

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Financial Information Required by the
Superintendency General of Financial Entities

Consolidated Financial Statements

June 30, 2014

(With corresponding figures for December and June 2013)

(With Independent Auditor's Report Thereon)

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

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
AS OF JUNE 30, 2014 AND DECEMBER 31 AND JUNE 30, 2013
(In colones)

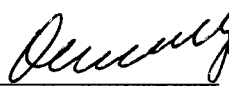
	Note	June 2014	December 2013	June 2013
ASSETS				
Cash and due from banks	4	1,001,435,379,254	847,934,576,855	718,784,585,898
Cash		49,175,655,160	62,627,019,995	53,438,284,020
Demand deposits in BCCR		573,847,765,256	527,483,741,950	540,873,964,826
Demand deposits in local financial entities		6,089,744,214	15,700,518,762	4,512,741,398
Demand deposits in foreign financial entities		352,085,077,670	237,366,390,500	89,968,515,880
Other cash and due from banks		20,236,497,831	4,756,206,590	29,990,045,994
Accounts and accrued interest receivable		639,123	699,058	1,033,780
Investments in financial instruments	5	903,951,092,818	996,018,394,953	1,061,692,601,977
Available for sale		863,179,425,654	957,346,698,111	1,014,612,004,354
Held to maturity		26,895,405,401	25,823,991,217	34,469,936,844
Derivative financial instruments - position		3,780,056,071	-	-
Accounts and accrued interest receivable		10,156,035,929	12,901,374,609	13,208,834,357
(Allowance for impairment of investments in financial instruments)		(59,830,237)	(53,668,984)	(598,173,578)
Loan portfolio	6	3,160,753,822,525	2,986,573,318,876	2,674,624,937,055
Current		2,980,359,352,735	2,799,657,018,936	2,475,389,154,486
Past due		142,163,836,474	139,042,678,627	150,236,777,343
Legal collections		66,035,905,083	73,965,839,402	78,568,504,905
Accounts and accrued interest receivable		20,448,168,641	19,553,964,785	19,824,191,793
(Allowance for loan impairment)		(48,253,440,408)	(45,646,182,874)	(49,393,691,472)
Accounts and fees and commissions receivable	7	3,293,758,988	3,568,951,877	2,440,288,098
Fees and commissions receivable		891,849,457	980,713,884	957,256,271
Accounts receivable for brokerage operations		31,791,925	31,304	4,974,346
Accounts receivable for transactions with related parties		107,867,951	29,057,085	55,251,862
Deferred tax and income tax receivable		1,958,096,577	2,308,096,314	1,273,459,679
Other receivables		2,949,842,008	2,552,671,830	2,379,413,054
Accrued interest receivable		1,579,106	1,608,084	1,530,318
(Allowance for impairment of accounts and fees and commissions receivable)		(2,647,268,036)	(2,303,226,624)	(2,231,597,432)
Foreclosed assets	8	17,968,409,055	20,702,082,917	28,612,635,604
Assets and securities acquired in lieu of payment		74,688,249,632	76,708,238,430	81,646,061,348
Other foreclosed assets		1,756,777	1,756,777	1,756,777
(Allowance for impairment of foreclosed assets and per legal requirements)		(56,721,597,354)	(56,007,912,290)	(53,035,182,521)
Investments in other companies	9	47,785,715,717	41,357,623,922	39,912,399,573
Property and equipment, net	10	163,105,074,050	165,970,551,719	144,570,443,989
Other assets	11	48,421,578,055	31,909,896,468	21,070,858,708
Deferred charges		16,766,725,759	9,094,215,327	1,567,675,777
Intangible assets		2,302,267,842	2,819,508,013	3,745,833,128
Other assets		29,352,584,454	19,996,173,129	15,757,349,803
TOTAL ASSETS		5,346,714,830,462	5,094,035,397,587	4,691,708,750,902

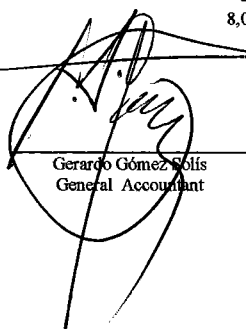
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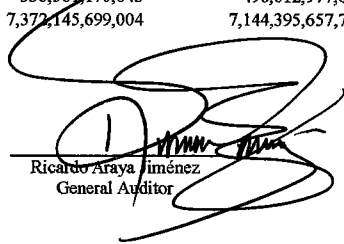
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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
AS OF JUNE 30, 2014 AND DECEMBER 31 AND JUNE 30, 2013
(In colones)

LIABILITIES AND EQUITY	Note	June 2014	December 2013	June 2013
LIABILITIES				
Obligations with the public	12	3,513,214,777,392	3,429,699,560,917	3,576,805,763,710
Deposits and other demand obligations		2,083,686,418,725	2,099,331,437,041	1,935,003,554,293
Deposits and other term obligations		1,369,999,300,177	1,274,859,342,280	1,574,654,852,711
Other obligations with the public		41,587,899,959	36,165,531,600	43,441,749,736
Charges payable		17,941,158,531	19,343,249,996	23,705,606,970
Obligations with BCCR	13	40,199,829,553	29,911,289,724	215,660,779
Term obligations		40,193,365,089	29,904,277,636	215,189,953
Charges payable		6,464,464	7,012,088	470,826
Obligations with entities	14	1,114,729,604,755	1,025,812,856,421	540,339,364,142
Demand obligations with financial entities		279,022,402,976	190,323,775,761	176,435,738,600
Term obligations with financial entities		828,974,194,925	828,804,432,760	361,432,841,488
Charges payable on obligations with financial and non-financial entities		6,733,006,854	6,684,656,900	2,470,784,054
Accounts payable and provisions		104,821,326,238	125,677,299,218	106,008,970,775
Accounts payable for brokerage services		1,906,177,384	1,109,336,612	1,063,736,297
Deferred tax	15-c	13,727,477,339	14,276,721,662	13,082,651,914
Provisions	16	34,313,870,002	50,123,605,163	43,371,990,408
Other sundry accounts payable	17	54,873,801,513	60,167,635,781	48,490,592,156
Other liabilities	18	45,614,844,034	28,504,123,815	28,067,944,461
Deferred income		5,469,998,020	2,458,330,689	1,977,800,839
Allowance for stand-by credit losses		1,185,342,814	138,964,729	246,365,447
Other liabilities		38,959,503,200	25,906,828,397	25,843,778,175
Subordinated obligations		53,974,870,239	-	-
Subordinated obligations		53,758,000,000	-	-
Finance charges payable		216,870,239	-	-
TOTAL LIABILITIES		4,872,555,252,211	4,639,605,130,095	4,251,437,703,867
EQUITY				
Share capital		118,130,303,482	118,130,303,482	118,130,303,482
Paid-up capital	19-a	118,130,303,482	118,130,303,482	118,130,303,482
Equity adjustments		66,371,650,829	62,621,518,232	54,163,265,534
Surplus from revaluation of property and equipment	19-b	63,639,596,055	63,639,596,055	49,226,216,504
Adjustment for valuation of available-for-sale investments	19-c	(1,498,049,606)	(1,659,792,110)	2,343,931,566
Adjustment for valuation of restricted financial instruments	19-c	(2,641,817,711)	(2,745,810,858)	(1,742,418,044)
Surplus from revaluation of other assets		70,246,625	70,246,625	70,246,625
Adjustment for valuation of investments in other companies	19-d	6,801,675,466	3,317,278,520	4,265,288,883
Capital reserves	1-u	209,058,123,505	196,909,225,981	196,909,225,981
Prior period retained earnings		49,146,520,984	39,383,506,918	41,115,954,815
Income for the year		16,904,805,625	25,141,909,678	17,708,494,022
Equity of the Development Financing Fund	49	14,548,173,826	12,243,803,201	12,243,803,201
TOTAL EQUITY		474,159,578,251	454,430,267,492	440,271,047,035
TOTAL LIABILITIES AND EQUITY		5,346,714,830,462	5,094,035,397,587	4,691,708,750,902
DEBIT MEMORANDA ACCOUNTS	20	598,904,255,466	439,775,205,683	400,529,404,970
TRUST ASSETS	21	917,985,493,054	909,695,157,115	912,098,432,837
TRUST LIABILITIES		68,698,825,960	65,814,616,652	84,537,419,144
TRUST EQUITY		849,286,667,094	843,880,540,463	827,561,013,693
TRUST MEMORANDA ACCOUNTS		8,283,015,420	5,293,296,993	35,136,962,826
OTHER DEBIT MEMORANDA ACCOUNTS	22	16,383,349,033,477	15,922,035,283,308	15,394,359,211,128
Own debit memoranda accounts		6,018,985,874,976	6,552,237,102,470	6,122,867,456,212
Third-party debit memoranda accounts		2,074,079,192,396	1,661,091,311,191	1,628,483,120,107
Own debit memoranda accounts for custodial activities		253,512,163,970	336,561,170,643	498,612,977,095
Third-party debit memoranda accounts for custodial activities		8,036,771,802,135	7,372,145,699,004	7,144,395,657,714


Fernando Naranjo Villalobos
General Manager


Gerardo Gómez Solís
General Accountant


Ricardo Araya Jiménez
General Auditor

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

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 2014
(With corresponding figures for 2013)
(In colones)

	Note	2014	2013
Finance income			
Cash and due from banks	26	131,120,241	123,282,946
Investments in financial instruments	26	20,832,024,826	25,943,217,121
Loan portfolio	27	146,345,983,791	134,838,974,827
Foreign exchange gain and development units, net	1-d	252,200,896,155	37,736,583,709
Gain on available-for-sale financial instruments	28	1,362,984,257	13,254,028,494
Gain on derivative instruments	5-b	13,776,400,178	-
Other finance income	28	6,496,024,763	1,517,733,854
Total finance income		441,145,434,211	213,413,820,951
Finance expense			
Obligations with the public	29	49,068,488,021	69,628,203,033
Obligations with BCCR		699,606	915,115
Obligations with financial entities		18,960,656,108	6,264,079,075
Other sundry accounts payable		90,992	-
Subordinated, convertible, and preferred obligations		224,331,980	-
Foreign exchange loss and development units	1-d	252,930,615,574	34,543,038,529
Loss on available-for-sale financial instruments		507,331,868	310,890
Loss on derivative instruments	5-b	-	115,808,767
Other finance expense		17,508,322,541	90,018,371
Total finance expense		339,200,536,690	110,642,373,780
Allowance for impairment of assets	30	15,836,377,193	18,554,768,457
Recovery of assets and decrease in allowances	31	7,966,246,562	7,422,777,389
FINANCE INCOME		94,074,766,890	91,639,456,103
Other operating income			
Service fees and commissions	32	47,957,763,223	43,945,847,843
Foreclosed assets		12,744,731,955	4,496,438,666
Gains on investments in other foreign companies	1-a	2,748,418,591	2,505,722,815
Gains on investments in other local companies		4,850,997	1,697,849
Foreign currency exchange and arbitrage		13,312,949,702	9,361,507,612
Other income from related parties		596,160	-
Other operating income	33	10,854,751,154	3,490,768,651
Total other operating income		87,624,061,782	63,801,983,436

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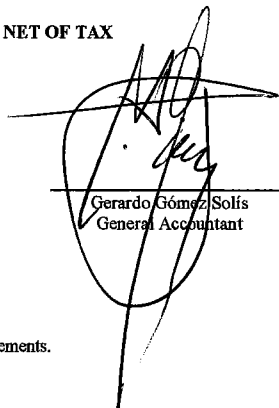
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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 2014
(With corresponding figures for 2013)
(In colones)

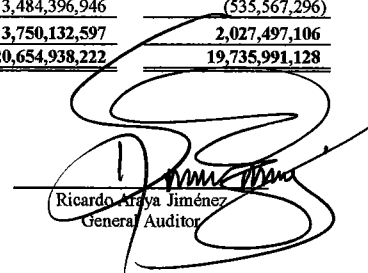
		<u>2014</u>	<u>2013</u>
Other operating expenses			
Services fees and commissions		3,335,599,598	2,932,417,011
Foreclosed assets	34	23,698,617,606	18,563,884,108
Sundry assets		174,733,294	45,064,462
Provisions	35	9,222,460,683	9,353,824,467
Foreign currency exchange and arbitrage		11,595,664	725,480
Other operating expenses	36	25,343,800,816	19,344,929,636
Amortization of direct deferred costs related to loans	36	318,014,638	-
Total other operating expenses		<u>62,104,822,299</u>	<u>50,240,845,164</u>
GROSS OPERATING INCOME		<u>119,594,006,373</u>	<u>105,200,594,375</u>
Administrative expenses			
Personnel expenses	37	60,936,860,678	60,017,699,768
Other administrative expenses	38	32,528,396,595	28,809,638,851
Total administrative expenses		<u>93,465,257,273</u>	<u>88,827,338,619</u>
NET OPERATING INCOME BEFORE TAXES AND			
STATUTORY ALLOCATIONS		<u>26,128,749,100</u>	<u>16,373,255,756</u>
Income tax	15-a	4,597,264,155	1,023,383,111
Deferred tax		124,385,250	50,083,922
Decrease in income tax	15-a	284,445,629	28,771,955
Decrease in prior period income tax	15-b	5,527,341	6,533,715,664
Deductible temporary differences		63,959,415	55,747,781
Statutory allocations	39	4,856,226,455	5,047,739,031
Decrease in statutory allocations	39	-	838,208,930
INCOME FOR THE YEAR		<u>16,904,805,625</u>	<u>17,708,494,022</u>
OTHER COMPREHENSIVE INCOME, NET OF TAX			
Surplus from revaluation of property and equipment		-	101,945,151
Adjustment for valuation of available-for-sale investments, net of tax		161,742,504	1,876,208,134
Adjustment for valuation of restricted financial instruments, net of tax		103,993,147	584,911,117
Other		3,484,396,946	(535,567,296)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		<u>3,750,132,597</u>	<u>2,027,497,106</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>20,654,938,222</u>	<u>19,735,991,128</u>



Fernando Naranjo Villalobos
General Manager



Gerardo Gómez Solís
General Accountant

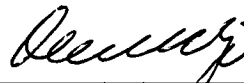


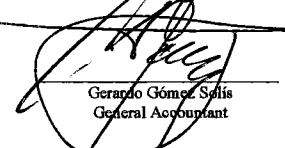
Ricardo Araya Jiménez
General Auditor

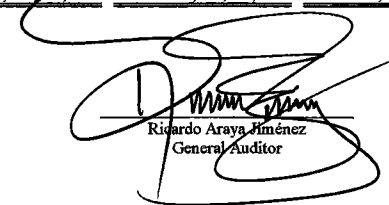
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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2013
(In colones)

Equity adjustments										
Note	Share capital	Surplus from revaluation of property and equipment	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	Opening retained earnings	Capital of the Development Financing Fund	Total
Balance at January 1, 2013	118,130,303,482	49,124,271,353	(1,859,605,729)	70,246,625	4,800,856,179	52,135,768,428	170,958,556,380	70,844,594,054	8,750,108,360	420,819,330,704
Income for the year	-	-	-	-	-	-	-	17,708,494,022	-	17,708,494,022
Legal reserve and other statutory reserves	-	-	-	-	-	-	25,950,669,601	(25,950,669,601)	-	-
Adjustment for changes in equity of BN Vital	-	-	-	-	-	-	-	7,427,052	-	7,427,052
Statutory allocations - Mandatory pension funds, Employee Protection Law No. 7983	-	-	-	-	-	-	-	(291,701,849)	-	(291,701,849)
Equity of the Development Financing Fund	-	-	-	-	-	-	-	(3,493,694,841)	3,493,694,841	-
Balance at June 30, 2013	118,130,303,482	49,124,271,353	(1,859,605,729)	70,246,625	4,800,856,179	52,135,768,428	196,909,225,981	58,824,448,837	12,243,803,201	438,243,549,929
Other comprehensive income at June 30, 2013:	-	101,945,151	2,461,119,251	-	(535,567,296)	2,027,497,106	-	-	-	2,027,497,106
Total comprehensive income at June 30, 2013	118,130,303,482	49,226,216,504	601,513,522	70,246,625	4,265,288,883	54,163,265,534	196,909,225,981	58,824,448,837	12,243,803,201	440,271,047,035


Fernando Naranjo Villalobos
General Manager

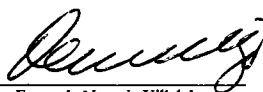

Gerardo Gómez Solís
General Accountant

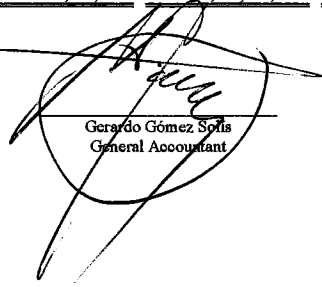

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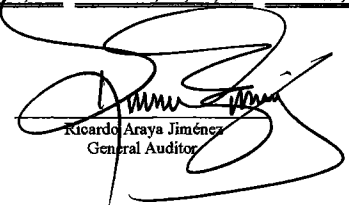
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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2014
(In colones)

Note	Equity adjustments					Total equity adjustments	Capital reserves	Opening retained earnings	Capital of the Development Financing Fund	Total
	Share capital	Surplus from revaluation of property and equipment	Adjustment for valuation of available-for-sale investments and restricted financial instruments	Surplus from revaluation of other assets	Adjustment for valuation of investments in other companies					
Balance at January 1, 2014	118,130,303,482	63,639,596,055	(4,405,602,968)	70,246,625	3,317,278,520	62,621,518,232	196,909,225,981	64,525,416,596	12,243,803,201	454,430,267,492
Income for the year	-	-	-	-	-	-	-	16,904,805,625	-	16,904,805,625
Legal reserve and other statutory reserves	-	-	-	-	-	-	12,148,897,524	(12,148,897,524)	-	-
Statutory allocations - Mandatory pension funds, Employee Protection Law No. 7983	-	-	-	-	-	-	-	(958,123,114)	-	(958,123,114)
Adjustment for changes in equity	-	-	-	-	-	-	-	32,495,651	-	32,495,651
Equity of the Development Financing Fund	-	-	-	-	-	-	-	(2,304,370,625)	2,304,370,625	-
Balance at June 30, 2014	118,130,303,482	63,639,596,055	(4,405,602,968)	70,246,625	3,317,278,520	62,621,518,232	209,058,123,505	66,051,326,609	14,548,173,826	470,409,445,654
Other comprehensive income at June 30, 2014:	-	-	265,735,651	-	3,484,396,946	3,750,132,597	-	-	-	3,750,132,597
Total comprehensive income at June 30, 2014	118,130,303,482	63,639,596,055	(4,139,867,317)	70,246,625	6,801,675,466	66,371,650,829	209,058,123,505	66,051,326,609	14,548,173,826	474,159,578,251


Fernando Naranjo Villalobos
General Manager


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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2014

(With corresponding figures for 2013)

(In colones)

	<u>Note</u>	<u>2014</u>	<u>2013</u>
Cash flows from operating activities			
Income for the year		16,904,805,625	17,708,494,022
Items not requiring cash			
Gain on sale of idle property and equipment		(67,142)	-
Gain on foreign exchange differences and development units, net		39,305,050,393	(8,884,047,300)
Loss on allowance for loan impairment		13,543,253,874	10,485,286,697
Income for reversal of allowance for impairment of investments		1,545,813	(167,025)
Loss on allowances for foreclosed assets and other receivables		13,368,438,390	14,436,557,254
Expense for severance accrual, net of payments		4,845,116,698	7,539,462,581
Depreciation and amortization		7,460,745,241	7,141,674,607
Share in net profit of foreign associate		(2,748,418,591)	(2,505,722,815)
Statutory allocations		4,856,226,455	5,047,739,031
Deferred tax		(386,147,208)	(329,821,571)
Current tax expense	15 -a	4,597,264,155	1,023,383,111
Finance income on loan portfolio and investments		(167,178,008,617)	(160,782,191,948)
Finance expense on term obligations with the public and financial entities		49,705,032,056	54,203,669,584
		<u>(15,725,162,858)</u>	<u>(54,915,683,772)</u>
(Increase) decrease in assets			
Credits and cash advances		(85,070,042,969)	(160,261,791,060)
Foreclosed assets		(10,175,902,860)	(13,699,045,840)
Accrued interest receivable on other receivables		28,978	(16,659)
Other assets		(17,209,849,691)	(833,257,481)
		<u>(128,180,929,400)</u>	<u>(229,709,794,812)</u>
Increase (decrease) in liabilities			
Demand and term obligations		16,276,253,411	565,232,811,080
Other accounts payable and provisions		(33,866,091,848)	(27,955,515,769)
Other liabilities		16,611,592,958	(23,889,328,678)
		<u>(129,159,174,879)</u>	<u>283,678,171,821</u>
Interest received on loan portfolio and investments		169,029,143,441	155,443,475,136
Income tax paid		(1,712,423,689)	(2,980,273,083)
Interest paid on term obligations with the public and financial entities		(51,059,321,191)	(51,730,284,776)
Net cash (used in) from operating activities		<u>(12,901,776,318)</u>	<u>384,411,089,098</u>
Cash flows from investing activities			
Increase in financial instruments (except trading)		(2,163,133,950,332)	(2,280,868,740,916)
Decrease in financial instruments (except trading)		2,258,993,697,901	1,843,843,936,224
Acquisition of property and equipment		(3,755,069,268)	(6,041,376,450)
Sale of property and equipment		347,503,531	668,447,089
Cash investments in other companies		(1,120,903,721)	162,414,446
Net cash from (used in) investing activities		<u>91,331,278,111</u>	<u>(442,235,319,607)</u>
Cash flows from financing activities			
Other new financial obligations		40,630,733,273	152,327,512,270
New subordinated obligations		53,758,000,000	-
Settlement of obligations		(45,370,940,327)	(30,794,256,621)
Net cash from financing activities		<u>49,017,792,946</u>	<u>121,533,255,649</u>
Net increase in cash and cash equivalents		127,447,294,739	63,709,025,140
Cash and cash equivalents at beginning of year		906,647,914,809	743,308,755,312
Cash and cash equivalents at end of year	4	<u>1,034,095,209,548</u>	<u>807,017,780,452</u>

Fernando Naranjo Villalobos
General Manager

Gerardo Gómez Solís
General Accountant

Ricardo Araya Jiménez
General Auditor

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

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2014

(With corresponding figures for December and June 2013)

(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 Superintendency General 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.

Pursuant to 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 trading, pension fund management, investment funds, insurance brokerage, international banking services, and electronic banking services. The Bank aims to provide universal, standardized, and high-quality banking services that are secure and reliable.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of June 30, 2014, the Bank has 182 offices (2013: 177 offices), 464 automated teller machines (2013: 461 automated teller machines), and a total of 5,891 employees (2013: 5,930 employees). Employees are distributed as follows: Banco Nacional de Costa Rica - 5,473 employees (2013: 5,515 employees); BN Valores Puesto de Bolsa, S.A. - 81 employees (2013: 81 employees); BN Vital Operadora de Planes de Pensiones Complementarias, S.A. - 181 employees (2013: 211 employees); BN Sociedad Administradora de Fondos de Inversión, S.A. - 87 employees (2013: 79 employees); and BN Corredora de Seguros, S.A. - 69 employees (2013: 44 employees). The Bank's website is www.bncr.fi.cr.

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 to operate as a brokerage firm and carry out the brokerage activities permitted under the Securities Market Regulatory Law and the general regulations and provisions issued by the Costa Rican National Securities Commission (SUGEVAL). Its main activity is executing securities transactions on 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 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 managing investment funds on behalf of third parties and managing closed and open investment funds listed in the Costa Rican National Stock Exchange and SUGEVAL.

BN Vital Operadora de Planes de Pensiones Complementarias, S.A. (the Pension Fund Manager) has been operating since January 1993 and was subordinate to the Bank until June 30, 1998. 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).

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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). This entity began operations in January 2010.

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

Banco Internacional de Costa Rica, S.A. and subsidiary (BICSA) was organized under the laws of the Republic of Panama in 1976. It 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 a 49% ownership interest in BICSA. Banco de Costa Rica owns the remaining 51% of shares.

As of June 30, the main components that comprise the financial statements of the entities in which the Bank holds ownership interest are detailed below:

2014						
		Brokerage Firm	Pension Fund Manager	Investment Fund Manager	Insurance Brokerage Firm	BICSA
Assets	¢	58,476,430,341	7,051,262,754	4,597,103,264	1,219,681,481	402,315,804,210
Liabilities	¢	44,184,684,471	674,804,102	561,045,298	277,057,101	354,580,711,793
Equity	¢	14,291,745,870	6,376,458,652	4,036,057,966	942,624,380	47,735,092,417
Income for the year	¢	316,101,545	461,209,848	441,096,596	169,151,192	2,748,418,591
Memoranda accounts	¢	1,421,794,094,171	803,493,525,914	301,723,189,718	-	-
2013						
		Brokerage Firm	Pension Fund Manager	Investment Fund Manager	Insurance Brokerage Firm	BICSA
Assets	¢	63,912,010,498	11,275,473,794	4,686,149,574	856,742,705	423,953,542,133
Liabilities	¢	46,090,630,802	2,947,675,727	602,312,293	150,508,507	384,091,765,860
Equity	¢	17,821,379,696	8,327,798,067	4,083,837,281	706,234,198	39,861,776,273
Income for the year	¢	1,757,089,514	1,174,113,586	574,336,936	86,331,149	2,505,722,815
Memoranda accounts	¢	1,314,105,248,689	698,030,113,224	287,375,585,255	-	-

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(b) Basis of preparation

- Statement of compliance

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

- Basis of measurement applied to assets and liabilities

The consolidated financial statements have been prepared on the fair value basis for available-for-sale assets and derivative instruments. Other financial assets and liabilities are stated at amortized cost. The accounting policies have been consistently applied.

(c) Basis of consolidation

i. *Subsidiaries*

Subsidiaries are entities controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

As of June 30, 2014, the consolidated financial statements include the financial figures of the following subsidiaries:

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

Subsidiaries were consolidated based on the following accounting principles:

- All subsidiaries which the Bank controls, whether directly or indirectly, are consolidated.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- For cases in which there are long-term financial or legal restrictions on the transfer of resources or for cases in which the Bank controls the subsidiary temporarily, the subsidiary is not consolidated.
- On consolidation:
 - The effect of the equity method shown in the parent's unconsolidated financial statements has been eliminated.
 - Balances of accounts related to reciprocal intra-group transactions have been eliminated from the consolidated balance sheet and income statement.
 - Uniform accounting policies have been applied by group entities.
 - All significant intra-group balances and transactions have been eliminated. Profit or loss presented in the consolidated financial statements does not differ from profit or loss presented in the parent's unconsolidated financial statements since the subsidiaries were measured by the equity method when preparing the parent's unconsolidated financial statements.

ii. Associates

Associates are those entities in which the Bank has significant influence, but not control. The Bank updates the value of its associates using the equity method from the date that significant influence commences until the date significant influence ceases. As of June 30, 2014 and 2013, the Bank holds a 49% ownership interest in BICSA.

(d) Foreign currency

i. Foreign currency transactions

Assets and liabilities held in foreign currency are translated to colones at the foreign exchange rate ruling at the balance sheet date, except for transactions that have a contractually agreed exchange rate. Transactions in foreign currency during the year are translated at the exchange rates ruling at the dates of the transactions. Foreign exchange gains and losses arising on translation are recognized in the accounts corresponding to gains or losses on foreign exchange and development units (DU), as appropriate.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

ii. *Monetary unit and foreign exchange regulations*

The financial statements and notes thereto are expressed in colones (¢), the monetary unit of the Republic of Costa Rica.

On October 17, 2006, the Central Bank of Costa Rica (BCCR) revised the country's foreign exchange system, replacing mini-devaluations with an adjustable band. Under the new system, the Central Bank's board agreed to establish a rate floor and ceiling, which will be adjusted based on the country's financial and macroeconomic conditions. 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 June 30, 2014, the exchange rate was established at ¢537.58 and ¢548.66 (2013: ¢493.03 and ¢504.53) to US\$1.00 for the purchase and sale of U.S. dollars, respectively.

As of June 30, 2014, the exchange rate for the purchase and sale of euros was established at ¢721.36 and ¢756.36 (2013: ¢635.72 and ¢665.65) to €1.00, respectively.

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

As of June 30, 2014, assets and liabilities denominated in U.S. dollars were valued at the exchange rate of ¢537.58 to US\$1.00 (2013: ¢493.03 to US\$1.00), which is the reference buy rate published by BCCR for June 30, 2014.

As of June 30, 2014, assets and liabilities denominated in euros were valued at the exchange rate of ¢734.76 to €1.00 (2013: ¢641.93 to €1.00). This exchange rate was calculated by multiplying the international exchange rate published by Reuters by the reference buy rate for U.S. dollars published by BCCR on the last business day in March 2014.

As of June 30, 2014, assets and liabilities denominated in DU were valued at the exchange rate of ¢850.48 to DU1.00 (2013: ¢817.50 to DU1.00). This exchange rate is based on the DU value tables published by SUGEVAL.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Valuation in colones of monetary assets and liabilities in foreign currency during the year ended June 30, 2014 gave rise to foreign exchange losses and gains of ¢252,930,615,574 and ¢252,200,896,155, respectively, for a net loss of ¢729,719,419 (2013: losses and gains of ¢34,543,038,528 and ¢37,736,583,709, respectively, for a net gain of ¢3,193,545,181). Additionally, valuation of other assets and other liabilities gave rise to gains and losses, respectively, which are booked in "Other operating income" and "Other operating expenses", respectively. For the year ended June 30, 2014, valuation of other assets gave rise to gains of ¢524,662,202 (2013: gains of ¢339,415,412) (see note 33) and valuation of other liabilities gave rise to losses of ¢1,036,531,157 (2013: losses of ¢40,781,428) (see note 36).

iv. *Financial statements of foreign operations (BICSA)*

The financial statements of BICSA are presented in U.S. dollars, which is the entity's functional currency. As of June 30, 2014 and 2013, the Bank holds a 49% stake in BICSA. Accordingly, the Bank should value its investment in that entity by the equity method rather than on a consolidated basis.

The financial statements of foreign operations are translated as follows:

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

For the year ended June 30, 2014, a foreign exchange gain in the amount of ¢2,536,386,583 (2013: foreign exchange gain of ¢1,040,310,954) is presented in equity for the translation of the financial statements of foreign operations. As of June 30, 2014, the adjustment for valuation of investments in other companies amounts to ¢6,801,675,466 (2013: ¢4,265,288,883).

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(e) Financial instruments

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise. Financial instruments include primary instruments, i.e. loan portfolio, investments in financial instruments, other accounts receivable, deposits from the public, financial obligations, and accounts payable.

i. Classification

Investments in financial instruments are recognized using settlement date accounting in accordance with the Accounting Regulations Applicable to Entities Regulated by SUGEF, SUGEVAL, SUPEN, and SUGESE and to Non-financial Issuers effective as of January 1, 2008. Those investments are classified as follows:

- 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.

Until December 31, 2007, SUGEF allowed investments in financial instruments to be classified as held to maturity.

As of June 30, 2014, the Bank no longer classifies financial instruments as held to maturity, except for the securities denominated in DU received from the Central Government to capitalize the Bank. Those securities were authorized by the Executive Branch of the Government of Costa Rica as a capital contribution and are funded under Law No. 8703 "Amendment to Law No. 8627 on the Ordinary and Extraordinary Budget of the Republic for Tax Year 2008."

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Trading securities

Trading securities are stated at fair value and have been acquired for the purpose of short-term profit-taking based on price variations. Variations in the fair value of these securities are recognized in net profit or loss for the year.

Available-for-sale securities

Available-for-sale securities are financial assets that are not held for trading purposes or originated by the Bank. Available-for-sale instruments include money market placements and certain debt investments. Available-for-sale securities are stated at fair value and interest earned and amortization of premiums and discounts are recognized as income or expenses, as appropriate.

Any changes in the fair value of available-for-sale securities are recognized directly in equity until the securities are sold or considered to be impaired, at which time the cumulative gain or loss previously recognized in equity is transferred to the income statement.

Derivative financial instruments

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

Derivative instruments accounted for by the fair value method hedge exposure to changes in the fair value of a financial liability recognized in the balance sheet. Any valuation gains or losses are recorded in the income statement.

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 between 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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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.

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.

The SUGEF Chart of Accounts for Financial Entities does not allow investments in financial instruments to be classified as held to maturity, except for the securities denominated in DU.

ii. Recognition

The Bank recognizes available-for-sale assets using settlement date accounting. From this date, any gains or losses arising from changes in the fair value of the assets are recognized in equity, except for gains and losses arising from changes in the fair value of investments in open investment funds, which are recorded in profit or loss.

Originated loans and other receivables are recognized on the date they are transferred to the Bank.

iii. Measurement

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

Subsequent to initial recognition, all trading and available-for-sale investments and derivative instruments are measured at fair value, except that any investment or instrument that does not have a quoted market price in an active market and which fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses. Starting September 2008 until July 31, 2013, fair values were determined using a market price valuation method established by Proveedor Integral de Precios Centroamérica, S.A. (PIPCA); and starting August 1, 2013, the price vector provided by VALMER Costa Rica, S.A. is applied. These methods have been duly approved by SUGEVAL.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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.

Auction Rate Securities (ARSs) are valued using a valuation model developed by the Bank.

ARSs are valued using discounted future cash-flow models considering the instrument's options (given the assumption that auctions will continue to fail).

Cash flow discounts are based on the yield curves of municipal bonds associated to the rating of each issue. The dynamics of those yield curves are not directly analyzed; instead, they are adjusted to LIBOR caps quoted in the market using the Hull-White stochastic interest rate model.

Once the dynamic model for the rates is obtained, a trinomial tree is built for the variations in the rates using the standard Hull-White method. A term spread variable is added to this stochastic model based on a comparison of the forward LIBOR and municipal yield curves. This tree allows the instrument's options to be evaluated based on the scenarios proposed therein.

An additional element to be included is the benchmark interest rates for the instrument's coupons. For such purposes, the benchmark forward rates are compared with the forward LIBOR rate. Spreads, which depend on the average interest rates on student loans, are approximated using a regression analysis to correlate student rates with the LIBOR rate. The approximations derived from that analysis are sufficient to perform the valuation of ARSs, which solely depend on a benchmark rate at a specific point in time. In the case of ARSs for which payment involves a moving average of the benchmark rate and coupons (such as the ARSs issued by the Pennsylvania Higher Education Authority, PHEA), nominal quotations are determined through simplification, which are higher and lower than the quotation. In the event that those nominal quotations match, with acceptable accuracy, that result is used as the instrument's quote. The Bank's management considers that the values obtained using this valuation method represent the best estimate of the fair value of ARSs.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

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

All non-trading financial assets and liabilities, originated loans and other receivables, and held-to-maturity investments are measured at amortized cost, including transaction costs, less impairment losses. Any premium or discount is included in the carrying amount of the underlying instrument and amortized to finance income or expense using the effective interest method.

iv. Fair value measurement principles

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

v. 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 income statement. When the financial assets are sold, collected, or otherwise disposed of, the cumulative gain or loss recognized in equity is transferred to the income statement.

vi. 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 to a third party.

Available-for-sale investments that are sold are derecognized and the corresponding account due from the purchaser is recognized on the date the Bank sells the assets.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

A financial liability is derecognized when the specific contractual obligation has been paid or settled, or when the obligation has expired.

vii. Offsetting

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

viii. Impairment of financial assets

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

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

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

ix. Specific instruments

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 original maturities of two months or less.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Demand deposits – overnight

Demand deposits that are classified as overnight deposits at the end of the business day are included in the “Cash and due from banks” account under the caption “Foreign financial entities.”

Investments in financial instruments

Investments in financial instruments are classified as available for sale and were valued using the price vector furnished by PIPCA until July 31, 2013; starting August 1, 2013, the price vector provided by VALMER Costa Rica, S.A. is applied. In accordance with accounting standards issued by CONASSIF, starting January 1, 2008, the Bank no longer classifies financial instruments as held-to-maturity investments. However, pursuant to Law No. 8703 “Amendment to Law No. 8627 on the Ordinary and Extraordinary Budget of the Republic for Tax Year 2008”, securities received to capitalize State-owned banks are to be classified as held to maturity and are not subject to market price valuation.

Investments that the Bank holds for the purpose of short-term profit-taking are classified as trading instruments. Other investments are classified as available-for-sale assets.

The effect of market price valuation of available-for-sale investments is included in the equity account under the caption “Adjustment for valuation of available-for-sale investments” until those investments are realized or sold.

Regular purchases or sales of financial assets are recognized using settlement date accounting, i.e. are booked on the date the entity’s financial asset was exchanged.

Investments in repurchase agreements (term seller positions) and securities with original maturities of less than 180 days are not valued at market prices and are stated at the value of the original agreement.

When a financial asset is acquired with accrued interest, such interest is booked in a separate account as accrued interest receivable.

An allowance is established for the entire value of securities that may not be traded in an active financial or stock market due to the legal form of the issuer and the transfer method of the security and for which interest payable is past due.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Loans and advances to banks and customers

Loans originated by the Bank are classified as loan portfolio.

Loans and advances are presented net of allowances to reflect the estimated recoverable amounts.

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 balance sheet and stated at the value of the original agreement. The underlying securities are booked in asset accounts. Interest is presented as finance expense in the income statement and accrued interest payable is recognized in the balance sheet.

Securities purchased under reverse repurchase agreements

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

(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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(g) Allowance for loan impairment

The allowance for loan impairment 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 June 30, 2014 and 2013, increases in the allowance for loan impairment are included in the accounting records in accordance with article 10 of IRNBS.

As of June 30, 2014 and 2013, the allowance for stand-by credit losses is presented in the liability section of the balance sheet, in the "Other liabilities" account, and amounts to ¢1,185,342,814 and ¢246,365,447, respectively (see note 18).

(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)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(i) Other receivables

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

(j) Property and equipment

i. *Own assets*

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

Pursuant to requirements established by regulatory authorities, the Bank must have its real property appraised by an independent appraiser at least once every five years, in order to determine its net realizable value. If the realizable value is less than the carrying amount, the carrying amount must be adjusted to the appraisal value.

For the year ended June 30, 2014, no appraisals were made of the Bank's land and the Bank's buildings by independent appraisers (2013: 6 appraisals were made of the Bank's land and 6 of the Bank's buildings by independent appraisers). The net effect derived therefrom in the amount of ¢677,032,748, net of deferred tax, was recognized in the "Surplus from revaluation of property and equipment" account in 2013.

ii. *Leased assets*

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

iii. *Subsequent expenditure*

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately, including major inspection and renovation costs, is capitalized. Other subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditure is recognized in the income statement as an expense when incurred.

iv. *Depreciation and amortization*

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

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

(k) 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 the future economic benefits. All other expenditure is recognized in the income statement when incurred.

iii. *Amortization*

Amortization is charged to profit or loss on a straight-line basis over the estimated useful lives of the assets. Computer software and software licenses have an estimated useful life of 3 years and 1 year, respectively.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(l) Lease operations

Lease receivables are presented net of unearned interest pending collection. Interest on finance leases is recognized as income over the term of the finance lease agreement using the effective interest method. The difference between lease payments receivable and the cost of the leased asset is recorded as unearned interest and amortized to income accounts over the term of the lease. As of June 30, 2014 and 2013, the Bank has no finance leases.

The Bank's operating leases are mainly for vehicles and equipment and have terms of between 12 and 48 months.

(m) 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 on 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)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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 asset's realizable value for assets that are not sold or leased, within two years from the date of acquisition or production.

(n) Investments in other companies

Investments in the share capital of entities over which the Bank exercises control or significant influence are accounted using the equity method in the Bank's unconsolidated financial statements but are eliminated on consolidation. The following entities are wholly owned by the Bank and are measured by the equity method: BN Valores Puesto de Bolsa, S.A.; BN Vital Operadora de Planes de Pensiones Complementarias, S.A.; BN Sociedad Administradora de Fondos de Inversión, S.A.; and BN Corredora de Seguros, S.A. The Bank's 49% ownership interest in BICSA is also measured by the equity method. Under the equity method, investments are initially recognized at acquisition cost. Subsequently, the carrying amounts of the investments are increased or decreased in order to recognize the Bank's proportional share in the profits or losses of the issuer of the capital assets.

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

As of June 30, 2014 and 2013, the Bank has no total or partial interest or influence over the management of other companies other than its subsidiaries and associate, in accordance with article 73 of IRNBS and article 146 of the Internal Regulations of the Central Bank of Costa Rica.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(o) Impairment of non-financial assets

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

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

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

(p) Provisions

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

The provision for legal risks is calculated using a mathematical-statistical model developed by the Bank's Corporate Risk Division based on data provided by the File Master system, which is used by the Bank's Legal Department to manage legal actions as of a given date. This system is comprised of modules that provide data to construct statistical series and analyze the status of settled and in-process legal actions.

This system includes the legal proceedings initiated against the Bank in connection with the Employee Protection and Retirement Fund and the Trust 897 arbitration case.

Administrative claims filed for phishing (a form of Internet fraud) are also included.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The data obtained from the modules are reviewed on a monthly basis by the Bank's Operational Risk Division in order to update the likelihood of favorable rulings and the percentages to be provisioned and to adjust the provision amount projected by the model and the amounts booked each month until the proposed limit has been reached.

(q) Severance benefits

Costa Rican legislation requires the payment of severance benefits to employees in the event of retirement, invalidity, death, or dismissal without just cause, equivalent to 20 days' salary for each year of continuous service, up to a maximum of 8 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 June 30, 2014, a total of ¢24,350,289,096 (2013: ¢30,059,414,170) is booked in the "Provisions" account for severance benefits. That amount is sufficient to cover the provisions required by current legislation as of those dates (see note 16). The Employee Association of Banco Nacional de Costa Rica (ASEBANACIO) was created in 2012. Accordingly, the Bank currently follows the practice of making monthly transfers of severance benefits to the Employee Association, equivalent to 5.33% of member employees' monthly salaries, for management and custody. Those funds are paid out to employees upon termination of employment. Severance payments are expensed when the funds are transferred.

In February 2000, the Employee Protection Law was enacted and published. Such law modifies the existing severance benefit system and establishes a compulsory supplemental pension system, thereby amending several provisions of the Labor Code.

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Employee Association of Banco Nacional de Costa Rica (ASEBANACIO)

As recorded in article 14 of the minutes of meeting No. 11725 held on October 11, 2011, the Board of Directors agreed to create the Employee Association of Banco Nacional de Costa Rica (ASEBANACIO).

Pursuant to such agreement, ASEBANACIO is comprised of the following:

- i. Employer contribution of 5.33%.
- ii. Employee contribution of 5%.
- iii. Financial resources transferred from the Bank to ASEBANACIO equivalent to one-fifth (1/5) of the total amount corresponding to employees entitled to invoke the provisions of article 34 of the Collective Bargaining Agreement.
- iv. Financial resources transferred from the Bank to ASEBANACIO equivalent to one-fifth (1/5) of the total amount corresponding to employees who are not entitled to invoke the provisions of article 34 of the Collective Bargaining Agreement.
- v. Bank facilities during 6 months to locate the offices of ASEBANACIO and up to 6 Bank employees to work temporarily in ASEBANACIO.

(r) Employee benefits

Employee Protection and Retirement Fund

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

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

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

Vacation, back-to-school bonus, and incentive plans

The Bank and its subsidiaries book accruals for vacation, back-to-school bonus, and incentive plans. Incentives to employees are calculated using the Incentives and Performance Assessment System (SEDI).

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

- the Bank reports profits in its audited financial statements for the corresponding period; and
- the employee eligible for the SEDI incentive has worked for at least 6 months for the Bank during the period and has obtained the required minimum score in the assessed areas.

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(s) Accounts payable and other liabilities

Accounts payable and other liabilities are carried at cost.

(t) Deferred income

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

(u) 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 are transferred to opening retained earnings.

As of June 30, 2014, the legal reserve amounts to ¢209,058,123,505 (December and June 2013: ¢196,909,225,981).

(v) Revaluation surplus

Revaluation surplus included in equity may be transferred directly to retained earnings when the surplus is realized. Total surplus is realized on the retirement, disposal, or use of the asset. The transfer of revaluation surplus to retained earnings is not made through the income statement. The Bank follows the policy of capitalizing revaluation surplus directly to share capital as authorized by SUGEF.

In prior periods, the Bank has capitalized surplus from revaluation of property and equipment, in compliance with SUGEF regulations.

(w) 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 June 30 of each year. Any resulting tax is recognized in profit or loss and credited to a liability account in the balance sheet.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

i. Current tax:

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

The Bank applies the AD-HOC methodology to calculate the percentage of nondeductible expenses by applying a proportional factor of annual average obligations with the public applied to the investment portfolio. The proportional factor of obligations is calculated by deducting from total obligations with the public (group of accounts 210, 230 and 260), the amount allocated to cash and due from banks (group of accounts 110) and the loan portfolio (group of accounts 130), divided by total obligations with the public. All data correspond to annual averages based on month-end balances.

The resulting proportional factor is applied to total finance expense for the year, net of the revaluation effect.

As of June 30, 2014, the Bank booked a current income tax liability in the net amount of ¢4,291,117,360 (2013: ¢994,611,157), which was calculated using the AD-HOC methodology (see notes 15 and 17).

For the subsidiaries BN Vital Operadora de Planes de Pensiones Complementarias, S.A.; BN Sociedad Administradora de Fondos de Inversión, S.A.; BN Valores Puesto de Bolsa, S.A., and BN Corredora de Seguros, S.A., income tax is calculated by applying the applicable tax rate to net income after deducting nontaxable income and adding nondeductible expenses.

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)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(x) Segment reporting

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

(y) Combination of financial statements of departments

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

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

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

(z) Use of estimates

Management has made a number of estimates and assumptions relating to the reporting of assets, liabilities, profit or loss, and the disclosure of contingent liabilities in preparing these consolidated financial statements. Actual results may differ from those estimates. Material estimates that are particularly susceptible to significant changes are related to the calculation of the allowance for loan impairment.

(aa) Recognition of income and expenses

i. *Finance income and expense*

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

Fees and commissions on the loan portfolio are recognized directly in profit or loss provided they are related to costs incurred in loan portfolio activities, as stipulated in the current Chart of Accounts.

Fee and commission income arises on services provided by the Bank. Fee and commission income is recognized when the service is provided, i.e. on an accrual basis. When fees and commissions are deferred, they are recognized over the term of the service.

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 income statement on a monthly basis.

iv. Operating lease expenses

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

(bb) Statutory allocations

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. In conformity with SUGEVAL's Chart of Accounts, statutory allocations on the year's net earnings payable to INFOCOOP, the National Emergency Commission (CNE), and the National Commission for Educational Loans (CONAPE) are presented as expenses in the income statement. Pursuant to paragraph a) of article 20 of Law No. 6041 "Law to Create the National Commission for Educational Loans (CONAPE)", the Bank is required to make statutory allocations equivalent to 5% of earnings before taxes and statutory allocations to CONAPE.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

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

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

(cc) Development Financing Fund (FOFIDE)

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(dd) Development Credit Fund (FCD)

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

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

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

- a. Under article 6 of Law No. 8634, the Managing Banks may offer first-tier banking services to the beneficiaries of the Development Banking System.
- b. Under article 35 of Law No. 8634, the Managing Banks may offer second-tier banking services with FCD funds for financial entities other than private banks, provided that the purposes and obligations established in Law No. 8634 are met and such entities are duly authorized by the Governing Board.
- 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 by the Managing Banks is proven, this agreement may be terminated under paragraph j), article 12 of Law No. 8634 and the executive regulations thereto.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(2) Collateralized or restricted assets

Collateralized or restricted assets are as follows:

Restricted asset	Carrying amount		Cause of restriction
	June 2014	June 2013	
Cash and due from banks	¢ 536,599,787,398	529,231,853,813	Minimum cash reserve
Cash and due from banks	¢ 236,652,672	237,379,810	Liquidation and compensation risk management fund
Investments in financial instruments	¢ 44,175,278,696	43,065,060,900	Guarantee for repurchase agreements (tri-party)
Investments in financial instruments	¢ 8,071,677,854	-	Guarantee for margin calls - term operations
Investments in financial instruments	¢ 295,908,253,794	166,168,124,659	Guarantee for obligations with foreign financial entities
Investments in financial instruments	¢ 334,725,800	128,826,000	Investments securing repurchase agreements
Investments in financial instruments	¢ 44,799,944,711	-	Interbank Electronic Payment System (SINPE) guarantee
Other assets (note 11)	¢ 257,714,628	214,050,371	Guarantee deposits

As of June 30, 2014 and 2013, the applicable percentage for the minimum cash reserve is 15%. The corresponding amount must be deposited in cash in BCCR pursuant to current banking legislation. The reserve is calculated as a percentage of third-party deposits, which varies based on the term and form of deposit-taking used by the Bank. As of June 30, 2014, the Bank must maintain a minimum cash reserve of ¢536,599,787,398 (2013: ¢529,231,853,813).

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Collateralized or restricted assets are as follows:

Restricted asset	Cause of restriction		June 2014	June 2013
			Carrying amount	Carrying amount
Checking account – colones	Minimum cash reserve	¢	350,670,661,806	350,319,615,760
Checking account – euros	Minimum cash reserve	€	7,891,786	8,216,062
Checking account – U.S. dollars	Minimum cash reserve	US\$	355,076,745	352,185,671
Checking account – colones	Liquidation and compensation risk management fund	¢	236,652,672	237,379,810
Investments in financial instruments	Guarantee for repurchase agreements (tri-party)	¢	44,175,278,696	43,065,060,900
Securities issued by BCCR and the Government	Investments securing repurchase agreements	¢	334,725,800	128,826,000
External debt bonds	Guarantee for margin calls - term operations – Bank of America	¢	3,766,489,928	-
External debt bonds	Guarantee for margin calls - term operations – Citi Swap	¢	2,152,620,843	-
External debt bonds	Guarantee for margin calls - term operations – JP Morgan Swap	¢	2,152,567,083	-
Monetary stabilization bonds	Citibank guarantee	¢	39,236,795,056	51,664,000,000
Central Bank bond (global bonds)	Citibank guarantee	¢	104,475,955,769	16,417,600,000
External debt bonds	Barclays guarantee	¢	77,590,386,434	-
External debt bonds	Credit Suisse guarantee – foreign bonds	¢	74,605,116,535	98,086,524,659
Monetary stabilization bonds	Interbank Electronic Payment System (SINPE) guarantee	¢	16,216,254,861	-
Central Bank bond (global bonds)	Interbank Electronic Payment System (SINPE) guarantee	¢	28,583,689,850	-
Other assets	Guarantee deposits	¢	257,714,628	214,050,371

As of June 30, 2014 and 2013, the Brokerage Firm has restricted assets in the amount of ¢44,438,931,368 and ¢43,302,440,710, respectively, corresponding to guarantees for tri-party repurchase agreements and contributions to the liquidation and compensation risk management fund.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(3) Balances and transactions with related parties

Balances and transactions with related parties are as follows:

	June 2014	June 2013
Assets:		
Checking accounts and demand deposits	¢ 3,252,143,516	5,547,600,396
Investments in financial instruments	13,439,500,000	227,087,780
Accounts receivable	596,160	-
	¢ 16,692,239,676	5,774,688,176
Liabilities:		
Checking account and obligations	¢ 94,495,548	7,564,833
	¢ 94,495,548	7,564,833
Expenses:		
Finance	419,538,426	-
Operating	¢ 596,160	334,762
	¢ 420,134,586	334,762

For the years ended June 30, compensation paid to key personnel is as follows:

	2014	2013
Short-term benefits	¢ 839,176,336	914,982,721
Other compensation	247,331,385	381,679,062
	¢ 1,086,507,721	1,296,661,783

(4) Cash and due from banks

Cash and due from banks is as follows for purposes of reconciliation with the consolidated statement of cash flows:

	June 2014	December 2013	June 2013
Cash and due from banks	¢ 1,001,435,379,254	847,934,576,855	718,784,585,898
Investments with maturities of less than two months	32,659,830,294	58,713,337,958	88,233,194,554
	¢ 1,034,095,209,548	906,647,914,813	807,017,780,452

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Cash and due from banks is as follows:

		June 2014	December 2013	June 2013
<i>Local currency:</i>				
Cash	¢	33,491,693,056	36,202,051,912	33,427,138,227
Cash in transit		2,339,688,000	12,063,605,000	9,508,224,000
BCCR		376,738,290,854	358,096,970,638	353,444,495,960
Checking accounts and demand deposits		6,089,744,214	15,671,900,779	4,496,807,166
Outstanding checks and other		12,316,456,334	3,520,255,899	11,805,424,495
<i>Foreign currency:</i>				
Cash		12,242,033,997	12,795,079,963	9,741,015,534
Cash in transit		1,102,240,107	1,566,283,120	761,906,259
BCCR		197,109,474,402	169,386,771,312	187,429,468,866
Checking accounts and demand deposits		-	28,617,983	15,934,232
Foreign correspondent banks		153,110,866,402	100,523,093,693	14,759,402,736
Other demand deposits in foreign financial entities		41,181,657	54,304,930	63,270,805
Checking accounts and demand deposits in related parties		3,252,143,516	2,697,887,241	5,547,600,396
Overnight deposits in foreign financial entities		195,680,886,095	134,091,104,636	69,598,241,943
Outstanding checks and other		7,656,388,825	924,452,340	17,947,241,689
Guarantee fund of National Stock Exchange		263,652,672	311,498,351	237,379,810
Accrued interest receivable		639,123	699,058	1,033,780
	¢	<u>1,001,435,379,254</u>	<u>847,934,576,855</u>	<u>718,784,585,898</u>

Minimum cash reserve

Deposits in BCCR are restricted to cover minimum cash reserve requirements, as follows
(see note 2):

Currency		June 2014	June 2013
Local currency	¢	350,670,661,806	350,319,615,760
Foreign currency		185,929,125,592	178,912,238,053
	¢	<u>536,599,787,398</u>	<u>529,231,853,813</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The above figures correspond to the average amount for the second half of December of each year.

As of June 30, 2014, deposits in BCCR amount to ¢573,847,765,256 (December and June 2013: ¢527,483,741,950 and ¢540,873,964,826, respectively).

Estimated minimum cash reserve obligations are compared with the balance of deposits in BCCR with a 30 calendar-day delay. Consequently, for each year, the average amount for the second half differs from the balance of deposits as of June 30.

(5) Investments in financial instruments and derivative financial instruments

(a) Investments in financial instruments

Investments in financial instruments are as follows:

	June 2014	December 2013	June 2013
Available for sale	¢ 863,179,425,654	957,346,698,111	1,014,612,004,354
Held to maturity	26,895,405,401	25,823,991,217	34,469,936,844
Derivative financial instruments			
- Position gap (1)	3,780,056,071	-	-
Accrued interest receivable	10,156,035,929	12,901,374,609	13,208,834,357
Allowance for impairment of investments in financial instruments	(58,284,424)	(53,668,984)	(598,173,578)
Allowance for impairment of derivative instruments other than hedge	(1,545,813)	-	-
	¢ <u>903,951,092,818</u>	<u>996,018,394,953</u>	<u>1,061,692,601,977</u>

Available for sale:

Local issuers:

Government of Costa Rica	¢ 365,821,172,673	416,695,405,776	377,219,850,651
BCCR	189,888,489,074	264,582,297,213	275,658,645,130
State-owned banks	22,747,529,969	31,855,384,007	131,956,645,628
Private banks	220,922,624	7,480,457,116	37,424,561,217
Private issuers	5,422,268,674	5,952,027,060	33,116,807,566
	<u>584,100,383,014</u>	<u>726,565,571,172</u>	<u>855,376,510,192</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	June 2014	December 2013	June 2013
<u>Foreign issuers:</u>			
Governments	108,678,974,687	118,160,726,219	83,428,297,808
Private issuers	49,080,580,669	14,694,527,871	11,858,260,004
Private banks	121,319,487,284	97,925,872,849	63,948,936,350
	<u>279,079,042,640</u>	<u>230,781,126,939</u>	<u>159,235,494,162</u>
	863,179,425,654	957,346,698,111	1,014,612,004,354
<u>Held to maturity:</u>			
Government of Costa Rica	26,895,405,401	25,823,991,217	34,469,936,844
	<u>26,895,405,401</u>	<u>25,823,991,217</u>	<u>34,469,936,844</u>
Difference between positions in derivative financial instruments	3,780,056,071	-	-
Accrued interest investments	10,156,035,929	12,901,374,609	13,208,834,357
Allowance for impairment of investments	(58,284,424)	(53,668,984)	(598,173,578)
Allowance for impairment of derivative instruments other than hedge	(1,545,813)	-	-
¢	<u>903,951,092,818</u>	<u>996,018,394,953</u>	<u>1,061,692,601,977</u>

Movement in the allowance for impairment of financial instruments, both investments and derivative instruments, is as follows:

	June 2014	December 2013	June 2013
Opening balance	¢ (53,668,984)	(609,308,473)	(609,308,473)
Allowance expense (note 30)	(1,545,813)	(1,036)	(1,036)
Decrease in allowance against income (note 31)	-	545,538,398	168,061
Foreign exchange differences	(4,615,440)	10,102,127	10,967,870
Closing balance	¢ <u>(59,830,237)</u>	<u>(53,668,984)</u>	<u>(598,173,578)</u>

As of June 30, 2014, the allowance for impairment of investments in non-derivative financial instruments amounts to ¢58,284,424 (December and June 2013: ¢53,668,984 and ¢598,173,578, respectively) and is booked for investments in Z Bonds related to the Mortgage Securitization Trust (impairment of 26%). Additionally, as of June 30, 2013, such allowance was booked for investments in Auction Rate Securities (ARSs) (impairment of 6.82%).

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of June 30, 2014, the allowance for impairment of derivative instruments other than hedge amounts to ₡1,545,813 (December and June 2013: charged against income). This allowance is booked for derivative instruments other than hedge, which was assigned a risk rating of A1, requiring an allowance of 0.5% in accordance with the risk categories established in SUGEF Directive 1-05.

Investments in financial instruments are detailed as follows:

	June 2014	December 2013	June 2013
<i>Available for sale:</i>			
Securities issued by BCCR	₡ 132,264,065,141	152,443,819,058	214,034,784,618
Securities issued by local non-financial public sector	191,752,392,178	288,583,836,119	340,893,868,536
Securities issued by local financial entities	21,575,658,160	35,427,090,260	151,171,548,850
Securities issued by local non-financial private sector	-	-	582,930,340
Other securities issued by local entities	-	-	227,087,780
Securities issued by foreign financial entities	50,384,591,026	54,259,246,621	33,454,890,239
Financial instruments issued by foreign financial entities	43,845,462,351	31,827,748,267	27,067,573,022
Other securities issued by foreign entities	11,083,847,239	1,513,532,661	1,398,191,725
Repurchase and tri-party repurchase agreements – term seller position	-	-	3,938,384,258
Foreign financial instruments	13,497,961,823	24,746,292,415	-
Liquidity market operations – own resources	-	-	26,500,000,000
Other available-for-sale financial instruments	5,485,566,881	6,407,563,673	5,980,733,427
Financial instruments restricted for margin calls on term operations (note 2)	8,071,677,854	6,422,745,082	-
Financial instruments restricted for tri-party repurchase agreements (note 2)	44,175,278,696	38,801,053,835	43,065,060,900
Financial instruments restricted for credit operations (note 2)	295,908,253,794	244,735,960,400	166,168,124,659
Other financial instruments (note 2)	334,725,800	132,042,600	128,826,000
Financial instruments for liquidity operations (note 2)	44,799,944,711	72,045,767,120	-
	₡ <u>863,179,425,654</u>	<u>957,346,698,111</u>	<u>1,014,612,004,354</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	June 2014	December 2013	June 2013
<i>Held to maturity:</i>			
Securities issued by local non-financial public sector	¢ 26,895,405,401	25,823,991,217	34,469,936,844
	<u>26,895,405,401</u>	<u>25,823,991,217</u>	<u>34,469,936,844</u>
<i>Derivative financial instruments:</i>			
Futures contracts to hedge interest rate risk	3,346,334,489	-	-
FX future - Other than hedge	442,970	-	-
FX future - Other than hedge	433,278,612	-	-
	<u>3,780,056,071</u>	<u>-</u>	<u>-</u>
Accrued interest receivable	10,156,035,929	12,901,374,609	13,208,834,357
Allowance for impairment of investments	(58,284,424)	(53,668,984)	(598,173,578)
Allowance for impairment of derivative instruments other than hedge	(1,545,813)	-	-
	<u>¢ 903,951,092,818</u>	<u>996,018,394,953</u>	<u>1,061,692,601,977</u>

As of June 30, 2014, returns on investments in financial instruments range between 5.93% and 11.04% per annum (December and June 2013: between 5% and 11.04% and between 3% and 13%, respectively, per annum) in colones, between 0.25% and 7.59% per annum (December and June 2013: between 0.25% and 6.90% and between 0.25% and 7.10%, respectively, per annum) in U.S. dollars, between 0.25% and 7.5% per annum (December and June 2013: between 0.25% and 7.50% and between 0.25% and 4.50%, respectively, per annum) in euros, and between 0.67% and 0.74% per annum (December and June 2013: between 0.67% and 0.74% and between 0.25% and 5.00%, respectively, per annum) in DU.

As of June 30, 2014, valuation of available-for-sale investments and restricted financial instruments gave rise to an unrealized gain, net of deferred tax, in the amount of ¢265,735,651 (December and June 2013: unrealized loss of ¢2,545,997,239 and unrealized gain of ¢2,461,119,251, respectively). Accordingly, as of June 30, 2014, the cumulative balance of equity adjustments arising from valuation of these investments is an unrealized loss of ¢4,139,867,317 (December and June 2013: unrealized loss of ¢4,405,602,968 and unrealized gain of ¢601,513,522, respectively).

- (1) In 2013, the Bank acquired five interest rate derivatives to cover 5- and 10-year issues through Interest Rate Swaps (IRS). Note 5-b describes these operations.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(b) Derivative financial instruments

In Notice J.D. 5566/06/02 dated October 29, 2012, SUGEF authorized the Bank to trade derivative financial instruments (see note 45).

As of March 31, 2014 and 2013, the Bank holds the following types of derivative financial instruments:

✓ Derivatives as risk hedging instruments:

Interest rate swaps:

In 2013, five interest rate hedges were formalized to hedge exposure to the LIBOR rate related to international debt issues made in October 2013 in U.S. dollars at a fixed rate. The purpose of these financial instruments is to compensate for the changes in fair value attributable to fluctuations in such benchmark rate.

Interest rate swaps are as follows:

As of June 30, 2014				
Issuer		Notional amount	Valuation	Purpose
CitiBank	US\$	100,000,000	US\$ 1,244,962	Swaps to hedge the 10-year issue
JP Morgan		200,000,000	2,489,925	
Bank of America		200,000,000	2,489,925	
Subtotal		500,000,000	6,224,812	
CitiBank		100,000,000	(114,763)	Swaps to hedge the 5-year issue
JP Morgan		150,000,000	(172,144)	
Subtotal		250,000,000	(286,907)	
Total	US\$	750,000,000	US\$ 5,937,905	
U.S. dollars expressed in colones	¢	403,185,000,000	¢ 3,192,099,024	

As of December 31, 2013				
Issuer		Notional amount	Valuation	Purpose
CitiBank	US\$	100,000,000	US\$ (3,429,800)	Swaps to hedge the 10-year issue
JP Morgan		200,000,000	(6,859,599)	
Bank of America		200,000,000	(6,859,599)	
Subtotal		500,000,000	(17,148,998)	
CitiBank		100,000,000	(1,224,305)	Swaps to hedge the 5-year issue
JP Morgan		150,000,000	(1,836,458)	
Subtotal		250,000,000	(3,060,763)	
Total	US\$	750,000,000	US\$ (20,209,761)	
U.S. dollars expressed in colones	¢	371,257,500,000	¢ (10,004,033,392)	

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of June 30, 2014, the total notional amount of US\$750 million, equivalent to ₡403,185,000,000 (December 2013: ₡371,257,500,000) is booked under “Other debit memoranda accounts” (see note 22).

For purposes of valuating the aforementioned interest rate swaps, the Bank elected to apply the “Fair Value Hedge Method”; while the “Dollar Offset Method” is used for testing hedge effectiveness. The latter method was established by SUGEF and prescribes that effectiveness is to be assessed retrospectively. A hedge is considered highly effective if the ratio of the changes in the derivative and primary instruments ranges between 80% and 125%. As of June 30, 2014, the effectiveness of the 5- and 10-year issues is 87.23% and 82.60%, respectively (December 2013: 96.7% and 97.64%, respectively).

A valuation was performed as of June 30, 2014 and December 31, 2013 in order 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 June 30, 2014 and December 31, 2013;
- ✓ 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.

Gains and losses on valuation of derivative financial instruments are booked under asset and liability accounts, respectively. As of June 30, 2014, the Bank booked an increase in the fair value of the 10-year bond hedges in the amount of US\$6,224,812, equivalent to ₡3,346,334,489 (see note 5-b) and a decrease in the fair value of the 5-year bond hedges in the amount of US\$286,907, equivalent to ₡154,235,487 and (December 2013: decrease in the 5- and 10-year issues in the amount of US\$20,209,761, equivalent to ₡10,004,033,392) under “Other sundry accounts payable” (see note 17).

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

On September 28, 2011, the Bank entered into an interest rate hedge in U.S. dollars called "Operations at notional amounts subject to an interest rate swap" with CitiBank NY. This swap matures on December 19, 2013 and was entered into with the purpose of exchanging the variable interest rate for a fixed interest rate on the liability with the China Development Bank in the amount of US\$22,222,222. Accordingly, the interest rate will be fixed in the event of an increase in the floating rate and a fixed-rate financing program implemented, guaranteeing the financial margin. The notional amount of this derivative instrument is amortized half-yearly through payments of US\$4,444,444.

As of June 30, 2013, this instrument is booked under "Other debit memoranda accounts" for a notional amount of US\$4,444,444, equivalent to ¢2,191,244,452 (see note 22).

As of June 30, 2013, the Bank booked a decrease in the fair value of this hedge in the amount of US\$7,860, equivalent to ¢3,875,097, under "Other sundry accounts payable" (see note 17).

✓ Derivatives as authorized intermediaries:

The Bank is entitled to offer these instruments to its customers as a result of the authorization provided by BCCR to operate foreign exchange derivatives (see note 45-a).

Notional amount and valuation

June 2014			
Bank position	Notional amount	Valuation	Purpose
FORWARDS			
Purchases	US\$ 100,000	¢ 442,970	Authorized intermediary
Sales	21,835,000	¢ 433,278,612	
Total	US\$ 21,935,000		
U.S. dollars expressed in colones	¢ 11,791,817,300		

As of June 30, 2014, the Bank offers purchase and sale forward contracts, which notional amounts are booked under "Contingent memoranda accounts" in the amount of ¢11,791,817,300, comprised as follows: ¢53,758,000 and ¢11,738,059,300 (see note 20).

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of June 30, 2014 and 2013, the increase in the purchase and sale forward contracts is booked under "Investments in financial instruments" (see note 5-a).

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

	June 2014	December 2013	June 2013
Gain on derivative financial instruments ¢	18,177,042,738	314,659,002	145,198,220
Loss on derivative financial instruments	(4,400,642,560)	(11,666,706,399)	(261,006,987)
Net (loss) gain ¢	<u>13,776,400,178</u>	<u>(11,352,047,397)</u>	<u>(115,808,767)</u>

(6) Loan portfolio

(a) Loan portfolio by sector

The loan portfolio by sector is as follows:

	June 2014	December 2013	June 2013
Trade ¢	358,309,044,799	363,459,705,506	369,709,762,027
Services	606,616,113,496	584,577,782,384	568,444,045,972
Financial services	101,012,147,979	120,368,072,434	50,594,086,610
Mining	274,489,483	45,996,475	50,424,630
Manufacturing and quarrying	136,034,486,758	138,519,857,709	125,655,885,549
Construction	72,651,750,711	72,646,004,843	69,304,941,680
Agriculture and forestry	97,941,482,874	94,717,967,679	89,661,578,553
Livestock, hunting, and fishing	59,958,781,044	60,676,546,083	62,038,134,809
Electricity, water, sanitation, and other related sectors	243,381,834,850	190,788,599,603	111,128,262,679
Transportation and telecommunications	25,727,544,225	25,914,019,966	21,845,345,065
Housing	1,030,258,762,223	956,259,656,589	884,552,183,811
Personal or consumer loans	332,115,968,697	294,861,259,519	248,842,330,127
Tourism	124,276,687,153	109,830,068,175	102,367,455,222
Total direct loans	<u>3,188,559,094,292</u>	<u>3,012,665,536,965</u>	<u>2,704,194,436,734</u>
Accrued interest receivable	20,448,168,641	19,553,964,785	19,824,191,793
Allowance for loan impairment	<u>(48,253,440,408)</u>	<u>(45,646,182,874)</u>	<u>(49,393,691,472)</u>
Total loan portfolio ¢	<u>3,160,753,822,525</u>	<u>2,986,573,318,876</u>	<u>2,674,624,937,055</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of June 30, 2014, interest rates range between 6.25% and 34.92% per annum, average rate of 15.32% per annum for loans in colones (December and June 2013: between 6.25% and 34% per annum, average rate of 13.81% per annum and between 6.6% and 34% per annum, average rate of 14.86% per annum, respectively); between 3.57% and 27.96% per annum, average rate of 8.28% per annum for loans in U.S. dollars (December and June 2013: between 3.57% and 25.92% per annum, average rate of 8.08% per annum and between 2.16% and 25.92% per annum, average rate of 7.88% per annum, respectively); and between 3.85% and 10% per annum, average rate of 6.26% per annum for loans in DU (December and June 2013: between 3.85% and 10% per annum, average rate of 6.33% per annum and between 3.85% and 10% per annum, average rate of 6.32% per annum, respectively).

On August 22, 2006, the Bank established the housing mortgage securitization structure for US\$11,477,863 related to the BNCR\$2006-1 Mortgage Securitization Trust, which is managed by Banco Improsa, S.A. The securitization structure was sold at par and gave rise to no gains or losses.

The Bank was the formal and final seller of the portfolio, which was duly assigned and transferred in the Property Registry. The Bank has no further obligations in respect of the borrower payment behavior for loans sold and all of the related risks, including default, prepayment, and foreclosure of property, were assumed by the investors who purchased the bonds issued.

As of June 30, 2014, the balance of the securitized portfolio is US\$394,694,520, which is equivalent to ₡212,179,879,847 (December and June 2013: US\$6,977,247, equivalent to ₡3,453,806,835 and US\$7,206,257, equivalent to ₡3,553,246,912, respectively).

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(b) Loan portfolio by arrears

The loan portfolio by arrears is as follows:

	June 2014	December 2013	June 2013
Current	¢ 2,981,242,204,186	2,800,540,470,762	2,475,790,405,363
1 to 30 days	99,202,507,454	67,718,710,377	105,202,164,251
31 to 60 days	20,196,737,483	51,842,956,058	25,527,941,692
61 to 90 days	23,075,927,847	19,901,210,891	21,614,828,204
91 to 120 days	7,587,005,808	11,359,244,688	8,720,809,030
121 to 180 days	12,164,497,364	11,174,903,939	13,274,189,642
More than 180 days	45,090,214,150	50,128,040,250	54,064,098,552
Total direct loans	3,188,559,094,292	3,012,665,536,965	2,704,194,436,734
Accrued interest receivable	20,448,168,641	19,553,964,785	19,824,191,793
Allowance for loan impairment	(48,253,440,408)	(45,646,182,874)	(49,393,691,472)
Total loan portfolio	¢ 3,160,753,822,525	2,986,573,318,876	2,674,624,937,055

(c) Loan portfolio by origin

The loan portfolio by origin is as follows:

	June 2014	December 2013	June 2013
Loans originated by the Bank	¢ 3,188,481,709,293	3,012,544,546,829	2,704,022,281,761
Loans purchased by the Bank	77,384,999	120,990,136	172,154,973
Total direct loans	3,188,559,094,292	3,012,665,536,965	2,704,194,436,734
Accrued interest receivable	20,448,168,641	19,553,964,785	19,824,191,793
Allowance for loan impairment	(48,253,440,408)	(45,646,182,874)	(49,393,691,472)
Total loan portfolio	¢ 3,160,753,822,525	2,986,573,318,876	2,674,624,937,055

As of June 30, 2014, loans purchased by the Bank were purchased from BICSA.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(d) Past due loans

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

	June 2014	December 2013	June 2013
Past due loans in non-accrual status: 5 loans, 0% of portfolio in 2014 (June 2013: 2 loans, 0% of portfolio)	¢ 39,485,513	-	33,271,198
Past due loans in accrual status: 21,469 loans in 2014 (December and June 2013: 18,875 loans and 20,275 loans, respectively)	¢ 141,952,424,375	138,735,758,526	149,901,773,951
Loans in legal collections: 4,672 loans, 2.07% of portfolio in 2014 (December and June 2013: 4,984 loans, 2.46% of portfolio and 5,490 loans, 2.91% of portfolio, respectively)	¢ 66,035,905,084	73,965,839,402	78,568,504,905
Total unearned interest in 2014 and 2013.	¢ 148,395,596	1,082,349,202	1,353,174,441

As of June 30, 2014, the Bank increased and decreased the "Finance income on non-accrual loans" account by ¢148,395,596 (increases), as of December 31, 2013 and March 31, 2013 ¢1,082,349,202 (increases) and ¢1,353,174,441 (decreases) respectively, as a result of the recovery of loans receivable over 180 days past due.

As of June 30, 2014, restructured loans amount to a total of ¢20,620,455,649 (December and June 2013: ¢22,943,856,728 and ¢44,347,925,918, respectively).

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(e) Accrued interest receivable on loan portfolio

Accrued interest receivable is as follows:

	June 2014	December 2013	June 2013
Current	¢ 11,809,009,388	10,441,683,885	9,336,356,820
Past due	2,713,588,131	2,530,929,634	2,674,434,546
In legal collections	5,925,571,122	6,581,351,266	7,813,400,427
	<u>¢ 20,448,168,641</u>	<u>19,553,964,785</u>	<u>19,824,191,793</u>

(f) Allowance for loan impairment

Movement in the allowance for loan impairment is as follows:

	June 2014	December 2013	June 2013
Opening balance	¢ 45,646,182,874	42,305,801,609	42,305,801,609
Expense for the year (note 27)	13,653,776,155	36,912,921,429	17,631,993,700
Settlements	(12,094,114,607)	(33,393,373,813)	(10,381,956,852)
Decrease in allowance against income (note 28)	-	(60,689,015)	(8,612,510)
Foreign exchange differences	1,047,595,986	(118,477,336)	(153,534,475)
Closing balance	<u>¢ 48,253,440,408</u>	<u>45,646,182,874</u>	<u>49,393,691,472</u>

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(7) Other receivables

Other receivables are as follows:

	June 2014	December 2013	June 2013
Fees and commissions	¢ 891,849,457	980,713,884	957,256,271
Brokerage operations	31,791,925	31,304	4,974,346
Transactions with related parties	596,160		-
Transactions with related parties (employees and officials)	107,271,791	29,057,085	55,251,862
Deferred tax (note 15-c)	1,886,377,972	2,178,648,250	1,210,431,206
Income tax	71,718,605	129,448,064	63,028,473
Other sundry accounts receivable	2,949,842,008	2,552,671,830	2,379,413,054
Accrued interest receivable on other sundry accounts receivable	1,579,106	1,608,084	1,530,318
Allowance for impairment of other accounts receivable	(2,647,268,036)	(2,303,226,624)	(2,231,597,432)
	¢ <u>3,293,758,988</u>	<u>3,568,951,877</u>	<u>2,440,288,098</u>

Movement in the allowance for impairment of other accounts receivable is as follows:

	June 2014	December 2013	June 2013
Opening balance	¢ 2,303,226,624	2,944,473,955	2,944,473,955
Allowance expense (note 30)	1,178,343,472	1,356,827,241	922,746,934
Decrease in allowance against income (note 31)	(719,481,804)	(1,627,926,839)	(1,408,427,343)
Items settled against allowance	(126,503,821)	(367,527,573)	(224,029,651)
Foreign exchange differences	11,683,565	(2,620,160)	(3,166,463)
Closing balance	¢ <u>2,647,268,036</u>	<u>2,303,226,624</u>	<u>2,231,597,432</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(8) Foreclosed assets

Foreclosed assets are presented net of the allowance for impairment and per legal requirements, as follows:

	June 2014	December 2013	June 2013
Assets acquired in lieu of payment	¢ 74,688,249,632	76,708,238,430	81,646,061,348
Idle property and equipment	1,756,777	1,756,777	1,756,777
Allowance for impairment and per legal requirements	(56,721,597,354)	(56,007,912,290)	(53,035,182,521)
	¢ <u>17,968,409,055</u>	<u>20,702,082,917</u>	<u>28,612,635,604</u>

Movement in the allowance for impairment and per legal requirements is as follows:

	June 2014	December 2013	June 2013
Opening balance	¢ 56,007,912,290	42,610,655,528	42,610,655,528
Allowance expense (note 34)	12,338,239,960	29,347,659,340	14,698,062,939
Decrease in allowance against income	(11,624,554,896)	(15,950,402,578)	(4,273,535,946)
Closing balance	¢ <u>56,721,597,354</u>	<u>56,007,912,290</u>	<u>53,035,182,521</u>

(9) Investments in other companies

Investments in other companies are as follows:

	June 2014	December 2013	June 2013
Other foreign companies	47,735,092,417	41,307,000,622	39,861,776,273
Other local non-financial companies	50,623,300	50,623,300	50,623,300
	¢ <u>47,785,715,717</u>	<u>41,357,623,922</u>	<u>39,912,399,573</u>

The Bank holds a 49% stake in BICSA, which is represented in 2014 by 6,506,563 ordinary shares (December and June 2013: 6,159,251 and 5,525,142 ordinary shares, respectively) of US\$10 par value each.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

At a BICSA shareholders meeting held in April 2014, shareholders agreed to capitalize US\$7 million, which was booked in 2014 and included in BICSA's financial statements. As a result of the capitalization, total share capital amounted to US\$132.78 million, represented by 13,278,700 shares of US\$10 par value each.

At a BICSA shareholders meeting held in May 2013, shareholders agreed to capitalize US\$12.9 million, which was booked in 2013 and included in the financial statements. As a result of the capitalization, total share capital amounted to US\$125.69 million, represented by 12,596,900 shares of US\$10 par value each.

The Bank's investments in other non-financial entities are as follows:

	June 2014	December 2013	June 2013
National Stock Exchange	¢ 15,000,000	15,000,000	15,000,000
Central de Valores de la Bolsa Nacional de Valores, S.A. (CEVAL)	15,000,000	15,000,000	15,000,000
Interclear Central de Valores, S.A.	15,000,000	15,000,000	15,000,000
Depósito Libre Comercial de Golfito (Golfito Duty Free Shopping Center) per article 24 of Law No. 7131	5,200,000	5,200,000	5,200,000
Other financial entities	423,300	423,300	423,300
	¢ <u>50,623,300</u>	<u>50,623,300</u>	<u>50,623,300</u>

The shares held in the Costa Rican National Stock Exchange are required by the Securities Market Regulatory Law for the Brokerage Firm to operate as a brokerage firm. Those shares are carried at cost rather than fair value because they were withdrawn from public offering. Accordingly, they are not listed and are only traded by brokerage firms and the Costa Rican National Stock Exchange.

As of June 30, 2014 and 2013, the Brokerage Firm booked investments in the National Stock Exchange and Interclear Central de Valores, S.A. for ¢15,000,000 each, to operate as a custodian of electronic securities.

As of June 30, 2014 and 2013, the Bank holds investments in other non-financial entities, the most significant of which is the investment in the Golfito Duty Free Shopping Center for ¢5,200,000. The remaining ¢423,300 of the balance of investments in other non-financial entities booked as of those dates corresponds to investments in various cooperatives.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(10) Property and equipment

As of June 30, 2014, property and equipment is as follows:

	Land	Buildings	Furniture and equipment	Computer hardware	Vehicles	Total
<i>Cost:</i>						
Opening balance	¢ 42,478,456,440	109,501,340,751	52,265,462,768	52,185,579,034	454,783,746	256,885,622,739
Additions	-	828,801,979	1,723,459,344	1,259,128,369	-	3,811,389,692
Retirements	-	-	(1,033,597,497)	(3,588,847,008)	-	(4,622,444,505)
Adjustments	-	-	(155,504,834)	(16,074,090)	-	(171,578,924)
Reclassifications	-	-	14,029,114	(14,029,114)	-	-
Closing balance	42,478,456,440	110,330,142,730	52,813,848,895	49,825,757,191	454,783,746	255,902,989,002
<i>Accumulated depreciation:</i>						
Opening balance	-	26,226,274,877	25,157,036,475	39,286,222,536	245,537,132	90,915,071,020
Depreciation expense on historical cost	-	1,009,795,804	2,159,543,654	2,307,838,174	23,166,324	5,500,343,956
Depreciation expense on revaluation	-	772,766,592	-	-	-	772,766,592
Retirements	-	-	(870,979,324)	(3,575,607,716)	-	(4,446,587,040)
Adjustments	-	-	13,283,374	43,037,050	-	56,320,424
Reclassifications	-	-	13,962,961	(13,962,961)	-	-
Closing balance	-	28,008,837,273	26,472,847,140	38,047,527,083	268,703,456	92,797,914,952
Net closing balance	¢ 42,478,456,440	82,321,305,457	26,341,001,755	11,778,230,108	186,080,290	163,105,074,050

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of December 31, 2013, property and equipment is as follows:

	Land	Buildings	Furniture and equipment	Computer hardware	Vehicles	Total
<i>Cost:</i>						
Opening balance	¢ 32,814,840,012	98,625,536,741	47,043,368,978	48,321,489,911	444,621,459	227,249,857,101
Additions	153,486,107	4,364,688,984	6,311,714,601	6,033,271,302	10,162,288	16,873,323,282
Revaluation	9,510,130,321	7,150,277,687	-	-	-	16,660,408,008
Retirements	-	-	(1,061,212,071)	(2,117,900,886)	-	(3,179,112,957)
Sales	-	-	-	-	-	-
Adjustments	-	(639,162,661)	(5,420,503)	(74,269,530)	-	(718,852,694)
Reclassifications	-	-	(22,988,237)	22,988,237	-	-
Closing balance	42,478,456,440	109,501,340,751	52,265,462,768	52,185,579,034	454,783,747	256,885,622,740
<i>Accumulated depreciation:</i>						
Opening balance	-	23,747,238,470	21,844,742,774	36,628,417,986	202,010,152	82,422,409,382
Depreciation expense on historical cost	-	1,299,285,824	4,137,111,801	4,627,885,202	43,526,981	10,107,809,808
Depreciation expense on revaluation	-	1,179,750,583	-	-	-	1,179,750,583
Retirements	-	-	(818,268,733)	(1,983,568,971)	-	(2,801,837,704)
Adjustments	-	-	(5,463,404)	12,402,356	-	6,938,952
Reclassifications	-	-	(1,085,963)	1,085,963	-	-
Closing balance	-	26,226,274,877	25,157,036,475	39,286,222,536	245,537,133	90,915,071,021
Net closing balance	¢ 42,478,456,440	83,275,065,874	27,108,426,293	12,899,356,498	209,246,614	165,970,551,719

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of June 30, 2013, property and equipment is as follows:

	Land	Buildings	Furniture and equipment	Computer hardware	Vehicles	Total
<i>Cost:</i>						
Opening balance	¢ 32,814,840,012	98,625,536,741	47,043,368,977	48,321,489,911	444,621,458	227,249,857,099
Additions	153,486,106	1,703,005,724	2,860,424,768	1,619,445,607	-	6,336,362,205
Revaluation		(966,937,535)	-	-	-	(188,136,110)
Retirements	778,801,425	-	(195,002,798)	(678,784,556)	-	(873,787,354)
Sales	-	-	-	-	-	-
Adjustments	-	(488,896,638)	(4,690,215)	(75,167,461)	-	(568,754,314)
Reclassifications	-	-	470,830	(470,830)	-	-
Closing balance	33,747,127,543	98,872,708,292	49,704,571,562	49,186,512,671	444,621,458	231,955,541,526
<i>Accumulated depreciation:</i>						
Opening balance	-	23,747,238,470	21,844,742,774	36,628,417,985	202,010,152	82,422,409,381
Depreciation expense on historical cost	-	642,741,047	2,030,772,022	2,424,858,564	20,246,107	5,118,617,740
Depreciation expense on revaluation	-	612,583,952	-	-	-	612,583,952
Retirements	-	-	(145,112,410)	(628,982,169)	-	(774,094,579)
Adjustments	-	-	893,700	4,687,346	-	5,581,046
Reclassifications	-	-	451,334	(451,334)	-	-
Closing balance	-	25,002,563,469	23,731,747,420	38,428,530,392	222,256,259	87,385,097,540
Net closing balance	¢ 33,747,127,543	73,870,144,823	25,972,824,142	10,757,982,279	222,365,199	144,570,443,989

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(11) Other assets

Other assets are as follows:

	June 2014	December 2013	June 2013
<i>Deferred charges:</i>			
Leasehold improvements	1,063,404,996	1,289,396,930	1,481,569,276
Cost of issue of financial instruments (3)	1,520,942,603	1,497,331,306	-
Cost of subordinated debt project (4)	555,106,473	922,154	-
Direct deferred costs related to loans	7,987,979,239	-	-
Other deferred charges	5,639,292,448	6,306,564,937	86,106,501
Subtotal	16,766,725,759	9,094,215,327	1,567,675,777
<i>Intangible assets:</i>			
Software (2)	2,299,780,564	2,817,020,735	3,744,014,427
Other (2)	2,487,278	2,487,278	1,818,701
Subtotal	2,302,267,842	2,819,508,013	3,745,833,128
<i>Other assets:</i>			
Prepaid interest and fees and commissions	252,411,405	321,530,718	225,377,744
Estimated tax	736,986,954	1,834,661,448	969,234,440
Prepaid rent	-	-	7,181,394
Prepaid insurance policy	188,987,028	218,433,789	153,148,730
Other prepaid expenses	1,177,196,826	783,428,791	13,090,293
Stationery, office supplies, and other materials	226,799,170	190,224,530	276,591,934
Leased assets	150,581,979	151,192,594	151,809,245
Library and artwork	342,400,640	341,093,341	282,681,748
Construction work-in-progress	15,710,963,056	9,503,968,175	7,530,097,289
Software under development	231,481,353	207,898,009	181,555,722
Rights in welfare and trade associations	600,000	600,000	600,000
Other sundry assets	1,462,115,767	1,062,418,426	690,965,529
Cash shortages	107,517	-	-
Operations pending settlement	8,006,579,169	4,764,073,414	3,670,931,573
Other operations pending application	607,658,962	370,699,092	1,390,033,790
Guarantee deposits (1)	211,660,324	199,896,497	167,996,067
Legal and administrative deposits (1)	46,054,304	46,054,304	46,054,304
Subtotal	29,352,584,454	19,996,173,128	15,757,349,803
Total	48,421,578,055	31,909,896,468	21,070,858,708

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(1) As of June 30, 2014, guarantee deposits amount to ¢257,714,628 (2013: ¢214,050,371) (see note 2).

(2) Intangible assets, net are as follows:

June 30, 2014			
	Software	Other intangible assets	Total
<i>Cost:</i>			
Opening balance	¢ 15,834,005,002	96,516,837	15,930,521,839
Additions	413,362,648	4,974,556	418,337,204
Retirements	(201,216,249)	-	(201,216,249)
Reclassifications	(44,068,700)	(4,974,556)	(49,043,256)
Closing balance	16,002,082,701	96,516,837	16,098,599,538
<i>Accumulated amortization:</i>			
Opening balance	13,016,984,268	94,029,559	13,111,013,827
Expense for the year	886,721,061	4,974,556	891,695,617
Retirements	(201,403,192)	-	(201,403,192)
Reclassifications	-	(4,974,556)	(4,974,556)
Adjustments	-	-	-
Closing balance	13,702,302,137	94,029,559	13,796,331,696
Net closing balance	¢ 2,299,780,564	2,487,278	2,302,267,842
December 31, 2013			
	Software	Other intangible assets	Total
<i>Cost:</i>			
Opening balance	¢ 14,684,963,132	98,613,969	14,783,577,101
Additions	1,536,420,303	8,957,364	1,545,377,667
Retirements	(374,174,253)	-	(374,174,253)
Reclassifications	(4,810,636)	(11,054,496)	(15,865,132)
Adjustments	(8,393,543)	-	(8,393,543)
Closing balance	15,834,005,003	96,516,837	15,930,521,840
<i>Accumulated amortization:</i>			
Opening balance	11,271,292,775	94,029,559	11,365,322,334
Expense for the year	2,099,747,153	9,235,795	2,108,982,948
Retirements	(91,423,723)	-	(91,423,723)
Reclassifications	(263,243,117)	(9,235,795)	(272,478,912)
Adjustments	611,180	-	611,180
Closing balance	13,016,984,268	94,029,559	13,111,013,827
Net closing balance	¢ 2,817,020,735	2,487,278	2,819,508,013

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2013

	Software	Other intangible assets	Total
<i>Cost:</i>			
Opening balance	¢ 14,684,963,131	98,613,969	14,783,577,100
Additions	1,220,923,458	3,519,992	1,224,443,450
Retirements	(91,591,998)	(6,285,701)	(97,877,699)
Reclassifications	(3,783,072)	-	(3,783,072)
Adjustments	(12,821,042)	-	(12,821,042)
Closing balance	15,797,690,477	95,848,260	15,893,538,737
<i>Accumulated amortization:</i>			
Opening balance	11,271,292,774	94,029,559	11,365,322,333
Expense for the year	1,011,748,775	6,285,701	1,018,034,476
Retirements	(35,931,878)	-	(35,931,878)
Reclassifications	(46,033,071)	(6,285,701)	(52,318,772)
Adjustments	(147,400,550)	-	(147,400,550)
Closing balance	12,053,676,050	94,029,559	12,147,705,609
Net closing balance	¢ 3,744,014,427	1,818,701	3,745,833,128

(3) Costs related to the issue of financial instruments are as follows:

June 30, 2014

	5-year issue	10-year issue	Total
Commission - structuring banks	¢ 268,790,000	268,790,000	537,580,000
Commission - Moody's Investors Service	134,395,000	134,395,000	268,790,000
Commission - Société de la Bourse de Luxembourg, S.A.	6,569,765	6,569,765	13,139,530
RR Donelley	5,884,888	5,884,867	11,769,755
BNY Mellon	2,125,054	2,125,054	4,250,108
Moody's - issuer rating	17,793,898	17,793,898	35,587,796
Fitch Ratings	134,395,000	134,395,000	268,790,000
Milbank	79,110,273	79,110,273	158,220,546
Shearman & Sterling	79,212,951	79,212,951	158,425,902
External audit	102,140,200	102,140,200	204,280,400
Subtotal	830,417,029	830,417,008	1,660,834,037
Deferral	(99,233,452)	(40,657,983)	(139,891,434)
Total	¢ 731,183,577	789,759,025	1,520,942,603

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2013

	5-year issue	10-year issue	Total
Commission - structuring banks	¢ 247,505,000	247,505,000	495,010,000
Commission - Moody's Investors Service	123,752,500	123,752,500	247,505,000
Commission - Société de la Bourse de Luxembourg, S.A.	6,049,177	6,049,177	12,098,354
RR Donelley	5,419,006	5,419,006	10,838,011
BNY Mellon	1,956,836	1,956,836	3,913,673
Moody's - issuer rating	16,384,831	16,384,831	32,769,662
Fitch Ratings	123,752,500	123,752,500	247,505,000
Milbank	72,845,672	72,845,672	145,691,344
Shearman & Sterling	72,940,346	72,940,346	145,880,692
External audit	94,051,900	94,051,900	188,103,800
Subtotal	764,657,768	764,657,768	1,529,315,536
Deferral	(22,699,149)	(9,285,081)	(31,984,230)
Total	¢ 741,958,619	755,372,687	1,497,331,306

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

(4) Cost of subordinated debt project is as follows:

June 30, 2014

	Total
Legal procedures	1,001,512
Hourly fees - Andrews Kurth	15,117,287
Fees and administrative expenses - Notarios Gómez & Galindo	5,625,775
Fees - FEF IDB	436,783,750
Fees - FEF CHINESE FUND	100,796,250
Subtotal	559,324,574
Deferral	(4,218,101)
Total	555,106,473

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(12) Obligations with the public

(a) By cumulative amount

Obligations with the public by cumulative amount are as follows:

	June 2014	December 2013	June 2013
<i>Demand obligations:</i>			
Checking accounts	¢ 1,050,394,591,449	1,103,852,248,659	1,050,213,247,513
Certified checks	120,407,167	123,192,416	288,961,942
Savings deposits	971,801,815,334	934,435,231,917	825,663,694,887
Matured term deposits	21,796,367,958	23,752,056,570	24,136,958,500
Other demand deposits	26,281,994,402	26,860,438,817	23,796,906,240
Drafts and transfers	206,267,965	224,837,748	249,176,627
Cashier's checks	6,389,938,329	4,106,080,883	6,068,390,552
Advance collections from customers for credit cards	6,665,585,492	5,902,144,599	4,529,034,695
Obligations for trust funds	29,450,629	75,205,432	57,183,337
Subtotal	¢ 2,083,686,418,725	2,099,331,437,041	1,935,003,554,293
<i>Term obligations:</i>			
Deposits from the public	1,305,521,853,688	1,223,095,399,375	1,518,401,035,594
Other term deposits	64,477,446,489	51,763,942,905	56,253,817,117
Subtotal	1,369,999,300,177	1,274,859,342,280	1,574,654,852,711
<i>Other obligations with the public:</i>			
Obligations for tri-party repurchase agreements	41,587,899,959	36,165,531,600	43,441,749,736
Subtotal	41,587,899,959	36,165,531,600	43,441,749,736
Charges payable for obligations with the public	17,941,158,531	19,343,249,996	23,705,606,970
Total	¢ 3,513,214,777,392	3,429,699,560,917	3,576,805,763,710

As of June 30, 2014 and 2013, deposits in checking accounts denominated in colones bear interest at a maximum rate of 2% per annum on balances and at a minimum rate of 0.25% per annum on balances greater than or equal to ¢500,001. Deposits in checking accounts denominated in U.S. dollars bear interest at a maximum rate of 0.05% per annum on balances and at a minimum rate of 0.01% per annum on balances greater than or equal to US\$1,000.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Term obligations correspond to term certificates of deposit in colones, U.S. dollars, and euros. As of June 30, 2014, certificates denominated in colones bear interest at rates ranging between 3.42% and 6.96% per annum (December and June 2013: between 3% and 6.50% and between 4.05% and 6.95%, respectively, per annum); certificates denominated in U.S. dollars bear interest at rates ranging between 0.50% and 2.40% per annum (December and June 2013: between 0.25% and 1.80% and between 0.75% and 2.05%, respectively, per annum) ; and certificates denominated in euros bear interest at rates ranging between 0.06% and 0.39% per annum (December and June 2013: between 0.06% and 0.39% and between 0.06% and 0.39%, respectively, per annum).

The Bank has term certificates of deposit that are restricted to secure certain loan operations. As of June 30, 2014, those term certificates of deposit amount to ₡19,157,562,653 (December and June 2013: ₡16,343,727,980 and ₡15,507,822,895, respectively). As of that date, the Bank has no inactive deposits with State-owned entities or other banks.

(b) By number of customers

As of March 31, obligations with the public by number of customers are as follows:

	June 2014	
	Demand	Term
Obligations with the public	1,750,508	63,984
	December 2013	
	Demand	Term
Obligations with the public	1,719,980	64,050
	June 2013	
	Demand	Term
Obligations with the public	1,682,206	65,547

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Demand and term deposits from customers by cumulative amount are as follows:

	June 2014	December 2013	June 2013
<i>Obligations with the public:</i>			
Deposits from the public	¢ 3,471,626,877,433	3,393,534,029,317	3,533,364,013,974
Obligations for tri-party repurchase agreements	41,587,899,959	36,165,531,600	43,441,749,736
Subtotal	3,513,214,777,392	3,429,699,560,917	3,576,805,763,710
<i>Obligations with State-owned entities:</i>			
Deposits from State-owned entities	40,199,829,553	29,911,289,724	215,660,779
Subtotal	40,199,829,553	29,911,289,724	215,660,779
<i>Obligations with financial entities:</i>			
Deposits from other banks	141,162,222,062	72,810,602,153	70,286,526,171
Deposits from other local entities	6,991,808,527	41,209,686,331	3,157,211,903
Deposits from management of funds	144,090,395,873	129,381,229,651	120,025,780,911
Deposits from other foreign entities	815,752,171,439	775,726,681,386	344,399,061,103
Charges due to other entities	6,733,006,854	6,684,656,900	2,470,784,054
Subtotal	1,114,729,604,755	1,025,812,856,421	540,339,364,142
Total	¢ 4,668,144,211,700	4,485,423,707,062	4,117,360,788,631

(13) Obligations with BCCR

Obligations with BCCR are as follows:

	June 2014	December 2013	June 2013
Financing for loans using internal funds	¢ 40,002,797,529	29,702,889,402	2,981,045
Financing for loans using external funds	190,567,560	201,388,234	212,208,908
Interest payable on obligations	6,464,464	7,012,088	470,826
Subtotal	¢ 40,199,829,553	29,911,289,724	215,660,779

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(14) Obligations with entities

Obligations with entities are as follows:

	June 2014	December 2013	June 2013
<i>Demand:</i>			
Checking accounts of local financial entities	126,279,525,630	57,789,494,163	44,764,771,481
Savings deposits from local financial entities	29,666,308	39,298,498	26,894,472
FCD fund management	144,090,395,873	129,381,229,651	120,025,780,911
Outstanding checks	7,726,511,090	2,571,590,762	10,578,514,999
Checking accounts and obligations with related parties	94,495,548	107,476,356	7,564,833
Other demand obligations with financial entities	801,808,527	434,686,331	1,032,211,904
Subtotal	279,022,402,976	190,323,775,761	176,435,738,600
<i>Term:</i>			
Term deposits from local financial entities	7,032,023,486	12,302,742,374	14,908,780,387
Term deposits from foreign financial entities (3)	534,388,603,153	479,333,818,592	-
Loans from local financial entities	1,625,000,000	1,875,000,000	2,125,000,000
Loans from foreign financial entities (1)(2)	281,363,568,286	296,392,862,794	344,399,061,101
Liquidity market obligations	4,565,000,000	38,900,000,000	-
Subtotal	¢ 828,974,194,925	828,804,423,760	361,432,841,488
Charges payable for other demand and term obligations with financial entities – foreign currency	3,457,333	6,987,650	-
Charges payable for other demand and term obligations with financial entities – local currency	58,902,322	116,390,933	-
Charges payable for other obligations with financial entities and non financial entities–foreign currency (1)(2)	1,677,320,518	1,951,687,515	2,459,199,853
Charges payable for other obligations with financial entities and non financial entities– local currency	9,512,083	20,435,590	11,584,201
Charges payable for term deposits from foreign financial entities (3)	4,983,814,598	4,589,155,212	-
Subtotal	6,733,006,854	6,684,656,900	2,470,784,054
Total	¢ 1,114,729,604,755	1,025,812,856,421	540,339,364,142

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(1) Loans from foreign financial entities are as follows:

Entity	Annual interest rate		Maturity			Balance	
	June 2014	December 2013	June 2014	December 2013	June 2013	June 2014	December 2013
CABEI	4.55% to 8.00%	4.55% to 8.00%	2015 to 2021	2015 to 2021	2015 to 2021	24,502,359,317	25,233,861,203
Barclays	6.20% to 6.65%	6.20% to 6.65%	2023 to 2029	2023 to 2029	2023 to 2029	67,535,652,752	62,198,745,577
Bank of New York	-	1.68%	-	2014	2013	-	4,974,419,016
China Development Bank	-	-	-	-	2013	-	-
Banco Latinoamericano	-	-	-	-	2013 to 2016	-	-
Exportaciones, S.A. (Bladex - Panama)	-	-	-	-	2013 to 2016	-	-
Commerz, N.A. Miami	-	2.80%	-	2014	2013 to 2014	-	10,054,895,641
Deutsche Bank AG New York	-	1.69%	-	2014	-	-	12,443,943,981
Bank of America	-	-	-	-	2013	-	-
Standard Chartered Bank	2.33%	2.37%	2014	2014	2013	25,965,837,942	31,382,931,086
Credit Suisse Bank	3.58%	3.97%	2017	2017	2017	57,243,669,034	52,790,109,579
Citibank	2.98%	3.01% to 3.02%	2016 to 2017	2016 to 2017	2014 to 2017	107,793,369,759	99,265,644,226
Wells Fargo Bank	-	-	-	-	2013 to 2014	-	-
JP Morgan Chase Bank	-	-	-	-	2014	-	-
						283,040,888,804	298,344,550,309
						¢	346,858,260,954

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- (2) Guarantees backing the above loans are detailed in note 2.

Loans due to foreign financial entities bear interest at rates ranging between 2.33% and 8% per annum (2013: between 1.68% and 8% per annum).

- (3) On October 29, 2013, the Bank made two international issues with a face value of US\$1 billion equivalent to ₡533,287,423,700 in June 2014 (December 2013: ₡491,057,345,150) and the following characteristics:

a. 5-year issue:

- ✓ Face value: US\$500 million
- ✓ Traded amount: 99.331%
- ✓ Term: 5 years
- ✓ Interest rate: 4.875% per coupon payment
- ✓ Maturity: November 1, 2018

b. 10-year issue:

- ✓ Face value: US\$500 million
- ✓ Traded amount: 99.072%
- ✓ Term: 10 years
- ✓ Interest rate: 6.250% per coupon payment
- ✓ Maturity: November 1, 2023.

The balances of those issues in the accounting records are as follows:

	June 2014		
	5-year issue	10-year issue	Total
Issue	₡ 267,670,607,794	270,493,340,341	538,163,948,135
Adjustment to fair value of item hedged measured at cost of international issues	(1,424,319,823)	(2,688,034,395)	(4,112,354,218)
Amortization of discount in traded amount of issue	214,882,510	122,126,726	337,009,236
Subtotal	266,461,170,481	267,927,432,672	534,388,603,153
Charges payable	2,183,918,750	2,799,895,848	4,983,814,598
Total	₡ 268,645,089,231	270,727,328,520	539,372,417,751

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	December 2013		
	5-year issue	10-year issue	Total
Issue	¢ 245,847,641,490	245,189,699,124	491,037,340,614
Adjustment to fair value of item hedged measured at cost of international issues	(1,982,817,312)	(9,797,748,135)	(11,780,565,447)
Amortization of discount in traded amount of issue	49,153,294	27,890,131	77,043,425
Subtotal	243,913,977,472	235,419,841,120	479,333,818,592
Charges payable	2,010,978,125	2,578,177,087	4,589,155,212
Total	¢ 245,924,955,597	237,998,018,207	483,922,973,804

A valuation was performed as of June 30, 2014 and December 31, 2013 in order to calculate the change in the fair value of the primary instrument based on the following inputs:

- ✓ A 5- or 10-year LIBOR rate at the issue of the bond;
- ✓ Discount rates from Bloomberg;
- ✓ Zero rates corresponding to the swap curve as of June 30, 2014 and December 2013;
- ✓ Only a portion of the bond cash flows is hedged (corresponding to the 5- and 10-year LIBOR rate in effect at the issue of the bond) rather than the total interest rate;
- ✓ Accrued and earned interest were segregated from the instruments to obtain variations in clean prices;
- ✓ Forward rate to calculate variable interest.

As of June 30, 2014, the Bank booked an increase in the fair value of these issues in the amount of ¢4,112,354,218 (December 2013: ¢11,780,565,447 under an income account (see note 28).

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Maturities of loans due to entities

Loans due to entities mature as follows:

		March 2014		
		Local	Foreign	Total
Less than 1 year	¢	44,571,787,262	25,965,837,970	70,537,625,232
Between 1 and 2 years		-	56,644,729,163	56,644,729,163
Between 3 and 5 years		1,699,111,268	119,214,451,876	120,913,563,144
More than 5 years		128,443,106	81,215,869,795	81,344,312,901
	¢	<u>46,399,341,636</u>	<u>283,040,888,804</u>	<u>329,440,230,440</u>
		December 2014		
		Local	Foreign	Total
Less than 1 year	¢	68,616,840,278	58,856,189,754	127,473,030,032
Between 1 and 2 years		-	1,042,552,494	1,042,552,494
Between 3 and 5 years		1,961,350,019	162,717,053,312	164,678,403,331
More than 5 years		128,535,017	75,728,754,749	75,857,289,766
	¢	<u>70,706,725,314</u>	<u>298,344,550,309</u>	<u>369,051,275,623</u>
		2013		
		Local	Foreign	Total
Less than 1 year		-	119,981,022,824	119,981,022,824
Between 1 and 2 years	¢	-	14,926,219,314	14,926,219,314
Between 3 and 5 years		2,223,618,282	135,605,525,284	137,829,143,566
More than 5 years		128,626,698	76,345,493,532	76,474,120,230
	¢	<u>2,352,244,980</u>	<u>346,858,260,954</u>	<u>349,210,505,934</u>

As of June 30, 2014 and December 31 and June 30, 2013, loans due to local entities correspond to obligations with Banco Crédito Agrícola de Cartago and BCCR.

(15) Income tax

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

a) Current period income tax

Income tax expense is as follows:

	June 2014	June 2013
Current	¢ 4,597,264,155	1,023,383,111
Decrease in income tax	(284,445,629)	(28,771,954)
Deductible temporary differences	(21,701,166)	-
	¢ 4,291,117,360	994,611,157

The difference between income tax expense and the amount that would result from applying the corresponding tax rate to pre-tax income (30%) is reconciled as follows:

	June 2014	June 2013
Expected income tax on accounting income	¢ 8,250,805,556	5,861,882,976
Plus (less):		
Nondeductible expenses	4,478,423,972	2,011,208,678
Deductible expenses	(621,848,502)	(9,107,886,621)
Nontaxable income	(8,130,451,864)	(1,496,605,162)
Taxable income		251,462,678
Tax loss from excess deductible expenses over taxable income	314,188,198	3,474,548,608
Total income tax payable	¢ 4,291,117,360	994,611,157
Less		
Estimated income tax	(717,812,532)	(902,184,321)
Total income tax payable	3,573,304,828	92,426,836

b) Prior period income tax

	June 2014	June 2013
Decrease in Bank's prior period income tax (1)	¢ -	6,524,041,757
Decrease in Pension Fund Manager's and Insurance Brokerage Firm's prior period income tax	5,527,341	9,673,907
	¢ 5,527,341	6,533,715,664

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- (1) As of June 30, 2013, the decrease in income tax in the amounts of ¢6,524,041,757 corresponds to the reversal of the income tax provision for the 2008 tax year, respectively, established due to a difference in the calculation methodologies applied by the Bank and the Tax Administration. The statute of limitations for such provision expired in 2013.

c) Deferred tax

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

		June 2014	December 2013	June 2013
Unrealized losses	¢	1,799,789,967	2,009,931,243	1,126,751,118
Legal provisions		86,588,005	168,717,007	83,680,088
Subtotal	¢	<u>1,886,377,972</u>	<u>2,178,648,250</u>	<u>1,210,431,206</u>

As of March 31, 2014, movement in temporary differences that give rise to deferred tax assets is as follows:

		December 31, 2013	Included in income statement	Included in equity	June 30, 2014
Unrealized losses	¢	2,009,931,243	157,801,537	(367,942,813)	1,799,789,967
Legal provisions		168,717,007	(82,129,002)	-	86,588,005
	¢	<u>2,178,648,250</u>	<u>75,672,535</u>	<u>(367,942,813)</u>	<u>1,886,377,972</u>

As of December 31, 2013, movement in temporary differences that give rise to deferred tax assets is as follows:

		December 31, 2012	Included in income statement	Included in equity	December 31, 2013
Unrealized losses	¢	1,408,707,420	-	601,223,823	2,009,931,243
Legal provisions		78,016,230	90,700,777	-	168,717,007
	¢	<u>1,486,723,650</u>	<u>90,700,777</u>	<u>601,223,823</u>	<u>2,178,648,250</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of June 30, 2013, movement in temporary differences that give rise to deferred tax assets is as follows:

	December 31, 2012	Included in income statement	Included in equity	June 30, 2013
Unrealized losses	¢1 ,408,707,421	-	(281,956,303)	1,126,751,118
Legal provisions	78,016,230	5,663,858	-	83,680,088
	¢1 <u>1,486,723,651</u>	<u>5,663,858</u>	<u>(281,956,303)</u>	<u>1,210,431,206</u>

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

	June 2014	December 2013	June 2013
Revaluation of assets	¢ 13,283,636,328	13,605,138,374	10,919,394,397
Unrealized gains	443,841,011	671,583,288	2,163,257,517
	¢ <u>13,727,477,339</u>	<u>14,276,721,662</u>	<u>13,082,651,914</u>

As of June 30, 2014, movement in temporary differences that give rise to deferred tax liabilities is as follows:

	December 31, 2013	Included in income statement	Included in equity	June 30, 2014
Revaluation of assets	¢ 13,605,138,374	-	(321,502,046)	13,283,636,328
Unrealized gains	671,583,288	386,147,208	(613,889,485)	443,841,011
	¢ <u>14,276,721,662</u>	<u>386,147,208</u>	<u>(935,391,531)</u>	<u>13,727,477,339</u>

As of December 31, 2013, movement in temporary differences that give rise to deferred tax liabilities is as follows:

	December 31, 2012	Included in income statement	Included in equity	December 31, 2013
Revaluation of assets	¢ 10,807,479,575	-	2,797,658,799	13,605,138,374
Unrealized gains	1,770,769,526	1,331,383,019	(2,430,569,257)	671,583,288
	¢ <u>12,578,249,101</u>	<u>1,331,383,019</u>	<u>(367,089,542)</u>	<u>14,276,721,662</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of June 30, 2013, movement in temporary differences that give rise to deferred tax liabilities is as follows:

	December 31, 2012	Included in income statement	Included in equity	June 30, 2013
Revaluation of assets	¢ 10,807,479,575	-	111,914,822	10,919,394,397
Unrealized gains	1,770,769,526	3,442,455,472	(3,049,967,481)	2,163,257,517
	¢ <u>12,578,249,101</u>	<u>3,442,455,472</u>	<u>(2,938,052,659)</u>	<u>13,082,651,914</u>

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

Tax returns filed by the Bank for the years ended December 31, 2010, 2011, 2012, and 2013, and the tax return that will be filed for the year ended December 31, 2014, are open to review by Tax Authorities.

(16) Provisions

As of June 30, provisions are as follows:

	June 2014	December 2013	June 2013
Severance benefits	¢ 24,350,289,096	32,453,960,945	30,059,414,170
Litigation	3,430,158,921	9,468,849,446	5,525,064,330
Other	6,533,421,985	8,200,794,772	7,787,511,908
	¢ <u>34,313,870,002</u>	<u>50,123,605,163</u>	<u>43,371,990,408</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Movement in provisions is as follows:

	Severance benefits	Litigation	Income tax	Other	Total
Balance at December 31, 2012	¢ 37,905,719,024	4,804,346,521	6,524,041,757	10,914,305,724	60,148,413,026
Provisioned	22,265,374,101	982,865,453	-	7,761,545,978	31,009,785,532
Used	(30,012,512,726)	(260,841,195)	-	(10,712,937,970)	(40,986,291,891)
Decrease in provisions against profit	(99,166,229)	(1,306,449)	(6,524,041,757)	(175,401,824)	(6,799,916,259)
Balance at June 30, 2013	30,059,414,170	5,525,064,330	-	7,787,511,908	43,371,990,408
Balance at December 31, 2012	¢ 37,905,719,024	4,804,346,521	6,524,041,757	9,339,879,724	58,573,987,026
Provisioned	35,705,296,307	7,923,186,146	-	12,090,377,936	55,718,860,389
Used	(40,729,050,955)	(2,454,227,409)	-	(12,990,340,971)	(56,173,619,335)
Decrease in provisions against profit	(428,003,431)	(804,455,812)	(6,524,041,757)	(239,121,917)	(7,995,622,917)
Balance at December 31, 2013	¢ 32,453,960,945	9,468,849,446	-	8,200,794,772	50,123,605,163
Provisioned	15,024,883,164	2,369,875,932	-	7,835,687,969	25,230,447,065
Used	(23,127,065,343)	(2,125,299,973)	-	(8,936,350,195)	(34,188,715,511)
Decrease in provisions against profit	(1,489,670)	(6,283,266,484)	-	(566,710,561)	(6,851,466,715)
Balance at June 30, 2014	¢ 24,350,289,096	3,430,158,921	-	6,533,421,985	34,313,870,002

The provision for litigation is comprised as follows:

	June 2014	December 2013	June 2013
Ordinary suits	¢ 3,009,011,223	9,050,683,978	3,728,952,895
Ordinary suits against subsidiaries	3,379,765	4,395,468	6,109,369
Phishing	417,767,933	413,770,000	1,790,002,067
	¢ 3,430,158,921	9,468,849,446	5,525,064,331

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of June 30, 2014, December 31 and June 30, 2013, the Bank is a defendant in litigation and management considers it probable that an outflow of economic benefits will be required to settle the corresponding obligations. The Bank has estimated future disbursements and made the following provisions:

- In June 2014, ordinary suits filed against the Bank have been estimated at ¢65,578,262,872 (December and June 2013: ¢65,462,382,872 and ¢58,703,456,406, respectively) and US\$357,362,769 (December and June 2013: US\$352,326,678 and US\$334,904,965, respectively). Management of the Bank has provisioned ¢3,009,011,223 (December and June 2013: ¢9,050,683,978 and ¢3,728,952,895, respectively) for ordinary and labor suits and judicial litigation.
- For criminal proceedings in which the Bank is the civil defendant, the total potential liability has been estimated at ¢70,346,308,182 in June 2014 (December and June 2013: ¢13,528,507 and ¢13,536,202, respectively). The amount provisioned by the Bank in connection therewith is included in the provision for ordinary suits.
- Labor suits by nature are difficult to estimate. However, they have been estimated at ¢2,701,194,350 in June 2014 (December and June 2013: ¢2,681,824,395 and ¢2,671,836,575, respectively). The amount provisioned by the Bank in connection therewith is included in the provision for ordinary suits.
- The accounting records of the Bank's subsidiaries include provisions for ordinary suits filed against the subsidiaries for a total of ¢3,379,765 (December and June 2013: ¢4,395,468 and ¢6,109,369, respectively).
 - The provision recognized by the Pension Fund Manager amounts to ¢3,144,859 (December and June 2013: ¢4,171,928 and ¢5,917,098, respectively).
 - The provision booked by the Investment Fund Manager amounts to ¢234,906 (December and June 2013: ¢223,540 and ¢192,271, respectively).
 - The Brokerage Firm and Insurance Brokerage Firm have not booked provisions for pending litigation.
- The Bank faces 514 administrative actions related to Internet fraud (phishing) for a total of ¢417,767,933 in June 2014 (December and June 2013: ¢413,770,000 and ¢1,790,002,067, respectively). The Bank has provisioned 100% of that amount.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(17) Other sundry accounts payable

Other sundry accounts payable are as follows:

	June 2014	December 2013	June 2013
Professional fees	¢ 43,028,549	13,011,051	95,215,471
Creditors - goods and services	5,403,313,515	4,096,770,082	4,883,003,738
Current income tax (note 15)	4,291,117,360	1,567,416,333	994,611,157
Prior period income tax	-	901,623	-
Employer contributions (1)	6,473,952,657	7,689,762,909	5,824,722,825
Court-ordered withholdings	2,525,483,537	2,342,561,123	1,882,341,666
Tax withholdings	862,928,141	822,824,314	872,879,602
Employee withholdings	521,719,359	516,364,768	517,774,763
Other third-party withholdings	266,705,718	28,181,806	292,035,655
Compensation	3,468,984,243	6,578,444,461	3,175,223,598
Dividends	1,151,259	1,151,259	1,151,259
Statutory allocations	4,856,226,468	5,914,984,993	4,208,277,091
Obligation for loans with related parties	-	-	-
Clearing house operations	571,083,894	229,959,113	-
Accrued vacation	7,044,876,954	6,029,309,867	6,790,994,492
Accrued statutory Christmas bonus	4,864,191,842	1,428,344,910	4,811,349,605
Contributions to Superintendency budgets	-	7,458,997	40,986,872
Fees and commissions for custodial services	-	-	3,790,697
Foreclosed assets	501,574,748	625,131,888	238,849,421
Various creditors - local currency (2)	7,977,914,454	7,475,156,583	8,504,161,507
Various creditors - foreign currency	5,045,313,328	4,795,866,309	5,349,347,640
Interest rate future agreements (Hedge) (3)	154,235,487	10,004,033,392	3,875,097
	¢ <u>54,873,801,514</u>	<u>60,167,635,781</u>	<u>48,490,592,156</u>

- (1) The "Employer contributions" line item mainly includes employer contributions due to the CCSS, Banco Popular y de Desarrollo Comunal, National Learning Institute (INA), and Mixed Institute of Social Welfare (IMAS).

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- (2) As of June 30, 2014, the "Creditors – local currency" line item includes ¢1.119 million (December and June 2013: ¢819.1 million and ¢557.7 million, respectively), for the operations of the Bank's Electronic Means of Payment Division (Visa). The remaining amount corresponds to normal operations of other divisions.
- (3) As of June 30, 2014, the Bank booked a decrease in the value of the interest rate hedge (for 5-year bonds) in the amount of US\$286,907, equivalent to ¢154,235,487 (December and June 2013: US\$20,209,760, equivalent to ¢10,004,033,392 (due to the decrease in 5- and 10-year issues) and US\$7,860, equivalent to ¢3,875,097 (due to a borrowing from the China Development Bank), respectively (see note 5-b).

(18) Other liabilities

Other liabilities are as follows:

	June 2014	December 2013	June 2013
<i>Deferred income:</i>			
Deferred finance income ¢	5,453,771,539	2,444,042,568	1,964,535,205
Deferred fees and commissions for trust management	15,952,455	13,976,993	13,189,543
Other	274,026	311,128	76,091
Subtotal	5,469,998,020	2,458,330,689	1,977,800,839
Allowance for stand-by credit losses (1)	1,185,342,814	138,964,729	246,365,447
<i>Operations pending application:</i>			
Operations pending settlement	20,581,123,378	22,238,412,623	13,561,564,590
Other	18,378,379,822	3,668,415,774	12,282,213,585
Subtotal	38,959,503,200	25,906,828,397	25,843,778,175
Subordinated obligations (2)	53,974,870,239	-	-
Total ¢	99,589,714,273	28,504,123,815	28,067,944,461

(1) Movements in the allowance for stand-by credit losses are as follows:

	June 2014	December 2013	June 2013
Opening balance ¢	138,964,729	346,388,473	346,388,473
Allowance expense charged to profit or loss (note 30)	1,002,711,753	26,785	26,787
Adjustment for foreign exchange differences	43,666,332	(38,896)	(49,813)
Decrease in allowance against income (note 31)	-	(207,411,633)	(100,000,000)
Closing balance ¢	1,185,342,814	138,964,729	246,365,447

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(19) Equity

(a) Share capital

The Bank's share capital is as follows:

	June 2014	December 2013	June 2013
Capital under Law No. 1644	90,511,345,645	90,511,345,645	90,511,345,645
Bank capitalization bonds	27,618,957,837	27,618,957,837	27,618,957,837
¢	<u>118,130,303,482</u>	<u>118,130,303,482</u>	<u>118,130,303,482</u>

On December 23, 2008, the Executive Branch of the Costa Rican Government authorized a capital contribution funded under Law No. 8703 "Amendment to Law No. 8627 on the Ordinary and Extraordinary Budget of the Republic for Tax Year 2008." Such law grants funds to capitalize three State-owned banks, including Banco Nacional de Costa Rica, in order to stimulate productive sectors, particularly small and medium-sized enterprises. For such purposes, the Bank received four securities for a total of US\$50,000,000 (equivalent to ¢27,619,000,002) and denominated in DU maturing in 2013, 2017, 2018, and 2019 (No. 4183, No. 4184, No. 4185, and No. 4190 for DU10,541,265.09 each, at a reference exchange rate of ¢655.021 to DU1.00). As of June 30, 2014 and based on the exchange rate as of that date, the balance of those investments is ¢26,895,405,401 (December and June 2013: ¢25,823,991,217 and ¢34,469,936,844, respectively) (see note 5-a).

As of June 30, 2014, the Bank has appropriated ¢14,548,173,826 (December and June 2013: ¢12,243,803,201) from its earnings to form the equity of its FOFIDE.

(b) Revaluation surplus

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

As of June 30, 2014 and December 31, 2013, revaluation surplus amounts to ¢63,639,596,055 (June 2013: ¢49,226,216,504).

(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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of June 30, 2014 the adjustment for valuation of available-for-sale investments and restricted financial instruments amounts to ¢4,139,867,317 (unrealized loss) (December and June 2013: ¢4,405,602,968, unrealized loss and ¢601,513,522, unrealized gain, respectively).

(d) Adjustment for valuation of investments in other companies

This item corresponds to the valuation of the Bank's investments in other financial entities (companies or subsidiaries) over which the Bank exercises control or significant influence.

As of June 30, 2014, the adjustment for valuation of investments in foreign associates by the equity method amounts to ¢6,801,675,466 (December and June 2013: ¢3,317,278,520 and ¢4,265,288,883, respectively. These investments correspond to the Bank's 49% ownership interest in BICSA and subsidiary.

(20) Commitments and contingencies

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

	June 2014	December 2013	June 2013
Performance bonds	¢ 38,181,591,859	34,210,268,379	22,893,678,704
Bid bonds	1,083,837,838	3,014,257,962	3,967,791,155
Other guarantees	340,866,212	372,911,236	234,392,467
Letters of credit	17,343,919,029	10,127,000,305	15,042,907,944
Credits pending disbursement	339,485,339	339,897,778	432,393,313
Subtotal	57,289,700,277	48,064,335,660	42,571,163,583
Pre-approved lines of credit	195,728,666,813	149,666,830,500	131,173,741,760
Other contingencies not related to credits	212,170,340	241,840,248,807	226,580,708,912
Other contingencies – pending litigation and lawsuits (note 44)	333,881,900,736	203,790,716	203,790,715
Subtotal	¢ 529,822,737,889	391,710,870,023	357,958,241,387
Forward contracts (1)	11,791,817,300	-	-
Total	¢ 598,904,255,466	439,775,205,683	400,529,404,970

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- (1) As of June 30, 2014, contingent accounts include a forward contract (future purchase) for U.S. dollars for a notional amount of US\$21,935,000, equivalent to ₡11,791,817,300 (see note 5-b).

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

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

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

Off-balance sheet financial instruments with risk (no prior deposit) and without risk (prior deposit) are as follows:

	June 2014	December 2013	June 2013
<i>Contingencies without prior deposit:</i>			
Letters of credit	₡ 14,943,672,048	8,479,767,595	7,195,985,484
Guarantees and sureties granted	37,429,654,311	35,337,614,651	25,198,781,540
Subtotal	52,373,326,359	43,817,382,246	32,394,767,024
<i>Contingencies with prior deposit:</i>			
Letters of credit	2,400,246,979	1,647,232,710	7,846,922,460
Guarantees and sureties granted	2,176,641,600	2,259,822,926	1,897,080,785
Subtotal	4,576,888,579	3,907,055,636	9,744,003,245
Credits pending disbursement	339,485,339	339,897,778	432,393,314
Total	₡ 57,289,700,277	48,064,335,660	42,571,163,583

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(21) Trust assets

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of June 30, 2014, trust capital is invested in the following assets:

Nature of trust assets	Guaranty and cash management	Cash or property management	Securitization	Portfolio management	Guaranty	Testamentary	Custody of stock with testamentary clause	Custody and management of stock	Pre-sales management	Management, custody, and guaranty	Guaranty and custody of stock	Total
Cash and due from banks	¢	159,394,248	8,658,680	19,319,354	14,535,972	806,508	7,956	-	913,904	1,343,950	-	204,980,572
Investment securities and term deposits	-	159,590,830,688	6,345,686,307	1,137,517,977	576,921,203,678	1,427,824,187	-	1,705,665	513,248,586	850,817	-	745,938,867,905
Loan portfolio	-	2,033,400,108	356,465,044	2,261,223,967	52,687,956	-	-	-	-	-	-	4,703,777,075
Accounts and accrued interest receivable	-	8,919,569,571	1,658,461,003	2,516,630,933	1,582,614	6,274	-	-	-	-	-	13,096,250,395
Foreclosed assets	-	86,655,824	-	-	-	-	-	-	-	-	-	86,655,824
Investments in other companies	-	1,182,854,958	71,999,114,114	-	-	2,330,000	2,304,000	-	-	-	860,128,000	74,046,731,072
Property and equipment	1,544,041,161	2,847,357,369	-	-	72,134,971,560	-	-	-	-	-	-	76,526,370,090
Other assets	-	74,108,778	379,718,330	18,545,430	2,908,789,952	693,272	-	-	4,359	-	-	3,381,860,121
Total	¢	1,544,041,161	174,894,171,544	80,748,103,478	5,953,237,661	652,033,771,732	1,431,660,241	2,311,956	514,166,849	2,194,767	860,128,000	917,985,493,054

As of December 31, 2013, trust capital is invested in the following assets:

Nature of trust assets	Guaranty and cash management	Cash or property management	Securitization	Portfolio management	Guaranty	Testamentary	Custody of stock with testamentary clause	Custody and management of stock	Pre-sales management	Management, custody, and guaranty	Guaranty and custody of stock	Total
Cash and due from banks	¢	260,210,808	1,345,910,277	2,572,796	48,608,796	757,624	7,326	-	18	-	-	1,658,067,645
Investment securities and term deposits	39,615,828	142,709,661,084	2,200,973,498	2,491,573,602	592,251,296,017	1,386,330,089	-	1,564,418	475,471,490	9,418,763	-	741,565,904,789
Loan portfolio	-	1,764,418,418	448,258,970	1,920,163,243	54,161,375	-	-	-	-	-	-	4,187,002,006
Accounts and accrued interest receivable	-	8,935,002,162	228,286,595	2,602,130,104	1,596,404	711,035	-	-	367,956	-	-	11,768,094,256
Foreclosed assets	-	245,464,954	-	-	-	-	-	-	-	-	-	245,464,954
Investments in other companies	-	733,990,738	-	-	-	2,430,000	2,304,000	-	-	-	792,016,000	1,530,740,738
Property and equipment	1,544,041,161	2,870,655,985	74,751,295,183	14,878,121	66,411,689,097	-	-	-	-	-	-	145,592,559,547
Other assets	109,698	141,445,827	2,369,828	10,211,928	2,992,638,795	542,748	-	-	4,356	-	-	3,147,323,180
Total	¢	1,583,766,687	157,660,849,976	78,977,094,351	7,041,529,794	661,759,990,484	1,390,771,496	2,311,326	475,843,820	9,418,763	792,016,000	909,695,157,115

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of June 30, 2013, trust capital is invested in the following assets:

Nature of trust	Guaranty and cash management			Custody of stock with testamentary clause			Custody and management of stock			Management, custody, and guaranty		Total
	Guaranty and cash management	Cash or property management	Securitization	Portfolio management	Guaranty	Testamentary	Custody of stock with testamentary clause	Custody and management of stock	Pre-sales management	Management, custody, and guaranty	Guaranty and custody of stock	
<i>Trust assets</i>												
Cash and due from banks	¢ 1,232,575	207,021,987	4,874,695	10,489,157	17,430,892	1,125	7,297	-	493,031	1,232,575	9,892,981	252,676,315
Investment securities and term deposits	45,605,275	140,330,347,804	18,564,520,005	1,873,173,480	578,233,590,233	390,601,909	-	1,525,582	332,313,885	15,454,159	348,158	739,787,480,490
Loan portfolio	-	850,098,411	577,488,734	2,061,430,095	59,353,689	-	-	-	-	-	-	3,548,370,929
Accounts and accrued interest receivable	-	7,501,105,152	1,507,201,728	2,967,762,449	1,795,861	1,239	-	-	85,481	-	-	11,977,951,910
Foreclosed assets	-	-	-	590,685	-	-	-	-	-	-	-	590,685
Investments in other companies	-	49,798,652	-	-	1,725,605,000	2,430,000	2,304,000	-	-	-	1,774,908,000	3,555,045,652
Property and equipment	1,544,041,161	3,892,586,352	77,681,035,319	165,147,973	65,847,875,151	-	-	-	-	-	-	149,130,685,956
Other assets	109,698	116,297,195	455,312,501	24,319,633	3,248,699,344	891,077	-	-	1,452	-	-	3,845,630,900
Total	¢ 1,590,988,701	152,947,255,551	98,790,432,982	7,102,913,472	649,134,350,170	393,925,350	2,311,297	1,525,582	332,893,849	16,686,734	1,785,149,139	912,098,432,837

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

a) Housing mortgage

These trusts are exclusively dedicated to managing housing loan portfolios.

b) Cash or property management

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

c) Securitization

These trusts are used to obtain funds from illiquid 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 social and economic 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 at the direction of the thruster.

g) Testamentary

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

h) Custody of stock with testamentary clause

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

(22) Other debit memoranda accounts

Other debit memoranda accounts are as follows:

	June 2014	December 2013	June 2013
Pension Fund Manager's own investments in custody – Face value of principal	5,280,237,000	6,623,851,500	8,973,554,498
Pension Fund Manager's own investments in custody – Coupons	662,752,503	940,979,738	1,544,193,721
Pension Fund Manager's own investments in custody – Share	23	23	25
Guarantees received in the Bank's custody	4,665,340,596,541	5,200,646,589,985	5,244,415,075,075
Unused, authorized lines of credit	506,916,130,526	500,818,978,300	459,052,513,296
Write-offs	167,743,460,061	161,028,091,538	144,306,701,341
Finance income on non-accrual loans	6,437,447,768	6,289,052,172	6,559,877,410
Supporting documentation received in the Bank's custody	723	619	513
Nondeductible expenses	26,718,947,081	26,431,554,423	4,789,489,868
Nontaxable income	57,012,987,259	57,037,682,635	30,905,265,291
Other memoranda accounts	582,873,315,491	592,420,321,537	222,320,785,174
Subtotal	6,018,985,874,976	6,552,237,102,470	6,122,867,456,212
Third-party debit memoranda accounts (a)	2,074,079,192,396	1,661,091,311,191	1,628,483,120,107
Own debit memoranda accounts for custodial activities	253,512,163,970	336,561,170,643	498,612,977,095
Third-party debit memoranda accounts for custodial activities	8,036,771,802,135	7,372,145,699,004	7,144,395,657,714
Subtotal	10,364,363,158,501	9,369,798,180,838	9,271,491,754,916
Total (note 22-a)	16,383,349,033,477	15,922,035,283,308	15,394,359,211,128

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- (a) According to SUGEVAL Decision SGV-R-1706 of June 6, 2007, the Bank is registered with the National Registry of Securities and Brokers as a class C custodian, in conformity with current regulations.

Other memoranda accounts by entity are as follows:

	June 2014	December 2013	June 2013
Bank	¢ 13,856,338,223,674	13,605,648,253,300	13,094,848,083,960
Brokerage Firm (note 23)	1,421,794,094,171	1,301,041,362,434	1,314,105,428,689
Investment Fund Manager (note 24)	301,723,189,718	260,871,943,536	287,375,585,255
Pension Fund Manager (note 25)	803,493,525,914	754,473,724,038	698,030,113,224
	<u>¢ 16,383,349,033,477</u>	<u>15,922,035,283,308</u>	<u>15,394,359,211,128</u>

Banking mandates are as follows:

	June 2014	December 2013	June 2013
Management of banking mandates	¢ 967,165,229,790	648,016,172,575	647,597,727,487
Assets in custody on behalf of third parties	2,359,967	2,359,966	2,359,967
“TUDES” securities received in custody from affiliates under article 75 of Law No, 7531	1,636,629,375	1,633,543,861	1,684,501,984
Pension funds (note 25)	795,871,389,624	745,236,108,975	685,796,721,125
Investment funds (note 24)	301,698,274,253	260,815,532,664	287,364,943,830
Portfolio management (note 23-a)	7,705,309,387	5,387,593,150	6,036,865,714
	<u>¢ 2,074,079,192,396</u>	<u>1,661,091,311,191</u>	<u>1,628,483,120,107</u>

As of June 30, 2014, memoranda accounts also include an interest rate hedge (“operations at notional amounts subject to an interest rate swap”) in U.S. dollars for a notional amount of US\$750,000,000, equivalent to ¢403,185,000,000 (December and June 2013: US\$750,000,000, equivalent to ¢371,257,500,000 and US\$4,444,444, equivalent to ¢2,191,244,452, respectively (see note 5-b).

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

Memoranda accounts are summarized as follows:

	June 2014	June 2013
<i>Own</i>		
Trading securities in custody (note 23-b)	¢ 8,054,674,389	12,094,441,457
Trading securities pledged as guarantees	42,699,681,022	44,458,374,740
Trading securities pending delivery	-	1,636,500,000
Confirm cash agreements pending settlement	-	1,902,965,840
Repurchase agreements pending settlement (note 23-c)	41,824,622,193	43,679,856,398
Other own memoranda accounts	5,402,659,444	23,482,479
Subtotal	<u>97,981,637,048</u>	<u>103,795,620,914</u>
<i>Third-party</i>		
Trading securities in custody (note 23-b)	1,216,014,915,342	1,100,855,922,174
Trading securities received as guarantees	22,878,687,240	29,053,146,180
Trading securities pledged as guarantees	31,415,745,558	25,436,906,680
Trading securities pending to receive	34,191,101	45,000,000
Trading securities pending settlement	122,109,310	2,027,071,968
Repurchase agreements pending settlement (note 23-c)	43,703,531,164	45,779,524,704
Cash and accounts receivable	1,937,968,021	1,075,370,355
Portfolio management	7,705,309,387	6,036,865,714
Subtotal	<u>1,323,812,457,123</u>	<u>1,210,309,807,775</u>
Total	¢ <u>1,421,794,094,171</u>	<u>1,314,105,428,689</u>

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

a) Securities held in custody are as follows:

Location	Type of custody	June 2014	June 2013
<i>Custodial activities on own behalf</i>			
Local	At face value - available	¢ 8,020,831,376	12,060,831,480
Local	At purchase value of shares - available	21,561,315	21,561,315
Local	At purchase value of investments - available	510,701	431,584
Local	At face value - pledged	11,300,000	11,300,000
Local	Amount of physical coupons - pledged	470,997	317,078
		<u>8,054,674,389</u>	<u>12,094,441,457</u>
<i>Custodial activities on behalf of third parties</i>			
Local	At face value - available	836,244,588,457	788,478,376,357
Local	Amount of physical coupons - available	26,723,688	287,143,512
Local	At purchase value of shares - available	47,647,790,169	41,780,979,288
Local	At purchase value of investments - available	328,863,731,807	265,903,069,337
Local	At face value - pledged	2,490,814,263	2,525,743,380
Local	Amount of physical coupons - pledged	-	1,213,020
Local	At purchase value of shares - pledged	82,638,751	65,157,102
Local	At purchase value of investments - pledged	616,680,230	104,991,098
Local	At face value - pending delivery	30,191,103	1,709,249,080
Local	At purchase value of investments - pending delivery	11,756,874	-
		<u>1,216,014,915,342</u>	<u>1,100,855,922,174</u>
		¢ <u>1,224,069,589,731</u>	<u>1,112,950,363,631</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

June 2014								
	Term buyer				Term seller			
		U.S. dollars	U.S. dollars			U.S. dollars	U.S. dollars	
	Colones	dollars	expressed in colones	Total	Colones	dollars	expressed in colones	Total
Own	37,828,931,132	7,432,738	3,995,691,061	41,824,622,193	-	-	-	-
Third parties	11,179,124,425	23,216,847	12,480,912,741	23,660,037,166	14,933,603,693	9,505,358	5,109,890,305	20,043,493,998
Total	<u>49,008,055,557</u>	<u>30,649,585</u>	<u>16,476,603,802</u>	<u>65,484,659,359</u>	<u>14,933,603,693</u>	<u>9,505,358</u>	<u>5,109,890,305</u>	<u>20,043,493,998</u>
June 2013								
	Term Buyer				Term Seller			
		U.S. dollars	U.S. dollars			U.S. dollars	U.S. dollars	
	Colones	dollars	expressed in colones	Total	Colones	dollars	expressed in colones	Total
Own	39,606,425,731	8,262,034	4,073,430,667	43,679,856,398	-	-	-	-
Third parties	5,221,372,951	28,491,684	14,047,255,066	19,268,628,017	21,112,037,605	10,950,366	5,398,859,082	26,510,896,687
Total	<u>44,827,798,682</u>	<u>36,753,718</u>	<u>18,120,685,733</u>	<u>62,948,484,415</u>	<u>21,112,037,605</u>	<u>10,950,366</u>	<u>5,398,859,082</u>	<u>26,510,896,687</u>

Term buyer and seller positions in tri-party repurchase agreements in U.S. dollars were valued at the exchange rate of ¢537.58 to US\$1.00 (June 2013: ¢493.03 to US\$1.00).

- c) The maturity structure of term buyer and seller positions in tri-party repurchase agreements involving the Brokerage Firm is as follows:

June 2014				
	Term buyer		Term seller	
	Colones	U.S. dollars	Colones	U.S. dollars
<i>Own</i>				
1 to 30 days	¢ 10,261,794,792	2,075,409	-	-
31 to 60 days	24,941,065,118	758,984	-	-
61 to 90 days	2,626,071,222	4,598,345	-	-
	<u>37,828,931,132</u>	<u>7,432,738</u>	<u>-</u>	<u>-</u>
<i>Third parties</i>				
1 to 30 days	378,337,066	1,930,317	5,399,305,807	621,530
31 to 60 days	10,172,242,622	8,191,365	8,692,081,681	8,169,512
61 to 90 days	628,544,737	13,095,165	842,216,205	714,316
	<u>11,179,124,425</u>	<u>23,216,847</u>	<u>14,933,603,693</u>	<u>9,505,358</u>
¢	<u>49,008,055,557</u>	<u>30,649,585</u>	<u>14,933,603,693</u>	<u>9,505,358</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

		June 2013			
		Term buyer		Term seller	
		Colones	U.S. dollars	Colones	U.S. dollars
<i>Own</i>					
1 to 30 days	¢	10,149,824,818	3,883,518	-	-
31 to 60 days		27,141,026,517	2,872,743	-	-
61 to 90 days		2,315,574,396	1,505,773	-	-
More than 91 days		-	-	-	-
		<u>39,606,425,731</u>	<u>8,262,034</u>	<u>-</u>	<u>-</u>
<i>Third parties</i>					
1 to 30 days		424,681,306	1,257,535	3,081,323,204	-
31 to 60 days		4,327,807,681	9,849,490	15,449,171,606	2,336,296
61 to 90 days		468,883,964	17,384,659	2,581,542,795	8,614,070
More than 91 days		-	-	-	-
		<u>5,221,372,951</u>	<u>28,491,684</u>	<u>21,112,037,605</u>	<u>10,950,366</u>
	¢	<u>44,827,798,682</u>	<u>36,753,718</u>	<u>21,112,037,605</u>	<u>10,950,366</u>

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

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

As of June 30, 2014 and 2013, the Brokerage Firm has no margin calls that require disclosure.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(24) Investment fund management agreements

The Investment Fund Manager's memoranda accounts are as follows:

Fund	June 2014		
	Net value	Shares	Value per share
<i>Funds in colones:</i>			
Súper Fondo - colones	¢ 32,523,163,371	9,342,791,930	3.48109683
Fon Depósito - colones	78,477,435,215	60,060,834,951	1.306632438
Crecí Fondo - colones	1,063,404,533	264,338,426	4.022890467
Redí Fondo - colones	2,928,158,407	1,016,203,518	2.881468482
Diner Fondo - colones	31,985,138,355	13,420,530,780	2.383299057
Subtotal - colones	¢ 146,977,299,881	84,104,699,605	
<i>Funds in U.S. dollars:</i>			
	US		
Súper Fondo - U.S. dollars	\$ 32,000,035	22,838,593	
Crecí Fondo - U.S. dollars	698,372	439,632	
Redí Fondo - U.S. dollars	5,241,267	3,891,981	
Diner Fondo - U.S. dollars	141,448,007	114,032,165	
Fon Depósito - U.S. dollars	69,779,276	66,496,645	
Super Fondo Plus- U.S. dollars	32,172,133	32,001,697	
Fondo Hipotecario - U.S. dollars (mortgage fund)	692,962	687,957	
	US		
Subtotal - U.S. dollars	\$ 282,032,052	240,388,670	
Subtotal - U.S. dollars, expressed in colones	¢ 151,614,790,532	129,228,141,219	
<i>Funds in euros:</i>			
Diner Fondo - euros	€ 4,227,456	3,964,704	
Subtotal - euros	€ 2,227,456	3,964,704	
Subtotal - euros, expressed in colones	¢ 3,106,183,840	2,913,123,117	
Total assets of managed funds (note 22-a)	¢ 301,698,274,253	216,245,963,941	
<i>Guarantees:</i>			
Performance bonds	¢ 23,305,067		
Outstanding checks	1,610,398		
Total memoranda accounts (note 22-a)	¢ 301,723,189,718		

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	2013		
Fund	Net value	Shares	Value per share
<i>Funds in colones:</i>			
Súper Fondo - colones	¢ 12,214,312,850	3,635,462,642	3.359768495
Fon Depósito - colones	102,366,246,185	80,729,735,062	1.268011669
Crecí Fondo - colones	761,374,582	199,614,285	3.814228928
Redí Fondo - colones	1,873,831,358	686,147,005	2.730947369
Diner Fondo - colones	46,218,903,724	19,984,931,393	2.312687639
Subtotal - colones	¢ 163,434,668,699	105,235,890,387	
<i>Funds in U.S. dollars:</i>			
Súper Fondo - U.S. dollars	US\$ 43,694,167	31,631,031	1.381370317
Crecí Fondo - U.S. dollars	440,140	284,839	1.545223675
Redí Fondo - U.S. dollars	2,140,622	1,631,117	1.312365632
Diner Fondo - U.S. dollars	135,156,059	110,333,014	1.224982927
Fon Depósito - U.S. dollars	64,992,710	62,729,256	1.036082922
Fondo Hipotecario - U.S. dollars (mortgage fund)	778,774	771,665	877.99
Subtotal - U.S. dollars	US\$ 247,202,472	207,380,922	
Subtotal - U.S. dollars, expressed in colones	¢ 121,878,234,851	102,245,015,974	
<i>Funds in euros:</i>			
Diner Fondo - euros	€ 3,196,698	3,002,244	1.064198182
Subtotal - euros	€ 3,196,698	3,002,244	
Subtotal - euros, expressed in colones	¢ 2,052,040,280	1,927,215,660	
Total assets of managed funds (note 22-a)	¢ 287,364,943,830	209,408,122,021	
<i>Guarantees:</i>			
Performance bonds	¢ 9,031,027		
Outstanding checks	1,610,398		
Total memoranda accounts (note 22-a)	¢ 287,375,585,255		

The main activity of the Investment Fund Manager is managing funds and securities in investment funds.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

An investment fund is capital formed by contributions from individuals or legal entities for the purpose of investing such capital in securities, or in other assets authorized by SUGEVAL, which is managed by a company dedicated to such activities on behalf of fund participants, who assume all related risks. Contributions are documented in share certificates. The objective of investment funds is to maximize goodwill on the invested amount by managing securities or other assets for which the respective return depends on changes in the fair value of the assets.

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

- BN Súper Fondo - Colones No Diversificado (non-diversified - colones): This is an open-end (floating number of outstanding shares) money market fund with a variable income portfolio. Returns on the investment portfolio are not distributed until the customer requests partial or full redemption of shares.
- BN Crecí Fondo - Colones No Diversificado (non-diversified - colones): This is an open-end (floating number of outstanding shares) growth fund with a variable income portfolio. Returns on the investment portfolio are not distributed until the customer requests partial or full redemption of shares.
- BN Redí Fondo Mensual - Colones No Diversificado (monthly, non-diversified - colones): This is an open-end (floating number of outstanding shares) income fund with a fixed income portfolio. Returns on the investment portfolio are not distributed until the customer requests partial or full redemption of shares.
- BN Diner Fondo - Colones No Diversificado (non-diversified - colones): This is an open-end (floating number of outstanding shares) money market fund with a fixed income portfolio. Returns on the investment portfolio are not distributed until the customer requests partial or full redemption of shares.
- BN Fon Depósito - Colones No Diversificado (non-diversified - colones): This is an open-end (floating number of outstanding shares) money market fund with a fixed income portfolio. Returns on the investment portfolio are not distributed until the customer requests partial or full redemption of shares.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- BN Súper Fondo - Dólares Diversificado (diversified - U.S. dollars): This is an open-end (floating number of outstanding shares) money market fund with a variable income portfolio. Returns on the investment portfolio are not distributed until the customer requests partial or full redemption of shares.
- BN Crecí Fondo - Dólares No Diversificado (non-diversified - U.S. dollars): This is an open-end (floating number of outstanding shares) growth fund with a variable income portfolio. Returns on the investment portfolio are not distributed until the customer requests partial or full redemption of shares.
- BN Redí Fondo Trimestral - Dólares No Diversificado (quarterly, non-diversified - U.S. dollars): This is an open-end (floating number of outstanding shares) income fund with a fixed income portfolio. Returns on the investment portfolio are not distributed until the customer requests partial or full redemption of shares.
- BN Diner Fondo - Dólares No Diversificado (non-diversified - U.S. dollars): This is an open-end (floating number of outstanding shares) money market fund with a fixed income portfolio. Returns on the investment portfolio are not distributed until the customer requests partial or full redemption of shares.
- BN Fon Depósito - Dólares No Diversificado (non-diversified - U.S. dollars): This is an open-end (floating number of outstanding shares) money market fund with a fixed income portfolio. Returns on the investment portfolio are not distributed until the customer requests partial or full redemption of shares.
- BN Fondo de Inversión de Titularización Hipotecaria - Dólares (mortgage securitization - U.S. dollars): This is mainly a closed-end mortgage investment fund, i.e. investor shares are listed and traded on a stock exchange.
- BN Diner Fondo - Euros No Diversificado (non-diversified - euros): This is an open-end (floating number of outstanding shares) money market fund with a fixed income portfolio. Returns on the investment portfolio are not distributed until the customer requests partial or full redemption of shares.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- BN Fondo de Desarrollo Inmobiliario CCRC - A (real estate development - U.S. dollars): This is a long-term, closed-end fund in U.S. dollars mainly dedicated to investing in real estate; however, a portion of its portfolio may be invested in securities. Returns are only distributed in the real estate operation phase on a quarterly basis. Payments are made within 10 days after quarter-end (cutoff dates of March 31, June 30, September 30, and December 31 of each year). The fund will distribute net returns after deducting expenses incurred, reserves, and the corresponding taxes. Returns are generated from the total or partial sale of the real estate development, including goodwill and negative goodwill derived from such sale, rental income from the leased property portfolio, and the returns on securities, less costs incurred in the real estate development works. Accordingly, returns are distributed if the financial statements of the fund present distributable profits.

Investment fund management is regulated by SUGEVAL and the Securities Market Regulatory Law.

(25) Pension fund management agreements

The Pension Fund Manager's memoranda accounts are as follows:

	June 2014	June 2013
Mandatory Pension Fund (ROP)	¢ 632,315,592,985	546,048,914,723
Mandatory Retirement Savings Account (FCL)	85,453,684,380	73,509,863,533
Voluntary Pension Fund in Colones A (FPC A)	38,511,701,790	31,904,526,876
Voluntary Pension Fund in Colones B (FPC B)	6,643,337,505	6,281,470,465
Notary Fund (NOT)	18,298,672,435	16,707,830,481
Voluntary Pension Fund in U.S. dollars A (FPD A) (a)	8,678,761,067	5,900,727,532
Voluntary Pension Fund in U.S. dollars B (FPD B) (b)	5,969,639,462	5,443,387,515
Total assets of managed funds (note 22-a)	795,871,389,624	685,796,721,125
Securities in DU	1,636,629,374	1,684,501,984
Bid and performance bonds – colones	20,130,645	21,949,747
Bid and performance bonds – U.S. dollars (c)	22,386,745	9,192,125
Securities and assets in custody	5,942,989,526	10,517,748,243
Total memoranda accounts (note 22-a)	¢ 803,493,525,914	698,030,113,224

- (a) As of June 30, 2014, this fund amounts to US\$16,144,129 and was valued at the exchange rate of ¢537.58 to US\$1.00 (June 2013: US\$11,968,293 valued at the exchange rate of ¢493.03 to US\$1.00).

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- (b) As of June 30, 2014, this fund amounts to US\$11,104,653 and was valued at the exchange rate of ¢537.58 to US\$1.00 (June 2013: US\$11,040,682 valued at the exchange rate of ¢493.03 to US\$1.00).
- (c) As of June 30, 2014, this fund amounts to US\$41,644 and was valued at the exchange rate of ¢537.58 to US\$1.00 (June 2013: US\$18,644 valued at the exchange rate of ¢493.03 to US\$1.00).
- (26) Finance income on cash and due from banks and investments in financial instruments

Finance income on cash and due from banks and investments in financial instruments is as follows:

	June 2014	June 2013
<i>Cash and due from banks:</i>		
Deposits in BCCR	¢ 23,454,502	14,626,011
Checking accounts and demand deposits in local entities	12,767,464	16,239,458
Checking accounts and demand deposits in foreign entities	94,898,275	92,417,477
	<u>131,120,241</u>	<u>123,282,946</u>
<i>Financial instruments:</i>		
Investments in trading securities	-	45,463,782
Investments in available-for-sale securities	15,639,920,964	25,897,753,339
Investments in committed instruments and securities	5,192,103,862	-
Subtotal	<u>20,832,024,826</u>	<u>25,943,217,121</u>
Total	¢ <u>20,963,145,067</u>	<u>26,066,500,067</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(27) Finance income on loan portfolio

Finance income on the loan portfolio is as follows:

	June 2014	June 2013
<i>Current loans:</i>		
Checking account overdrafts	¢ 34,746,432	22,206,592
Loans granted with funds from BCCR	886,149,272	1,058,277,619
Loans granted with other funds	114,179,235,496	103,239,606,379
Credit cards	8,865,612,977	7,318,023,337
Factoring	-	143,964,000
Issued letters of credit	258,050	70,399
Other loans	2,400,633	6,122,467
Subtotal	<u>123,968,402,860</u>	<u>111,788,270,793</u>
<i>Past due loans and loans in legal collections:</i>		
Checking account overdrafts	972,989	4,850,248
Loans granted with funds from BCCR	141,098,949	270,794,427
Loans granted with other funds	20,862,955,299	21,628,850,451
Credit cards	1,371,190,787	1,142,985,091
Guarantees granted	-	2,050,000
Other	1,362,907	1,173,817
Subtotal	<u>22,377,580,931</u>	<u>23,050,704,034</u>
Total	<u>¢ 146,345,983,791</u>	<u>134,838,974,827</u>

(28) Other finance income

Other finance income is as follows:

	June 2014	June 2013
Fees and commissions on letters of credit	¢ 43,838,739	39,557,296
Fees and commissions on guarantees granted	295,871,229	214,325,176
Fees and commissions on lines of credit	38,626,087	59,580,054
Realized gain on available for sale financial instruments	1,362,984,257	13,254,028,494
Gain on fair value hedge item measured at cost	4,112,354,218	-
Other sundry finance income	<u>2,005,334,490</u>	<u>1,204,271,328</u>
	<u>¢ 7,859,009,020</u>	<u>14,771,762,348</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(29) Expenses for obligations with the public

Expenses for obligations with the public are as follows:

	June 2014	June 2013
Demand deposits	¢ 16,221,966,422	19,595,818,806
Term deposits	31,785,097,829	48,532,301,727
Tri-party repurchase agreements and securities lending	1,061,423,770	1,499,212,199
Other term obligations with the public	-	870,301
	¢ 49,068,488,021	69,628,203,033

(30) Expenses for allowances for impairment of assets

Expenses for allowances for impairment of assets are as follows:

	June 2014	June 2013
Allowance for loan impairment (note 6)	¢ 13,628,205,273	17,631,993,700
Allowance for impairment of other accounts receivable (note 7)	1,178,343,472	922,746,934
Allowance for stand-by credit losses (note 18)	975,582,439	26,787
Generic and counter-cyclical allowance for loan portfolio (note 6)	25,570,882	-
Generic and counter-cyclical allowance for stand-by credits (note 18)	27,129,314	-
Allowance for impairment of derivative instruments (note 5-a)	1,545,813	1,036
	¢ 15,836,377,193	18,554,768,457

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

Income from recovery of assets and decreases in allowances and provisions is as follows:

	June 2014	June 2013
Recovery of loan write-offs	¢ 7,246,430,844	5,904,472,324
Recovery of receivable write-offs	333,914	1,097,151
Decrease in allowance for loan impairment (note 6)	-	8,612,510
Decrease in allowance for impairment of other accounts receivable (note 7)	719,481,804	1,408,427,343
Decrease in allowance for stand-by credit losses (note 18)	-	100,000,000
Decrease in allowance for impairment of investments in financial instruments (note 5-a)	-	168,061
	¢ <u>7,966,246,562</u>	<u>7,422,777,389</u>

(32) Operating income from service fees and commissions

Operating income from service fees and commissions is as follows:

	June 2014	June 2013
Drafts and transfers	¢ 3,417,803,546	3,241,907,613
Certified checks	3,024,498	5,555,896
Trusts	424,742,729	463,592,084
Custodial services	474,947,211	435,270,588
Banking mandates	252,407	188,764
Collections	24,908,324	19,933,054
Credit cards	17,170,396,417	14,587,262,062
Management services	1,663,395,811	1,193,875,213
Management of investment funds	1,933,781,867	2,017,624,122
Management of pension funds	3,179,857,524	3,969,969,354
Insurance underwriting	1,466,597,077	848,309,109
Brokerage operations (third parties in local market)	796,366,855	1,297,919,108
Brokerage operations (third parties in other markets)	31,649,254	25,084,646
Individual portfolio management	3,403,388	2,309,793
Other	<u>17,366,636,315</u>	<u>15,837,046,437</u>
	¢ <u>47,957,763,223</u>	<u>43,945,847,843</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(33) Other operating income

Other operating income is as follows:

	June 2014	June 2013
Leasing of assets	¢ 6,382,134	7,445,823
Recovery of expenses	753,809,001	702,782,341
Net valuation of other assets (note 1-d-iii)	524,662,202	339,415,412
Other income from accounts receivable	1,365,932	2,095,808
Sundry operating income	2,717,065,170	2,163,154,764
Decrease in provisions	6,851,466,715	275,874,503
	¢ <u>10,854,751,154</u>	<u>3,490,768,651</u>

(34) Operating expenses for foreclosed assets

Operating expenses for foreclosed assets are as follows:

	June 2014	June 2013
Loss on sale of property and other assets acquired in lieu of payment	¢ 6,489,374,855	1,606,130,585
Management of assets acquired in lieu of payment	963,741	11,720,729
Management of assets awarded in judicial auctions (note 8)	4,298,702,288	2,022,045,423
Impairment loss of foreclosed assets (note 8)	215,832,813	1,749,708
Loss on allowance for impairment and judicial auctions of foreclosed assets (note 8)	12,122,407,147	14,696,313,231
Other expenses for foreclosed assets	571,336,762	225,924,432
	¢ <u>23,698,617,606</u>	<u>18,563,884,108</u>

(35) Expenses for provisions

Expenses for provisions are as follows:

	June 2014	June 2013
Severance benefits	¢ 4,981,307,636	4,125,426,864
Pending litigation	276,780,701	978,582,684
Other provisions	3,964,372,346	4,249,814,919
	¢ <u>9,222,460,683</u>	<u>9,353,824,467</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(36) Other operating expenses

Other operating expenses are as follows:

	June 2014	June 2013
Penalties for noncompliance with regulatory provisions	11,515,645	3,331,117
Net valuation of other liabilities (note 1-d-iii)	1,036,531,157	40,781,428
Income tax (8%) on interest on investments in financial instruments	1,543,503,483	1,343,850,844
Property tax	98,860,885	65,459,341
Licenses	225,863,407	615,654,010
Other local taxes	839,091,718	819,089
Transfers to FINADE	856,520,047	529,635,007
Amortization of direct deferred costs related to loans	318,014,638	-
Sundry operating expenses	20,731,914,474	16,745,398,800
	<u>¢ 25,661,815,454</u>	<u>19,344,929,636</u>

(37) Personnel expenses

Personnel expenses are as follows:

	June 2014	June 2013
Salaries and bonuses, permanent staff	¢ 26,709,671,552	28,126,691,388
Salaries and bonuses, contractors	1,088,212,745	901,510,918
Compensation for directors and statutory examiners	87,421,868	88,866,163
Overtime	561,605,157	665,161,377
Travel expenses	507,442,737	486,124,850
Statutory Christmas bonus	3,520,560,897	3,355,728,553
Vacation	3,532,344,127	3,372,080,752
Other compensation	4,058,602,749	-
Severance Benefits	2,198,586,955	3,334,969,560
Employer social security taxes	13,362,931,170	14,350,600,988
Refreshments	298,307,057	282,753,349
Uniforms	5,641,137	103,731,264
Training	435,240,111	476,655,874
Employee insurance	145,364,740	113,349,042
Back-to-school bonus	2,977,905,853	2,914,677,064
Mandatory retirement savings account	1,289,985,435	1,201,862,979
Other personnel expenses	157,036,388	242,935,647
	<u>¢ 60,936,860,678</u>	<u>60,017,699,768</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(38) Other administrative expenses

Other administrative expenses are as follows:

	June 2014	June 2013
Outsourcing	¢ 7,927,729,623	5,783,519,612
Transportation and communications	2,522,474,968	2,243,504,850
Infrastructure	15,756,458,765	14,213,337,542
Overhead	6,321,733,239	6,569,276,847
	¢ <u>32,528,396,595</u>	<u>28,809,638,851</u>

(39) Statutory allocations

Statutory allocations are as follows:

	June 2014	June 2013
CONAPE (5%)	¢ 1,287,019,626	940,283,489
CNE (3%)	783,453,780	628,676,405
INFOCOOP (10%)	1,969,055,867	2,391,353,600
RIVM (5%)	816,697,182	1,087,425,537
	¢ <u>4,856,226,455</u>	<u>5,047,739,031</u>

The decrease in statutory allocations is as follows:

	June 2014	June 2013
CONAPE (5%) (2012: 2%)	¢ -	182,756,333
CNE (3%)	-	135,501,808
INFOCOOP (10%)	-	334,323,845
RIVM (5%)	-	185,626,944
	¢ <u>-</u>	<u>838,208,930</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(40) Fair value of financial instruments

Carrying amounts and fair values of all financial assets and liabilities that are not carried at fair value are compared in the following table:

		June 2014	
		Carrying amount	Fair value
<i>Financial assets:</i>			
Cash and due from banks	¢	1,001,435,379,254	1,001,435,379,254
Investments in financial instruments		903,951,092,818	903,951,092,818
Loan portfolio		3,209,007,262,933	2,829,954,437,513
Total	¢	5,114,393,735,005	4,735,340,909,585
<i>Financial liabilities:</i>			
Demand deposits from the public and financial entities	¢	2,367,358,737,815	2,367,358,737,815
Other demand obligations with the public		13,291,242,417	13,291,242,417
Term deposits from the public and financial entities		2,293,141,730,430	2,317,142,833,170
Obligations for tri-party repurchase agreements		41,587,899,959	41,587,899,959
Total	¢	4,715,379,610,621	4,739,380,713,361
		June 2013	
		Carrying amount	Fair value
<i>Financial assets:</i>			
Cash and due from banks	¢	718,784,585,898	718,784,585,898
Investments in financial instruments		1,061,692,601,977	1,061,692,601,977
Loan portfolio		2,724,018,628,527	2,536,382,115,235
Total	¢	4,504,495,816,402	4,316,859,303,110
<i>Financial liabilities:</i>			
Demand deposits from the public and financial entities	¢	2,124,241,114,651	2,124,241,114,651
Other demand obligations with the public		10,903,785,212	10,903,785,212
Term deposits from the public and financial entities		1,936,302,884,152	1,963,408,277,674
Obligations for tri-party repurchase agreements		43,441,749,736	43,441,749,736
Total	¢	4,114,889,533,751	4,141,994,927,273

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Fair value estimates

The following assumptions were used by management to estimate the fair value of each class of financial instruments, both on and off the consolidated 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 because of the short-term nature of these instruments.

- b. Investments in financial instruments

The fair values of available-for-sale investments in financial instruments are based on quoted market prices, except for Auction Rate Securities (ARS), which fair values are determined using the valuation method developed by the Bank.

- c. Loan portfolio

The fair value of loans is calculated by discounting future cash flows expected for principal and interest. Loan payments are assumed to be made on the contractually agreed payment dates. Future expected cash flows for loans are discounted at the interest rates offered for similar loans to new borrowers as of June 30, 2014 and 2013.

- d. 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 as of June 30, 2014 and 2013.

- e. Obligations with entities

The fair value of obligations with entities is calculated by discounting cash flows at the interest rates in effect as of June 30, 2014 and 2013.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

(41) Vehicle operating leases

Lessee

Non-cancellable vehicle operating leases are payable as follows:

	June 2014	June 2013
Less than 1 year	¢ -	75,753,490
	¢ -	75,753,490

As of June 30, 2014, vehicle lease agreements have expired and are settled through a purchase order. Additionally, extension requests and the new tender process are under review in accordance with the new guidelines from senior management to minimize the expense for vehicle lease agreements.

(42) Segments

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Profit or loss, assets, and liabilities of each segment are as follows:

	As of June 30, 2014						
	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Brokerage Firm	Insurance	Consolidated
ASSETS							
Cash and due from banks	999,199,050,040	3,966,901,944	195,183,474	164,655,666	803,246,480	-	1,004,329,037,604
Investments in financial instruments	841,454,961,077	53,655,153,417	3,750,139,519	5,489,373,932	-	-	904,349,627,945
Loan portfolio, net	3,160,753,822,525	-	-	-	-	-	3,160,753,822,525
Accounts and fees and commissions receivable, net	2,209,576,159	153,270,973	23,601,042	668,539,876	267,288,586	-	3,322,276,636
Fees and commissions	126,192,122	21,244,546	10,240,175	548,171,352	210,093,549	-	915,941,744
Brokerage services	-	31,791,925	-	-	-	-	31,791,925
Transactions with related parties	103,310,598	634,865	3,834,598	4,416,149	97,100	-	112,293,310
Deferred tax and income tax	1,746,465,241	91,812,245	9,244,651	53,476,503	57,097,937	-	1,958,096,577
Other	2,879,297,128	7,787,392	281,618	62,475,872	-	-	2,949,842,010
Accrued interest	1,579,106	-	-	-	-	-	1,579,106
Allowance for impairment of accounts and fees and commissions	(2,647,268,036)	-	-	-	-	-	(2,647,268,036)
Foreclosed assets, net	17,968,409,055	-	-	-	-	-	17,968,409,055
Investments in other companies	73,402,602,584	30,000,000	-	-	-	-	73,432,602,584
Property and equipment, net	162,027,151,469	452,682,343	189,995,743	417,965,016	17,279,479	-	163,105,074,050
Other assets	47,322,377,700	218,421,664	438,183,486	310,728,264	131,866,936	-	48,421,578,050
TOTAL ASSETS	5,304,337,950,609	58,476,430,341	4,597,103,264	7,051,262,754	1,219,681,481	-	5,375,682,428,449
LIABILITIES AND EQUITY							
LIABILITIES							
Obligations with the public	3,471,911,651,396	41,702,705,152	-	-	-	-	3,513,614,356,548
Obligations with BCCR	40,199,829,553	-	-	-	-	-	40,199,829,553
Obligations with entities	1,117,622,219,075	-	-	-	-	-	1,117,622,219,075
Demand	281,915,017,296	-	-	-	-	-	281,915,017,296
Term	828,974,194,925	-	-	-	-	-	828,974,194,925
Finance charges payable	6,733,006,854	-	-	-	-	-	6,733,006,854
Accounts payable and provisions	100,854,958,061	2,481,979,319	561,045,298	674,804,102	277,057,101	-	104,849,843,881
Other liabilities	45,614,844,034	-	-	-	-	-	45,614,844,034
Subordinated obligations	53,974,870,239	-	-	-	-	-	53,974,870,239
TOTAL LIABILITIES	4,830,178,372,358	44,184,684,471	561,045,298	674,804,102	277,057,101	-	4,875,875,963,330
							3,320,711,119
							4,872,555,252,211

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	As of June 30, 2014					
	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Consolidated
EQUITY						
Share capital	¢ 118,130,303,482	6,600,000,000	1,500,000,000	4,610,290,869	369,700,000	118,130,303,482
Non-capitalized capital contributions	-	-	-	384,634,140	-	-
Equity adjustments	66,371,650,829	(123,737,921)	(15,642,398)	19,817,312	-	66,371,650,829
Capital reserves	209,058,123,505	978,689,215	300,000,000	300,000,000	50,242,478	209,058,123,505
Prior period retained earnings	49,146,520,984	6,520,693,031	1,810,603,768	600,506,483	353,530,710	49,146,520,985
Income for the year	16,904,805,625	316,101,545	441,096,596	461,209,848	169,151,192	16,904,805,624
FOFIDE	14,548,173,826	-	-	-	-	14,548,173,826
TOTAL EQUITY	¢ 474,159,578,251	14,291,745,870	4,036,057,966	6,376,458,652	942,624,380	474,159,578,251
TOTAL LIABILITIES AND EQUITY	¢ 5,304,337,950,609	58,476,430,341	4,597,103,264	7,051,262,754	1,219,681,481	5,346,714,830,462
Debit memoranda accounts	¢ 598,893,268,959	-	234,907	10,751,600	-	598,904,255,466
Trust assets	¢ 917,301,588,010	683,905,044	-	-	-	917,985,493,054
Trust liabilities	¢ 68,698,391,324	434,636	-	-	-	68,698,825,960
Trust equity	¢ 848,603,196,686	683,470,408	-	-	-	849,286,667,094
Other debit memoranda accounts	¢ 13,856,338,223,674	1,421,794,094,171	301,723,189,718	803,493,525,914	-	16,383,349,033,477

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Year ended June 30, 2014

	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations	Consolidated
Finance income	437,826,111,354	2,858,427,127	187,388,618	272,443,778	17,412,595	441,161,783,472	16,349,261	441,145,434,211
Finance expense	337,275,891,346	1,877,125,204	36,524,975	24,371,375	2,973,051	339,216,885,951	16,349,261	339,200,536,690
Allowance expense	15,836,377,193	-	-	-	-	15,836,377,193	-	15,836,377,193
Income from recovery of assets	7,966,246,562	-	-	-	-	7,966,246,562	-	7,966,246,562
FINANCE INCOME	92,680,089,377	981,301,923	150,863,643	248,072,403	14,439,544	94,074,766,890	-	94,074,766,890
Other operating income	82,079,425,427	1,318,006,095	1,941,234,594	3,195,006,886	926,779,914	89,460,452,916	1,836,391,134	87,624,061,782
Other operating expenses	61,261,369,117	247,726,379	370,548,296	471,436,644	59,820,358	62,410,900,794	306,078,495	62,104,822,299
GROSS OPERATING INCOME	113,498,145,687	2,051,581,639	1,721,549,941	2,971,642,645	881,399,100	121,124,319,012	1,530,312,639	119,594,006,373
Personnel expenses	56,562,336,934	1,268,965,687	861,593,274	1,667,546,906	576,417,877	60,936,860,678	-	60,936,860,678
Other administrative expenses	31,195,416,238	456,738,070	301,237,347	622,867,673	94,890,725	32,671,150,053	142,753,458	32,528,396,595
Total administrative expenses	87,757,753,172	1,725,703,757	1,162,830,621	2,290,414,579	671,308,602	93,608,010,731	142,753,458	93,465,257,273
NET OPERATING INCOME BEFORE STATUTORY ALLOCATIONS AND TAXES	25,740,392,515	325,877,882	558,719,320	681,228,066	210,090,500	27,516,308,283	1,387,559,183	26,128,749,100
Income tax	4,803,357,674	9,776,336	16,761,580	20,436,842	5,894,023	4,856,226,455	-	4,856,226,455
Decrease in income tax	4,234,989,938	-	122,564,308	312,033,626	52,061,533	4,721,649,405	-	4,721,649,405
Statutory allocations	202,760,722	-	21,703,164	112,452,249	17,016,250	353,932,385	-	353,932,385
INCOME FOR THE YEAR	16,904,805,625	316,101,546	441,096,596	461,209,847	169,151,194	18,292,364,808	1,387,559,183	16,904,805,625

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of June 30, 2013

	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations	Consolidated
ASSETS								
Cash and due from banks	716,007,827,734	3,383,596,209	156,633,357	182,952,832	643,814,866	720,374,824,998	1,590,239,100	718,784,585,898
Investments in financial instruments	991,242,809,552	59,974,390,108	4,003,549,621	9,526,764,828	-	1,064,747,514,109	3,054,912,132	1,061,692,601,977
Loan portfolio, net	2,674,624,937,055	-	-	-	-	2,674,624,937,055	-	2,674,624,937,055
Accounts and fees and commissions receivable, net	2,157,951,476	53,571,704	50,506,777	824,149,830	147,988,934	3,234,168,721	40,324,945	3,193,843,776
Fees and commissions	119,306,307	24,607,307	34,296,643	658,912,834	133,176,731	970,299,822	13,043,551	957,256,271
Brokerage services	-	4,974,346	-	-	-	4,974,346	-	4,974,346
Transactions with related parties	68,702,572	200,748	8,894,569	4,585,367	150,000	82,533,256	27,281,394	55,251,862
Deferred tax and income tax	1,912,244,211	4,770,985	6,650,039	88,687,919	14,662,203	2,027,015,357	-	2,027,015,357
Other	2,287,765,500	19,018,318	665,526	71,963,710	-	2,379,413,054	-	2,379,413,054
Accrued interest	1,530,318	-	-	-	-	1,530,318	-	1,530,318
Allowance for impairment of accounts and fees and commissions	(2,231,597,432)	-	-	-	-	(2,231,597,432)	-	(2,231,597,432)
Foreclosed assets, net	28,612,635,604	-	-	-	-	28,612,635,604	-	28,612,635,604
Investments in other companies	70,821,648,814	30,000,000	-	-	-	70,851,648,814	30,939,249,241	39,912,399,573
Property and equipment, net	143,549,112,118	315,946,015	169,508,301	516,974,505	18,903,050	144,570,443,989	-	144,570,443,989
Other assets	19,586,177,396	154,506,462	305,951,518	224,631,799	46,035,855	20,317,303,030	-	20,317,303,030
TOTAL ASSETS	4,646,603,099,749	63,912,010,498	4,686,149,574	11,275,473,794	856,742,705	4,727,333,476,320	35,624,725,418	4,691,708,750,902
LIABILITIES AND EQUITY								
LIABILITIES								
Obligations with the public	3,536,279,170,273	43,581,505,568	-	-	-	3,579,860,675,841	3,054,912,131	3,576,805,763,710
Obligations with BCCR	215,660,779	-	-	-	-	215,660,779	-	215,660,779
Obligations with entities	541,929,603,243	-	-	-	-	541,929,603,243	1,590,239,101	540,339,364,142
Demand	178,025,977,701	-	-	-	-	178,025,977,701	1,590,239,101	176,435,738,600
Term	361,432,841,488	-	-	-	-	361,432,841,488	-	361,432,841,488
Finance charges payable	2,470,784,054	-	-	-	-	2,470,784,054	-	2,470,784,054
Accounts payable and provisions	99,839,673,958	2,509,125,235	602,312,293	2,947,675,727	150,508,507	106,049,293,720	40,324,945	106,008,970,775
Other liabilities	28,067,944,461	-	-	-	-	28,067,944,461	-	28,067,944,461
TOTAL LIABILITIES	4,206,332,052,714	46,090,630,803	602,312,293	2,947,675,727	150,508,507	4,256,123,180,044	4,685,476,177	4,251,437,703,867

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of June 30, 2013

	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations	Consolidated
EQUITY								
Share capital	¢ 118,130,303,482	6,600,000,000	1,500,000,000	4,176,355,563	369,700,000	130,776,359,045	12,646,055,563	118,130,303,482
Non-capitalized capital contributions	-	-	-	818,569,446	-	818,569,446	818,569,446	-
Equity adjustments	¢ 54,163,265,534	515,414,633	17,689,130	150,928,204	-	54,847,297,501	684,031,967	54,163,265,534
Capital reserves	¢ 196,909,225,981	851,163,880	274,631,003	300,000,000	30,063,971	198,365,084,835	1,455,858,854	196,909,225,981
Prior period retained earnings	¢ 41,115,954,815	8,097,711,669	1,717,180,212	1,707,831,268	220,139,078	52,858,817,042	11,742,862,227	41,115,954,815
Income for the year	¢ 17,708,494,022	1,757,089,514	574,336,936	1,174,113,585	86,331,149	21,300,365,206	3,591,871,184	17,708,494,022
FOFIDE	¢ 12,243,803,201	-	-	-	-	12,243,803,201	-	12,243,803,201
TOTAL EQUITY	¢ 440,271,047,035	¢ 17,821,379,696	¢ 4,083,837,281	¢ 8,327,798,066	¢ 706,234,198	¢ 471,210,296,276	¢ 30,939,249,241	¢ 440,271,047,035
TOTAL LIABILITIES AND EQUITY	¢ 4,646,603,099,749	¢ 63,912,010,499	¢ 4,686,149,574	¢ 11,275,473,793	¢ 856,742,705	¢ 4,727,333,476,320	¢ 35,624,725,418	¢ 4,691,708,750,902
Debit memoranda accounts	¢ 400,519,352,099	-	192,271	9,860,600	-	400,529,404,970	-	400,529,404,970
Trust assets	¢ 910,895,466,754	1,202,966,083	-	-	-	912,098,432,837	-	912,098,432,837
Trust liabilities	¢ 84,537,024,715	394,429	-	-	-	84,537,419,144	-	84,537,419,144
Trust equity	¢ 826,358,442,039	1,202,571,654	-	-	-	827,561,013,693	-	827,561,013,693
Other debit memoranda accounts	¢ 13,094,848,083,958	1,314,105,428,689	287,375,585,255	698,030,113,224	-	15,394,359,211,127	-	15,394,359,211,127

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Year ended June 30, 2013

	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations	Consolidated
Finance income	208,580,240,518	4,392,117,248	168,412,127	622,315,088	16,845,036	213,779,930,017	220,910,845	213,559,019,172
Finance expense	109,279,222,980	1,705,982,721	14,856,705	7,870,208	550,231	111,008,482,845	220,910,845	110,787,572,000
Allowance expense	18,554,768,457	-	-	-	-	18,554,768,457	-	18,554,768,457
Income from recovery of assets	7,546,381,258	79,434,100	38,186,842	21,419,099	13,230,592	7,698,651,891	-	7,698,651,891
FINANCE INCOME	88,292,630,339	2,765,568,627	191,742,264	635,863,979	29,525,397	91,915,330,606	-	91,915,330,606
Other operating income	59,131,608,236	1,693,689,601	2,020,657,202	3,973,907,294	616,469,814	67,436,332,147	3,910,223,212	63,526,108,935
Other operating expenses	48,925,094,601	417,720,389	374,141,448	658,039,764	55,264,517	50,430,260,719	189,415,554	50,240,845,165
GROSS OPERATING INCOME	98,499,143,974	4,041,537,839	1,838,258,018	3,951,731,509	590,730,694	108,921,402,034	3,720,807,658	105,200,594,376
Personnel expenses	55,842,922,817	1,350,041,520	761,530,784	1,668,476,492	394,728,155	60,017,699,768	-	60,017,699,768
Other administrative expenses	27,505,676,313	501,592,398	264,890,907	599,526,457	66,889,250	28,938,575,325	128,936,474	28,809,638,851
Total administrative expenses	83,348,599,130	1,851,633,918	1,026,421,691	2,268,002,949	461,617,405	88,956,275,093	128,936,474	88,827,338,619
NET OPERATING INCOME BEFORE STATUTORY ALLOCATIONS AND TAXES	15,150,544,844	2,189,903,921	811,836,327	1,683,728,560	129,113,289	19,965,126,941	3,591,871,184	16,373,255,757
Income tax	4,804,301,508	158,176,993	25,078,505	51,764,882	8,417,143	5,047,739,031	-	5,047,739,031
Decrease in income tax	-	274,637,414	212,420,886	514,334,064	72,074,670	1,073,467,034	-	1,073,467,034
Statutory allocations	7,362,250,686	-	-	56,483,971	37,709,673	7,456,444,330	-	7,456,444,330
INCOME FOR THE YEAR	17,708,494,022	1,757,089,514	574,336,936	1,174,113,585	86,331,149	21,300,365,206	3,591,871,184	17,708,494,022

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(43) Risk management

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

- credit risk
- liquidity risk
- market risks
 - interest rate risk
 - currency risk and
- operational risk.

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

Policies and procedures for managing market and liquidity risks are also being formalized in specific manuals for each type of risk that describe the methodologies used to manage those risks. This activity has been extended to the Bank's subsidiaries, i.e. Brokerage Firm, Investment Fund Manager, 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 will fail to discharge an obligation, fully and on time, in accordance with the terms and conditions agreed upon at the time the financial asset was acquired. Credit risk is mainly related to the loan portfolio and investments in financial instruments. The exposure to credit risk on those assets is represented by the carrying amount of the assets in the consolidated balance sheet.

The Bank also has exposure to credit risk for off-balance sheet credits, such as commitments, letters of credit, sureties, and guarantees.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

The Bank has established the following credit risk management procedures:

1. The Bank has defined procedures for loan follow-up and processing as well as for the application of loan controls. The functions, tasks, and procedures performed by the Credit Risk Division have been documented with the support of the Quality Management Division. As a result, the Bank has been able to unify, standardize, and improve the process.
2. The Bank has performed and reviewed the administrative loan follow-up procedures for branches and regional offices.
3. The Bank is comprehensively evaluating the Loan Process and, based on that evaluation, the procedures performed through offices, business development centers (BDCs), shared service centers, trade zones, and corporate centers in accordance with the organizational structure project named "Transformation."
4. 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 date of the consolidated balance sheet, there are no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

	Note	Direct		Note	Stand-by	
		2014	2013		2014	2013
Loan portfolio						
Principal	6-a	3,188,559,094,292	2,704,194,436,734	20	253,018,367,090	173,744,905,343
Accounts and accrued interest receivable		20,448,168,641	19,824,191,793		-	-
Carrying amount, gross		3,209,007,262,933	2,724,018,628,527		253,018,367,090	173,744,905,343
Allowance for loan impairment (accounting records)		(48,253,440,408)	(49,393,691,472)		(1,185,342,814)	(246,365,447)
Carrying amount, net	¢	3,160,753,822,525	2,674,624,937,055		251,833,024,276	173,498,539,896
Loan portfolio						
Total balances:						
A1		2,526,155,727,885	2,016,153,211,874		243,729,167,130	165,874,723,311
A2		31,550,718,427	25,358,866,973		391,192,024	228,173,569
B1		299,002,197,602	294,966,522,987		4,338,686,176	3,323,739,251
B2		7,768,816,426	11,619,877,257		18,329,774	16,015,858
C1		80,149,245,937	94,563,240,362		1,886,166,876	2,394,982,905
C2		8,166,966,387	7,661,454,946		13,007,491	7,762,609
D		116,380,382,690	134,159,278,804		1,137,365,009	1,262,480,750
E		139,833,207,579	139,536,175,324		1,504,452,610	637,027,090
		3,209,007,262,933	2,724,018,628,527		253,018,367,090	173,744,905,343
Structural allowance (subledger – database)		(42,785,827,216)	(49,554,930,511)		(1,089,154,840)	(84,777,905)
Carrying amount, net	¢	3,166,221,435,717	2,674,463,698,016		251,929,212,250	173,660,127,438

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	Direct		Stand-by	
	2014	2013	2014	2013
Individually assessed loans with allowance:				
A1	2,526,155,727,885	827,830,684,934	239,275,377,229	155,612,175,114
A2	31,550,718,427	7,679,099,905	391,192,024	220,838,625
B1	299,002,197,602	60,998,881,641	4,220,892,222	3,162,140,799
B2	7,768,816,426	1,247,909,375	18,329,774	16,015,858
C1	80,149,245,937	15,510,735,540	1,886,166,876	2,339,003,067
C2	8,166,966,387	1,866,797,668	11,945,216	7,762,609
D	116,380,382,690	45,678,516,019	1,133,685,987	875,759,364
E	139,833,207,579	109,628,506,670	1,503,889,183	637,027,090
	3,209,007,262,933	1,070,441,131,752	248,441,478,511	162,870,722,526
Structural allowance (subledger – database)	(42,785,827,216)	(49,554,930,511)	(1,089,154,840)	(84,777,905)
Carrying amount, net	3,166,221,435,717	1,020,886,201,241	247,352,323,671	162,785,944,621
Past due loans without allowance:				
A1	-	38,962,748,612	-	5,299,365
A2	-	5,165,081,969	-	-
B1	-	13,910,301,737	-	-
B2	-	1,628,283,317	-	-
C1	-	8,948,750,280	-	3,013,017
C2	-	2,568,571,986	-	-
D	-	15,129,790,877	-	-
E	-	17,677,443,304	-	-
Carrying amount	-	103,990,972,082	-	8,312,382

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	Direct		Stand-by	
	2014	2013	2014	2013
Aging of loan portfolio				
1-0 days	¢	-		-
1-30 days	-	63,358,078,500	-	5,299,365
31-60 days	-	16,056,345,001	-	3,013,017
61-90 days	-	11,070,564,641	-	-
91-180 days	-	4,607,091,118	-	-
More than 180 days	-	8,898,892,822	-	-
Carrying amount	¢	<u>103,990,972,082</u>		<u>8,312,382</u>
Current loans without allowance:				
A1	-	1,149,359,778,327	4,453,789,900	10,257,248,829
A2	-	12,514,685,099	-	7,334,944
B1	-	220,057,339,609	117,793,954	161,598,453
B2	-	8,743,684,565	-	-
C1	-	70,103,754,542	-	52,966,822
C2	-	3,226,085,292	1,062,275	-
D	-	73,350,971,909	3,679,022	386,721,386
E	-	12,130,225,350	563,429	-
Carrying amount	¢	<u>1,549,486,524,693</u>	<u>4,576,888,580</u>	<u>10,865,870,434</u>
Allowance for loan impairment (database)	<u>3,209,007,262,933</u>	<u>2,724,018,628,527</u>	<u>253,018,367,090</u>	<u>173,744,905,343</u>
(Excess) insufficiency of allowance over structural allowance	(42,785,827,216)	(49,554,930,511)	(1,089,154,840)	(84,777,905)
Carrying amount, net	(5,467,613,192)	161,239,039	(96,187,974)	(161,587,542)
Restructured loans	<u>3,160,753,822,525</u>	<u>2,674,624,937,055</u>	<u>251,833,024,276</u>	<u>173,498,539,896</u>
	<u>20,620,455,649</u>	<u>44,347,925,918</u>	<u>7,033,221</u>	<u>25,361,186</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

		June 2014	
		Loans to customers	
		Gross	Net
A1	¢	2,526,155,727,885	2,519,679,706,924
A2		31,550,718,427	31,538,094,972
B1		299,002,197,602	297,895,790,034
B2		7,768,816,426	7,679,102,167
C1		80,149,245,937	78,601,274,927
C2		8,166,966,387	7,774,376,537
D		116,380,382,690	107,339,917,892
E		139,833,207,579	110,245,559,072
	¢	<u>3,209,007,262,933</u>	<u>3,160,753,822,525</u>

		June 2013	
		Loans to customers	
		Gross	Net
A1	¢	2,016,153,211,874	2,013,409,202,900
A2		25,358,866,973	25,291,215,767
B1		294,966,522,987	293,993,875,030
B2		11,619,877,257	11,561,560,732
C1		94,563,240,362	93,116,020,769
C2		7,661,454,946	7,252,218,691
D		134,159,278,804	127,144,445,437
E		139,536,175,324	102,856,397,729
	¢	<u>2,724,018,628,527</u>	<u>2,674,624,937,055</u>

As shown above, as of June 30, 2014, the gross portfolio amounts to ¢3,178 billion. Of that amount, 89.26% is classified in risk ratings “A + B” and 10.74% in risk ratings “C+ D+ E” (2013: ¢2,724 billion, of which 86.20% is classified in risk ratings “A + B” and 13.80% 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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Past due loans without allowance:

	Direct		Stand-by	
	June 2014	June 2013	June 2014	June 2013
More than 180 days ¢	-	8,898,892,822	-	-

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.

- 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.
- 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.
- 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.

Restructured loans are as follows:

	Direct		Stand-by	
	June 2014	June 2013	June 2014	June 2013
Restructured loans ¢	20,620,455,649	44,347,925,918	7,033,221	25,361,186

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Loan charge-off policy:

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

Risk ratings

The loan portfolio by borrower classification (including interest receivable) is as follows:

Borrower classification	Direct		Stand-by	
	June 2014	June 2013	June 2014	June 2013
Group 1	¢ 1,762,229,969,171	1,449,013,393,880	60,882,772,617	40,719,681,927
Group 2	1,446,777,293,762	1,275,005,234,647	192,135,594,473	133,025,223,416
	¢ 3,209,007,262,933	2,724,018,628,527	253,018,367,090	173,744,905,343

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.

Borrower classification

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:

- 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.
- 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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- 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 Credit Information Center (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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Risk rating	Arrears	Direct		Stand-by	
		June 2014	June 2013	June 2014	June 2013
A1	30 days or less	¢ 2,526,155,727,885	2,016,153,212,427	243,729,167,130	165,874,723,311
A2	60 days or less	31,550,718,427	25,358,866,973	391,192,024	228,173,569
B1	60 days or less	299,002,197,602	294,966,522,987	4,338,686,176	3,323,739,251
B2	60 days or less	7,768,816,426	11,619,877,257	18,329,774	16,015,858
C1	90 days or less	80,149,245,937	94,563,240,362	1,886,166,876	2,394,982,905
C2	90 days or less	8,166,966,387	7,661,454,946	13,007,491	7,762,609
D	120 days or less	116,380,382,690	134,159,278,804	1,137,365,009	1,262,480,750
E	More than 120 days or				
	other factors	139,833,207,579	139,536,174,771	1,504,452,610	637,027,090
		¢ <u>3,209,007,262,933</u>	<u>2,724,018,628,527</u>	<u>253,018,367,090</u>	<u>173,744,905,343</u>

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

Borrower classification

For purposes of borrower classification, pursuant to SUGEF Directive 1-05, borrowers in Group 1 are to be 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 to be classified based on arrears and historical payment behavior.

In all cases, borrowers without valid authorization for a credit check through SUGEF's 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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Structural allowance

The structural allowance 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 with 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 indicated below should be used.

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

<u>Risk rating</u>	<u>Allowance percentage</u>	<u>Arrears</u>	<u>Historical payment behavior</u>	<u>Creditworthiness</u>
A1	0.5%	30 days or less	Level 1	Level 1
A2	2%	30 days or less	Level 2	Level 1
B1	5%	60 days or less	Level 1	Level 1 or Level 2
B2	10%	60 days or less	Level 2	Level 1 or Level 2
C1	25%	90 days or less	Level 1	Level 1, Level 2, or Level 3
C2	50%	90 days or less	Level 1 or Level 2	Level 1, Level 2, or Level 3
D	75%	120 days or less	Level 1 or Level 2	Level 1, Level 2, Level 3, or Level 4

Allowance percentages based on borrower risk rating are as follows:

<u>Risk rating</u>	<u>Allowance percentage</u>
A1	0.5%
A2	2%
B1	5%
B2	10%
C1	25%
C2	50%
D	75%
E	100%

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

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

The sum of individual allowances for each loan operation constitutes the structural allowance.

Pursuant to the provisions of SUGEF Directive 1-05, as of June 30, 2014, the Bank must maintain a structural allowance in the amount of ¢43,874,982,056 (¢42,785,827,216 and ¢1,089,154,840 for direct and stand-by credits, respectively). The allowance booked by the bank amounts to ¢49,438,783,222 (¢48,253,440,408 and ¢1,185,342,814 for direct and stand-by credits, respectively), with a valuation in the amount of ¢2,220,826,956, in accordance with CONASSIF regulation No. 1058-07. Consequently, the allowance booked by the Bank exceeds the minimum allowance required by current regulations by ¢3,342,974,210 (7.62%).

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

As of June 30, 2014, the balance of the Bank's allowance for loan impairment (direct and stand-by), accrued interest receivable, and other receivables amounts to ¢52,086,051,258 (2013: ¢51,871,654,351).

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Credit equivalent

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

- a. Bid bonds and export letters of credit without prior deposit: 0.05;
- b. Other sureties and guarantees without prior deposit: 0.25; and
- c. Pre-approved lines of credit: 0.50.

Allowance for other assets

Allowances should be established for the following assets:

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of June 30, 2014, the carrying amount of the allowance for impairment of foreclosed assets and per legal requirements amounts to ₡56,721,597,354 (2013: ₡53,035,182,521).

The concentration of the loan portfolio by sector is as follows:

Sector	Direct		Stand-by	
	June 2014	June 2013	June 2014	June 2013
Trade	₡ 360,080,898,760	372,032,317,225	79,085,604	113,692,740
Services	608,535,390,502	570,380,660,264	56,985,596,631	42,238,107,576
Financial services	101,318,896,049	50,745,172,430	-	-
Mining	276,483,476	50,424,630	-	-
Manufacturing and quarrying	136,438,135,345	126,208,620,002	1,063,534	35,692,873
Construction	73,295,594,291	69,818,441,188	-	-
Agriculture and forestry	98,914,891,112	90,458,872,512	12,461,126	11,455,021
Livestock, hunting, and fishing	60,656,428,503	62,873,938,497	3,013,017	3,013,017
Electricity, water, sanitation, and other related sectors	244,320,774,213	111,345,419,550	-	-
Transportation and telecommunications	25,768,091,808	21,880,732,140	-	-
Housing	1,039,006,532,092	893,592,886,910	10,470,339	12,420,174
Personal or consumer	335,235,873,404	251,609,931,490	195,728,666,823	131,173,741,759
Tourism	125,159,273,378	103,021,211,689	198,010,016	156,782,182
	<u>₡ 3,209,007,262,933</u>	<u>2,724,018,628,527</u>	<u>253,018,367,090</u>	<u>173,744,905,343</u>

The concentration of the loan portfolio by geographic area is as follows:

	Direct		Stand-by	
	June 2014	June 2013	June 2014	June 2013
Central America	₡ <u>3,209,007,262,933</u>	<u>2,724,018,628,527</u>	<u>253,018,367,090</u>	<u>173,744,905,343</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The loan portfolio by type of guarantee is as follows:

Guarantee	Direct		Stand-by	
	June 2014	June 2013	June 2014	June 2013
Back to back	¢ 8,511,951,130	12,894,072,726	26,879,000	71,190,006
Mortgage bond	10,614,462,236	12,773,038,837	-	-
Assignment of loans	279,931,642,546	298,655,691,993	-	-
Mortgage	1,557,382,789,396	1,394,887,594,350	302,147,350	662,502,578
Surety	590,476,850,539	519,083,382,799	82,531,481	115,116,294
Trust	245,801,736,977	209,768,936,263	135,550,916	521,675,446
Securities	1,410,966,897	1,697,816,023	-	-
Chattel mortgage	119,112,991,580	72,419,602,154	-	-
Other	395,763,871,632	201,838,493,382	252,471,258,343	172,374,421,019
	¢ 3,209,007,262,933	2,724,018,628,527	253,018,367,090	173,744,905,343

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 June 30, 2014, 48.53% of the loan portfolio is secured by collateral guarantees (2013: 51.21%).

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

Loan portfolio concentration	Direct		Stand-by	
	June 2014	June 2013	June 2014	June 2013
¢1 to ¢3,000,000	¢ 147,316,670,413	136,221,666,817	86,900,944,604	64,091,885,794
¢3,000,001 to ¢15,000,000	502,799,159,215	458,084,774,371	106,505,112,425	68,099,891,994
¢15,000,001 to ¢30,000,000	404,374,812,896	363,368,451,171	5,597,039,432	3,783,251,501
¢30,000,001 to ¢50,000,000	366,401,180,773	314,107,920,684	2,038,010,899	1,951,554,443
¢50,000,001 to ¢75,000,000	247,946,674,791	194,698,816,954	1,733,639,624	1,512,415,967
¢75,000,001 to ¢100,000,000	111,273,859,170	101,485,634,812	1,196,992,950	1,092,024,401
¢100,000,001 to ¢200,000,000	197,690,765,126	179,287,405,304	3,390,256,267	4,283,341,982
More than ¢200,000,000	1,231,204,140,549	976,763,958,414	45,656,370,889	28,930,539,261
	¢ 3,209,007,262,933	2,724,018,628,527	253,018,367,090	173,744,905,343

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of June 30, 2014 and 2013, the portion of the loan portfolio (direct and stand-by loans) corresponding to economic interest groups amounts to ¢247,720,317,466 and ¢240,875,493,384, 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 U.S. dollar, and DU. Consequently, the VaR analysis is performed separately for each currency. The data is then consolidated to determine a maximum loss for the entire portfolio, expressed in colones. VaR is also calculated for each of the Bank's 13 economic activities, its credit card accounts, and the BN-Desarrollo portfolio.

Various technical tools are used to provide other angles for the analysis. Other types of estimates are made in addition to those obtained using the VaR methodology, such as the performance of the portfolio in legal collections, 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 use of the above analyses has led to sound credit risk management practices that, along with tight control over loan collection, have helped to substantially improve the level of arrears in the loan portfolio.

At the March 2014 year-end, the VaR of the loan portfolio locates at 1.46% and presents a decrease of 0.36 pp with respect to the same period in the prior year, as a result of the decrease in legal collections of 0.19 pp and 0.80 pp, in colones and U.S. dollars, respectively.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

With that purpose and to continually improve the calculation models, a recent adjustment in the parameters used for quantification of credit risk was performed to obtain more accurate credit risk estimates. Consequently, subsequent to the aforementioned adjustment, results obtained exceed prior results (specifically between March and June 2014). The Corporate Risk Committee and the Board of Directors approved the methodology.

In June 2014, the VaR of the loan portfolio located at 2.39% and presented a decrease of 0.06 pp with respect to May 2014, as a result of the decrease in arrears of more than 90 days for loans denominated in colones, U.S. dollars, and DU. Accordingly, the different currencies present decreased VaR.

Excluding the VaR behavior from sectors such as Energy, Financial Services, and Mining, which are strongly impacted by the effect of portfolio concentration, most economic activities present a monthly decrease in their risk indicator, as a result of decreases in delinquency levels (legal collections, loans more than 90 days past due, or both). Variations usually range between 0.05 pp and 0.49 pp.

Specifically, both the Consumer and Tourism activities have in common the decreases in the balance of loans past due between 31 and 120 days. Only Industry and Transportation present a growth (0.59 pp and 1.26 pp, respectively) with respect to the VaR booked one month ago. Industry presents deterioration in the quality of the portfolio, while Transportation presents an increase in arrears levels (between 61 and 90 days).

For the Investment Fund Manager, credit risk is the risk that the borrower or issuer of a financial asset will fail to discharge an obligation, fully and on time, in accordance with the terms and conditions agreed upon at the time the financial asset was acquired.

Credit risk is considered to be minimal since the Investment Fund Manager's portfolio is comprised of securities issued by BCCR and the Ministry of Finance. Such risk is measured and monitored using the Return on Risk-Adjusted Capital (RORAC) methodology.

To mitigate credit risk, the Investment Fund Manager monitors the issuers' risk, obtains ratings assigned to issuers by risk rating agencies, and maintains access to information necessary for following-up on significant events for each issuer that could adversely affect its rating or outlook.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The Investment Fund Manager has established the following procedures to manage credit risk:

- formulation of credit policies;
- definition of concentration and exposure limits, which are included in the risk management and investment policy; and
- policy compliance reviews through analyses of the composition of the investment portfolio.

The Investment Fund Manager enters into repurchase agreements, which can lead to credit risk exposure if the counterparty to the transaction is unable to fulfill its contractual obligations. Repurchase agreements are secured by securities pledged by the counterparty, but are not directly secured by the Costa Rican National Stock Exchange. In the event of default, the Investment Fund Manager has recourse to the guarantee fund and to traditional recovery mechanisms such as termination of the agreement and foreclosure.

For the Brokerage Firm, credit risk is the risk of potential losses resulting from an issuer's failure to pay or from deterioration in the credit rating of the security or issuer.

To manage credit risk, the Brokerage Firm has identified risk factors, i.e. variables for which changes could affect the equity of the Brokerage Firm.

To mitigate credit risk, the Brokerage Firm's liquidity policy sets the following limits:

Pursuant to the requirements set out in the investment policy, the Brokerage Firm takes into consideration the ratings granted by rating agencies to local or international issues, in compliance with the provisions of current regulations.

The Brokerage Firm assesses the marketability of the instruments based on internally calculated indicators. In the case of investments in the local market, the Brokerage Firm considers those registered with the National Registry of Securities and Brokers, while for investments in international markets, the Brokerage Firm considers instruments that may be sold at any point in time.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Consequently, in order for the Brokerage Firm to acquire securities issued abroad, those securities must have been assigned a risk rating by a risk rating agency authorized by SUGEVAL or by a renowned international risk rating agency such as Standard & Poors, Moody's, or Fitch. This requirement does not apply to securities issued abroad by the Government of Costa Rica, BCCR, and other Costa Rican public institutions.

The Brokerage Firm may acquire the following instruments:

- Fixed income external debt securities issued by the Government of Costa Rica, BCCR, and other Costa Rican public institutions.
- Fixed income securities issued by the government or the central bank of countries that have been assigned an investment grade rating.
- Investment grade corporate bonds and fixed income securities issued by supranational entities.
- Structured notes issued by investment grade banks, provided that the underlying instrument is not related to commodities, stock indexes, or shares; has a risk rating that is not below the risk rating assigned to Costa Rica; and is available for public offering on a national or international stock exchange, subject to prior approval of General Management.

Local currency:

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

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

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

As of June 2014, the accounting records showed investments in colones, investments in instruments issued by local issuers in U.S. dollars (\$CR), and investments in instruments issued by foreign issuers in U.S. dollars (\$USA). The Brokerage Firm holds no investments in DU. By currency, the majority (94.05%) of the Brokerage Firm's financial instruments is concentrated in the portfolio in colones.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The consolidated portfolio is comprised of investments in instruments issued by the Government of Costa Rica (85.63%), BCCR (6.22%), Banco Popular y de Desarrollo Comunal (1.87%), Banco Crédito Agrícola de Cartago (0.09%), and the Bank (0.24%). These issuers represent 94.05% of the consolidated portfolio. The portfolio denominated in U.S. dollars represents 5.95%.

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

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

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

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

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

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

As of June 30, 2014, the assets managed by the Pension Fund Manager amount to ¢795,871 million, growing year-on-year by ¢110,074.66 million. This implies a growth rate of 16.05% with respect to the portfolio managed as of June 2013. These data do not include the Pension Fund Manager's own assets.

The pension fund with the highest share is ROP, which represents 79.45% and shows a year-on-year growth of ¢86,266.67 million and a growth of 15.80% with respect to June 2013.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of June 30, 2014, the portfolio of the Pension Fund Manager's own funds amounts to ¢5,490 million (face value), decreasing by ¢3,704 million with respect to the prior year. The VaR of credit in absolute terms is equivalent to ¢28 million, i.e. 0.53% in relative terms (June 2013: VaR in absolute terms equivalent to ¢39 million, i.e. 0.41% in relative terms).

For the Insurance Brokerage Firm, credit risk is the risk that the borrower or issuer of a financial asset will fail to discharge an obligation, fully and on time, in accordance with the terms and conditions agreed upon at the time the financial asset was acquired. Credit risk arises mainly on cash and due from banks and investments in financial instruments and is represented by the carrying amount of the assets in the balance sheet.

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

As of June 30, 2014 and 2013, exposure to credit risk is represented by the carrying amounts of cash and due from banks and available-for-sale investments. As of those dates, cash and due from banks corresponds to deposits made in checking accounts in a State-owned bank and investments in financial instruments correspond to investments in the investment fund denominated BN Fon Depósito - Colones No Diversificado (non-diversified – colones), which is secured by term certificates of deposit issued by the Bank.

b) Liquidity risk

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

To support liquidity risk management, the Market Risk Division monitors indicators such as liability structure, daily changes and trends in demand and term account balances, volatility of deposit-taking from the public (duration by liability and currency), VaR of liquidity, comparisons of liquidity indicators, levels of concentration of the Bank's funding sources, and variables with the greatest impact on SUGEF's term matching indicators. All of this information is communicated to management in a monthly report that is reviewed by the Corporate Risk Committee.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of June 30, 2014, the terms of the Bank's assets and liabilities denominated in local currency are matched as follows:

	Past due	Demand	Days					181 to 365	More than 365	Total
			1 to 30	31 to 60	61 to 90	91 to 180				
Cash and due from banks	¢	54,237,581,604	-	-	-	-	-	-	-	54,237,581,604
Minimum cash reserve in BCCR		376,738,290,854	-	-	-	-	-	-	-	376,738,290,854
Investments		-	9,956,234,579	14,441,532	5,846,983,473	19,123,450,249	134,707,533,021	303,421,767,210	-	473,070,410,064
Loan portfolio		77,304,925,149	35,267,690,870	23,993,446,587	26,027,641,179	66,537,862,331	80,969,801,424	1,670,292,945,516	-	1,981,441,778,112
Total recovery of assets	¢	77,304,925,149	45,223,925,449	24,007,888,119	31,874,624,652	85,661,312,580	215,677,334,445	1,973,714,712,726	-	2,885,488,060,634
Obligations with the public	¢	1,317,406,598,904	218,954,759,416	127,101,084,293	113,143,229,273	339,511,995,772	159,830,040,223	47,679,761,799	-	2,323,627,469,680
Obligations with BCCR		-	40,000,000,000	-	-	-	-	193,365,089	-	40,193,365,089
Obligations with financial entities		91,098,749,816	6,979,609,913	600,417,896	372,409,054	215,460,795	602,490,472	707,936,177	-	100,577,074,123
Charges payable		5,823,135,595	5,240,563,837	2,218,010,038	636,507,368	1,206,354,647	292,113,338	123,778,469	-	15,540,463,292
Total maturity of liabilities	¢	1,414,328,484,315	271,174,933,166	129,919,512,227	114,152,145,695	340,933,811,214	160,724,644,033	48,704,841,534	-	2,479,938,372,184
Difference	¢	(982,305,146,801)	(225,951,007,717)	(105,911,624,108)	(82,277,521,043)	(255,272,498,634)	54,952,690,412	1,925,009,871,192	-	405,549,688,450

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of June 30, 2014, the terms of the Bank's assets and liabilities denominated in foreign currency, expressed in local currency, are matched as follows:

	Past due	Demand	Days						More than 365	Total
			1 to 30	31 to 60	61 to 90	91 to 180	181 to 365			
Cash and due from banks	¢	373,045,294,833	-	-	-	-	-	304,737,561	373,350,032,394	
Minimum cash reserve in BCCR	-	197,109,474,402	-	-	-	-	-	-	197,109,474,402	
Investments	-	-	20,852,232,779	1,836,921,402	24,450,807,528	33,702,092,726	98,006,344,153	252,092,114,404	430,940,512,992	
Loan portfolio	37,967,690,785	10,916,083,228	21,079,876,605	21,703,488,293	26,286,830,282	51,220,218,720	48,594,689,523	1,009,796,607,385	1,227,565,484,821	
Total recovery of assets	¢	581,070,852,463	41,932,109,384	23,540,409,695	50,737,637,810	84,922,311,446	146,601,033,676	1,262,193,459,350	2,228,965,504,609	
Obligations with the public	¢	766,279,819,821	86,992,302,428	83,220,971,725	44,344,449,393	146,832,543,328	36,753,208,525	7,377,089,448	1,171,800,384,668	
Obligations with financial entities	-	190,816,267,480	49,520,235	102,140,200	28,193,817,519	27,026,254	256,164,778	787,974,587,312	1,007,419,523,778	
Charges payable	-	794,210,462	629,816,775	1,327,492,763	649,890,446	5,599,121,699	100,984,323	38,650,089	9,140,166,557	
Total maturity of liabilities	¢	957,890,297,763	87,671,639,438	84,650,604,688	73,188,157,358	152,458,691,281	37,110,357,626	795,390,326,849	2,188,360,075,003	
Difference	¢	(376,819,445,300)	(45,739,530,054)	(61,110,194,993)	(22,450,519,548)	(67,536,379,835)	109,490,676,050	466,803,132,501	40,605,429,606	

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of June 30, 2013, the terms of the Bank's assets and liabilities denominated in local currency are matched as follows:

	Days							Total
	Past due	Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	
Cash and due from banks	¢ -	59,237,593,886	-	-	-	-	-	59,237,593,886
Minimum cash reserve in BCCR	-	353,444,495,959	-	-	-	-	-	353,444,495,959
Investments	-	-	51,353,358,289	20,691,924,767	12,270,156,869	131,184,037,107	218,556,377,351	299,486,096,366
Loan portfolio	94,177,936,087	2,297,367,274	26,647,588,975	20,445,524,883	38,397,852,349	56,070,429,781	63,667,322,354	1,768,641,404,557
Total recovery of assets	¢ 94,177,936,087	414,979,457,119	78,000,947,264	41,137,449,650	50,668,009,218	187,254,466,888	282,223,699,705	2,914,865,445,151
Obligations with the public	¢ -	1,258,546,192,414	171,346,156,774	153,582,203,314	139,947,859,902	325,848,815,248	295,935,570,186	2,401,063,423,824
Obligations with BCCR	-	-	-	-	-	-	-	215,189,953
Obligations with financial entities	-	83,449,763,758	610,552,131	695,784,078	3,148,625,164	4,428,471,336	1,086,905,076	2,452,828,611
Charges payable	-	7,474,241,663	5,373,728,336	2,172,679,332	1,870,952,473	2,406,510,989	1,233,385,436	87,012,185
Total maturity of liabilities	¢ -	1,349,470,197,835	177,330,437,241	156,450,666,724	144,967,437,539	332,683,797,573	298,255,860,698	58,611,656,735
Difference	¢ 94,177,936,087	(934,490,740,716)	(99,329,489,977)	(115,313,217,074)	(94,299,428,321)	(145,429,330,685)	(16,032,160,993)	397,095,390,806

As of June 30, 2013, the terms of the Bank's assets and liabilities denominated in foreign currency, expressed in local currency, are matched as follows:

	Days							Total
	Past due	Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	
Cash and due from banks	¢ -	118,435,647,375	-	-	-	-	-	118,673,027,185
Minimum cash reserve in BCCR	-	187,429,468,866	-	-	-	-	-	187,429,468,866
Investments	-	-	15,340,159,490	847,752,010	9,820,299,875	36,417,470,237	93,495,002,356	172,828,140,838
Loan portfolio	38,005,409,543	6,251,842,099	18,531,614,175	24,800,437,679	11,165,590,555	49,529,387,425	37,765,671,892	769,327,270,603
Total recovery of assets	¢ 38,005,409,543	312,116,958,340	33,871,773,665	25,648,189,689	20,985,890,430	85,946,857,662	131,260,674,248	942,392,791,251
Obligations with the public	¢ -	676,457,361,880	87,177,391,968	74,002,265,071	70,931,499,842	170,678,812,099	61,616,162,346	1,152,040,608,014
Obligations with financial entities	-	94,576,213,943	34,799,623,477	8,451,171,284	2,979,163	17,753,409,987	49,515,353,434	236,896,898,646
Charges payable	-	919,183,879	1,110,761,108	1,440,590,797	570,527,941	820,737,057	655,242,585	41,308,071
Total maturity of liabilities	¢ -	771,952,759,702	123,087,776,553	83,894,027,152	71,505,006,946	189,252,959,143	111,786,758,365	248,115,321,525
Difference	¢ 38,005,409,543	(459,835,801,362)	(89,216,002,888)	(58,245,837,463)	(50,519,116,516)	(103,306,101,481)	(19,473,915,883)	694,277,469,726

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

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

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

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

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

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

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

Marketability of local market investments is determined based on indicators calculated by the Brokerage Firm for such purposes and on whether they are registered in the National Registry of Securities and Brokers. The Brokerage Firm must comply with maximum and minimum maturity concentrations, which require that a minimum of 20% of the total portfolio correspond to investments with maturities of 12 months or less. The investment portfolio should not include investments in equity instruments or investments in publicly-offered real estate funds.

The liquidity level of the Pension Fund Manager corresponds to the nature of its operations. The entity holds a portfolio of short-term assets as well as liquid investments to ensure it has sufficient liquidity. As part of liquidity controls, cash flows are monitored on a daily basis, taking into consideration checking account balances and projected cash needs for up to 3 days after the calculation. Accordingly, the entity could sell financial assets or invest surpluses that will not be used in the short term, if necessary.

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

Set out below are the main results of the VaR of liquidity assessment. Such analysis is based on three scenarios: Scenario one includes all movements and scenario two includes data for which withdrawals are greater than contributions. For these two scenarios, observations with one or two deviations over the average were eliminated with the purpose of performing a comparative analysis. Scenario three includes extreme values; for example, the annual transfer of the FCL to ROP.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

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VaR of liquidity at 99% confidence level								
	All movements		Withdrawals >Contributions		Extreme values		Extreme values	
	May	Jun	May	Jun	May	Jun	May	Jun
ROP	0.60%	0.60%	0.31%	0.31%	0.79%	0.79%	3.00%	2.40%
FCL	0.97%	0.96%	2.19%	2.18%	19.14%	18.64%	3.50%	1.40%
NOT	0.09%	0.09%	0.21%	0.21%	0.32%	0.32%	0.40%	0.70%
FPCA	0.79%	0.78%	1.20%	1.20%	2.99%	2.99%	1.30%	1.50%
FPCB	0.50%	0.50%	1.32%	1.32%	2.31%	2.30%	2.80%	2.70%
FPDA	1.37%	1.37%	3.00%	3.00%	7.56%	7.54%	9.50%	3.70%
FPDE	0.72%	0.90%	1.80%	1.80%	3.38%	3.37%	7.50%	7.90%

According to the results, for the scenario that considers all movements, the VaR of funds at a 99% confidence level with two standard deviations would not exceed 1%, except for FPD A and FCL which VaR at 99%, eliminating two standard deviations, would reach 1.37%. Voluntary A funds and FCL are the funds with the higher risk exposure, while the VaR of NOT is almost nil, which is consistent with the results of the liquidity reports previously performed and relates to the closed nature of this fund.

The second scenario shows higher VaR levels for all funds since it only considers the variables where withdrawals are higher than contributions. Voluntary A funds and FCL are the funds with higher risk levels. In spite of presenting higher risk exposure, for all cases, risk levels are below 3%.

The third scenario shows higher liquidity needs to face extreme conditions; however, as mentioned above, the most extreme situation is the transfer of FCL to ROP, followed by FPD A. As of June 30, 2014, the VaR of such funds locates at 18.64% and 7.54%, respectively.

The liquidity levels at month-end are presented for each of the funds as a proportion of net assets. Liquidity levels are consistent with the VaR calculated for each fund, without compromising the yield thereof.

For the Insurance Brokerage Firm, liquidity risk is the risk that the entity will be unable to honor its commitments or obligations with third parties due to insufficient cash flows, resulting from a mismatch of the terms of assets and liabilities.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

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c) Market risks

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

The main indicator used is the VaR of the Bank's investments, which is determined for each currency in which the Bank holds positions. That indicator is complemented with the Risk-Adjusted Return on Capital (RAROC), which summarizes the Bank's risk-return profile derived from holding an investment portfolio.

As of June 30, 2014, investments in Z Bonds related to the Mortgage Securitization Trust in the amount of ₡58,284,424, equivalent to US\$417,000 (2013: ₡205,593,510, equivalent to US\$417,000) were valued at 74% of their face value (impairment of 26%). As of June 30, 2014, investments in ARSs in the amount of ₡0, equivalent to US\$0 (2013: ₡7,715,919,500, equivalent to US\$15,650,000) were valued at 93.18% of their face value.

For the Investment Fund Manager, market risk is the risk of potential losses in the fair value of its financial instrument portfolio or its trading positions before they are derecognized. The loss is equivalent to the difference between the fair value when the instrument was acquired and the fair value at the date the instrument was derecognized. The degree of risk depends on the settlement period and the volatility and liquidity of markets.

As a systemic risk, market risk depends on a series of factors that are strongly linked to macroeconomic performance and is inherent to the market environment, thereby affecting all participants in a given market.

Market risk management

Market risks have been calculated since late 2003 and a database of those calculations is available for consultation when setting corresponding risk limits.

Potential losses arising on changes in risk factors, such as changes in interest rates, that affect the valuation of positions are calculated daily.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

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For such purposes, the Investment Fund Manager uses the Risk Manager module of OFSA, which has a function for calculating the portfolio's price risk. The method used to quantify VaR applies a Monte Carlo approach whereby the Investment Fund Manager runs interest rate simulations in a specialized system based on parameters established using the Hull-White model. This method requires that the mean velocity of reversion and the volatility be quantified based on the model's short rate. With this information, a random simulation is run in which the simulated rates are applied to each security in the portfolio to generate stochastic fair values that are compared with the prices of the securities on the day the simulation is run. The difference in those values is the VaR, which is defined as the potential loss in the fair value of a portfolio over a holding period of 10 days with a 95% confidence level. Additionally, the VaR of price is calculated based on the guidelines issued by SUGEVAL and included in the risk management regulations.

VaR of price risk and fair value is calculated on a daily basis, and all results are reported to the Investment Fund Manager's Financial Resources Investment Committee each month.

The Investment Fund Manager uses the above methods and calculations to analyze risk on its portfolios and to analyze the correlation between risk and return over a given period of time. The Sharpe ratio and RORAC measure risk-adjusted return using the volatility of return and VaR for the year, respectively.

Market risk exposure – trading portfolio:

The Investment Fund Manager sets VaR limits for all identified market risks. The structure of those limits is subject to review and approval by the Investment Committee and Board of Directors, respectively, and is based on the local VaR limits of the trading portfolio. VaR is calculated at each month-end, with reports on the usage of VaR limits submitted to the Investment Committee.

As of June 30, the VaR of the Investment Fund Manager's portfolio is as follows:

	2014	2013
VaR (99% confidence level)	0.48%	1.13%

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Fair values

Fair value estimates are made at a specific date, based on relevant market information and information concerning the financial instruments. These estimates do not reflect any premium or discount that could result from offering for sale a particular financial instrument at a given point in time.

These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision.

As of June 30, 2014 and 2013, the carrying amount of the following financial instruments approximates fair value: cash, investments in financial instruments, interest receivable, obligations under repurchase agreements, interest payable, and fees and commissions and other accounts payable. Investments are carried at the fair value determined using the method described above.

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

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

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

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Price risk exposure:

The Brokerage Firm mainly measures and controls price risk exposure using VaR, which estimates possible losses in a portfolio over a predetermined time period ("holding period"). Because the portfolio may be affected by adverse changes in the market, a specific probability is quantified and used as the confidence level applied in the VaR calculation. Price risk exposure is low and has been controlled through investments.

The Brokerage Firm uses the historical method to calculate VaR, as established in the risk regulations issued by SUGEVAL, based on a confidence level of 95% and a holding period of 22 days. As a complement to determine price risk exposure, the Brokerage Firm uses the consolidated VaR model, provided by the Bank's Risk Division, which assumes a 99% confidence level and a 30-day holding period, based on the Monte Carlo approach.

The Pension Fund Manager manages market risk for each of its funds by applying a VaR model. That model is based on the Monte Carlo approach whereby the Pension Fund Manager runs random interest rate simulations in a specialized system and quantifies stochastic fair values that are compared with prices on the day the simulation is run. The difference in those values is the VaR, which is the potential loss in the fair value of a portfolio over a holding period of 10 days with a confidence level of 99%.

As of June 30, 2014, the assets managed by the Pension Fund Manager amount to a total of ¢795,871 million (June 2013: ¢685,796.72 million). That amount is distributed in the following funds: ROP, FCL, FPC A, FPC B, FPD A, FPD B, NOT and OPC. ROP represents 79.45% of the balance managed.

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

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For example, in the case of the ROP fund, as of June 2014, such indicator located at 3.93% (June 2013: 4.12%), according to RIMER (new methodology).

In the case of the Pension Fund Manager's own funds, the consolidated VaR decreased in the year between June 2013 and June 2014, from 1.90% in 2013 to 1.10% in 2014, as a result of management's defensive strategy (short-term operations) during most of the period and, mainly due to the change in the methodology from OFSA to RIMER (new methodology). The average VaR located at 1.25%.

Interest rate risk

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

The Bank is sensitive to this type of risk due to the mix of rates and terms for both assets and liabilities. Therefore, the Market Risk Division monitors this risk regularly and reports monthly on its performance to the Bank's Corporate Risk Committee.

At the June 2014 close, the interest rate risk indicator in local and foreign currency closed considerably below SUGEF's regulatory maximum limit of 5%, at 1.42% (2013: 0.54%) (due to the change in the duration of equity (from 0.24% to 2.69%), where assets maturing in less than 30 days decreased by ₡1.40 trillion and assets maturing in more than 720 days increased by ₡1.42 trillion) and 0.05% (2013: 0.01%), respectively.

Fair value hedge

Fair value hedges are recognized as follows:

Gains or losses arising from valuation of the hedging instrument at fair value are recognized immediately in profit or loss for the period.

Gains or losses arising from valuation of the primary instrument that are attributable to the hedged risk are booked as an adjustment to the carrying amount of the instrument and recognized immediately in profit or loss for the period.

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In 2013, five derivative instruments were formalized to hedge exposure to the LIBOR rate related to the issue of debt in U.S. dollars at a fixed rate, with the purpose of compensating for changes in fair value attributable to changes in such benchmark rate. Three of those instruments were formalized with the correspondent banks Bank of America, CitiBank, and JP Morgan Chase, fully covering the 10-year issue for a total of US\$500,000,000 and maturing on November 1, 2023. The remaining two derivatives were formalized with CitiBank and JP Morgan Chase, partially covering the 5-year issue for a total of US\$250,000,000 and maturing on November 1, 2018.

In 2011, the Bank formalized an interest rate hedge in U.S. dollars with CitiBank NY called "Operations at notional amounts subject to an interest rate swap" maturing on December 19, 2013. This hedge was acquired in order to exchange the variable interest rate for a fixed interest rate on the liability with the China Development Bank in the amount of US\$22,222,222. Accordingly, the interest rate will be fixed in the event of an increase in the floating rate and a fixed-rate financing program will be implemented, guaranteeing the financial margin. The notional amount of this derivative instrument is amortized half-yearly through payments of US\$4,444,444. As of June 30, 2014, the Bank booked under "Other sundry accounts payable" a decrease in the fair value of this hedge in the amount of US\$286,907, equivalent to ₡154,235,487 (December and June 2013: US\$20,209,760, equivalent to ₡US\$10,004,033,392 and US\$7,860, equivalent to ₡3,875,097, respectively).

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

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

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As of June 30, 2014, 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	31 to 90	91 to 180	181 to 360	361 to 720	More than 720	Total
<i>Local currency (LC)</i>							
Investments	9,951,806,797	5,846,989,656	19,777,430,762	133,606,904,209	126,836,720,908	150,051,009,358	446,070,861,690
Loan portfolio	132,939,205,982	38,552,991,900	59,521,588,874	80,203,679,740	134,983,004,603	1,463,669,837,621	1,909,870,308,720
Total recovery of rate-sensitive assets LC (A)	142,891,012,779	44,399,981,556	79,299,019,636	213,810,583,949	261,819,725,511	1,613,720,846,979	2,355,941,170,410
Obligations with the public	225,842,459,175	243,918,730,777	340,773,894,547	161,526,812,496	16,499,173,630	32,641,657,076	1,021,202,727,701
Obligations with BCCR	40,030,967,670	10,851,407	46,146	11,034,091	22,394,566	149,008,170	40,224,302,050
Obligations with financial entities	4,675,215,561	84,351,063	171,739,004	265,383,653	560,075,764	501,649,361	6,258,414,406
Total maturity of rate-sensitive liabilities LC (B)	270,548,642,406	244,013,933,247	340,945,679,697	161,803,230,240	17,081,643,960	33,292,314,607	1,067,685,444,157
LC difference, recovery of assets less maturity of liabilities (A - B)	(127,657,629,627)	(199,613,951,691)	(261,646,660,061)	52,007,353,709	244,738,081,551	1,580,428,532,372	1,288,255,726,253
<i>Foreign currency (FC)</i>							
Investments	20,852,232,734	26,287,729,122	33,580,443,239	95,140,875,996	125,517,551,648	126,215,369,073	427,594,201,812
Loan portfolio	35,058,252,289	41,902,803,835	49,660,457,333	47,528,937,009	97,473,095,956	918,097,083,978	1,189,720,630,420
Total recovery of rate-sensitive assets FC (C)	55,910,485,023	68,190,532,957	83,240,900,592	142,669,813,005	222,990,647,604	1,044,312,453,051	1,617,314,832,232
Obligations with the public	87,733,682,620	130,719,690,451	152,117,677,440	37,972,756,349	2,494,056,933	539,624,027,329	950,661,891,122
Obligations with entities	1,814,334,774	27,113,924,481	1,469,153,731	2,996,653,971	5,530,986,455	244,119,171,564	283,044,224,976
Total maturity of rate-sensitive liabilities FC (D)	89,548,017,394	157,833,614,932	153,586,831,171	40,969,410,320	8,025,043,388	783,743,198,893	1,233,706,116,098
FC difference, recovery of assets less maturity of liabilities (C - D)	(33,637,532,371)	(89,643,081,975)	(70,345,930,579)	101,700,402,685	214,965,604,216	260,569,254,158	383,608,716,134
Total recovery of rate-sensitive assets 1/ (A + C)	198,801,497,802	112,590,514,513	162,539,920,228	356,480,396,954	484,810,373,115	2,658,033,300,030	3,973,256,002,642
Total maturity of rate-sensitive liabilities 2/ (B + D)	360,096,659,800	401,847,548,179	494,532,510,868	202,772,640,560	25,106,687,348	817,035,513,500	2,301,391,560,255
LC + FC difference, recovery of assets less maturity of liabilities (item 1 - item 2)	(161,295,161,998)	(289,257,033,666)	(331,992,590,640)	153,707,756,394	459,703,685,767	1,840,997,786,530	1,671,864,442,387

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As of June 30, 2013, 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	31 to 90	91 to 180	181 to 360	361 to 720	More than 720	Total
<i>Local currency (LC)</i>							
Investments	51,377,656,344	34,748,979,671	120,755,356,569	218,556,377,326	136,199,363,266	140,489,192,597	702,126,925,773
Loan portfolio	1,493,978,138,147	98,955,749,864	10,020,623,849	6,108,706,143	7,901,593,888	57,226,570,380	1,674,191,382,271
Total recovery of rate-sensitive assets LC (A)	1,545,355,794,491	133,704,729,535	130,775,980,418	224,665,083,469	144,100,957,154	197,715,762,977	2,376,318,308,044
Obligations with the public	204,834,684,490	276,702,166,326	332,970,567,781	292,987,840,381	37,994,250,644	26,451,862,912	1,171,941,372,534
Obligations with BCCR	14,120,084	10,851,256	45,919	11,038,380	22,402,399	170,821,440	229,279,478
Obligations with financial entities	53,426,739	84,434,567	171,909,017	265,646,371	560,563,757	1,000,603,751	2,136,584,202
Total maturity of rate-sensitive liabilities LC (B)	204,902,231,313	276,797,452,149	333,142,522,717	293,264,525,132	38,577,216,800	27,623,288,103	1,174,307,236,214
LC difference, recovery of assets less maturity of liabilities (A - B)	1,340,453,563,178	(143,092,722,614)	(202,366,542,299)	(68,599,441,663)	105,523,740,354	170,092,474,874	1,202,011,071,830
<i>Foreign currency (FC)</i>							
Investments	15,357,525,676	10,698,015,141	36,370,140,888	93,495,002,174	18,099,549,667	154,728,591,213	328,748,824,759
Loan portfolio	775,751,543,394	76,020,874,266	14,053,793,319	10,765,165,612	2,559,878,146	38,074,801,236	917,226,055,973
Total recovery of rate-sensitive assets FC (C)	791,109,069,070	86,718,889,407	50,423,934,207	104,260,167,786	20,659,427,813	192,803,392,449	1,245,974,880,732
Obligations with the public	97,408,717,751	153,871,848,251	158,343,185,428	62,155,609,194	6,614,489,150	4,786,028,607	483,179,878,381
Obligations with entities	35,111,300,564	13,530,405,761	19,060,035,928	76,027,353,686	17,497,479,129	185,631,685,865	346,858,260,933
Total maturity of rate-sensitive liabilities FC (D)	132,520,018,315	167,402,254,012	177,403,221,356	138,182,962,880	24,111,968,279	190,417,714,472	830,038,139,314
FC difference, recovery of assets less maturity of liabilities (C - D)	658,589,050,755	(80,683,364,605)	(126,979,287,149)	(33,922,795,094)	(3,452,540,466)	2,385,677,977	415,936,741,418
Total recovery of rate-sensitive assets 1/ (A + C)	2,336,464,863,561	220,423,618,942	181,199,914,625	328,925,251,255	164,760,384,967	390,519,155,426	3,622,293,188,776
Total maturity of rate-sensitive liabilities 2/ (B + D)	337,422,249,628	444,199,706,161	510,545,744,073	431,447,488,012	62,689,185,079	218,041,002,575	2,004,345,375,528
LC + FC difference, recovery of assets less maturity of liabilities (item 1 - item 2)	1,999,042,613,933	(223,776,087,219)	(329,345,829,448)	(102,522,236,757)	102,071,199,888	172,478,152,851	1,617,947,813,248

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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.

In October 2006, BCCR introduced an adjustable band foreign exchange system. For several months thereafter, the exchange rate remained consistently at the floor of that band. However, when the band experienced significant adjustments starting May 2009, the Bank's Asset and Liability Committee (which has been replaced by the Bank's Corporate Risk Committee) decided to take a neutral foreign currency position with the purpose of protecting the Bank from any changes in the exchange rate. The Bank's foreign currency position is monitored daily by the Market Risk Division. Additionally, the Bank calculates the SUGEF currency risk indicator on a monthly basis. As of June 2014, that indicator was quantified at 0.35%, which is below the 0.10% calculated for June 2013 and considerably below the regulatory maximum limit of 5%.

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

Investments in Europe

- The Bank's Market Risk Division analyzes and follows-up on the investment portfolio on an ongoing basis through the Comprehensive Risk Assessment Report, which is submitted to the Corporate Risk Committee and the Board of Directors.
- For the portfolios denominated in international dollars and euros, the Bank periodically analyzes the portfolio's balance performance by currency, composition by issuer, term and yield, VaR, stress scenarios related to shifts in yield curves (sovereign yield curve in the euro area, sovereign yield curve in the U.S., and yield curve for the 6-month LIBOR rate), and accrued market valuation.

Investments in euros - Europe

- The investment portfolio denominated in euros amounts to €42.2 million as of June 2014 and represents 4% of the total portfolio, which is in line with the strategy for investment diversification and portfolio currency matching. This portfolio has remained relatively stable during the past year, ranging between €39 million and €43.2 million. The main issuers are Holland (30%), France (20%), Germany (18%) and Belgium (12%).

(Continued)

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- Most issuers comprising this portfolio are sovereign issuers with very high credit ratings.
- VaR of fair value was 0.62% and duration locates at 1.20.
- The entire portfolio bears interest at a fixed rate. Of the total portfolio, 29% matures between 1 and 2 years, while 7% matures in more than 3 years.
- As a result of the ongoing monitoring performed by the Risk Division regarding the situation in Europe, the strategy used to manage the portfolio is based on increased liquidity and reduced exposure of the most volatile instruments.

Investments in dollars - Europe

- The portfolio denominated in international dollars includes a component of European instruments. Of the total balance of \$145 million as of June 2014, 32% (\$457 million) is invested in Europe. However, excluding the note issued by Barclays with underlying bonds issued by the Government of Costa Rica, the share in the portfolio decreases to 20%. Since December 2013, the share of U.S. securities (treasury and corporate) has diluted the share of the component of European investments.
- In this case, the portfolio concentrates in instruments issued by sovereign issuers that are considered to have very high credit ratings, including Germany, Holland, Sweden, European Investment Bank (EIB), Bank of England, and Barclays.

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

For the Insurance Brokerage Firm, currency risk is the risk that the fair value or the future cash flows of a financial instrument may fluctuate as a result of variations in foreign exchange rates. The effect of this risk is recognized in the consolidated income statement.

(Continued)

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As of June 30, assets and liabilities denominated in foreign currency are as follows:

		U.S. dollars	
		June 2014	June 2013
Assets:			
Cash and due from banks	US\$	1,045,802,329	598,490,222
Investments in financial instruments		740,502,048	610,228,180
Loan portfolio		2,253,552,330	1,912,890,646
Accounts and accrued interest receivable		508,890	241,031
Investments in other companies		88,796,258	80,850,610
Other assets		5,858,075	869,931
Total assets	US\$	4,135,019,930	3,203,570,620
Liabilities:			
Obligations with the public	US\$	2,117,404,421	2,275,462,146
Obligations with entities		1,876,757,647	892,997,974
Accounts payable and provisions		13,130,125	12,144,516
Other liabilities		29,725,935	19,212,503
Subordinated obligations		100,403,419	-
Total liabilities	US\$	4,137,421,547	3,199,817,139
Excess of assets over liabilities in U.S. dollars	US\$	(2,401,617)	3,753,481

		Euros	
		June 2014	June 2013
Assets:			
Cash and due from banks	€	11,237,807	17,180,786
Investments in financial instruments		44,644,697	42,512,192
Accounts and accrued interest receivable		11	35
Other assets		-	9
Total assets	€	55,882,515	59,693,022
Liabilities:			
Obligations with the public	€	48,787,978	51,819,953
Obligations with entities		7,045,485	6,511,705
Accounts payable and provisions		102,835	156,242
Other liabilities		4,190	1,112,014
Total liabilities	€	55,940,488	59,599,914
Excess (deficit) of assets over liabilities in euros	€	(57,973)	93,108

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		DU	
		June 2014	June 2013
Assets:			
Investments in financial instruments	DU	39,108,034	49,576,147
Loan portfolio		47,559,129	59,429,641
Other assets		635	-
Total assets	DU	<u>86,667,798</u>	<u>109,005,788</u>
Liabilities:			
Obligations with the public			
Accounts payable and provisions		1,120,753	1,218,543
Other liabilities		8,089	9,683
Total liabilities	DU	<u>1,128,842</u>	<u>1,228,226</u>
Excess of assets over liabilities in DU	DU	<u>85,538,956</u>	<u>107,777,562</u>

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

As of June 30, 2014 and 2013, the financial statements show a net foreign exchange loss of ¢729,719,419 and a net foreign exchange gain of ¢3,193,545,180, respectively.

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

For the Investment Fund Manager, currency risk is the risk of a decrease in an investor's purchasing power due to unexpected variations in foreign exchanges rates for the currencies in which the investor holds positions.

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

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

(Continued)

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

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

The Pension Fund Manager launched in 2013 a process to gradually increase positions in U.S. dollars for the ROP fund to comply with the limits and incursion into international markets, with a measured approach in respect of amounts and terms given the economic scenario.

As of June 30, 2014, 2.29% of the Pension Fund Manager's assets of own funds is represented by investments in U.S. dollars. In the case of the funds managed, 8.62%, 0.86%, 0.85%, and 12.30% of the investment portfolio of ROP, FCL, FPC A, and FPC B, respectively, is denominated in U.S. dollars.

For each of the funds managed, the Comprehensive Risk Management Unit (UAIR) performs simulations of exchange rate variations and their effect on changes in the value of the assets managed, the share value, and accordingly, the portfolio yield.

d) Operational risk

Operational risk is the risk of losses resulting from inadequate or failed internal processes, personnel, information systems, and controls or from external events. This definition includes legal risk but excludes strategic, business, or reputational risks.

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 the following:

- Business units, which are responsible for primary implementation and enforcement of the policy.

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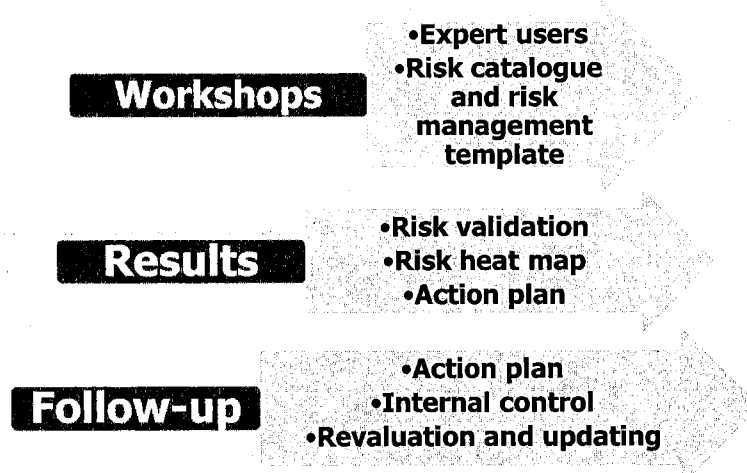
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- Support units, which are responsible for monitoring and controlling key indicators and regulatory compliance.
- Independent internal and external audits, which apply control and validation tests based on the guidelines established by senior management and applicable regulations.

One of the Bank's fundamental operational risk management principles is transparency, defined as the identification, documentation, and reporting of risk events 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.

Also, the main activity in operational risk management is the assessment of risk in institutional processes by applying a specific methodology that controls the frequency, impact, and quality of identified 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 to estimate the EL and VaR of legal actions, considering the subject matter of the cases when calculating the likelihood of loss and a continuous model for the duration of the legal actions. Such model provides a direct estimate of the duration of each legal action in the corresponding court and the possible outcomes. The results thereof are used to address possible losses from unfavorable rulings.

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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.

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

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

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

- Identification: Tools have been developed to accurately identify the different risks associated with each of the Investment Fund Manager's fundamental processes. Each process was analyzed together with any related processes to formulate a risk portfolio for the entire company. As a first step, the risks included in that portfolio were grouped by type and by class.
- Analysis: Using tools defined by international methods, the Investment Fund Manager analyzed the risks identified for each business unit and determined the degree of impact, the probability of occurrence, and the origin of each risk. In addition to this analysis, the Investment Fund Manager assesses aspects of the business that can affect risk such as its image, operations, income, human resources, etc.
- Measurement: Similar to the analysis mentioned above, each risk identified was assessed from two perspectives (its probability of occurrence and its potential impact) in order to determine which risks require the most attention and the formulation of action plans to be carried out in the event that the risk materializes. Such information is included in the Business Continuity Plan (PCN).

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- Follow-up: Periodic assessments are made of the institutional risk map to identify changes that could increase or decrease the probability that risk events will occur in order to adapt the Investment Fund Manager's strategies to address areas in which risk exposures are considered unacceptable.
- Control: The Investment Fund Manager's strategies to control and mitigate the potential impact of different operational risks include contingent computer hardware, a redundant power infrastructure, personnel turnover, documentation of the activities performed by each position, specialized training, varied and continually open channels of communication, development of a general culture focused on operational controls, etc.
- Communication: Upper management informs employees of risk management trends and strategies as well the results of assessments through meetings with employees or announcements.

For the Brokerage Firm, operational risk is the risk of losses resulting from inadequate or failed internal processes, personnel, information systems, and internal controls or from external events.

Management of this risk is the responsibility of all business units within the Brokerage Firm and considers the following:

- identification of risk factors;
- mapping of the Brokerage Firm's operational risks;
- operational risk database of information on risk events, including type, description, and amount of events, business unit in which the event originated, date, and monetary loss incurred;
- compliance with corporate governance practices and established conduct guidelines;
- compliance with regulatory and other legal or contractual requirements applicable to the Brokerage Firm; and
- integrity, security, and availability of the Brokerage Firm's information technology (IT).

Fair value of financial instruments

Fair value estimates are made at a specific date, based on relevant market information and information concerning the financial instruments. These estimates do not reflect any premium or discount that could result from offering for sale a particular financial instrument at a given point in time.

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Estimates could vary significantly if changes are made to those assumptions. The following methods and assumptions were used by the Brokerage Firm to estimate the fair value of financial instruments:

- (a) The carrying amounts of cash and cash equivalents, accounts receivable, and accounts payable approximate fair value because of the short-term nature of these instruments.
- (b) Available-for-sale investments are booked at fair value. The fair values are based on quoted market prices or prices quoted by brokers. The fair values of held-to-maturity investments are estimated using discounted cash flow techniques.

For the Insurance Brokerage Firm, operational risk is related to the quality of the information in the systems, since an error in entering the information may lead to failed processing or renewal of individual insurance policies.

The Insurance Brokerage Firm is in the process of purchasing information systems, which implies a risk since the current information system process is not appropriate.

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

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

- appropriate segregation of duties, including the independent authorization of transactions;
- requirements for effective reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- communication and application of conduct guidelines or ethical standards;
- monitoring of risks using measurement tools;

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- reporting of operational losses and proposed remedial actions;
- comprehensive planning for resuming activities, including plans to restore key operations and internal and external support to ensure services are not interrupted;
- personnel training; and
- development of risk mitigation activities, including security policies.

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

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

Capital management

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

The capital surplus or capital deficit of the financial group or conglomerate is calculated as the individual surplus or deficit of the controlling company plus the transferable surpluses and minus the individual deficits of each company in the financial group or conglomerate.

The individual surplus of each company in the financial conglomerate is calculated as the excess of the capital base over the respective minimum capital requirement for each type of company stipulated in the CONASSIF prudential standard.

Regulatory capital is analyzed with consideration for the following three areas:

Tier I capital: ordinary and preferred paid-in capital plus reserves.

Tier II capital: calculated as the sum of equity adjustments for property revaluations up to a maximum of 75% of the adjustments to the fair value of available-for-sale financial instruments, additional paid-in capital, prior period retained earnings, and profit or loss for the period, less statutory deductions.

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Notes to Consolidated Financial Statements

Deductions: Investments in other companies and loans granted to the controlling entity of the same financial group or conglomerate are to be deducted from the sum of Tier I and Tier II capital.

Risk-weighted assets: Assets and contingent liabilities are weighted according to the risk level established by regulations plus a price risk adjustment per capital requirements.

The Bank's policy is to maintain a strong capital base so as to maintain a balance between share capital and return on investment. Throughout the year, the Bank has complied with capital requirements and no significant changes were made to its capital management.

As of June 30, 2014 and 2013, the Bank's risk rating is at a normal level since its capital adequacy ratio is above the required 10% ratio.

(44) Contingencies

As of June 30, 2014 and 2013, the Bank, Pension Fund Manager, and Investment Fund Manager are defendants in ordinary, labor, and criminal lawsuits, as follows:

	Number of cases		Phase	Total estimated amount	
	2014	2013		2014	2013
Bank	205	221	First instance	¢ 326,529,293,248	225,554,156,653
	10	17	Second instance	325,810,982	258,443,628
	8	9	Appeal	7,015,810,000	758,055,760
	233	247	Subtotal	¢ 333,870,914,230	226,570,656,041
Pension Fund Manager	1	1	Second instance	10,751,600	9,860,600
	1	1	Second instance	¢ 234,906	192,271
Investment Fund Manager	236	249	Total (note 20)	¢ 333,881,900,736	226,580,708,912

As of June 30, 2014 and 2013, the legal actions filed against the Bank and subsidiaries are booked in memoranda accounts under "Other contingencies - pending litigation and lawsuits."

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As of June 30, 2014 and 2013, the Bank is a claimant in ordinary, labor, and criminal lawsuits, which outcome is uncertain and are not booked in the accounting records, as follows:

Number of cases		Phase	Total estimated amount	
2014	2013		2014	2013
58	59	First instance	¢ 5,250,867,116	11,831,682,585
1	2	Second instance	150,000,000	151,248,388
-	5	Appeal	-	2,870,783,986
59	66	Total	¢ 5,400,867,116	14,853,714,959

Disclosure of legal action filed against SUGEF

Starting June 2013, the Bank implemented a credit strategy called “BN Vivienda 10”, whereby the Bank assumes notary and independent appraiser fees and expenses related to loan formalization. Accordingly, the customer is not directly charged therefor; instead, such expenses are recovered during the term of the loan by adding an additional spread to the interest rate. Such expenses are accounted for under “Other operating expenses” (account No. 439-99).

SUGEF’s Chart of Accounts establishes that the aforementioned expenses are to be booked under account No. 182-99, “Deferred charges.” However, the account’s description indicates that expenses are to be deferred over a maximum term of 5 years. As a result, the Bank submitted Inquiry SGER-042-2013 to SUGEF on September 30, 2013 requesting an extension of the term established to book deferred expenses and income over the term of the loan, rather than solely over 5 years as prescribed by the regulations.

SUGEF replied through Official Letter SUGEF 3020-20130748 dated December 16, 2013, which was received by the Bank on January 6, 2014, indicating that deferral of costs within the loan’s effective yield was to be applied from January 2014, date from which the accounts are authorized because the accounting regulations do not permit or provide line items for such deferral.

On January 8, 2014, the Bank filed a motion for reconsideration with an appeal to a higher court (GG-004-14) and suspension of the effects of the administrative act of Official Letter SUGEF 3020-201307148, requesting that the contested decision be reversed in every respect and reconsidered, as it causes serious or irreparable harm.

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Through Official Letter SUGEF 0180-2014 dated January 30, 2014, SUGEF dismissed the request for suspension of the effects of the administrative act. Accordingly, the Bank requested that precautionary measures be taken against SUGEF, which was upheld by the Administrative Litigation Court of the Second Judicial Circuit of San José. The judge granted SUGEF 3 days to reply. As of the date of the approval of the financial statements, a final decision was pending in respect of the precautionary measures requested by the Bank; consequently, the expenses derived from BN Vivienda 10 are deferred in the accounting records over 5 years.

(45) Significant events

a) Derivative financial instruments

Pursuant to the provisions of SUGEF Directive 9-08 "Regulations to Authorize and Execute Operations with Foreign Exchange Derivatives" approved by the Board of Directors of BCCR and as recorded in article 6 of the minutes of meeting No. 5566-2012 held on October 24, 2012, the Board of Directors of BCCR agreed to grant final authorization to the Bank to act as an intermediary in the Foreign Exchange Derivatives Market and trade forwards, FX Swaps, and Currency Swaps.

(46) Other significant events

a- *Dividends paid to the Bank*

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

Under article No. 2 of meeting No. 11,888 held on February 11, 2014, the Board of Directors agreed to authorize the distribution of dividends from retained earnings in accordance with Official letter SGRF-047-2014 dated February 6, 2014 in the amount of ¢250 million.

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

Under article No. 2 of meeting No. 11.887 held on February 11, 2014, the Board of Directors agreed to authorize the distribution of dividends from retained earnings in accordance with Official letter SGRF-047-2014 dated February 6, 2014 in the amount of ¢1,000 million.

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

Under article No. 2 of meeting No. 11.885 held on February 11, 2014, the Board of Directors agreed to authorize the distribution of dividends from retained earnings in accordance with Official letter SGRF-047-2014 dated February 6, 2014 in the amount of ¢4,000 million.

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

Under article No. 2 of meeting No. 11.886 held on February 11, 2014, the Board of Directors agreed to authorize the distribution of dividends from retained earnings in accordance with Official letter SGRF-047-2014 dated February 6, 2014 in the amount of ¢333 million.

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

Through various resolutions, CONASSIF (the Board) agreed to partial adoption starting January 1, 2004 of IFRSs promulgated by the International Accounting Standards Board (IASB). In order to regulate application of those Standards, the Board issued the *Terms of the Accounting Regulations Applicable to Entities Regulated by SUGEF, SUGEVAL, SUPEN, and SUGESE and to Non-financial Issuers* (the Regulations) and approved a comprehensive revision of those Regulations on December 17, 2007.

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

Pursuant to the Regulations and in applying IFRSs in effect as of January 1, 2008, any new IFRSs or Interpretations issued by the IASB, as well as any other revisions of IFRSs adopted that will be applied by regulated entities, will require the prior authorization of the Board.

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

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Notes to Consolidated Financial Statements

a) IAS 1: Presentation of Financial Statements

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

SUGEf Standards do not allow certain transactions, such as clearing house balances, gains or losses on the sale of financial instruments, income 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) Revised IAS 1: Presentation of Financial Statements

The revised Standard introduces the term “total comprehensive income”, which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the statement of operations and all non-owner changes in equity in a single statement) or in a statement of operations and a separate statement of comprehensive income. The revised Standard became mandatory for 2009 financial statements. These changes have not been adopted by the Board.

c) IAS 7: Statement of Cash Flows

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

d) IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors

SUGEf has authorized the booking of notices of deficiency received from Tax Authorities against prior period retained earnings under certain circumstances.

(Continued)

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Notes to Consolidated Financial Statements

e) IAS 12: Income Taxes

The Board has not included all deferred income tax items in SUGEF's Chart of Accounts. Consequently, entities have been required to recognize those items in accounts considered to be inappropriate under this Standard. For example, deferred tax income is not offset in the deferred tax expense account, but rather deferred tax income and expense are presented in separate accounts.

f) IAS 16: Property, Plant and Equipment

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

Additionally, SUGEF has allowed certain regulated entities to convert (capitalize) revaluation surplus into share capital. This Standard only permits realization of revaluation surplus through the sale or depreciation of the asset. As a result of this treatment, regulated entities must recognize the effect of any impaired fixed assets in profit or loss, since the effect cannot be credited to equity. Under this Standard, impairment is charged to revaluation surplus and any difference is recognized in profit or loss.

Moreover, under IAS 16, depreciation continues on property, plant and equipment, even if the asset is idle. The Standard issued by the Board allows entities to suspend the depreciation of idle assets and reclassify them as foreclosed assets.

g) IAS 18: Revenue

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

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The Board has also allowed deferral of the net excess of loan fee and commission income minus expenses incurred for activities such as assessment of the borrower's financial position, evaluation and recognition of guarantees, sureties, or other collateral instruments, negotiation of the terms of the instrument, preparation and processing of documents, and settlement of the operation. This Standard does not allow deferral on a net basis of such income. Instead, it prescribes deferral of 100% of loan fee and commission income and permits the deferral of only certain incremental transaction costs, rather than all direct costs. Accordingly, when costs exceed income, loan fee and commission income is not deferred, since the Board only allows the net excess of income over expenses to be deferred. This treatment does not conform to IAS 18 and IAS 39, which prescribe separate treatment for income and expenses (see comments on IAS 39).

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

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

i) IAS 27: Consolidated and Separate Financial Statements

The Board requires that the financial statements of a parent be presented separately, measuring its investments by the equity method. Under this Standard, 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, in this case, this Standard requires that investments be accounted for at cost.

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

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

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j) IAS 28: Investments in Associates

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

k) 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). SUGEF determines whether issues fulfill the requirements of share capital.

l) 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 changes have not been adopted by the Board.

m) 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 this Standard.

n) 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 on the straight-line method over a maximum of five years. This is not in accordance with IAS 38.

o) IAS 39: Financial Instruments: Recognition and Measurement

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

(Continued)

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Notes to Consolidated Financial Statements

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

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

The Board has also allowed capitalization of direct costs incurred for assessment of the borrower’s financial position, evaluation and recognition of guarantees, sureties, or other collateral instruments, negotiation of the terms of the instrument, and preparation and processing of documents, net of loan fee and commission income. However, this Standard only permits capitalization of incremental transaction costs, which are to be presented as part of the financial instrument and may not be netted against loan fee and commission income (see comments on IAS 18).

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:

i) 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.

ii) Own investments of regulated entities

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Consolidated Financial Statements

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

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

Banks regulated by SUGEF may not classify investments in financial instruments as held to maturity. The above classifications do not necessarily adhere to IAS 39.

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

p) IAS 40: Investment Property

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

q) Revised IFRS 3: Business Combinations

The revised Standard (2008) incorporates the following changes:

- The definition of a business has been broadened, which is likely to result in more acquisitions being treated as business combinations.
- Contingent consideration will be measured at fair value, with subsequent changes therein recognized in profit or loss.
- Transaction costs, other than share and debt issue costs, will be expensed as incurred.
- Any pre-existing ownership interest in the acquiree will be measured at fair value, with the gain or loss recognized in profit or loss.

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Consolidated Financial Statements

- Any noncontrolling (minority) interest will be measured at either fair value or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

The revised Standard became mandatory for 2010 financial statements with prospective application required and has not been adopted by the Board.

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

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

s) Amendments to IFRS 7: Financial Instruments: Disclosures

In March 2009, the IASB issued certain amendments to this Standard, which require enhanced disclosures about fair value measurements and liquidity risk in respect of financial instruments.

The amendments require that fair value measurement disclosures use a three-level fair value hierarchy that reflects the significance of the inputs used in measuring fair values of financial instruments. Specific disclosures are required when fair value measurements are categorized as Level 3 (significant unobservable inputs) in the fair value hierarchy. The amendments require that any significant transfers between Level 1 and Level 2 of the fair value hierarchy be disclosed separately, distinguishing between transfers into and out of each level. Furthermore, changes in valuation techniques from one period to another, including the reasons therefor, are required to be disclosed for each class of financial instruments.

Further, the definition of liquidity risk has been amended and it is now defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

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Notes to Consolidated Financial Statements

The amendments require disclosure of a maturity analysis for non-derivative and derivative financial liabilities, but contractual maturities are required to be disclosed for derivative financial liabilities only when contractual maturities are essential for an understanding of the timing of cash flows. For issued financial guarantee contracts, the amendments require the maximum amount of the guarantee to be disclosed in the earliest period in which the guarantee could be called. These amendments have not been adopted by the Board.

t) IFRS 9: Financial Instruments

This Standard deals with classification and measurement of financial assets. The requirements of this Standard represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The Standard contains two primary measurement categories for financial assets: amortized cost and fair value. The Standard eliminates the existing IAS 39 categories of held to maturity, available for sale, and loans and receivables. For an investment in an equity instrument which is not held for trading, the Standard permits an irrevocable election, at initial recognition, on an individual share-by-share basis, to present all fair value changes in other comprehensive income. No amount recognized in other comprehensive income would ever be reclassified to profit or loss at a later date.

The Standard requires that derivatives embedded in contracts with a host contract that is a financial asset within the scope of the Standard not be separated; instead the hybrid financial instrument is assessed in its entirety as to whether it should be measured at amortized cost or fair value.

This Standard requires entities to determine whether presenting the effects of changes in the credit risk of a liability designated at fair value through profit or loss would create an accounting mismatch based on facts and circumstances at the date on which the financial liability is initially recognized.

The Standard is effective for annual periods beginning on or after January 1, 2015. Early application is permitted. This Standard has not been adopted by the Board.

u) 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.

(Continued)

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Notes to Consolidated Financial Statements

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.

When application of this Standard results in an investor consolidating an investee that is a business that was not previously consolidated, the investor must:

- 1) determine the date when the investor obtained control of that investee on the basis of the requirements of this Standard.
- 2) measure the assets, liabilities and noncontrolling interests as if acquisition accounting had been applied from that date.

If (2) is impracticable, then the deemed acquisition date must be the beginning of the earliest period for which retroactive application is practicable, which may be the current period.

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

v) IFRS 11: Joint Arrangements

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

w) IFRS 12: Disclosure of Interests in Other Entities

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

(Continued)

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Notes to Consolidated Financial Statements

x) IFRS 13: Fair Value Measurement

This Standard was issued in May 2011 and 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 the Board.

y) IFRIC 10: Interim Financial Reporting and Impairment

This Interpretation prohibits the reversal of an impairment loss recognized in a previous interim period in respect of goodwill, an investment in an equity instrument, or a financial asset carried at cost. This Interpretation applies to goodwill, investments in equity instruments, and financial assets carried at cost from the date that an entity first applied the measurement criteria of IAS 36 and IAS 39 (i.e. January 1, 2004). The Board permits the reversal of allowances.

z) IFRIC 12: Service Concession Arrangements

This Interpretation gives guidance on the accounting by operators for public-to-private service concession arrangements. This Interpretation applies to both:

- infrastructure that the operator constructs or acquires from a third party for the purpose of the service arrangement; and
- existing infrastructure to which the grantor gives the operator access for the purpose of the service arrangement.

This Interpretation became mandatory for annual periods beginning on or after July 1, 2009 and has not been adopted by the Board.

aa) IFRIC 13: Customer Loyalty Programs

This Interpretation gives guidance on the accounting by entities that grant loyalty award credits to customers as part of a sales transaction which, subject to meeting any further qualifying conditions, the customers can redeem in the future for free or discounted goods or services. This Interpretation became mandatory for annual periods beginning on or after January 1, 2011 and has not been adopted by the Board.

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Consolidated Financial Statements

bb) IFRIC 14: IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

This Interpretation applies to all post-employment defined benefits and other long-term employee defined benefits. Also, it considers the minimum funding requirements to fund a post-employment or other long-term defined benefit plan. It also addresses when a minimum funding requirements might give rise to a liability. This Interpretation became mandatory for annual periods beginning on or after January 1, 2011 with retrospective application required and has not been adopted by the Board.

cc) IFRIC 16: Hedges of a Net Investment in a Foreign Operation

This Interpretation allows entities that use the step-by-step consolidation method to choose an accounting policy that hedges currency risk to determine the amount of the cumulative foreign currency translation reserve that is reclassified to profit or loss on the disposal of a net investment in a foreign operation, which is equivalent to the amount that would have been reclassified had the entity used the direct method of consolidation. This Interpretation became mandatory for annual periods beginning on or after July 1, 2009 and has not been adopted by the Board.

dd) IFRIC 17: Distributions of Non-cash Assets to Owners

This Interpretation gives guidance on the accounting of distributions of non-cash assets to owners at the beginning and end of the reporting period.

If, after the end of a reporting period but before the financial statements are authorized for issue, an entity declares a dividend to distribute a non-cash asset, it must disclose:

- a) the nature of the asset to be distributed;
- b) the carrying amount of the asset to be distributed as of the end of the reporting period; and
- c) whether fair values are determined, in whole or in part, directly by reference to published price quotations in an active market or are estimated using a valuation technique, and the method used to determine fair value and, when a valuation technique is used, the assumptions applied.

(Continued)

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Notes to Consolidated Financial Statements

This Interpretation became mandatory for annual periods beginning on or after July 1, 2009 and has not been adopted by the Board.

ee) IFRIC 18: Transfers of Assets from Customers

This Interpretation gives guidance on the accounting of transfers of items of property, plant and equipment by entities that receive such transfers from their customers. This Interpretation also applies to agreements in which an entity receives cash when that amount of cash must be used only to construct or acquire an item of property, plant and equipment and that the entity must then use the item either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services, or to both. This Interpretation became mandatory for annual periods beginning on or after July 1, 2009 and has not been adopted by the Board.

ff) IFRIC 19: Extinguishing Financial Liabilities with Equity Instruments

This Interpretation gives guidance on the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. This Interpretation became mandatory for annual periods beginning on or after July 1, 2010 and has not been adopted by the Board.

(48) Disclosure of economic impact of departure from IFRSs

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

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

(49) Statutory allocations made to the Development Financing Fund (FFD)

In 2010, FFD was created in accordance with article 31 of Law No. 8634 "Development Banking System Act", which stipulates that all State-owned banks, except BANHVI, shall create development financing funds. The objective of those funds is to provide financing to individuals and legal entities that present viable and feasible projects in conformity with the provisions of the aforementioned law and the regulations thereto.

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Consolidated Financial Statements

The equity of the development financing funds is comprised, in accordance with article 32 of such law, of the following resources:

1. All State-owned banks, except BANHVI, must appropriate each year at least five percent (5%) of their net earnings after income taxes to the creation and strengthening of its own development funds. This notwithstanding, the Board of Directors of each State-owned bank may agree to make additional yearly contributions to those funds through a majority vote.
2. Donations and bequests from individuals or public or private institutions, both local and international.
3. Profits obtained through transactions executed with the above funds.

SUGEF Directive 31-04 requires that banks that manage FFDs include a balance sheet and an income statement for such funds in the notes to their financial statements.

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

Assets corresponding to the statutory allocations made to FFD are only booked in local currency.

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Notes to Consolidated Financial Statements

As of June 30, FFD's financial statements are as follows:

Development Financing Fund
Balance Sheet
As of June 30, 2014
(With corresponding figures for 2013)

<u>Assets</u>	June 2014	June 2013
Loan portfolio	¢ 11,372,561,833	9,185,027,787
Current	10,276,176,103	8,250,944,376
Past due	957,631,191	751,948,942
Legal collections	305,346,978	357,987,534
Accrued interest receivable	94,615,682	64,963,027
(Allowance for loan impairment)	(261,208,121)	(240,816,092)
Accounts receivable	4,152,536	-
Other assets	3,739,189,809	3,428,984,283
Total assets	¢ <u>15,115,904,178</u>	<u>12,614,012,071</u>
 <u>Liabilities</u>		
Accounts payable and provisions	¢ 24,420,618	21,999,709
Other liabilities	27,218,703	21,781,678
Total liabilities	¢ <u>51,639,321</u>	<u>43,781,387</u>
 <u>Equity</u>		
Equity of FFD (note 19-a)	¢ 14,548,173,826	12,243,803,201
Income for the year	516,091,031	326,427,484
Total equity	¢ <u>15,064,264,857</u>	<u>12,570,230,684</u>
Total liabilities and equity	¢ <u>15,115,904,178</u>	<u>12,614,012,071</u>
 Other debit memoranda accounts	¢ <u>488,642,160</u>	<u>294,966,703</u>

(Continued)

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Notes to Consolidated Financial Statements

Development Financing Fund
Income Statement
Six months ended June 30, 2014
(With corresponding figures for 2013)

	June 2014	June 2013
Finance income	¢ 614,913,040	560,603,138
Income from recovery of assets and decrease in provisions	66,048,989	4,178,293
Expenses for allowance for impairment of assets	(75,370,230)	(170,846,327)
Gross finance income	605,591,799	393,935,104
Other operating income	13,053	88,516
Other operating expenses	(4,867,426)	(4,876,660)
Gross operating income	600,737,426	389,146,960
Administrative expenses	(84,646,395)	(62,719,477)
Income for the year	¢ 516,091,031	326,427,483

a. Loan portfolio

i. Loan portfolio by sector

The loan portfolio by sector is as follows:

	June 2014	June 2013
Trade	¢ 3,886,919,667	3,720,765,300
Services	3,138,425,967	2,740,497,538
Manufacturing and quarrying	566,894,013	561,095,468
Agriculture and forestry	1,400,412,587	916,691,278
Livestock, hunting, and fishing	1,331,303,470	825,524,124
Transportation and telecommunications	1,000,398,399	420,930,507
Tourism	214,800,169	175,376,637
Total direct loans	11,539,154,272	9,360,880,852
Accrued interest receivable	94,615,682	64,963,027
Allowance for loan impairment	(261,208,121)	(240,816,092)
Total	¢ 11,372,561,833	9,185,027,787

(Continued)

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Notes to Consolidated Financial Statements

As of June 30, 2014, interest rates on loans range between 8.5% and 15.45% per annum (average rate of 11.05% per annum) for operations in colones (2013: between 6.65% and 15.05% per annum, average rate of 10.77% per annum).

ii. Loan portfolio by arrears

As of June 30, the loan portfolio by arrears is as follows:

	June 2014	June 2013
Current	¢ 10,276,176,103	8,250,944,377
1 to 30 days	655,017,641	622,928,937
31 to 60 days	163,221,591	54,105,866
61 to 90 days	170,743,030	74,914,138
91 to 120 days	43,612,574	100,061,535
121 to 180 days	53,024,159	37,410,431
More than 180 days	177,359,174	220,515,568
Total	¢ 11,539,154,272	9,360,880,852
Accrued interest receivable	94,615,682	64,963,027
Allowance for loan impairment	(261,208,121)	(240,816,092)
Total	¢ 11,372,561,833	9,185,027,787

iii. Loan portfolio by origin

The loan portfolio by origin is as follows:

	June 2014	June 2013
Loans originated by the Bank	¢ 11,539,154,272	9,360,880,852
Total direct loans	¢ 11,539,154,272	9,360,880,852
Accrued interest receivable	94,615,682	64,963,027
Allowance for loan impairment	(261,208,121)	(240,816,092)
Total	¢ 11,372,561,833	9,185,027,787

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Consolidated Financial Statements

iv. Past due loans

As of June 30, past due loans, including loans in accrual status (for which interest is recognized on a cash basis) and unearned interest on those loans, are as follows:

		June 2014	June 2013
Past due loans in accrual status: 151 loans (2013: 130 loans)	¢	957,631,191	751,948,942
Loans in legal collections: 45 loans, 2.64% of portfolio (2013: 53 loans, 2.75% of portfolio)	¢	305,346,978	357,987,534
Total unearned interest	¢	6,325,862	5,745,026

For the six months ended June 30, 2014, the Bank increased the “Finance income on non-accrual loans” account by ¢6,325,862 (2013: ¢5,745,026), as a result of the increase in loans receivable over 180 days past due in the loan portfolio generated by the statutory allocations to FFD.

As of June 30, 2014, restructured loans amount to a total of ¢48,278,238 (2013: ¢65,133,440).

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

v. Accrued interest receivable on loan portfolio

Accrued interest receivable is as follows:

		June 2014	June 2013
Current	¢	47,876,140	21,334,994
Past due		15,026,943	8,933,189
Legal collections		31,712,599	34,694,844
	¢	<u>94,615,682</u>	<u>64,963,027</u>

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Consolidated Financial Statements

b. Risk management

Credit risk

This is the risk that the borrower or issuer of a financial asset will fail to discharge an obligation, fully and on time, in accordance with the terms and conditions agreed upon at the time the financial asset was acquired. Credit risk is mainly related to the loan portfolio. The exposure to credit risk on those assets is represented by the carrying amount of the assets in the balance sheet.

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

	Note	Direct	
		June 2014	June 2013
Loan portfolio			
Principal	49-a	¢ 11,539,154,272	9,360,880,852
Accounts and accrued interest receivable		94,615,682	64,963,027
Carrying amount, gross		11,633,769,954	9,425,843,879
Allowance for loan impairment (accounting records)		(261,208,121)	(240,816,092)
Carrying amount, net	¢	11,372,561,833	9,185,027,787
Loan portfolio			
Total balances:			
A1	¢	10,052,585,504	8,160,413,660
A2		124,456,884	96,478,283
B1		395,809,875	287,274,628
B2		18,395,465	1,987,972
C1		194,690,920	278,615,459
C2		47,536,885	46,279,685
D		97,469,177	94,246,429
E		702,825,244	460,547,763
		11,633,769,954	9,425,843,879
Structural allowance (subledger – database)		(244,144,574)	(257,542,521)
Carrying amount, net	¢	11,389,625,380	9,168,301,358

(Continued)

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Notes to Consolidated Financial Statements

	Direct	
	June 2014	June 2013
Individually assessed loans with allowance:		
A1	¢ 10,052,585,504	3,922,297,580
A2	124,456,884	52,034,510
B1	395,809,875	126,124,115
B2	18,395,465	1,987,972
C1	194,690,920	86,772,498
C2	47,536,885	18,253,108
D	97,469,177	84,368,564
E	702,825,244	408,530,380
	<u>11,633,769,954</u>	<u>4,700,368,727</u>
Structural allowance (subledger – database)	(244,144,574)	(257,542,521)
Carrying amount, net	¢ <u>11,389,625,380</u>	<u>4,442,826,206</u>
Past due loans without allowance:		
A1	¢ -	197,003,433
B1	-	10,468,125
B2	-	103,309,621
C1	-	19,270,136
C2	-	28,026,577
D	-	9,877,865
E	-	32,968,739
Carrying amount	¢ <u>-</u>	<u>400,924,496</u>

(Continued)

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Notes to Consolidated Financial Statements

	Note	Direct	
		June 2014	June 2013
Aging of loan portfolio			
1 – 30 days	¢	-	305,319,938
31 – 60 days		-	42,493,713
61 – 90 days		-	11,330,872
91 – 180 days		-	17,467,277
More than 180 days		-	24,312,696
Carrying amount	¢	-	400,924,496
Current loans without allowance:			
A1	¢	-	4,041,112,647
A2		-	33,975,648
B1		-	57,840,892
C1		-	172,572,825
D		-	-
E		-	19,048,644
Carrying amount	¢	-	4,324,550,656
Carrying amount, gross		11,633,769,954	9,425,843,879
Allowance for loan impairment (database)		(244,144,574)	(257,542,521)
(Excess) insufficiency of allowance over structural allowance		(17,063,547)	16,726,429
Carrying amount, net	49-a ¢	11,372,561,833	9,185,027,787
Restructured loans	49-a ¢	48,278,238	65,133,440

Set out below is an analysis of the gross and net (of allowance for loan impairment) amounts of FOFIDE's individually assessed loans with allowance by risk rating according to SUGEF Directive 1-05:

		June 2014	
		Loans to customers	
		Gross	Net
A1	¢	10,052,585,504	10,031,500,923
A2		124,456,884	124,407,101
B1		395,809,875	392,484,248
B2		18,395,465	16,966,769
C1		194,690,920	183,126,667
C2		47,536,885	41,895,157
D		97,469,177	86,499,382
E		702,825,244	495,681,586
	¢	11,633,769,954	11,372,561,833

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Consolidated Financial Statements

June 2013		
Loans to customers		
	Gross	Net
A1	¢ 8,160,413,660	8,165,293,127
A2	96,478,283	95,767,593
B1	287,274,628	283,887,627
B2	1,987,972	1,789,174
C1	278,615,459	268,302,481
C2	46,279,685	40,715,631
D	94,246,429	50,061,280
E	460,547,763	279,210,874
	¢ 9,425,843,879	9,185,027,787

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 FFD. Accordingly, no allowance is established.

	June 2014	June 2013
More than 180 days	¢ 202,605,079	24,312,696

Restructured loans:

Restructured loans are as follows:

	June 2014	June 2013
Restructured loans	¢ 48,278,238	65,133,440

Borrower classification

The loan portfolio by borrower classification (including interest receivable) is as follows:

	June 2014	June 2013
Borrower classification:		
Group 1	¢ 529,192,182	369,834,633
Group 2	11,104,577,772	9,056,009,246
	¢ 11,633,769,954	9,425,843,879

(Continued)

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Notes to Consolidated Financial Statements

Risk ratings

As of December 31, the loan portfolio by risk rating assigned to borrowers according to SUGEF Directive 1-05 is as follows:

<u>Risk rating</u>	<u>Arrears</u>	<u>June 2014</u>	<u>June 2013</u>
A1	30 days or less	¢ 10,052,585,502	8,160,413,660
A2	60 days or less	124,456,884	96,478,283
B1	60 days or less	395,809,875	287,274,628
B2	60 days or less	18,395,465	1,987,972
C1	90 days or less	194,690,920	278,615,459
C2	90 days or less	47,536,885	46,279,685
D	120 days or less	97,469,177	94,246,429
	More than 120 days or other		
E	factors	702,825,246	460,547,763
		¢ <u>11,633,769,954</u>	<u>9,425,843,879</u>

Loan portfolio by sector

The concentration of the loan portfolio by sector is as follows:

<u>Sector</u>	<u>June 2014</u>	<u>June 2013</u>
Agriculture and forestry	¢ 1,430,947,039	927,399,402
Livestock, hunting, and fishing	1,354,612,950	837,944,698
Manufacturing and quarrying	569,123,662	568,447,242
Trade	3,911,842,357	3,740,876,704
Transportation and telecommunications	1,005,755,042	421,877,122
Services	3,145,994,875	2,753,086,387
Tourism	215,494,029	176,212,324
	¢ <u>11,633,769,954</u>	<u>9,425,843,879</u>

Loan portfolio by geographic area

The concentration of the loan portfolio by geographic area is as follows:

	<u>June 2014</u>	<u>June 2013</u>
Central America	¢ <u>11,633,769,954</u>	<u>9,425,843,879</u>

(Continued)

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Loan portfolio by type of guarantee

The loan portfolio by type of guarantee is as follows:

Guarantee	June 2014	June 2013
Back to back	¢ 13,275,635	19,308,092
Assignment of loans	34,661,054	4,474,663
Mortgage	6,625,616,998	5,628,186,578
Surety	3,455,743,101	3,184,349,294
Trust	116,707,246	140,944,268
Securities	110,819,007	31,496,681
Chattel mortgage	1,237,006,987	403,101,106
Other	39,939,926	13,983,197
	¢ 11,633,769,954	9,425,843,879

Loan portfolio by individual borrower or economic interest group

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

Loan portfolio concentration	June 2014	June 2013
¢1 to ¢3,000,000	¢ 1,449,229,636	1,600,840,387
¢3,000,001 to ¢15,000,000	5,199,182,837	4,602,769,867
¢15,000,001 to ¢30,000,000	2,450,452,236	1,767,178,533
¢30,000,001 to ¢50,000,000	1,717,410,590	1,168,067,205
¢50,000,001 to ¢75,000,000	817,494,655	286,987,887
	¢ 11,633,769,954	9,425,843,879

(50) Statutory allocations made to the Development Credit Fund (FCD)

Starting March 15, 2013, in accordance with Law No. 8634 and Law No. 9034, the Bank is awarded 50% of the management of the FCD for a 5-year term, renewable for equal periods as of the signing of the management agreement. The FCD will be comprised of funds established under article 59 of IRNBS (Law No. 1644), as follows:

- i. Private banks must maintain in the Bank and Banco de Costa Rica a balance of at least seventeen percent (17%) of total deposits of 30 days or less, after deducting the corresponding minimum cash reserve, in both local and foreign currency, for loans to State-owned banks. State-owned banks will pay those private entities an interest rate equivalent to fifty percent (50%) of the base deposit rate for the aforementioned funds.

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- ii. Private banks must open at least four agencies or branches distributed throughout the Chorotega, Central Pacific, Brunca, Atlantic Huetar, and Northern Huetar regions for purposes of providing basic banking services (i.e. deposit-taking and lending). Additionally, private banks must maintain a balance of at least ten percent (10%) of total deposits of 30 days or less, after deducting the corresponding minimum cash reserve, in both local and foreign currency, for loans to be used in development programs selected through an executive order. The loans will bear interest at a rate not to exceed the base deposit rate calculated by BCCR for placements in colones and at the 1-month LIBOR rate for placements in foreign currency.

SUGEF Directive 31-04 requires that banks that manage the FCD include a balance sheet and income statement for such fund in the notes to their financial statements.

FCD's financial statements are as follows:

Development Credit Fund
Balance Sheet
As of June 30, 2014

<u>Assets</u>	June 2014	June 2013
Investments in financial instruments	¢ 142,210,730,189	118,351,267,218
Accounts and accrued interest receivable	3,486,607	14,620,364
Other assets	2,929,311,108	2,255,391,015
Total assets	¢ 145,143,527,904	120,621,278,597
<u>Liabilities</u>		
Obligations with entities	¢ 144,090,395,873	120,025,780,911
Accounts payable and provisions	86,216,424	64,094,348
Total liabilities	¢ 144,176,612,297	120,089,875,259
<u>Equity</u>		
Equity adjustments	¢ 187,570,059	101,692,451
Prior period retained earnings	503,798,027	-
Income for the year	275,547,521	429,710,887
Total equity	¢ 966,915,607	531,403,338
Total liabilities and equity	¢ 145,143,527,904	120,621,278,597

(Continued)

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Development Credit Fund

Income Statement

For the three months ended June 30, 2014

	June 2014	June 2013
Finance income	¢ 12,342,394,746	2,243,139,532
Finance expense	(10,920,225,169)	(1,149,227,540)
Gross finance income	1,422,169,577	1,093,911,992
Other operating expenses	(1,146,622,056)	(664,201,105)
Income for the year	¢ 275,547,521	429,710,887

a. Investments in financial instruments

Investments in financial instruments are as follows:

	June 2014	June 2013
Available for sale	¢ 141,165,649,876	116,014,940,457
Accrued interest receivable	1,045,080,313	2,336,326,761
	¢ 142,210,730,189	118,351,267,218

	June 2014	June 2013
<i>Available for sale:</i>		
<u>Local issuers:</u>		
Government of Costa Rica	¢ 54,676,589,610	71,465,688,088
BCCR	22,154,373,480	-
Private banks	19,689,634,364	-
State-owned banks	-	21,416,051,979
	96,520,597,454	92,881,740,067
<u>Foreign issuers:</u>		
Governments	24,097,371,179	14,153,984,200
Private issuers	-	8,979,216,190
Private Banks	20,547,681,243	-
Subtotal	44,645,052,422	23,133,200,390
Accrued interest receivable on investments	1,045,080,313	2,336,326,761
	¢ 142,210,730,189	118,351,267,218

As of June 30, 2014, returns on investments in financial instruments range between 7.47% and 9.66% per annum in colones (2013: 0.00% and 8.90%), between 0.25% and 5.15% per annum in U.S. dollars (2013: 0.50% and 7.10%) and are established at 0.63% per annum for securities in euros (2013: 0.75%).

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As of June 30, 2014, valuation of available-for-sale investments gave rise to an unrealized gain, net of deferred tax, in the amount of ¢240,939,044 (2013: unrealized gain in the amount of ¢84,234,794.89), which is booked under "Equity adjustments for valuation of available-for-sale investments."

b. Obligations with entities

As of March 31, 2014, obligations with entities correspond to balances of checking accounts held by private banks in the Bank, one of the Managing Banks of the FCD together with Banco de Costa Rica, as required by Official Letter CR/SBD-014-2013 issued by the Technical Secretariat of the Governing Board.

Obligations with entities bear interest equivalent to 50% of the base deposit rate for accounts in colones, 50% of the 1-month LIBOR rate for accounts in U.S. dollars, and 50% of the 1-month Euro-LIBOR rate for accounts in euros.

c. Finance income

Finance income is as follows:

	June 2014	June 2013
Accrued interest on investments in available-for-sale securities	¢ 2,150,298,804	1,453,128,354
Foreign exchange differences on other financial obligations	1,580,141,706	609,992,074
Foreign exchange differences on investments in financial instruments	8,457,339,781	162,620,171
Realized gain on available-for-sale financial instruments	154,614,455	17,398,933
	¢ <u>12,342,394,746</u>	<u>2,243,139,532</u>

d. Finance expense

Finance expense is as follows:

	June 2014	June 2013
Demand obligations with financial entities	¢ 880,098,931	471,421,987
Foreign exchange differences on other financial obligations	8,418,136,805	176,203,641
Foreign exchange differences on investments in financial instruments	1,619,361,922	501,601,912
	¢ <u>10,917,597,658</u>	<u>1,149,227,540</u>

(Continued)

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e. Other operating expenses

Other operating expenses are as follows:

	June 2014	June 2013
Fees and commissions for brokerage services	¢ 99,676,830	9,563,906
Fees and commissions for custodial services of financial instruments	27,746,341	9,338,050
Income tax (8%) on interest on investments in financial instruments	162,678,838	115,664,142
Transfer to FINADE (1)	856,520,047	529,635,007
	¢ <u>1,146,622,056</u>	<u>664,201,105</u>

- (1) The transfer to FINADE corresponds to 85% of the base earnings of the FCD. Base earnings are calculated by deducting monthly expenses incurred by the FCD and net foreign exchange differences from net earnings, as stipulated in article 35 of Law No. 8634 published in Official Gazette No. 87 dated May 7, 2008 and article 104 of Executive Order No. 34901-MEIC-MAG published in Official Gazette No. 22 dated December 1, 2008. The amount transferred to FINADE is allocated as follows: 62% (equivalent to ¢426,208,656) to FOFIDE; 37% (equivalent to ¢273,745,570) to the Surety Fund; and 1% (equivalent to ¢156,565,821) to the Development Services Fund. These amounts are deposited in the respective checking accounts.

f. Risk management

i. *Market and liquidity risk management*

The Market Risk Division identifies, measures, monitors, and analyzes the different types of risk to which the Bank's own investments are exposed in order to ensure a timely, efficient, and effective management of market and liquidity risks.

Management of the FCD risk analysis is as follows:

Portfolio composition

The Bank's management reviews the changes in the face value and composition of funds in investments based on their currency, rate, issuer, and term, as well as the detail of the main purchases and sales observed during a specified period. Additionally, a market concentration index (Herfindahl-Hirschman) is used to determine the level of concentration of the portfolios.

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Return

An analysis is made of the RAROC, which measures investment portfolio management in respect of the risk assumed. It measures the gross rate of return by currency, gains on the sale and purchase of trading securities, and changes in the cumulative portfolio valuation. Management also uses the Sharpe Ratio, which is a risk-adjusted return indicator that determines whether the portfolio's returns are due to smart investment decisions or result from excess risk.

Price risk

Currently, the Bank's management uses the Risk Manager module of the software OFSA. This module is used to calculate indicators such as VaR, which determines the maximum expected loss of a portfolio under normal market conditions, at a specific holding period and confidence level, based on the risk appetite of the portfolio investor or manager.

Other techniques include duration and modified duration, which determine the price sensitivity of a security as a result of a change in interest rates, in the former case, and changes in yield upon maturity, in the latter case. Finally, stochastic fair values determine the present value of a portfolio's future cash flows using a simulated rate structure, to determine the economic value of the portfolio.

Internally, the Bank has its own methodology, developed by RiMeR, to perform calculations such as VaR (parametric and simulation methods) and conditional value at risk (CVaR). CVaR measures expected loss when the value of the portfolio exceeds VaR, is applicable to undiversified portfolios, and allows for a more effective reaction in situations of extreme risk exposure. One of the most innovative aspects of this methodology is the use of a two-factor rate model (G2++ model), as opposed to the traditional one-factor model used in simulation processes (Hull-White model). The G2++ model decomposes the short rate into two processes similar to those of the Hull-White model.

The cumulative valuation of the portfolio is monitored to identify the instruments with larger valuation gains and losses.

The VaR calculation could be performed as established in SUGEF regulations.

Interest rate risk

Similarly, stress scenarios are performed that examine the effect on the portfolios of simulated interest rate movements. These scenarios help determine the changes in fair value of the portfolio under adverse interest rate conditions.

(Continued)

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Currency risk

Currency risk is the maximum expected loss in the present value for a specific holding period with a confidence level as a result of adverse movements in exchange rates. The internal modeling system, developed in the "Matlab" platform, is used for such purposes. This system helps determine the VaR of exchange rate, which multiplied by the currency positions of the portfolio (whether long or short), provides the largest loss caused by exchange rate volatility.

A report on the local foreign currency market could be issued periodically that includes the VaR of exchange rate by currency, compliance with limits for foreign currency positions, changes in the local market, etc.

Liquidity risk

The guidelines for identifying, measuring, and monitoring the Bank's liquidity risk are established in order to determine when the Bank is unable to face situations such as withdrawals, non-renewals of certificates of deposit, maturities of certificates, and other obligations, based on recovery of loans and investments, cash and due from banks, and other assets; or when assets may not be sold at a price close to market.

Particularly, in respect of investment liquidity, indicators like instrument marketability are analyzed to determine whether the instruments comprising the portfolio may be easily sold when the Bank presents liquidity needs that are not covered by liabilities or cash and due from banks.

Balances of demand deposits and term certificates of deposit of the Bank's General Ledger System (EBS) are used to analyze the duration indicator and determine the volatility of the balances within a specified period. That information also helps determine the VaR of liquidity, which measures the risk of unexpected withdrawals from accounts.

Additionally, information from SUGEF's trial balances is used to calculate a comparative liquidity indicator to measure the Bank's ability to meet its short-term obligations. This indicator is used for comparative purposes with respect to the banking industry.

ii. Credit risk management

The credit risk of a loan portfolio is measured when the loan is originated and when the loan is formalized. Risk at loan origination is measured using a score. Risk at loan formalization is measured individually using a performance score or rating or collectively through portfolio credit risk, which measures loan correlation through the influence of macroeconomic variables.

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When the Bank measures a formalized loan, it assigns an origination score to five main portfolios: Housing, Development, Consumer, Credit Cards, and Loans without Guarantor. These tools, which are applied since 2006 and recalibrated at least once a year, were validated by Experian in 2008 and more recently in 2013 by Equifax.

A performance score and rating are applied once a loan is granted. The performance score only considers the customer's payment behavior, thus providing probability of default assessments which lead to a rating (AAA, AA, A, B, C, D; an AAA rating is assigned to the best customers, while a D rating is assigned to customers with payment difficulties). The rating is issued monthly and is used for granting new loans to customers with an AAA, AA, or A ratings.

Rating applies to large companies and combines the customer's payment behavior and financial information, thereby providing a more robust rating system. The rating scale is more extensive than the performance score (AAA, AA, A, BBB, BB, B, CCC, CC, C, D) because there is a greater diversity of customers. This rating is assessed monthly and is used when originating new business loans.

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

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

The Bank's loan portfolio is comprised of operations in various currencies, i.e. the Costa Rican colon, the U.S. dollar, and D.C. 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.

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Various technical tools are used to provide other angles for the analysis, such as the performance of the portfolio in legal collections, 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 use of the above analyses has led to sound credit risk management practices that, along with tight control over loan collection, have helped to substantially improve the level of arrears in the loan portfolio.

A quality management system was developed where all tasks are associated with a procedure that establishes promises of quality for each credit risk assessment report.

Assets and liabilities in foreign currency are as follows:

		June 2014	June 2013
<i>U.S. dollars</i>			
<u>Assets:</u>			
Cash and due from banks	US\$	-	147,234,128
Investments in financial instruments	US\$	167,297,826	-
Other assets	US\$	3,115,512	1,504,508
Total assets	US\$	170,413,338	148,738,636
<u>Liabilities:</u>			
Obligations with entities	US\$	169,334,328	147,813,238
Total liabilities	US\$	169,334,328	147,813,238
Excess of assets over liabilities in U.S. dollars	US\$	1,079,010	925,398
<i>Euros</i>			
<u>Assets:</u>			
Investments in financial instruments	€	3,219,178	3,107,276
Other assets		506,486	657,309
Total assets	€	3,725,664	3,764,585
<u>Liabilities:</u>			
Obligations with entities	€	3,762,642	3,709,890
Total liabilities	€	3,762,642	3,709,890
Excess (deficit) of assets over liabilities in euros	€	(36,978)	54,695

(Continued)

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Assets and liabilities in local and foreign currency are as follows:

<u>Assets</u>		<u>June 2014</u>	<u>June 2013</u>
<i>Local currency:</i>			
Financial instruments from BCCR – own resources	¢	22,154,373,480	-
Financial instruments from the local non-financial public sector		27,168,250,070	41,957,148,550
Financial instruments from the local financial entities – own resources		-	179,640,010
Accrued interest receivable associated to investments in financial instruments		586,818,617	1,628,982,938
Deferred tax		3,486,607	14,620,364
Balances with other departments		882,326,880	1,091,677,391
Total assets in local currency		<u>50,795,255,654</u>	<u>44,872,069,253</u>
<i>Foreign currency:</i>			
Financial instruments from the local non-financial public sector - own resources	¢	27,508,339,536	29,722,451,820
Financial instruments from local financial entities - own resources		19,689,634,358	21,022,499,660
Financial instruments from central banks and foreign public sector entities - own resources		26,457,420,041	16,587,925,896
Financial instruments from foreign financial entities - own resources		18,187,632,392	6,545,274,501
Accrued interest receivable associated to investments in financial instruments		458,261,695	707,343,842
Balances with other departments		2,046,984,228	1,163,713,626
Total assets in foreign currency		<u>94,348,272,250</u>	<u>75,749,209,345</u>
Total	¢	<u>145,143,527,904</u>	<u>120,621,278,598</u>
<u>Liabilities</u>			
<i>Local currency:</i>			
Obligations for management of FCD	¢	50,295,008,593	44,767,930,439
Deferred tax		86,216,424	64,094,348
Total liabilities in local currency		<u>50,381,225,017</u>	<u>44,832,024,787</u>
<i>Foreign currency:</i>			
Obligations for management of FCD	¢	93,795,387,280	75,257,850,472
Total liabilities in foreign currency		<u>93,795,387,280</u>	<u>75,257,850,472</u>
Total liabilities	¢	<u>144,176,612,297</u>	<u>120,089,875,259</u>

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(51) Notes required by Regulations on the Financial Reporting of Financial Entities, Groups, and Conglomerates

Pursuant to the Regulations on the Financial Reporting of Financial Entities, Groups, and Conglomerates, the following disclosures do not apply to the Bank:

- risk indicators and
- other concentrations of assets and liabilities.

(52) Restatement of financial statements to correct error of Pension Fund Manager

The Bank's financial statements as of and for the year ended December 31, 2012 were restated as a result of the restatement of the financial statements for such period of the subsidiary BN Vital Operadora de Planes de Pensiones Complementarias, S.A. (the Pension Fund Manager).

Pursuant to a precautionary measure issued by SUPEN in 2009 against the Pension Fund Manager, the subsidiary included in the accounting records a provision in the amount of ¢1,574,426,000 to cover possible losses incurred by pension funds managed during the restructuring of the "Income tax receivable" account. According to SUPEN, such losses should be assumed by the Pension Fund Manager, as the manager of such funds.

Such provision represents a preliminary estimate suggested by SUPEN due to difficulties in determining the completeness and accuracy of the balance receivable presented in the funds' accounting records, as a result of the lack of a subledger in late 2009 that evidenced and supported the composition of the balance receivable presented in the corresponding general ledger for each fund. In 2010, management of the subsidiary began to perform an assessment to determine the completeness, accuracy, and existence of the aforementioned balance receivable as well as the value of the provision. The assessment was substantially completed in 2013 and included the analysis, review, and restructuring of the income tax receivable subledger of each managed fund.

As a result of the restructuring, the financial statements of the Pension Fund Manager as of and for the year ended December 31, 2012 were restated to include the effect of the recognition of returns not earned by affiliates from 2010 to 2013. The net effect of the correction of the misstatement in "Prior period retained earnings", after deducting the provision mentioned above, amounts to ¢1,732,447,895.

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Since the Pension Fund Manager is wholly owned by the Bank, the balances of the Bank's consolidated financial statements as of and for the period ended March 30, 2013 were restated, affecting the following accounts:

	Balance sheet			Income for the year		Cash flows	
	Prior period retained earnings	Other sundry accounts payable	Provisions	Income for the year	Other operating expenses	Other accounts payable and provisions	Income for the year
Balance at January 1, 2012, previously reported	¢ 95,539,932,438	37,774,825,089	69,818,156,027	43,715,624,333	36,910,612,577	(15,786,928,328)	43,715,624,333
Effect of correction	(1,474,573,682)	3,306,873,895	(1,574,426,000)	(257,874,213)	257,874,213	1,732,447,895	(257,874,213)
Balance at January 1, 2012, restated	¢ 94,065,358,756	41,081,698,984	68,243,730,027	43,457,750,120	37,168,486,790	(14,054,480,433)	43,457,750,120
Balance at January 1, 2013, previously reported	¢ 70,844,594,054	49,925,542,780	60,148,413,026	25,141,909,678	42,149,136,979	(3,626,067,919)	25,141,909,678
Effect of correction	(1,732,447,895)	3,306,873,895	(1,574,426,000)	-	-	257,874,213	-
Balance at January 1, 2013, restated	¢ 69,112,146,159	53,232,416,675	58,573,987,026	25,141,909,678	42,149,136,979	(3,368,193,706)	25,141,909,678