations, the 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.

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

RFI is effective starting January 1, 2020, with some exceptions. A summary of some of the main differences between the accounting regulations issued by CONASSIF and IFRSs, as well as 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.

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 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.

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e) IAS 18: Revenue

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

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

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

- CONASSIF requires that fee and commission income be recognized as a liability and booked under "Deferred income" (liability) and incremental direct costs be amortized in "Deferred charges" (asset). Under IAS 39, fees and commissions and incremental costs are part of the amortized cost of financial instruments, rather than separate assets and liabilities.
- CONASSIF requires that fee and commission income be deferred in "Other income" and costs be amortized in "Other expenses". Under IAS 18 and IAS 39, income and costs must be booked as part of "Finance income on financial instruments".
- Under SUGEF regulations, the effective interest rate must be calculated over the financial instrument's contractual life. Under IAS 39, the effective interest rate for financial instruments is calculated over their expected life (or over a shorter period, if appropriate).

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- 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.

(Continued)

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

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

h) IAS 28: Investments in Associates

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

i) Revised IAS 32: Financial Instruments - Presentation

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

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

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

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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.

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

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

- Securities quoted in an active market may be classified as available for sale, 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.

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

n) IAS 40: Investment Property

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

o) Revised IFRS 3: Business Combinations

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

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

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

q) IFRS 9: Financial Instruments

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

r) IFRS 10: Consolidated Financial Statements

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

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

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

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

s) IFRS 11: Joint Arrangements

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

t) IFRS 12: Disclosure of Interests in Other Entities

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

u) IFRS 13: Fair Value Measurement

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

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.

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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.

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.

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

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

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

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

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