BANCO NACIONAL DE COSTA RICA

Financial Information Required by the
Superintendency General of Financial Entities

Separate Financial Statements

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

With Independent Auditors' Report Thereon

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

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Independent Auditors' Report

To the Board of Directors of Banco Nacional de Costa Rica

Opinion
We have audited the separate financial statements of Banco Nacional de Costa Rica (the Bank), which comprise the separate balance sheet as of December 31, 2019, 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, 2019, 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 17, 2020

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

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and affixed to the original document

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

	Note	2019	2018
ASSETS			
Cash and due from banks	**4**	**1,113,115,306,076**	**1,020,863,217,469**
Cash		97,318,961,986	79,715,005,250
BCCR		732,438,255,189	855,051,762,135
Local financial entities		3,679,379,728	3,465,306,134
Foreign financial entities		271,021,988,932	71,005,775,876
Other cash and due from banks		8,656,720,241	11,625,368,074
Investments in financial instruments	**5**	**1,358,668,761,608**	**1,093,578,721,175**
Held for trading		1,512,582,272	12,096,981,603
Available for sale		1,328,298,048,862	1,067,472,994,195
Derivative financial instruments	6	10,747,514,970	678,813,152
Accrued interest receivable		18,110,615,504	13,340,633,910
(Allowance for impairment of investments in financial instruments)		-	(10,701,685)
Loan portfolio	**7**	**4,203,026,225,237**	**4,416,292,531,288**
Current		3,976,100,030,099	4,223,554,423,932
Past due		170,543,873,404	149,989,262,621
In legal collection		139,573,744,235	147,602,847,205
Accrued interest receivable		35,315,688,334	36,776,953,763
(Allowance for loan losses)		(118,507,110,835)	(141,630,956,233)
Accounts and fees and commissions receivable	**8**	**537,210,486**	**455,023,174**
Fees and commissions receivable		294,846,648	191,445,673
Accounts receivable for transactions with related parties		50,967,820	24,496,285
Income tax receivable		138,575,747	156,399,541
Other receivables		4,426,613,674	3,935,763,699
Accrued interest receivable		6,689,206	2,082,892
(Allowance for impairment of accounts and fees and commissions receivable)		(4,380,482,609)	(3,855,164,916)
Foreclosed assets	**9**	**29,544,875,888**	**20,074,903,998**
Assets and securities acquired in lieu of payment		93,207,402,343	79,173,439,587
Other foreclosed assets		55,884,629	1,840,189
(Allowance for impairment of foreclosed assets and per legal requirements)		(63,718,411,084)	(59,100,375,778)
Investments in other companies	**10**	**105,931,933,910**	**100,067,692,891**
Property and equipment, net	**11**	**179,127,990,203**	**184,587,503,037**
Other assets	**12**	**84,197,647,127**	**104,494,751,527**
Deferred charges		62,262,967,143	77,610,175,879
Intangible assets, net		6,400,177,688	4,394,746,145
Other assets		15,534,502,296	22,489,829,503
TOTAL ASSETS		**7,074,149,950,536**	**6,940,414,344,559**

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

(Continued)

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

LIABILITIES AND EQUITY	Note	2019	2018
LIABILITIES			
Obligations with the public	13	**5,235,740,158,602**	**4,771,356,180,436**
Demand obligations		3,004,878,808,576	2,741,094,583,154
Term obligations		2,180,324,955,388	1,989,376,199,821
Finance charges payable		50,536,394,638	40,885,397,461
Obligations with BCCR	14	**125,644,412**	**150,630,088,856**
Term obligations		125,644,412	150,525,644,412
Finance charges payable		-	104,444,444
Obligations with entities	15	**902,338,804,932**	**1,130,402,120,101**
Demand obligations		190,350,322,056	182,977,952,929
Term obligations		705,644,836,843	938,891,105,985
Finance charges payable		6,343,646,033	8,533,061,187
Accounts payable and provisions		**132,076,524,802**	**93,023,386,283**
Deferred tax, net	16-b	12,337,683,755	8,594,685,130
Provisions	17	31,748,151,495	24,612,544,383
Other sundry accounts payable	18	87,990,689,551	59,816,156,770
Other liabilities	19	**41,965,347,425**	**67,159,254,065**
Deferred income		34,030,707,767	33,255,354,768
Allowance for stand-by credit losses		146,910,621	169,073,348
Other liabilities		7,787,729,037	33,734,825,949
Subordinated obligations	20	**69,965,445,025**	**80,488,169,915**
Subordinated obligations		68,410,800,000	78,570,700,000
Finance charges payable		1,554,645,025	1,917,469,915
TOTAL LIABILITIES		**6,382,211,925,198**	**6,293,059,199,656**
EQUITY			
Share capital		**172,237,030,102**	**172,237,030,102**
Paid-in capital	21-a	172,237,030,102	172,237,030,102
Equity adjustments		**83,000,303,041**	**69,226,390,881**
Surplus from revaluation of property	21-b	65,745,785,452	66,193,911,011
Adjustment for valuation of available-for-sale investments	21-c	8,443,714,008	(5,106,902,948)
Adjustment for valuation of restricted financial instruments	21-c	31,580,683	(1,053,043,002)
Surplus from revaluation of other assets		66,585,248	66,585,248
Adjustment for valuation of investments in other companies	21-d	8,712,637,650	9,125,840,572
Capital reserves	21-e	**348,798,402,459**	**334,043,304,638**
Prior period retained earnings		**29,551,796,287**	**19,485,203,960**
Income for the year		**23,701,957,485**	**21,391,220,875**
Equity of the Development Financing Fund	21-f	**34,648,535,964**	**30,971,994,447**
TOTAL EQUITY		**691,938,025,338**	**647,355,144,903**
TOTAL LIABILITIES AND EQUITY		**7,074,149,950,536**	**6,940,414,344,559**
DEBIT MEMORANDA ACCOUNTS	22	596,456,699,985	635,829,244,154
TRUST ASSETS	23	2,108,157,757,436	2,276,346,824,986
TRUST LIABILITIES		146,654,903,946	209,979,452,284
TRUST EQUITY		1,961,502,853,490	2,066,367,372,702
TRUST MEMORANDA ACCOUNTS		113,823,084,171	99,050,091,503
OTHER DEBIT MEMORANDA ACCOUNTS	24	20,618,489,989,927	20,173,855,220,768
Own debit memoranda accounts		7,048,123,860,669	7,573,578,366,354
Third-party debit memoranda accounts		1,279,425,802,869	1,116,600,990,381
Own debit memoranda accounts for custodial activities		309,649,389,613	201,063,061,342
Third-party debit memoranda accounts for custodial activities		11,981,290,936,776	11,282,612,802,691

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, 2019
(With corresponding figures for 2018)
(In colones)

	Note	2019	2018
Finance income			
Cash and due from banks	25	3,907,871,024	5,320,576,991
Investments in financial instruments	25	70,726,024,106	57,271,191,508
Loan portfolio	26	448,948,616,835	444,852,003,318
Gain on foreign exchange differences and DU, net	42-c	4,073,912,636	-
Gain on available-for-sale financial instruments		2,096,219,977	289,624,841
Gain on derivative financial instruments, net	6	12,857,020,334	-
Other finance income	27	12,578,265,998	27,496,461,334
Total finance income		**555,187,930,910**	**535,229,857,992**
Finance costs			
Obligations with the public	28	210,389,427,912	182,207,475,421
Obligations with BCCR		427,413,535	851,735,569
Obligations with financial entities	29	51,315,844,388	70,715,221,528
Subordinated, convertible and preferred obligations		5,445,681,253	5,254,174,406
Loss on foreign exchange differences and DU, net	42-c	-	3,292,042,819
Loss on available-for-sale financial instruments		500,456,853	492,566,247
Loss on derivative financial instruments, net	6	-	6,063,007,599
Other finance costs	30	28,003,905,486	18,574,080,851
Total finance costs		**296,082,729,427**	**287,450,304,440**
Allowance for impairment of assets	31	53,235,467,727	88,526,619,673
Recovery of assets and decrease in allowances	32	8,520,882,930	7,380,138,319
FINANCE INCOME		**214,390,616,686**	**166,633,072,198**
Other operating income			
Service fees and commissions	33	124,263,149,177	118,719,657,873
Foreclosed assets		5,570,597,628	8,275,132,995
Gain on investments in other foreign companies	3	3,333,721,355	3,160,852,893
Gain on investments in SUGEVAL-regulated entities	3	4,620,837,140	3,723,210,931
Gain on investments in SUPEN-regulated entities	3	1,655,127,552	1,146,194,956
Gain on investments in SUGESE-regulated entities	3	3,195,422,506	2,550,045,147
Foreign currency exchange and arbitrage		22,623,976,832	23,266,093,047
Other income - related parties		540,054,327	549,050,778
Other operating income	34	13,839,075,791	11,704,273,953
Total other operating income		**179,641,962,308**	**173,094,512,573**

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, 2019
(With corresponding figures for 2018)
(In colones)

	Note	2019	2018
Other operating expenses			
Service fees and commissions		3,795,870,205	3,510,752,502
Foreclosed assets	35	22,460,889,870	18,677,786,643
Sundry assets		484,988,733	938,332,246
Provisions	36	14,215,656,039	15,502,946,524
Foreign currency exchange and arbitrage		6,106,697	13,357,555
Other expenses - related parties		581,849,658	510,971,253
Other operating expenses	37	89,035,409,557	71,509,405,855
Amortization of deferred direct costs related to credits		380,706,810	500,928,818
Total other operating expenses		**130,961,477,569**	**111,164,481,396**
GROSS OPERATING INCOME		**263,071,101,425**	**228,563,103,375**
Administrative expenses			
Personnel expenses	38	123,807,302,199	121,444,150,181
Other administrative expenses	39	69,891,340,448	74,881,857,467
Total administrative expenses		**193,698,642,647**	**196,326,007,648**
NET OPERATING INCOME BEFORE TAXES AND STATUTORY ALLOCATIONS		**69,372,458,778**	**32,237,095,727**
Current tax	16-a	16,432,964,036	3,472,773,276
Prior period income tax	16-a	14,189,237,931	-
Deferred tax income	16-a	-	99,647,590
Statutory allocations	40	15,048,299,326	8,080,465,682
Decrease in statutory allocations	40	-	607,716,520
INCOME FOR THE YEAR		**23,701,957,485**	**21,391,220,879**
OTHER COMPREHENSIVE INCOME, NET OF TAX			
Surplus from revaluation of property		256,694,460	5,530,350,280
Adjustment for valuation of available-for-sale investments, net of income tax		13,550,616,956	(3,108,583,992)
Adjustment for valuation of restricted financial instruments, net of income tax		1,084,623,685	(746,372,303)
Surplus from revaluation of other assets		-	22,836,618
Adjustment for valuation of investments in other companies		(413,202,922)	30,215,886
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**14,478,732,179**	**1,728,446,489**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**38,180,689,664**	**23,119,667,368**

Gustavo Vargas Fernández
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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, 2019
(With corresponding figures for 2018)
(In colones)

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

Gustavo 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, 2019
(With corresponding figures for 2018)
(In colones)

	Note	2019	2018
Cash flows from operating activities			
Income for the year		23,701,957,485	21,391,220,879
Items not requiring cash			
(Gain) loss on foreign exchange differences and DU, net		(37,484,775,537)	37,962,349,851
Loss on allowance for loan losses, net		43,498,948,656	80,409,350,044
Gain on allowance for impairment of investments, net		(10,701,685)	(62,772,512)
Loss on allowance for other receivables, net		1,226,337,829	799,903,822
Loss (gain) on allowance for foreclosed assets, net		4,618,045,908	(2,409,494,382)
Loss on sale of foreclosed assets		8,411,526,784	9,492,720,684
Provision expense, net of payments		(7,100,723,645)	(10,851,409,263)
Depreciation and amortization		20,926,634,395	23,119,944,962
Share of net profit of subsidiaries		(9,471,387,198)	(7,419,451,034)
Share of net profit of foreign associate		(3,333,721,355)	(3,160,852,893)
Statutory allocations, net		15,048,299,326	7,472,749,162
Income tax expense, net	16	30,622,201,967	3,472,773,276
Deferred tax	16	-	(99,647,590)
Finance income on loan portfolio and investments		(519,674,640,941)	(502,123,194,826)
Finance expense on term obligations with the public and financial entities		207,087,758,967	204,384,691,619
		(221,934,239,044)	**(137,621,118,201)**
Net (increase) decrease in assets			
Credits and cash advances		52,289,787,516	(44,983,254,708)
Foreclosed assets		17,720,731,443	20,143,910,135
Accrued interest receivable on other receivables		(4,606,314)	(358,736)
Other assets		28,171,982,741	(68,551,905,989)
		(123,756,343,658)	**(231,012,727,499)**
Net (increase) decrease in liabilities			
Demand and term obligations		355,916,926,386	(398,138,826,566)
Other accounts payable and provisions		28,927,751,078	33,739,894,259
Other liabilities		(24,143,109,527)	(32,064,108,260)
		236,945,224,279	**(627,475,768,066)**
Interest received on loan portfolio and investments		516,365,924,776	494,212,497,003
Income tax paid		(7,017,867,279)	(11,665,144,409)
Interest paid on term obligations with the public and financial entities		(200,025,082,227)	(200,179,784,824)
Statutory allocations paid		(7,472,749,162)	(12,560,041,843)
Net cash from (used in) operating activities		**538,795,450,387**	**(357,668,242,139)**
Cash flows from investing activities			
Increase in financial instruments		(3,453,186,175,785)	(26,784,460,943,751)
Decrease in financial instruments		3,314,627,873,785	26,631,017,001,260
Acquisition of property and equipment		(20,036,378,952)	(26,694,266,813)
Sale of property and equipment		642,316,883	1,654,491,495
Acquisition of intangible assets		(7,640,820,973)	(1,466,122,228)
Dividends received		6,527,664,613	4,497,042,448
Net cash used in investing activities		**(159,065,520,429)**	**(175,452,797,589)**
Cash flows from financing activities			
Other new financial obligations		21,947,239,637	3,054,362,059,337
Settlement of obligations		(167,528,290,919)	(2,903,681,031,037)
Net cash (used in) from financing activities		**(145,581,051,282)**	**150,681,028,300**
Net increase (decrease) in cash and cash equivalents		**234,148,878,676**	**(382,440,011,428)**
Cash and cash equivalents at beginning of year		**1,113,340,839,347**	**1,495,780,850,775**
Cash and cash equivalents at end of year	4	**1,347,489,718,023**	**1,113,340,839,347**

Gustavo Vargas Fernández
General Manager

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CPI 21119

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General Auditor

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, 2019, the Bank has 162 offices, 466 automated teller machines and a total of 5,162 employees (2018: 167 offices, 479 automated teller machines and 5,307 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 separate 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, 2019, the exchange rate was established at ¢570.09 and ¢576.49 (2018: ¢604.39 and ¢611.75) to US$1.00 for the purchase and sale of US dollars, respectively.

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

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

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

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

(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 or available for sale.

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.

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.

(Continued)

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 to 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. As of December 31, 2019 and 2018, the Bank uses the methodology established by Proveedor Integral de Precios Centroamérica (PIPCA) for this measurement.

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

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

Derivative financial instruments

The valuation methodology applied to derivative financial instruments varies depending on the type of product to be valued.

In the case of foreign exchange forward contracts (FX forwards), with short credit positions and maturities generally not exceeding one year, valuation involves comparing the present value of the negotiated forward exchange rate and the current foreign exchange rate. The present value of the negotiated forward exchange rate is calculated by using the difference of the zero-coupon rates.

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

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

vii. Gains and losses on subsequent measurement

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

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, 2019 and 2018, 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.

(Continued)

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, 2019 and 2018, the Bank's investments in other companies are as follows:

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

(Continued)

(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.

ii. Revaluation

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.

iii. 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.

iv. 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.

v. 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
Laptops	3 years
Leasehold improvements	According to the estimated useful life or the term of the lease

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

(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.

(Continued)

(n) Impairment of non-financial assets

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

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down is reversed through the separate statement of comprehensive 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, 2019 and 2018, severance is included in the provisions account (see Note 17), which meets the legal provisioning requirements in effect as of those dates.

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

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

(Continued)

ii. Short-term employee benefits

Statutory Christmas bonus

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

Vacation

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

Back-to-school bonus

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

Incentives and Performance Assessment System (SEDI)

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

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

(Continued)

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 period that account is cleared upon payment of incentives to employees that met the aforementioned conditions.

On November 12, 2018, a constitutional motion was filed before the Constitutional Chamber against Articles 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 suspended, awaiting resolution by that chamber.

i. *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 5.50% (2018: 5%) of total wages to strengthen the Fund
- income from investments made by the Fund and other potential income.

(Continued)

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 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.

(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, and, in the case of buildings, 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)

iii. *Tax benefits applicable to the Development Credit Fund (DCF), the Development Financing Fund (FOFIDE) and the National Development Trust (FINADE) as part of the resources of the Development Banking System managed by the Bank:*

Pursuant to 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, those funds are 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.

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.

(Continued)

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 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 the National Institute for Cooperative Development (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 the National Commission for Educational Loans (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 the National Emergency Commission (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's earnings in the second quarter of each year. At that time, the development financing programs that have been approved by the Governing Board will start operations.

(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	2019	2018
Cash and due from banks:			
Checking account – colones (Note 4)	Minimum legal deposit	¢ 442,699,408,633	490,472,341,154
Checking account – US dollars (Note 4)	Minimum legal deposit	255,390,762,971	283,010,610,003
Checking account – euro (Note 4)	Minimum legal deposit	3,567,266,743	4,152,775,150
Other cash and due from banks (Note 4)	Margin calls – derivative financial instruments	12,663,512	-
Other cash and due from banks (Note 4)	Custody of BCAC liabilities	1,110,469,833	1,198,002,163
		¢ 702,780,571,692	778,833,728,470
Investments in financial instruments:			
External debt bonds	Nomura Bank guarantee	¢ 62,742,681,356	45,173,015,838
External debt bonds	JP-SWAPS guarantee	949,557,600	-
External debt bonds	Citi-SWAPS guarantee	569,734,560	-
External debt bonds	SINPE guarantee	-	180,308,749,905
External debt bonds	BNY MELLON guarantee	660,704,207	-
Monetary stabilization bonds	SINPE guarantee	-	29,739,359,400
Central bank bonds (global bonds)	SINPE guarantee	-	96,089,536,625
		¢ 64,922,677,723	351,310,661,768
Other assets:			
Other assets (Note 12)	Security deposits	¢ 761,001,338	509,113,547

(3) Balances and transactions with related parties

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

		2019	2018
Assets:			
Checking accounts in foreign financial entities *(1)* (Note 4)	¢	22,159,760,108	17,945,463,302
Trading investments *(2)* (Note 5)		1,512,582,272	12,096,981,603
Other fees and commissions receivable		-	20,959,838
Accounts receivable *(3)* (Note 8)		6,150	543,229
Allowance for impairment for transactions with related parties *(3)*		-	(10,865)
Investments in other companies *(4)* (Note 10)		105,911,310,610	100,047,069,591
	¢	129,583,659,140	130,111,006,698
Liabilities:			
Demand obligations with entities *(5)*		442,115,433	1,816,350,554
Term obligations with entities (Note 15) *(6)*		11,400,000	40,900,000
Charges payable for obligations with related parties		315,350	-
	¢	453,830,783	1,857,250,554
Income:			
Finance *(7)*		-	647,151
Operating *(8)*		853,399,575	831,875,951
Gain on investments in other foreign entities		3,333,721,355	3,160,852,893
Gain on investments in SUGEVAL-regulated entities		4,620,837,140	3,723,210,931
Gain on investments in SUPEN-regulated entities		1,655,127,552	1,146,194,956
Gain on investments in SUGESE-regulated entities		3,195,422,506	2,550,045,147
	¢	13,658,508,128	11,412,827,029
Expenses:			
Finance costs *(9)*		9,701,947	10,285,704
Operating expenses *(10)*		581,849,658	510,971,253
	¢	591,551,605	521,256,957

(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:

		2019	2018
Short-term benefits	¢	1,075,060,630	1,002,919,033
Long-term benefits		139,757,882	130,379,474
Per diem – Board of directors		138,197,214	119,736,112
	¢	1,353,015,726	1,253,034,619

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:

		2019	2018
Cash and due from banks	¢	1,113,115,306,076	1,020,863,217,469
Investments with maturities of less than two months		234,374,411,947	92,477,621,878
	¢	1,347,489,718,023	1,113,340,839,347

Cash and due from banks is as follows:

		2019	2018
Cash on hand and in vaults	¢	87,167,200,886	54,920,152,609
Cash in transit		10,151,761,100	24,794,852,641
Checking accounts in BCCR *(1)*		19,858,770,820	67,803,271,916
Minimum legal deposits in BCCR *(1)*		712,579,484,369	787,248,490,219
Checking accounts and demand deposits in State-owned commercial Banks and banks created under special laws		162,783,657	231,547,826
Checking accounts and other demand accounts in private financial entities		3,516,596,071	3,233,758,308
Checking accounts in foreign financial entities		244,044,170,187	49,891,592,911
Checking accounts and demand deposits with related parties (Note 3)		22,159,760,108	17,945,463,302
Overnight deposits in foreign financial entities		4,818,058,637	3,168,719,663
Transfers through the Interbank Electronic Payment System (SINPE)		1,899,433,307	1,785,642,086
Local notes receivable		3,720,234,973	6,098,464,304
Foreign notes receivable		1,913,918,616	2,543,259,521
Call margins – derivative financial instruments (Note 2)		12,663,512	-
Other restricted cash and due from banks *(2)*		1,110,469,833	1,198,002,163
	¢	1,113,115,306,076	1,020,863,217,469

(Continued)

(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 June 16, 2019, the applicable percentage for the minimum legal deposit decreased to 12% according to Note GD-5879/09 issued by BCCR on June 3, 2019 (2018: 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 (see Note 2).

(5) Investments in financial instruments

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

		2019	2018
Held for trading:			
Open investment funds *(1)*	¢	1,512,582,272	12,096,981,603
Available for sale:			
Local issuers:			
Government of Costa Rica		546,124,054,831	432,699,173,807
BCCR		153,235,480,330	116,807,202,473
State-owned banks		12,687,422,257	35,562,979,775
Private issuers		172,488,288,931	4,760,401,518
		884,535,246,349	589,829,757,573
Foreign issuers:			
Governments		217,761,812,409	250,699,141,701
Private issuers		94,803,463,962	145,841,940,179
Private banks		131,197,526,142	81,102,154,742
		443,762,802,513	477,643,236,622
		1,328,298,048,862	1,067,472,994,195
Derivative financial instruments:			
Interest rate futures - Hedges (Note 6)		10,747,514,970	564,329,586
Purchase of FX futures - Other than hedges (Note 6)		-	106,663,896
Sale of FX futures - Other than hedges (Note 6)		-	7,819,670
		10,747,514,970	678,813,152
Allowance for impairment of derivative instruments other than hedges		-	(10,701,685)
Accrued interest receivable		18,110,615,504	13,340,633,910
	¢	1,358,668,761,608	1,093,578,721,175

(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:

		2019	2018
Opening balance	¢	10,701,685	73,474,196
Allowance expense (Note 31)		3,641,701	27,236,249
Decrease in allowance (Note 32)		(14,343,386)	(90,008,760)
Closing balance	¢	-	10,701,685

As of December 31, 2019, no allowance was recognized for impairment of derivative instruments other than hedges. As of December 31, 2018, the Bank recognized an allowance for impairment of derivative instruments other than hedges in the amount of ¢10,701,685 for sales of FX futures other than hedges in accordance with SUGEF Directive 09-08.

Annual returns on investments in financial instruments are as follows:

Currency	2019	2018
Colones	5.19% to 11.50%	4.87% to 11.21%
US dollars	1.12% to 9.32%	0.75% to 6.85%
Euro	-	1.62% to 2.00%

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

(Continued)

(6) Derivative financial instruments

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:

		2019			
Issuing bank		Notional amount		Valuation	Purpose
Citibank	US$	100,000,000	US$	3,768,788	
JP Morgan		200,000,000		7,537,575	Swaps to hedge 10-year issues (maturing in 2023)
Bank of America		200,000,000		7,537,575	
	US$	500,000,000	US$	18,843,938	
Amount in colones	¢	285,045,000,000	¢	10,742,740,489	
Bank of America	US$	100,200,000	US$	(597,199)	Swaps to hedge 5-year issues (maturing in 2021)
JP Morgan		250,000,000		(1,387,612)	
	US$	350,200,000	US$	(1,984,812)	
Amount in colones	¢	199,645,518,000	¢	(1,131,521,262)	
Chicago Board of Trade	US$	5,700,000	US$	(14,781)	Standardized futures contracts (maturing in 2020)
Amount in colones	¢	3,249,513,000	¢	(8,426,660)	

(Continued)

Issuing bank		2018 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	

As of December 31, 2019, total notional amounts of US$855,900,000, equivalent to ¢487,940,031,000 (2018: US$1,006,700,000, equivalent to ¢608,439,413,000) are booked under "Other debit memoranda accounts" (see Note 24).

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

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

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

For 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 defined by SUGEF and prescribes that effectiveness is to be assessed retrospectively. A hedge is considered highly effective if the ratio of the changes in the derivative and primary instruments ranges between 80% and 125%.

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

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

A valuation was performed as of December 31, 2019 and 2018 to calculate the change in the fair value of the primary and derivative instruments based on the following inputs:

- a 5- or 10-year LIBOR rate at the issue of the bond
- discount rates from Bloomberg
- zero rates corresponding to the swap curve as of December 31, 2019
- only a portion of the bond cash flows is hedged (corresponding to the 5- and 10-year LIBOR 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, 2019, the total notional amount is US$1,500,000, equivalent to ¢855,135,000 (2018: US$8,853,765, equivalent to ¢5,351,126,744) (see Note 22).

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

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

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

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

(7) Loan portfolio

(a) Loan portfolio by sector

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

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

(Continued)

Annual interest rates on loans receivable are as follows:

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

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

(b) Loan portfolio by arrears

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

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

(c) Allowance for loan losses

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

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

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

(8) Accounts and fees and commissions receivable

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

		2019	2018
Fees and commissions	¢	294,846,648	191,445,673
Accounts due from related parties (Note 3)		6,150	543,229
Accounts due from employees		50,961,670	23,953,056
Income tax receivable		138,575,747	156,399,541
Sundry accounts receivable related to credit cards		133,345,974	82,482,719
Other expenses receivable		154,949,537	21,163,480
Other accounts receivable (1)		4,138,318,163	3,832,117,500
Accrued interest receivable on other sundry accounts receivable		6,689,206	2,082,892
Allowance for impairment of other accounts receivable		(4,380,482,609)	(3,855,164,916)
	¢	537,210,486	455,023,174

(Continued)

(1) As of December 31, 2019, other accounts receivable include ¢2,922 million corresponding to theft and fraud (2018: ¢2,821 million).

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

		2019	2018
Opening balance	¢	3,855,164,916	3,533,662,402
Allowance expense (Note 31)		1,418,248,620	1,949,617,277
Decrease in allowance (Note 32)		(180,065,955)	(1,149,713,455)
Items settled against allowance		(710,263,802)	(483,865,137)
Foreign exchange differences		(2,601,170)	5,463,829
Closing balance	¢	4,380,482,609	3,855,164,916

(9) Foreclosed assets

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

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

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

		2019	2018
Opening balance	¢	59,100,375,778	62,466,054,133
Allowance expense (Note 35)		8,835,786,482	4,111,275,986
Sale or disposal of foreclosed assets		(10,602)	(956,183,973)
Decrease in allowance		(4,217,740,574)	(6,520,770,368)
Closing balance	¢	63,718,411,084	59,100,375,778

(10) Investments in other companies

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

		2019	2018
BN Valores Puesto de Bolsa, S.A.	¢	17,623,993,282	15,011,983,983
BN Sociedad Administradora de Fondos de Inversión, S.A.		8,833,344,639	7,671,447,911
BN Vital Operadora de Planes de Pensiones Complementarias, S.A.		9,664,691,519	7,925,091,637
BN Corredora de Seguros, S.A.		3,650,224,206	2,993,685,161
Investments in other non-financial entities *(1)*		20,623,300	20,623,300
Banco Internacional de Costa Rica, S.A. *(2)*		66,139,056,964	66,444,860,899
	¢	105,931,933,910	100,067,692,891

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

		2019	2018	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	

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

(11) Property and equipment, net

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

		2019					
		Land	Buildings	Furniture and equipment	Computer hardware	Vehicles	Total
Cost:							
Historical cost at beginning of year	¢	4,281,149,677	69,580,863,035	64,241,009,433	46,892,964,944	241,776,565	185,237,763,652
Revalued cost at beginning of year		49,234,856,452	65,881,300,845	-	-	-	115,116,157,299
Additions		-	734,718,525	6,199,582,463	3,794,845,436	92,270,353	10,821,416,777
Revaluation		150,828,151	(204,594,178)	-	-	-	(53,766,027)
Disposals		-	(108,714,151)	(7,101,693,903)	(1,763,353,751)	-	(8,973,761,805)
Closing balance		53,666,834,280	135,883,574,076	63,338,897,991	48,924,456,629	334,046,918	302,147,809,895
Accumulated depreciation:							
Opening balance		-	43,897,512,314	38,151,079,469	33,513,598,246	204,227,884	115,766,417,913
Depreciation expense on historical cost		-	1,682,208,681	7,236,819,377	5,441,332,212	16,918,052	14,377,278,322
Depreciation expense on revalued cost		-	1,226,598,264	-	-	-	1,226,598,264
Disposals		-	(156,210,872)	(6,438,866,437)	(1,755,397,498)	-	(8,350,474,807)
Closing balance	¢	-	46,650,108,387	38,949,032,409	37,199,532,960	221,145,936	123,019,819,692
Net closing balance	¢	53,666,834,280	89,233,465,689	24,389,865,583	11,724,923,669	112,900,982	179,127,990,203

		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
Reclassifications *(i)*		(864,217,468)	(552,116293)	(4,116,892,238)	(5,308,221,638)	-	(10,841,447,637)
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		-	2,080,230,793	(3,124,176,499)	(5,286,447,996)	-	(6,330,393,702)
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

As of the December 2019 and 2018 close, appraisals of the Bank's land and buildings were performed by an independent appraiser, obtaining the NRV, which was compared to the carrying amount to determine the equity increase, affecting the related accounts for accumulated depreciation and revaluation. Based on the valuation techniques used, those items are classified as Level 3 of the fair value hierarchy.

(12) Other assets

As of December 31, other assets are as follows:

		2019	2018
Deferred charges:			
Leasehold improvements *(1)*	¢	312,528,950	644,238,414
Cost of issue of financial instruments, net *(2)*		747,590,438	1,020,486,226
Cost of subordinated debt project		248,222,637	340,742,717
Deferred direct costs related to loans		4,081,444,630	4,488,822,065
Other deferred charges *(3)*		56,873,180,488	71,115,886,457
		62,262,967,143	77,610,175,879
Intangible assets:			
Software *(4)*		6,400,177,688	4,394,746,145
		6,400,177,688	4,394,746,145
Other assets:			
Prepaid interest and fees and commissions		126,659,587	365,324,853
Prepaid taxes		301,210,887	1,015,459,769
Prepaid insurance policy		172,406,199	113,628,619
Other prepaid expenses *(5)*		4,370,097,893	609,700,773
Stationery, office supplies and other materials		560,369,666	430,986,529
Leased assets		119,663,788	121,011,254
Library and artwork		425,295,762	425,295,762
Construction work-in-progress		1,099,344,126	2,471,766,478
Payments to welfare and trade associations		350,000	350,000
Other sundry assets		411,824,239	6,979,507,295
Operations pending settlement		7,119,154,682	9,222,713,009
Other operations pending application		67,124,129	224,971,615
Security deposits (Note 2)		517,365,050	348,941,489
Legal and administrative deposits (Note 2)		243,636,288	160,172,058
		15,534,502,296	22,489,829,503
	¢	84,197,647,127	104,494,751,527

(1) As of December 31, 2019, the expense for amortization of leasehold improvements amounts to ¢342,958,585 (2018: ¢300,986,175).

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

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

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

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

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

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

		2019		
		Software	Other intangible assets	Total
Cost:				
Opening balance	¢	27,990,600,316	2,084,465,954	30,075,066,270
Additions		7,640,820,973	-	7,640,820,973
Disposals		(2,760,715,650)	(2,042,370,395)	(4,803,086,045)
Adjustments		(1,225,470,005)	-	(1,225,470,005)
Closing balance		31,645,235,634	42,095,559	31,687,331,193
Accumulated amortization:				
Opening balance		23,595,854,171	2,084,465,954	25,680,320,125
Expense for the year		4,911,920,505	-	4,911,920,505
Disposals		(2,760,182,747)	(2,042,370,395)	(4,802,553,142)
Adjustments		(502,533,983)	-	(502,533,982)
Closing balance		25,245,057,946	42,095,559	25,287,153,505
Net closing balance	¢	6,400,177,688	-	6,400,177,688

		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

(5) As of December 31, 2019, "Other prepaid expenses" include an amount of ¢2,413,838,500 related to the recovery of amounts previously paid for statutory allocations, due to the recalculation of the parafiscal contributions for years 2010-2016. This is due to the payment of the notice of deficiency in conformity with the Amnesty Law of the Ministry of Finance.

(Continued)

(13) Obligations with the public

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

		2019	2018
Demand obligations:			
Checking accounts	¢	1,503,302,739,901	1,266,981,098,817
Certified checks		15,935,664	73,507,572
Savings deposits		1,468,957,645,610	1,429,099,932,052
Matured term deposits		17,584,675,308	26,930,306,912
Other demand deposits		204,830,131	331,158,380
Drafts and transfers		70,339,341	210,113,339
Cashier's checks		2,624,421,077	3,573,252,271
Advance collections from customers for credit cards		10,869,054,002	12,462,263,255
Banking mandates		1,110,469,833	1,198,002,163
Trust fund obligations		138,697,709	234,948,393
		3,004,878,808,576	2,741,094,583,154
Term obligations:			
Deposits from the public		2,037,331,022,921	1,862,962,601,087
Other term deposits		142,993,932,467	126,413,598,734
		2,180,324,955,388	1,989,376,199,821
Finance charges payable		50,536,394,638	40,885,397,461
	¢	5,235,740,158,602	4,771,356,180,436

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

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

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

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

(14) Obligations with BCCR

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

		2019	2018
Financing 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
	¢	125,644,412	150,630,088,856

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

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

(15) Obligations with financial entities

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

		2019	2018
Demand:			
Checking accounts with local financial entities	¢	55,828,020,450	46,734,855,631
Savings deposits with local financial entities		56,423,006	77,408,367
Development Credit Fund (FCD) management		132,014,786,688	132,343,259,393
Outstanding checks		2,003,275,580	1,912,750,821
Matured term deposits		5,700,900	93,328,163
Checking accounts and obligations with related parties		442,115,432	1,816,350,554
		190,350,322,056	182,977,952,929
Term:			
Term deposits with local financial entities		80,202,556,836	111,103,688,101
Term obligations with foreign financial entities *(1)*		489,650,619,452	590,621,555,714
Loans from local financial entities *(2)*		32,574,416,468	34,750,337,565
Loans from foreign financial entities *(2)(3)*		103,205,844,087	96,774,624,605
Obligations with related financial entities (Note 3)		11,400,000	40,900,000
Obligations for deferred liquidity operations *(2)*		-	105,600,000,000
		705,644,836,843	938,891,105,985
Charges payable for other demand and term obligations with financial entities – foreign currency		55,207,077	96,502,933
Charges payable for other demand and term obligations with financial entities – local currency		637,083,025	1,444,128,742
Charges payable for loans with foreign financial entities *(2)(3)*		454,086,861	436,983,682
Charges payable for loans with local financial entities *(2)*		77,701,718	152,689,267
Charges payable for term deposits with foreign financial entities *(1)*		5,119,567,352	6,402,756,563
		6,343,646,033	8,533,061,187
	¢	902,338,804,932	1,130,402,120,101

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

Date of issue	Face value	Characteristics
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:

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

		2018		
		10-year issue (maturing in 2023)	5-year issue (maturing in 2021)	Total
Issue	¢	299,390,630,400	301,227,976,000	600,618,606,400
Adjustment to fair value of hedged item measured at cost of international issues		(918,500,797)	(10,728,073,748)	(11,646,574,545)
Amortization of discount in traded amount of issues		1,196,480,126	453,043,733	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

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

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

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

		2018		
		Local	Foreign	Total
Less than 1 year	¢	105,667,412,889	-	105,667,412,889
1 to 2 years		-	5,141,281,219	5,141,281,219
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

(3) Loans due to foreign financial entities bear interest at rates ranging between 3.32% and 6.65% per annum (2018: between 3.32% and 7.11% per annum).

(16) Income tax

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

a) Income tax for the current period

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

		2019	2018
Current tax:			
Income tax expense for the year	¢	16,432,964,036	3,472,773,276
Prior period income tax:			
Prior-period income tax expense		14,189,237,931	-
		30,622,201,967	3,472,773,276
Deferred tax:			
Deferred tax income		-	(99,647,590)
Income tax expense, net	¢	30,622,201,967	3,373,125,686

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

		2019	2018
Profit before income tax	¢	69,372,458,778	32,237,095,727
Plus (less) tax effect of:			
Non-deductible expenses		76,710,515,077	60,426,069,494
Deductible expenses		(4,036,060,210)	(2,161,792,739)
Non-taxable income		(87,270,366,858)	(78,925,461,561)
Tax base		54,776,546,787	11,575,910,921
Tax rate		30%	30%
Subtotal income tax expense		16,432,964,036	3,472,773,276
Prior-period income tax expense		14,189,237,931	-
Deferred tax income		-	(99,647,590)
Income tax expense, net	¢	30,622,201,967	3,373,125,686

b) Deferred tax

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

		2019		
		Assets	Liabilities	Net
Unrealized losses on valuation of investments	¢	965,997,108	-	965,997,108
Unrealized gains on valuation of investments		-	(3,797,288,085)	(3,797,288,085)
Revaluation of assets		-	(9,506,392,778)	(9,506,392,778)
	¢	965,997,108	(13,303,680,863)	(12,337,683,755)

		2018		
		Assets	Liabilities	Net
Unrealized losses on valuation of investments	¢	1,352,100,421	-	1,352,100,421
Unrealized gains on valuation of investments		-	(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)

(Continued)

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

		2018	Included in equity	2019
Unrealized losses on valuation of investments	¢	1,352,100,421	(386,103,313)	865,997,108
Unrealized gains on valuation of investments		(183,698,323)	(3,613,589,763)	(3,797,288,085)
Revaluation of assets		(9,763,087,229)	256,694,451	(9,506,392,778)
	¢	(8,594,685,130)	(3,742,998,625)	(12,437,683,755)

		2017	Included in equity	2018
Unrealized losses on valuation of investments	¢	920,527,963	431,572,458	1,352,100,421
Unrealized gains on valuation of investments		(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)

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

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

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

(Continued)

(17) Provisions

As of December 31, provisions are as follows:

		2019	2018
Severance benefits	¢	471,129,892	601,361,186
Litigation		7,553,338,876	6,816,139,409
Inactive checking and savings accounts liquidated		717,377,096	772,565,219
Manager commissions		14,752,936,518	12,787,348,741
Variation in RIVM methodology		6,132,921,902	2,852,491,877
Notice of deficiency		1,780,940,731	-
"BN premios" points program		267,404,182	714,812,194
Other		72,102,298	67,825,757
	¢	31,748,151,495	24,612,544,383

For the year ended December 31, movement in provisions is as follows:

		Severance benefits	Litigation	Other	Total
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
Increase in provision		309,718,633	899,020,369	13,006,917,037	14,215,656,039
Used		(269,129,695)	(161,820,902)	(6,470,647,313)	(6,901,597,910)
Decrease in provision		(170,820,232)	-	(7,630,784)	(178,451,016)
Balance as of December 31, 2019	¢	471,129,892	7,553,338,876	23,723,682,727	31,748,151,495

(Continued)

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 as of December 31:

		Claimed amount		Provision	
Type		2019	2018	2019	2018
Ordinary - in colones	¢	67,466,649,188	65,950,347,534	4,729,793,173	4,296,402,391
Ordinary - in US dollars		215,321,593,452	214,868,706,304	1,963,180,484	1,877,804,885
Criminal - in colones		1,020,877,223	1,020,877,223	651,145,428	506,644,203
Labor - in colones		806,159,517	731,328,688	209,219,791	135,287,930
	¢	284,615,279,380	282,571,259,749	7,553,338,876	6,816,139,409

(Continued)

(18) Other sundry accounts payable

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

		2019	2018
Professional fees	¢	3,493,153	-
Creditors - goods and services		6,380,513,604	3,382,839,954
Income tax		12,887,870,033	-
Employer contributions		5,862,157,283	5,358,923,304
Court-ordered withholdings		3,522,836,921	3,697,873,283
Tax withholdings		2,073,082,472	3,419,396,165
Employee withholdings		603,954,052	553,116,964
Other third-party withholdings		59,248,370	5,847,527
Compensation		6,062,304,369	5,597,476,225
Statutory allocations		15,048,299,326	7,472,749,162
Clearing house operations		7,330,622,692	173,998,387
Accrued vacation		4,649,595,001	6,238,227,230
Accrued statutory Christmas bonus		975,771,405	950,634,626
Foreclosed assets		830,452,283	783,217,563
Provisional deposits for the payment of premiums		2,996,653,635	3,525,879,600
Direct contracts with the Government Purchases department - various *(1)*		923,685,184	1,172,877,958
PAYPAL transactions		515,950,291	254,442,509
Accounts due to customers *(2)*		11,301,498,652	1,804,936,443
Amounts received for partial sales of foreclosed assets		535,329,053	674,480,585
Master Card and Visa payments		1,172,297,303	1,270,064,536
Various creditors *(3)*		3,089,904,066	3,964,227,566
Interest rate futures - Hedges (Note 6)		1,144,722,403	9,514,186,508
Purchase of FX futures (other than hedges) (Note 6)		20,448,000	-
Sale of FX futures (other than hedges) (Note 6)		-	760,675
	¢	87,990,689,551	59,816,156,770

(Continued)

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

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

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

(19) Other liabilities

As of December 31, other liabilities are as follows:

		2019	2018
Deferred income:			
Deferred finance income	¢	33,991,946,026	33,218,566,310
Deferred fees and commissions for trust management		38,761,741	36,788,458
		34,030,707,767	33,255,354,768
Allowance for stand-by credit losses *(1)*		146,910,621	169,073,348
Operations pending application:			
Operations pending settlement		7,248,407,740	19,899,787,694
Other operations pending settlement		539,321,297	13,835,038,255
		7,787,729,037	33,734,825,949
	¢	41,965,347,425	67,159,254,065

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

		2019	2018
Opening balance	¢	169,073,348	265,681,489
Allowance expense (Note 31)		14,100,000	20,750,000
Decrease in allowance (Note 32)		(30,000,000)	(130,000,000)
Adjustment for foreign exchange differences		(6,262,727)	12,641,859
Closing balance	¢	146,910,621	169,073,348

(20) Subordinated obligations

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

Annual interest rate	Term	Maturity		2019	2018
6-month LIBOR + 4.50% in the first 5 years and 6-month LIBOR + 5.00% thereafter	10 years	11/15/2023	US$	90,000,000	100,000,000
6-month LIBOR + 5.25% in the first 5 years and 6-month LIBOR + 5.75% thereafter	15 years	10/23/2029		30,000,000	30,000,000
			US$	120,000,000	130,000,000
	Total equivalent in colones		¢	68,410,800,000	78,570,700,000
	Finance charges payable			1,554,645,025	1,917,469,915
			¢	69,965,445,025	80,488,169,915

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:

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

(b) Revaluation surplus

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

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

(c) Adjustment for valuation of available-for-sale investments and restricted financial instruments

This item corresponds to variations in the fair value of available-for-sale investments and restricted financial instruments.

As of December 31, 2019, the adjustment for valuation of available-for-sale investments and restricted financial instruments amounts to ¢8,475,294,691, corresponding to unrealized gains (2018: ¢6,159,945,950, corresponding to unrealized losses).

(d) Adjustment for valuation of investments in other companies

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

(e) Capital reserves

Capital reserves are as follows:

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

(f) Equity of the Development Financing Fund

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

(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:

		2019	2018
Performance bonds	¢	33,750,650,170	32,794,951,309
Bid bonds		3,629,633,623	5,632,858,532
Other guarantees		254,606,698	3,517,184,123
Letters of credit		6,359,518,260	17,288,986,781
Credits pending disbursement		170,195,188	212,097,544
		44,164,603,939	59,446,078,288
Pre-approved lines of credit		266,778,460,323	288,433,381,312
Other contingencies not related to credits		43,221,343	27,398,060
Other contingencies - Pending litigation and lawsuits (Note 43)		284,615,279,380	282,571,259,750
		551,436,961,046	571,032,039,122
Sales of FX futures - Other than hedges (Note 6)		855,135,000	5,351,126,744
	¢	596,456,699,985	635,829,244,154

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

These commitments and contingent liabilities expose the Bank to credit risk since fees and commissions and losses are recognized in the 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

As of December 31, 2019, 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	Management, custody and guaranty	Guaranty and custody of stock	Total
Trust assets												
Cash and due from banks	¢ 216,013,920	7,699,742	13,172,958	20	177,868	-	8,864	228,954,478	-	-	-	466,027,850
Investments in financial instruments	260,457,059,772	27,570,032,222	-	1,490,736,386,534	1,247,960,557	-	2,415,632	34,211,454	-	34,213,479	570,501	1,780,082,850,151
Loan portfolio	3,287,700,999	-	1,435,473,511	-	-	-	-	-	-	-	-	4,723,174,510
Accounts and accrued interest receivable	65,969,144,522	27,270,738,419	1,770,035,629	40,812,455	-	-	-	128,421,727	-	-	847,907	95,180,000,659
Foreclosed assets	152,415,013	-	13,569,118	-	-	-	-	-	-	-	-	165,984,131
Investments in other companies	-	-	-	200,000,000	3,377,009	176,000	-	-	36,000	-	916,884,000	1,120,473,009
Property and equipment	795,700,368	44,034,477,803	-	103,622,050,975	483,082,253	-	-	8,719,375,327	-	-	1,738,460,805	159,393,147,531
Other assets	57,228,364,497	7,885,574,076	-	235,000,000	2,656,299	-	-	-	-	-	1,674,504,723	67,026,099,595
	¢ 388,106,399,091	106,768,522,262	3,232,251,216	1,594,834,249,984	1,737,253,986	176,000	2,424,496	9,110,962,986	36,000	34,213,479	4,331,267,936	2,108,157,757,436

(Continued)

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)

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

a) Housing mortgage

These trusts are exclusively dedicated to managing housing loan portfolios.

b) Cash or property management

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

c) Securitization

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

d) Portfolio management

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

e) Special accounts

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

f) Guaranty

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

g) Testamentary

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

(Continued)

h) Custody of stock with testamentary clause

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

(24) Other debit memoranda accounts

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

		2019	2018
Chattel mortgages	¢	218,853,597	270,568,076
Other guarantees received in the Bank's custody		5,175,916,892,198	5,376,469,395,862
Lines of credit granted but unused		323,421,145,438	357,850,484,895
Loans pending disbursement		181,245,800,456	210,781,440,052
Investments settled		83,060,584	97,787,627
Loans settled		314,345,064,616	255,710,265,939
Other accounts receivable settled		13,924,613,678	10,649,584,424
Accrued interest receivable settled		27,942,752,572	22,232,785,736
Interest income on non-accrual loans of loan portfolio		23,668,206,663	22,737,769,740
Supporting documentation received in the Bank's custody		1,255	1,255
Securities issued pending placement		-	14,224,000,000
Notified letters of credit		14,803,564,373	14,794,547,717
Notional value subject to interest rate futures (Note 6)		487,940,031,000	608,439,413,000
Reversals made to income accounts for the year		24,191,264,433	42,203,949,449
Reversals made to expense accounts for the year		93,175,352,615	309,182,251,803
Nondeductible expenses		76,710,515,077	60,426,069,492
Nontaxable income		87,270,366,858	78,925,461,561
Other memoranda accounts		203,266,375,256	188,582,589,726
		7,048,123,860,669	7,573,578,366,354
Third-party debit memoranda accounts		1,279,425,802,869	1,116,600,990,381
Own debit memoranda accounts for custodial activities		309,649,389,613	201,063,061,342
Third-party debit memoranda accounts for custodial activities		11,981,290,936,776	11,282,612,802,691
		20,618,489,989,927	20,173,855,220,768

(25) Finance income from financial instruments

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

		2019	2018
Cash and due from banks:			
Checking accounts and demand deposits in foreign entities	¢	3,907,871,024	5,320,576,991
Financial instruments:			
Available-for-sale investment securities		68,890,105,282	53,536,735,825
Investments in securities and committed deposits		1,835,918,824	3,734,455,683
		70,726,024,106	57,271,191,508
	¢	74,633,895,130	62,591,768,499

(26) Finance income from loan portfolio

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

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

(27) Other finance income

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

		2019	2018
Fees and commissions on letters of credit	¢	21,293,316	29,704,170
Fees and commissions on guarantees granted		460,979,223	413,222,662
Fees and commissions on lines of credit		188,870,333	252,417,496
Valuation of held for trading financial instruments		123,394,293	9,056,425
Gain on fair value hedge for item measured at cost		6,952,049,944	22,637,455,147
Other sundry finance costs		4,831,678,889	4,154,605,434
	¢	12,578,265,998	27,496,461,334

(Continued)

(28) Finance costs for obligations with the public

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

		2019	2018
Demand deposits	¢	52,165,593,457	46,744,681,301
Term deposits		158,223,834,455	135,462,794,120
	¢	210,389,427,912	182,207,475,421

(29) Finance costs for obligations with financial entities

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

		2019	2018
Demand obligations	¢	2,879,333,411	2,645,059,598
Term obligations		48,436,510,977	68,070,161,930
	¢	51,315,844,388	70,715,221,528

(30) Other finance costs

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

		2019	2018
Fees and commissions on letters of credit obtained	¢	196,611,376	190,188,506
Loss on valuation of held-for-trading financial instruments		122,728	-
Loss on hedged item measured at cost from fair value hedge of interest rate risk		26,640,082,109	16,959,960,171
Other sundry interest expenses		1,167,089,273	1,423,932,174
	¢	28,003,905,486	18,574,080,851

(Continued)

(31) Expenses for allowance for impairment of assets

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

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

(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:

		2019	2018
Recovery of loan write-offs	¢	8,284,452,833	6,007,580,803
Recovery of accounts receivable write-offs		11,844,837	2,835,301
Decrease in allowance for loan portfolio (Note 7)		175,919	-
Decrease in allowance for other accounts receivable (Note 8)		180,065,955	1,149,713,455
Decrease in allowance for stand-by credit losses (Note 19)		30,000,000	50,000,000
Decrease in general and counter-cyclical allowance for stand-by credit losses (Note 19)		-	80,000,000
Decrease in allowance for investments in financial instruments (Note 5)		14,343,386	90,008,760
	¢	8,520,882,930	7,380,138,319

(Continued)

(33) Operating income from service fees and commissions

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

		2019	2018
Drafts and transfers	¢	9,150,141,255	8,873,032,052
Certified checks		3,047,353	3,949,358
Trusts		1,486,652,923	1,201,113,509
Custodial services		1,668,652,774	1,453,088,347
Mandates		171,694	424,165
Collections		23,204,503	28,152,153
Credit cards		63,659,094,173	60,059,446,475
Administrative services		3,683,196,479	3,320,859,273
Insurance underwriting		769,756,462	983,834,098
Transactions with related parties		313,345,247	282,825,173
Sundry custody		280267510	245,891,075
Other service fees and commissions *(1)*		43,225,618,804	42,267,042,195
	¢	124,263,149,177	118,719,657,873

(1) "Other service fees and commissions" 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:

		2019	2018
Leasing of assets	¢	21,746,925	32,166,340
Recovery of expenses		5,840,430,384	2,885,783,041
Net valuation of other assets (Note 42-c)		2,366,907,349	1,035,396,519
Other income from accounts receivable		5,947,614	4,989,553
Liquidation of term certificate of deposit not claimed		501,549,100	794,746,972
Withholdings from vendors		453,740,889	731,916,158
Administrative collection – Electronic means of payment		1,731,857,096	1,281,700,340
Liquidation of check – own accounts		173,262,966	95,013,052
Liquidation of savings accounts		204,982,385	192,368,951
Liquidation of security deposits		255,802,576	28,620,717
Liquidation of judicial deposits		221,917,090	69,514,645
Sundry operating income		1,882,480,400	2,269,930,079
Decrease in provisions		178,451,017	2,282,127,586
	¢	13,839,075,791	11,704,273,953

(35) Expenses for foreclosed assets

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

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

(Continued)

(36) Provision expenses

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

		2019	2018
Severance benefits	¢	309,718,633	1,543,572,944
Pending litigation		899,020,369	2,413,099,440
"BN Premios" points program		2,950,974,180	4,319,043,806
Incentives and Performance Evaluation System (SEDI)		-	1,185,358,808
Case of the manager commissions with CCSS		1,965,587,777	2,154,005,167
Case of the RIVM contribution		6,301,286,265	2,855,573,956
Notice of deficiency		1,730,517,330	954,435,974
Other provisions		58,551,485	77,856,429
	¢	14,215,656,039	15,502,946,524

(37) Other operating expenses

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

		2019	2018
Fines for noncompliance with regulatory provisions		138,116	50,000
Net valuation of other liabilities (Note 42-c)		1,141,530,150	1,587,413,836
Income tax on foreign remittances		6,617,642	23,020,682
Income tax (8%) on interest from investments in financial instruments		4,018,392,442	2,827,853,029
Property tax		243,339,198	254,757,504
Licenses		661,973,776	667,137,127
Other local taxes		695,309,304	674,856,728
Transfers to FINADE		3,529,291,100	2,905,963,322
Local and international currency exchange		25,143,918,274	22,022,963,210
Sundry operating expenses		53,594,899,555	40,545,390,417
	¢	89,035,409,557	71,509,405,855

(Continued)

(38) Personnel expenses

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

		2019	2018
Salaries and bonuses - permanent staff	¢	61,611,849,955	61,893,185,014
Salaries and bonuses - contractors		1,495,471,634	1,574,906,571
Compensation for directors and statutory examiners		138,197,214	119,736,112
Overtime		642,856,422	644,479,647
Travel expenses		425,571,922	506,385,491
Statutory Christmas bonus		6,540,853,419	6,595,300,643
Vacation		6,705,575,550	6,426,276,806
Incentives		1,742,665,318	-
Other compensation		3,326,340,992	3,597,337,872
Severance benefits		4,065,334,919	4,032,103,248
Employer social security taxes		25,207,964,048	25,360,925,582
Refreshments		527,568,332	479,205,734
Uniforms		77,099,203	238,189,425
Training		763,705,798	617,744,109
Personnel insurance		161,745,269	200,667,028
Back-to-school bonus		6,827,867,318	6,204,068,890
Compulsory Retirement Savings Account		2,382,143,817	2,393,050,074
Other personnel expenses		1,164,491,069	560,587,935
	¢	123,807,302,199	121,444,150,181

(39) Other administrative expenses

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

		2019	2018
Outsourcing	¢	19,676,381,424	15,893,874,988
Transportation and communications		3,441,879,694	3,826,764,684
Infrastructure		29,382,689,242	35,547,568,344
Overhead		17,390,390,088	19,613,649,451
	¢	69,891,340,448	74,881,857,467

(Continued)

(40) Statutory allocations

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

	2019	2018
CONAPE - 5%	¢ 3,468,622,939	1,611,854,786
CNE - 3%	1,797,032,147	745,269,369
INFOCOOP - 10%	4,767,383,966	2,855,558,087
RIVM - 15%	5,015,260,274	2,867,783,440
	¢ 15,048,299,326	8,080,465,682

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

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

(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:

	2019	
	Carrying amount	Fair value
Financial assets:		
Cash and due from banks	¢ 1,113,115,306,076	1,113,115,306,076
Loan portfolio	4,321,533,336,072	4,296,504,697,844
	¢ 5,434,648,642,148	5,409,620,003,920
Financial liabilities:		
Demand deposits from the public and financial entities	¢ 3,198,240,637,006	3,198,240,637,006
Other demand obligations with the public	14,812,981,963	14,812,981,963
Term deposits from the public and financial entities	2,293,906,713,940	2,319,282,135,760
Obligations with entities	136,339,602,631	68,728,287,734
	¢ 5,643,299,935,540	5,601,064,042,463

		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	¢	2,920,734,420,699	2,920,734,420,699
Other demand obligations with the public		17,678,579,421	17,678,579,421
Term deposits from the public and financial entities		2,128,547,364,138	2,183,727,597,522
Obligations with entities		239,602,621,843	233,876,273,998
	¢	5,306,562,986,101	5,356,016,871,640

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, 2019 and 2018.

(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:

		2019			
		Level 1	Level 2	Level 3	Total
Available for sale	¢	1,281,655,784,316	42,153,975,621	4,488,288,925	1,328,298,048,862
Held for trading		1,512,582,272	-	-	1,512,582,272
Derivative financial instruments		-	-	10,747,514,970	10,747,514,970
Term obligations with foreign financial entities		-	-	489,650,619,452	489,650,619,452

		2018			
		Level 1	Level 2	Level 3	Total
Available for sale	¢	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

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

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

Financial instruments categorized as Level 3 in the fair value hierarchy are measured as follows:

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

		2018		
		Available for sale	Derivative financial instruments	Term obligations with foreign financial entities
Opening balance	¢	5,884,509,934	6,159,898,498	841,601,971,462
Maturities		(1,194,835,544)	-	-
Valuation		(243,645,323)	(6,008,498,091)	(6,615,350,748)
Amortizations		-	-	(1,066,026,729)
Exchange differences		314,372,615	412,929,179	(243,299,038,271)
Closing balance	¢	4,760,401,682	564,329,586	590,621,555,714

(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. the Brokerage Firm, Investment Fund Manager, Pension Fund Manager and Insurance Brokerage Firm.

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.

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

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

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

		Direct		Stand-by	
		2019	2018	2019	2018
Current loans without allowance:					
0	¢	-	-	-	-
A1		-	-	262,705,754,931	289.338.293.538
A2		-	-	853,940,784	603.146.854
B1		-	-	5,126,023,360	4.097.288.414
B2		-	-	58,037,818	32.806.568
C1		-	-	5,459,230,731	2.000.860.879
C2		-	-	48,868,321	54.884.838
D		-	-	1,448,844,673	1.071.986.090
E		-	-	1,326,548,844	3.009.831.733
Carrying amount	¢	-	-	277,027,249,462	300.209.098.914
Carrying amount, gross	¢	4,321,533,336,072	4,557,923,487,521	310,943,064,262	347,879,459,600
Allowance for loan losses (database)		(99,160,629,362)	(131,396,734,202)	(113,550,815)	(136,183,805)
Excess of allowance over structural allowance		(253,321,743)	(944,116,172)	(33,359,806)	(32,889,543)
Counter-cyclical allowance		(19,093,159,730)	(9,290,105,859)	-	-
Carrying amount, net	¢	4,203,026,225,237	4,416,292,531,288	310,796,153,641	347,710,386,252
Restructured loans	¢	39,645,027,842	48,865,106,445	-	-

Set out below is an analysis 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:

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

(Continued)

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

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

Individually assessed loans with allowance:

Pursuant to SUGEF Directive 1-05, a risk rating is assigned to all borrowers. Applicable allowance percentages are determined based on that risk rating. Individually assessed loans with allowance are loan operations 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 write-off policy:

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

Borrower classification

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

The loan portfolio by borrower classification is as follows:

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

Risk ratings

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

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

Risk rating	Arrears	Historical payment behavior	Creditworthiness
A1	30 days or less	Level 1	Level 1
A2	30 days or less	Level 2	Level 1
B1	60 days or less	Level 1	Level 1 or Level 2
B2	60 days or less	Level 2	Level 1 or Level 2
C1	90 days or less	Level 1	Level 1, 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

(Continued)

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

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

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

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

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

Analysis of creditworthiness

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

a. *Financial position and expected cash flows*: Analysis of the stability and continuity of main sources of income. The effectiveness of the analysis depends on the quality and timeliness of information.

b. *Experience in the line of business and quality of management*: Analysis of the capacity of management to lead the business with appropriate controls and adequate support from the owners.

c. *Business environment*: Analysis of the main sector variables that affect the borrower's creditworthiness.

d. *Vulnerability to changes in interest rates and foreign exchange rates*: Analysis of the borrower's ability to confront unexpected adverse changes in interest rates and foreign exchange rates.

e. *Other factors:* Analysis of other factors that affect the borrower's creditworthiness. In the case of legal entities, considerations include, but are not limited to, environmental issues, technological aspects, operating licenses and permits, representation of products or foreign offices, relationship with significant customers and suppliers, sales agreements, legal risks, and country risk (the latter for foreign-domiciled borrowers). In the case of individuals, the following borrower characteristics may be taken into consideration: marital status, age, level of education, profession, gender, etc.

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

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

Analysis of historical payment behavior

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

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

Structural allowance for loan losses

Pursuant to Article 12 of SUGEF Directive 1-05, the specific allowance is calculated on the covered and uncovered balance of each loan operation. The allowance on the uncovered balance is equivalent to the total outstanding balance of each loan operation less the adjusted weighted value of the corresponding guarantee, multiplying the resulting amount by the allowance percentage corresponding to the risk rating of the borrower or co-borrower in the lowest risk rating. If the result of this calculation is negative or zero, the allowance is zero. If the total outstanding balance includes a stand-by principal balance, the credit equivalent 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 12 of SUGEF Directive 1-05.

The adjusted value of the corresponding guarantee must be weighted at 100% when the borrower or co-borrower with the lowest risk rating is rated C2 or in another lower-risk rating, at 80% when rated D, and at 60% when rated E.

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

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

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

(Continued)

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

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

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

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

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

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

(Continued)

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

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

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

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

Cyclical allowance

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

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

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

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

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

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

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

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

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

Credit equivalent

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

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

Allowance for other assets

Allowances should be established for the following assets:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

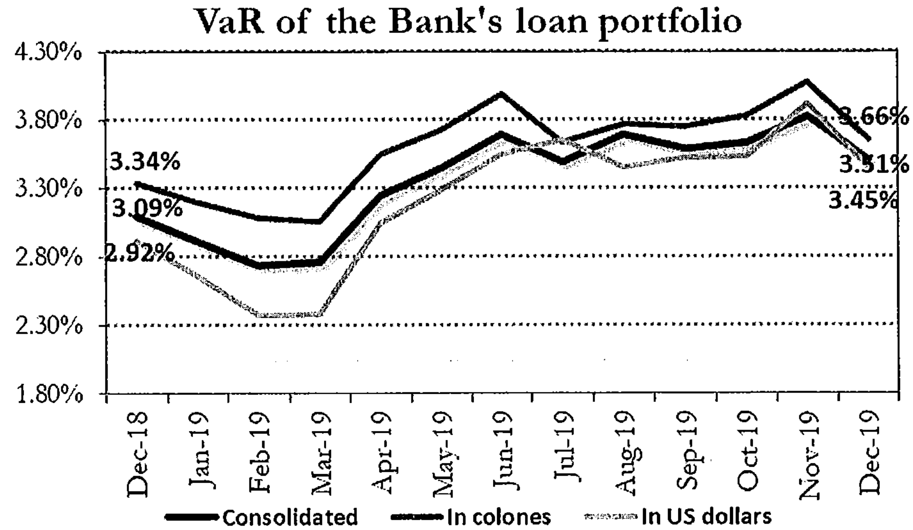
This approach is applied using a computational system developed in "Matlab" software. Also, the credit risk model takes into consideration the impact of changes in macroeconomic variables (endogenous and exogenous) on the loan portfolio when determining systemic factors. Results are compared with prior-month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

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

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

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

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



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

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

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

(Continued)

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 (MRD) monitors indicators such as liability structure, daily changes and trends in demand and term account balances, volatility of deposit-taking from the public (VaR of liquidity), liquidity coverage ratio (LCR), systemic liquidity indicators, and variables with the greatest impact on SUGEF's term matching indicators.

Below is the LCR indicator as of December 2019 and December 2018, period during which it increased in colones and remained stable in US dollars, remaining considerably above the risk appetite level in both currencies. This means that commitments and net cash outflows for 30 days can be met in an adverse scenario.

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

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

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

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

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

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

As of December 31, 2019, 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	¢	-	36,741,157,963	-	-	-	-	-	-	36,741,157,963
Minimum legal deposit in BCCR		-	276,096,941,040	17,756,649,146	30,450,944,750	21,027,362,256	55,514,367,153	48,157,037,401	36,935,366,403	485,938,668,149
Investments		-	-	173,263,564,175	1,668,084,437	52,920,354,366	51,811,674,959	34,794,357,391	525,926,014,773	840,384,050,101
Loan portfolio		212,326,842,099	-	51,831,674,793	41,827,408,025	37,398,504,687	95,536,371,083	137,985,118,075	2,529,883,623,312	3,106,789,542,074
Recovery of assets	¢	212,326,842,099	312,838,099,003	242,851,888,114	73,946,437,212	111,346,221,309	202,862,413,195	220,936,512,867	3,092,745,004,488	4,469,853,418,287
Obligations with the public	¢	-	2,072,008,008,915	251,857,294,044	154,956,388,361	156,221,822,110	450,935,566,512	336,839,392,582	264,789,782,094	3,687,608,254,618
Obligations with BCCR		-	-	-	-	-	-	-	125,644,412	125,644,412
Obligations with financial entities		-	90,761,781,359	10,482,209,244	19,826,087,524	10,705,547,604	18,761,646,348	1,438,835,286	32,985,816,467	184,961,923,832
Charges payable		-	11,293,162,602	16,359,537,429	4,942,981,627	2,117,503,603	5,662,114,689	1,620,416,836	1,193,305,264	43,189,022,050
Maturity of liabilities	¢	-	2,174,062,952,876	278,699,040,717	179,725,457,512	169,044,873,317	475,359,327,549	339,898,644,704	299,094,548,237	3,915,884,844,912
Difference	¢	212,326,842,099	(1,861,224,853,873)	(35,847,152,603)	(105,779,020,300)	(57,698,652,008)	(272,496,914,354)	(118,962,131,837)	2,793,650,456,251	553,968,573,375

(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 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
Maturity 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, 2019, 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	¢	-	301,437,223,568	-	-	-	-	-	-	301,437,223,568
Minimum legal deposit in BCCR		-	172,263,270,891	8,415,156,733	10,943,112,299	11,203,663,284	22,522,366,584	18,341,043,064	45,309,643,541	288,998,256,396
Investments		-	-	23,055,625,011	36,387,138,324	19,906,570,198	26,390,689,277	207,852,219,128	204,692,469,569	518,284,711,507
Loan portfolio		95,589,050,123	-	30,948,024,000	33,146,654,705	18,682,229,256	51,016,135,837	60,336,950,647	925,024,749,430	1,214,743,793,998
Recovery of assets	¢	95,589,050,123	473,700,494,459	62,418,805,744	80,476,905,328	49,792,462,738	99,929,191,698	286,530,212,839	1,175,026,862,540	2,323,463,985,469
Obligations with the public	¢	-	932,870,799,662	78,850,238,260	66,120,440,321	58,994,447,551	147,748,486,121	96,426,035,173	117,750,232,661	1,498,760,679,749
Obligations with financial entities		-	99,588,540,698	21,952,739	7,497,252,450	4,063,133,803	6,586,771,239	17,730,497,610	575,545,086,528	711,033,235,067
Charges payable		-	2,354,799,952	1,263,290,554	916,640,921	6,064,510,796	1,364,089,295	771,250,743	956,436,360	13,691,018,621
Maturity of liabilities	¢	-	1,034,814,140,312	80,135,481,553	74,534,333,692	69,122,092,150	155,699,346,655	114,927,783,526	694,251,755,549	2,223,484,933,437
Difference	¢	95,589,050,123	(561,113,645,853)	(17,716,675,809)	5,942,571,636	(19,329,629,412)	(55,770,154,957)	171,602,429,313	480,775,106,991	99,979,052,032

(Continued)

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
Maturity 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)

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 so as to maintain a risk appetite (risk limits approved by the board of directors), while optimizing the return.

Indicator	Limit	Level
Consolidated VaR	1.90%	Appetite
Currency risk	2.50%	Appetite
Interest rate risk – colones	5.00%	Normal
Interest rate risk – foreign currency	5.00%	Normal

The main indicator used is the market VaR of the Bank's investments, which is measured 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, indicators 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 2019 and December 2018.

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

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

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

- *Market risk of investments*

The Bank's consolidated VaR regarding the market value of investments is at the risk appetite level. There was a decrease during the last year, mainly caused by movements in yield curves.

Type of risk	December 2019	December 2018	Variation	Level
Consolidated VaR	0.39%	0.28%	0.11%	Appetite

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

	VaR by currency		
Currency	December 2019	December 2018	Variation
Colones	0.50%	0.28%	0.22%
US dollars - local issuers	0.57%	0.68%	(0.11)%
US dollars - international issuers	0.34%	0.25%	0.08%
Euro	0.00%	0.01%	(0.01)%
DU	0.00%	0.06%	(0.06)%

- *Interest rate risk*

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

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

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

For the Bank, both indicators closed considerably below SUGEF's regulatory limits.

The interest rate risk indicator in colones decreased due to a lower volatility in the base deposit rate, which translates into a lower level of maximum expected variation thereof. In US dollars, the decrease corresponds to the combined effect of a decrease in the duration of equity and lower volatility in the 3-month LIBOR rate.

As of December 31, 2019, 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	¢	173,263,564,175	54,588,438,803	51,671,895,117	34,934,137,234	208,118,135,000	317,807,879,772	840,384,050,101
Loan portfolio		2,624,607,572,140	104,813,976,251	100,038,050,570	14,636,950,342	15,460,987,243	67,060,728,879	2,926,618,265,425
Recovery of rate-sensitive assets LC (A)	¢	2,797,871,136,315	159,402,415,054	151,709,945,687	49,571,087,576	223,579,122,243	384,868,608,651	3,767,002,315,526
Obligations with the public	¢	279,879,531,309	348,998,622,070	475,359,327,549	338,130,974,786	177,377,557,562	90,790,674,531	1,710,536,687,807
Obligations with BCCR		-	-	-	-	-	125,644,412	125,644,412
Obligations with financial entities		77,701,718	-	-	-	-	32,574,416,468	32,652,118,186
Maturity of rate-sensitive liabilities LC (B)	¢	279,957,233,027	348,998,622,070	475,359,327,549	338,130,974,786	177,377,557,562	123,490,735,411	1,743,314,450,405
Difference in LC, recovery of assets less maturity of liabilities (A - B)	¢	2,517,913,903,288	(189,596,207,016)	(323,649,381,862)	(288,559,887,210)	46,201,564,681	261,377,873,240	2,023,687,865,121
Foreign currency (FC)								
Investments	¢	10,003,713,120	55,772,077,127	39,021,901,661	206,868,937,183	113,694,220,611	82,176,346,571	507,537,196,273
Loan portfolio		1,099,595,890,714	40,921,262,031	23,933,401,567	2,631,230,457	21,984,062,392	61,035,014,082	1,250,100,861,243
Recovery of rate-sensitive assets FC (C)	¢	1,109,599,603,834	96,693,339,158	62,955,303,228	209,500,167,640	135,678,283,003	143,211,360,653	1,757,638,057,516
Obligations with the public	¢	80,539,386,756	138,023,908,124	168,883,880,519	88,975,522,222	262,130,484,838	345,799,433,903	1,084,352,616,362
Obligations with entities		-	81,554,886	371,409,673	17,103,822,302	2,672,296,875	83,430,847,212	103,659,930,948
Maturity of rate-sensitive liabilities FC (D)	¢	80,539,386,756	138,105,463,010	169,255,290,192	106,079,344,524	264,802,781,713	429,230,281,115	1,188,012,547,310
Difference in LC, recovery of assets less maturity of liabilities (C - D)	¢	1,029,060,217,078	(41,412,123,852)	(106,299,986,964)	103,420,823,116	(129,124,498,710)	(286,018,920,462)	569,625,510,206
Recovery of rate-sensitive assets 1/ (A + C)	¢	3,907,470,740,149	256,095,754,212	214,665,248,915	259,071,255,216	359,257,405,246	528,079,969,304	5,524,640,373,042
Maturity of rate-sensitive liabilities 2/ (B + D)	¢	360,496,619,783	487,104,085,080	644,614,617,741	444,210,319,310	442,180,339,275	552,721,016,526	2,931,326,997,715
Difference in LC + FC, recovery of assets less maturity of liabilities (item 1 - item 2)	¢	3,546,974,120,366	(231,008,330,868)	(429,949,368,826)	(185,139,064,094)	(82,922,934,029)	(24,641,047,222)	2,593,313,375,327

(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

(Continued)

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 has decreased due to the decrease in the foreign currency position, as follows.

Type of risk	December 2019	December 2018	Variation	Level
Currency risk	1.06%	0.01%	1.05%	Appetite

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

		US dollars	
		2019	2018
Assets:			
Cash and due from banks	US$	991,473,617	644,447,976
Investments in financial instruments		909,127,877	1,017,342,639
Loan portfolio		2,068,595,744	2,331,253,151
Accounts and accrued interest receivable		382,793	230,343
Investments in other companies		116,015,114	109,937,062
Other assets		2,371,909	5,514,457
	US$	4,087,967,054	4,108,725,628
Liabilities:			
Obligations with the public	US$	2,600,324,982	2,651,419,812
Obligations with entities		1,255,820,630	1,347,253,267
Subordinated obligations		122,727,017	133,172,571
Accounts payable and provisions		31,872,549	29,706,827
Other liabilities		38,340,909	31,080,852
	US$	4,049,086,087	4,192,633,329
Excess (deficit) of assets over liabilities in US dollars	US$	38,880,967	(83,907,701)

		Euro	
		2019	2018
Assets:			
Cash and due from banks	€	39,343,634	35,408,090
Investments in financial instruments		-	6,109,995
Other assets		254	1,127,452
	€	39,343,888	42,645,537
Liabilities:			
Obligations with the public	€	36,303,941	39,634,187
Obligations with entities		1,141,482	976,325
Accounts payable and provisions		45,626	293,909
Other liabilities		577,246	947,048
	€	38,068,295	41,851,469
Excess of assets over liabilities in euro	€	1,275,593	794,068

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

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

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

		2019	2018
Foreign exchange gain	¢	375,736,920,482	282,707,758,618
Foreign exchange loss		(371,663,007,846)	(285,999,801,437)
Net gain (loss)	¢	4,073,912,636	(3,292,042,819)

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:

		2019	2018
Gain on net valuation of other assets (Note 34)	¢	2,366,907,349	1,035,396,519
Loss on net valuation of other liabilities (Note 37)		(1,141,530,150)	(1,587,413,836)
Net gain (loss)	¢	1,225,377,199	(552,017,317)

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 potential loss resulting from failures or deficiencies in processes, personnel, information systems and internal and external events. This definition includes legal or juridical risk, but excludes strategic, business, or reputational risks.

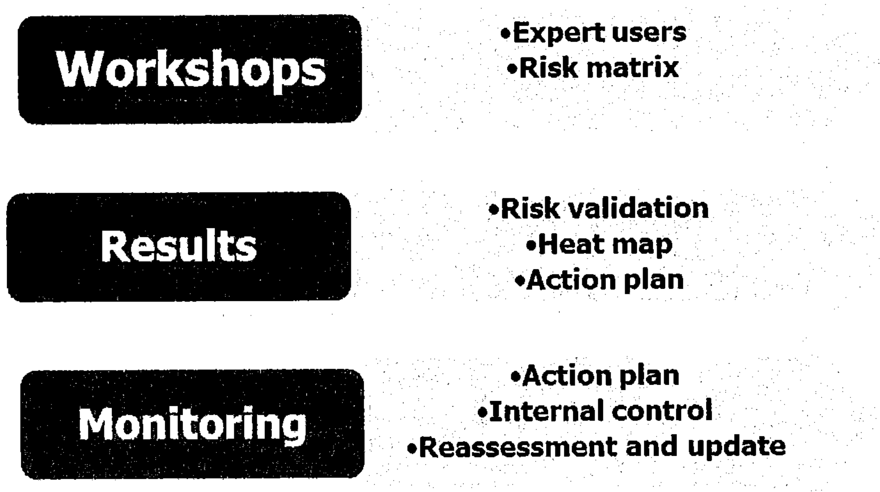
The policy adopted by the Bank stipulates that all of the Bank's employees are inherently responsible for managing operational risk. The Bank's employees are also required at all times to comply with the policies, regulations, procedures, and controls applicable to their positions and to ensure that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

That policy is implemented through a management framework that includes:

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

One of the Bank's fundamental principles for operational risk management is transparency, which means that all risk 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.

The operational risk management's main activity is the valuation of risk in institutional processes by applying a specific methodology that controls the frequency, impact, and quality of identified risk events. The diagram below shows how such methodology is applied to institutional processes:



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.

For legal risk, the Bank applies a model that enables estimating the EL and VaR of legal actions, considering the expert opinion of the legal counsel, the subject matter of the cases when calculating the likelihood of loss and a continuous model for the duration of the legal actions. Such 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, 2019 and 2018, the Bank is above the minimum level required by applicable regulations.

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

		2019	2018
Tier I capital:			
Ordinary paid-in capital	¢	172,237,030,102	172,237,030,102
Legal reserve		348,798,402,459	334,043,304,638
		521,035,432,561	506,280,334,740
Tier II capital:			
Adjustment for revaluation of property and equipment		49,309,339,089	49,645,433,258
Adjustment for valuation of available-for-sale investments		8,443,714,008	(5,106,902,948)
Adjustment for valuation of restricted financial instruments		31,580,683	(1,053,043,002)
Adjustment for valuation of investments in other companies		8,712,637,650	9,125,840,572
Prior period retained earnings		29,551,796,287	19,485,203,960
Income for the year		23,701,957,485	21,391,220,875
Equity of FOFIDE		34,648,535,964	30,971,994,447
		154,399,561,166	124,459,747,166
Less: Deductions		(105,931,933,910)	(100,067,692,891)
Regulatory capital	¢	569,503,059,817	530,672,389,011

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.

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: separate balance sheet, statement of comprehensive income, CAMELS indicators, budget execution, and capital adequacy.

As of December 31, 2019 and 2018, the Bank's CAR is above the minimum level required by applicable regulations, which indicates that capital levels are above the minimum required by laws and regulations.

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

(43) Contingencies

As of December 31, the Bank is party to several lawsuits, as follows:

Number of cases as defendant		Phase		Total estimated amount	
2019	2018			2019	2018
354	244	First instance	¢	260,283,301,146	256,975,645,152
16	17	Second instance		18,611,486,536	19,772,872,880
9	8	Appeal		5,720,491,698	5,822,741,718
379	269	(Note 22)	¢	284,615,279,380	282,571,259,750

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

Additionally, the Bank is a defendant in one lawsuit related to the payment of SEDI. The file for such proceedings is File No. 5-008666-1027-CA of the Administrative Court, at 10:45 hours of November 20, 2015, received on December 15, 2015. As of December 31, 2019, the Bank booked a provision in the amount of ¢866,518,115 for that lawsuit.

The following lawsuits are also worth noting:

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

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

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

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

  ✓ Court: Agrarian Court of Corredores

  ✓ Statement of facts: The proceedings seek to declare the liability of CORBANA, as Trustee of a banana plantation Management Trust, in which the Bank was the Trust Beneficiary. In resolution No. 92-2015 of first instance, the Agrarian Court ruled in favor of the Bank. The Agrarian Court accepted the objection of statute of limitations, since the lawsuit was filed four years after negative prescription, as per Article 968 of the Code of Commerce.

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

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

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

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

  ✓ Court: Office of Economic, Tax, and Customs Crimes
  ✓ Statement of facts: Irregularities were reported with respect to the company Zion and the process to grant credits to that company, misuse of resources, presentation of fake documents to the Bank to obtain credit approval, and the apparent participation of some of the employees of Bank.
  ✓ Current status: The public prosecutor's office filed an accusation, but it was not communicated to the Bank since it is not considered a victim. A motion for declaration of procedural defects was filed, so that the accusation can be brought to the Bank's attention. In a hearing scheduled for September 12, 2019, the declaration of procedural defects filed by BNCR will be heard. There is a civil lawsuit against the Bank, but it does not hold because the accused (bank employees) were summoned to a testimony. Until the legal status of those individuals is defined, they cannot be part of a civil lawsuit.

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

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

(44) Significant events

a) *Dividends paid to the Bank*

Dividends received from the subsidiaries are as follows:

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

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

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

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

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

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.

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

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

RFI is effective starting January 1, 2020, with some exceptions. A summary of some of the main differences between the accounting regulations issued by CONASSIF and IFRS, as well as IFRS or Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) 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 be charged against equity. Under this Standard, impairment is charged to revaluation surplus and any difference is recognized in profit or loss. The amendments to SUGEF Directive 31-04 and SUGEF Directive 34-02 eliminate the option of capitalizing the surplus derived from revaluation of assets for financial statements as of December 31, 2014.

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

e) IAS 18: Revenue

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

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

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

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

f) <u>IAS 21: The Effects of Changes in Foreign Exchange Rates</u>

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

g) IAS 27: Consolidated and Separate Financial Statements

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

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

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

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

h) IAS 28: Investments in Associates

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

i) Revised IAS 32: Financial Instruments - Presentation

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

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

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

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

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

l) IAS 38: Intangible Assets

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

m) IAS 39: Financial Instruments: Recognition and Measurement

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

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

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

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

- 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.

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.

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.