

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Financial Information Required by the
Superintendency General of Financial Entities

Consolidated Financial Statements

March 31, 2014

(With corresponding figures for December and March 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 MARCH 31 2014, DECEMBER AND MARCH 31, 2013
(In colones)

SCHEDULE A
1 of 2

	Note	March 2014	December 2013	March 2013
ASSETS				
Cash and due from banks	4	944,526,780,031	847,934,576,855	691,098,753,769
Cash		50,501,261,839	62,627,019,995	62,605,535,915
Demand deposits in BCCR		581,950,736,653	527,483,741,950	494,711,983,093
Demand deposits in local financial entities		5,901,833,926	15,700,518,762	5,676,356,315
Demand deposits in foreign financial entities		290,271,851,269	237,366,390,500	97,086,240,592
Other cash and due from banks		15,900,918,202	4,756,206,590	31,016,916,497
Accounts and accrued interest receivable		178,142	699,058	1,721,357
Investments in financial instruments	5	895,278,244,080	996,018,394,953	904,579,076,022
Available for sale		860,236,514,092	957,346,698,111	860,883,203,754
Held to maturity		26,280,955,059	25,823,991,217	34,023,830,506
Derivative financial instruments - position		14,324,730	-	207,210
Accounts and accrued interest receivable		8,804,888,645	12,901,374,609	10,269,633,055
(Allowance for impairment of investments in financial instruments)		(58,438,446)	(53,668,984)	(597,798,503)
Loan portfolio	6	3,132,520,642,840	2,986,573,318,876	2,592,686,651,033
Current		2,959,538,779,511	2,799,657,018,936	2,382,326,854,954
Past due		134,177,146,823	139,042,678,627	166,023,644,669
Legal collections		64,719,904,570	73,965,839,402	70,468,372,377
Accounts and accrued interest receivable		19,823,532,560	19,553,964,785	19,563,054,841
(Allowance for loan impairment)		(45,738,720,624)	(45,646,182,874)	(45,695,275,808)
Accounts and fees and commissions receivable	7	4,089,297,275	3,568,951,877	2,646,257,828
Fees and commissions receivable		745,185,348	980,713,884	890,841,579
Accounts receivable for brokerage operations		27,138,808	31,304	6,302,956
Accounts receivable for transactions with related parties		323,068,301	29,057,085	40,959,132
Deferred tax and income tax receivable		3,208,145,437	2,308,096,314	1,498,734,630
Other receivables		2,599,265,317	2,552,671,830	2,653,921,974
Accrued interest receivable		1,698,456	1,608,084	1,500,890
(Allowance for impairment of accounts and fees and commissions receivable)		(2,815,204,392)	(2,303,226,624)	(2,446,003,333)
Foreclosed assets	8	18,333,929,633	20,702,082,917	27,196,182,467
Assets and securities acquired in lieu of payment		75,044,623,872	76,708,238,430	75,478,538,214
Other foreclosed assets		1,756,777	1,756,777	1,756,777
(Allowance for impairment of foreclosed assets and per legal requirements)		(56,712,451,016)	(56,007,912,290)	(48,284,112,524)
Investments in other companies	9	46,372,888,124	41,357,623,922	38,657,254,115
Property and equipment, net	10	164,877,937,600	165,970,551,719	144,815,635,228
Other assets	11	39,153,654,809	31,909,896,468	20,154,424,963
Deferred charges		11,783,390,882	9,094,215,327	1,747,191,494
Intangible assets		2,450,913,570	2,819,508,013	3,550,076,966
Other assets		24,919,350,357	19,996,173,129	14,857,156,503
TOTAL ASSETS		5,245,153,374,392	5,094,035,397,587	4,421,834,235,425

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

(Continued)

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

SCHEDULE A
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LIABILITIES AND EQUITY

LIABILITIES


	Note	March 2014	December 2013	March 2013
Obligations with the public	12	3,534,080,438,679	3,429,699,560,917	3,397,054,748,955
Deposits and other demand obligations		2,173,831,686,056	2,099,331,437,041	1,955,154,593,095
Deposits and other term obligations		1,303,699,572,588	1,274,859,342,280	1,372,692,416,379
Other obligations with the public		39,892,329,298	36,165,531,600	46,156,285,776
Charges payable		16,656,850,737	19,343,249,996	23,051,453,705
Obligations with BCCR	13	22,196,355,699	29,911,289,724	215,274,900
Term obligations		22,193,411,054	29,904,277,636	215,235,689
Charges payable		2,944,645	7,012,088	39,211
Obligations with entities	14	1,086,782,914,663	1,025,812,856,421	428,569,438,482
Demand obligations with financial entities		230,235,644,792	190,323,775,761	146,322,861,964
Term obligations with financial entities		841,826,636,141	828,804,423,760	279,788,086,837
Charges payable on obligations with financial and non-financial entities		14,720,633,730	6,684,656,900	2,458,489,681
Accounts payable and provisions		103,670,008,659	125,677,299,218	112,059,181,210
Accounts payable for brokerage services		1,890,683,802	1,109,336,612	542,773,650
Deferred tax	15-c	13,507,671,115	14,276,721,662	14,455,484,548
Provisions	16	41,565,125,026	50,123,605,163	46,896,445,602
Other sundry accounts payable	17	46,706,528,716	60,167,635,781	50,164,477,410
Other liabilities	18	36,464,272,866	28,504,123,815	45,559,740,304
Deferred income		3,896,216,984	2,458,330,689	1,910,817,007
Allowance for stand-by credit losses		884,608,211	138,964,729	346,336,953
Other liabilities		31,683,447,671	25,906,828,397	43,302,586,344
TOTAL LIABILITIES		4,783,193,990,566	4,639,605,130,095	3,983,458,383,851

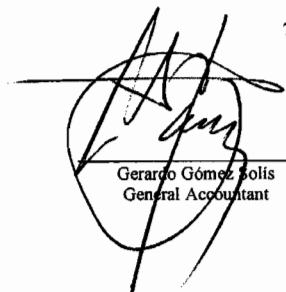
EQUITY

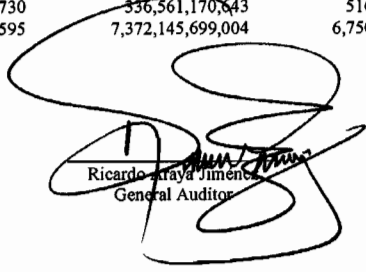
Share capital		118,130,303,482	118,130,303,482	118,130,303,482
Paid-up capital	19-a	118,130,303,482	118,130,303,482	118,130,303,482
Equity adjustments		64,857,877,088	62,621,518,232	57,255,124,951
Surplus from revaluation of property and equipment	19-b	63,639,596,055	63,639,596,055	49,226,216,504
Adjustment for valuation of available-for-sale investments	19-c	(2,536,093,577)	(1,659,792,110)	5,349,356,292
Adjustment for valuation of restricted financial instruments	19-c	(3,310,054,989)	(2,745,810,858)	(1,803,898,467)
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	6,994,182,974	3,317,278,520	4,413,203,997
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		6,218,384,941	25,141,909,678	12,721,439,144
Equity of the Development Financing Fund	49	14,548,173,826	12,243,803,201	12,243,803,201
TOTAL EQUITY		461,959,383,826	454,430,267,492	438,375,851,574
TOTAL LIABILITIES AND EQUITY		5,245,153,374,392	5,094,035,397,587	4,421,834,235,425

DEBIT MEMORANDA ACCOUNTS

TRUST ASSETS	20	503,005,458,047	439,775,205,683	410,217,836,551
TRUST LIABILITIES	21	963,048,502,703	909,695,157,115	944,617,106,822
TRUST EQUITY		69,249,953,780	65,814,616,652	84,541,425,398
TRUST MEMORANDA ACCOUNTS		893,798,548,924	843,880,540,463	860,075,681,425
OTHER DEBIT MEMORANDA ACCOUNTS	22	4,461,613,360	5,293,296,993	41,746,712,329
Own debit memoranda accounts		16,739,506,375,806	15,922,035,283,308	13,780,252,215,044
Third-party debit memoranda accounts		6,721,012,303,168	6,552,237,102,470	4,941,321,799,292
Own debit memoranda accounts for custodial activities		1,862,204,225,313	1,661,091,311,191	1,571,226,329,375
Third-party debit memoranda accounts for custodial activities		236,868,830,730	336,561,170,643	516,838,052,937
		7,919,421,016,595	7,372,145,699,004	6,750,866,033,440


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 INCOME STATEMENT
FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2014
(With corresponding figures for 2013)
(In colones)

SCHEDULE B
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	Note	March 2014	March 2013
Finance income			
Cash and due from banks	26	72,927,149	53,096,349
Investments in financial instruments	26	11,070,881,603	11,740,940,980
Loan portfolio	27	70,815,163,290	68,774,564,771
Foreign exchange gain and development units, net	1-d	180,375,036,844	31,578,540,278
Gain on available-for-sale financial instruments		940,378,565	5,741,910,359
Gain on derivative instruments	5-b	6,615,356,142	-
Other finance income	28	4,083,979,006	721,012,732
Total finance income		273,973,722,599	118,610,065,469
Finance expense			
Obligations with the public	29	24,296,046,663	35,184,130,258
Obligations with BCCR		372,363	479,735
Obligations with financial entities		9,092,360,526	2,651,711,540
Other sundry accounts payable		90,992	-
Foreign exchange loss and development units	1-d	182,774,349,561	29,495,351,085
Loss on available-for-sale financial instruments		400,105,280	-
Loss on derivative instruments	5-b	-	95,007,351
Other finance expense		9,664,694,372	44,450,791
Total finance expense		226,228,019,757	67,471,130,760
Allowance for impairment of assets	30	5,284,463,827	9,780,048,170
Recovery of assets and decrease in allowances	31	3,200,119,611	3,544,414,249
GROSS FINANCE INCOME		45,661,358,626	44,903,300,788
Other operating income			
Service fees and commissions	32	24,098,582,603	22,042,002,319
Foreclosed assets		6,107,606,886	1,179,207,690
Gains on investments in other foreign companies	1-a	1,060,279,182	1,273,755,107
Gains on investments in other local companies		-	1,697,849
Foreign currency exchange and arbitrage		7,418,578,142	4,293,300,440
Other operating income	33	2,069,136,642	2,057,920,518
Total other operating income		40,754,183,455	30,847,883,923


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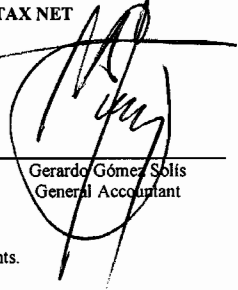
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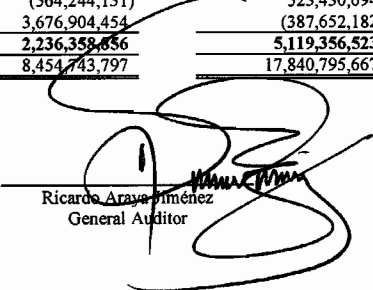
BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENT
FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2014
(With corresponding figures for 2013)
(In colones)

SCHEDULE B
2 of 2

		<u>March 2014</u>	<u>March 2013</u>
Other operating expenses			
Services fees and commissions		1,715,355,130	1,408,390,754
Foreclosed assets	34	11,302,815,664	7,912,711,106
Sundry assets		92,329,587	35,974,539
Provisions	35	4,151,381,039	4,582,366,940
Foreign currency exchange and arbitrage		10,404,434	73,465
Other operating expenses	36	13,239,568,681	8,923,493,436
Amortization of direct deferred costs related to loans		41,686,010	-
Total other operating expenses		<u>30,553,540,545</u>	<u>22,863,010,240</u>
GROSS OPERATING INCOME		<u>55,862,001,536</u>	<u>52,888,174,471</u>
Administrative expenses			
Personnel expenses	37	30,854,218,441	29,362,127,714
Other administrative expenses	38	16,319,804,781	13,894,892,439
Total administrative expenses		<u>47,174,023,222</u>	<u>43,257,020,153</u>
NET OPERATING INCOME BEFORE TAXES AND STATUTORY ALLOCATIONS		<u>8,687,978,314</u>	<u>9,631,154,318</u>
Income tax	15-a	797,580,345	637,250,468
Deferred tax		-	1,777,415
Decrease in income tax	15-a	-	4,620,407
Decrease in prior period income tax	15-b	5,529,339	6,533,715,664
Deductible temporary differences		21,072,958	37,953,399
Statutory allocations	39	1,698,615,325	2,849,850,977
INCOME FOR THE YEAR		<u>6,218,384,941</u>	<u>12,721,439,144</u>
OTHER COMPREHENSIVE INCOME, INCOME TAX NET			
Surplus from the revaluation of the property and equipment		-	101,945,151
Adjustment for valuation of available-for-sale investments, income tax net		(876,301,467)	4,881,632,860
Adjustment for valuation of Financial instruments restricted, income tax net		(564,244,131)	523,430,694
Other		3,676,904,454	(387,652,182)
PERIOD OTHER COMPREHENSIVE INCOME, INCOME TAX NET		<u>2,236,358,656</u>	<u>5,119,356,523</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>8,454,743,797</u>	<u>17,840,795,667</u>


Fernando Naranjo Villalobos
General Manager



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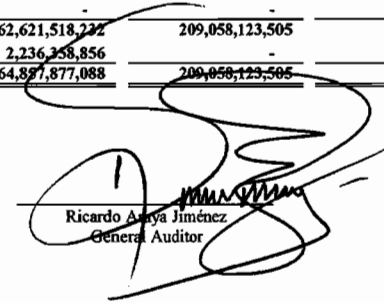
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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2014
(With corresponding figures for 2013)
(In colones)

Note	Share capital	Equity adjustments				Total equity adjustments	Capital reserves	Opening retained earnings	Capital of the Development Financing Fund	Total
		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, 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	-	-	-	-	-	-	-	12,721,439,144	-	12,721,439,144
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 March 31, 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	53,837,393,959	12,243,803,201	433,256,495,051
Other comprehensive income at March 31, 2013:	-	101,945,151	5,405,063,554	-	(387,652,182)	5,119,356,523	-	-	-	5,119,356,523
Total comprehensive income at March 31, 2013	118,130,303,482	49,226,216,504	3,545,457,825	70,246,625	4,413,203,997	57,255,124,951	196,909,225,981	53,837,393,959	12,243,803,201	438,375,851,574
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	-	-	-	-	-	-	-	6,218,384,941	-	6,218,384,941
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 March 31, 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	55,364,905,925	14,548,173,826	459,723,024,970
Other comprehensive income at March 31, 2014:	-	-	(1,440,545,598)	-	3,676,904,454	2,236,358,856	-	-	-	2,236,358,856
Total comprehensive income at March 31, 2014	118,130,303,482	63,639,596,055	(5,846,148,566)	70,246,625	6,994,182,974	64,857,877,088	209,058,123,505	55,364,905,925	14,548,173,826	461,959,383,826


 Fernando Naranjo Villalobos
 General Manager

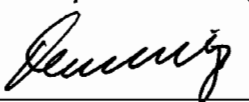

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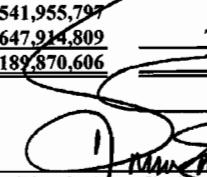
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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2014
(With corresponding figures for 2013)
(In colones)

	Note	March 2014	March 2013
Cash flows from operating activities			
Income for the year		6,218,384,941	12,721,439,144
Items not requiring cash			
Gain on sale of idle property and equipment		(1,366)	-
Gain on foreign exchange differences and development units, net		42,563,968,656	(8,198,811,936)
Loss on allowance for loan impairment		1,377,216,212	5,525,316,464
Income for reversal of allowance for impairment of investments		71,624	(165,989)
Loss on allowances for foreclosed assets and other receivables		7,032,999,066	6,327,563,704
Expense for severance accrual, net of payments		1,638,700,180	(22,492,685,270)
Depreciation and amortization		3,332,662,168	2,814,689,953
Share in net profit of foreign associate		(1,060,279,182)	(1,273,755,107)
Statutory allocations		1,698,615,325	2,849,850,977
Deferred tax		(329,821,571)	(329,821,571)
Current tax expense	15 - a	797,580,345	637,250,468
Finance income on loan portfolio and investments		(81,886,044,893)	(80,515,505,751)
Finance expense on term obligations with the public and financial entities		24,261,755,414	26,787,563,529
		<u>5,645,806,919</u>	<u>(55,147,071,385)</u>
Net (increase) decrease in assets			
Credits and cash advances		(44,750,845,965)	(74,788,627,814)
Foreclosed assets		(4,045,323,826)	(4,165,291,070)
Accrued interest receivable on other receivables		(90,372)	12,769
Other assets		<u>(8,340,633,733)</u>	<u>586,982,793</u>
		<u>(51,491,086,977)</u>	<u>(133,513,994,707)</u>
Net increase (decrease) in liabilities			
Demand and term obligations		(11,674,181,224)	356,992,294,681
Other accounts payable and provisions		(25,643,700,450)	9,123,231,781
Other liabilities		<u>7,112,577,287</u>	<u>(6,391,368,287)</u>
		<u>(81,696,391,364)</u>	<u>226,210,163,468</u>
Interest received on loan portfolio and investments		85,712,963,082	78,377,127,193
Income tax paid		(931,681,740)	(1,374,759,059)
Interest paid on term obligations with the public and financial entities		(18,916,245,286)	(24,981,057,974)
Net cash (used in) from operating activities		<u>(15,831,355,308)</u>	<u>278,231,473,628</u>
Cash flows from investing activities			
Increase in financial instruments (except trading)		(946,555,974,894)	(4,997,333,418,287)
Decrease in financial instruments (except trading)		1,038,556,489,256	4,733,543,014,569
Acquisition of property and equipment		(1,696,973,762)	(2,639,178,876)
Sale of property and equipment		94,739,521	624,057,587
Cash investments in other companies		<u>(1,203,708,029)</u>	<u>333,507,310</u>
Net cash from (used in) investing activities		<u>89,194,572,092</u>	<u>(265,472,017,697)</u>
Cash flows from financing activities			
Other new financial obligations		18,424,186,374	85,644,035,000
Settlement of obligations		<u>(31,245,447,361)</u>	<u>(45,079,567,964)</u>
Net cash (used in) from financing activities		<u>(12,821,260,987)</u>	<u>40,564,467,036</u>
Net increase in cash and cash equivalents		<u>60,541,955,797</u>	<u>53,323,922,967</u>
Cash and cash equivalents at beginning of year		<u>906,647,914,809</u>	<u>743,308,755,312</u>
Cash and cash equivalents at end of year		<u>967,189,870,606</u>	<u>796,632,678,279</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

March 31, 2014

(With corresponding figures for December and March 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 March 31, 2014, the Bank has 184 offices (2013: 175 offices), 467 automated teller machines (2013: 461 automated teller machines), and a total of 5,943 employees (2013: 5,850 employees). Employees are distributed as follows: Banco Nacional de Costa Rica - 5,531 employees (2013: 5,430 employees); BN Valores Puesto de Bolsa, S.A. - 81 employees (2013: 79 employees); BN Vital Operadora de Planes de Pensiones Complementarias, S.A. - 181 employees (2013: 222 employees); BN Sociedad Administradora de Fondos de Inversión, S.A. - 83 employees (2013: 79 employees); and BN Corredora de Seguros, S.A. - 67 employees (2013: 40 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 March 31, 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	¢ 61,010,404,820	7,499,081,222	4,606,574,826	1,085,345,606	406,948,751,092
Liabilities	¢ 46,904,623,072	1,355,971,751	814,316,141	268,286,176	360,626,486,268
Equity	¢ 14,105,781,748	6,143,109,471	3,792,258,685	817,059,430	46,322,264,824
Income for the year	¢ 216,987,385	224,658,975	196,453,354	43,586,242	1,060,279,182
Memoranda accounts	¢ 1,426,405,920,403	776,327,182,524	305,599,519,813	-	-
2013					
	Brokerage Firm	Pension Fund Manager	Investment Fund Manager	Insurance Brokerage Firm	BICSA
Assets	¢ 65,581,196,126	10,484,143,990	4,361,129,211	781,954,978	355,157,245,030
Liabilities	¢ 48,238,541,063	2,730,184,355	624,704,661	150,696,038	316,550,614,215
Equity	¢ 17,342,655,063	7,753,959,635	3,736,424,550	631,258,940	38,606,630,815
Income for the year	¢ 1,085,000,869	614,669,063	234,801,473	11,355,891	1,273,755,107
Memoranda accounts	¢ 1,289,056,745,149	671,417,973,089	270,712,142,837	-	-

(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 March 31, 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%

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Subsidiaries were consolidated based on the following accounting principles:

- All subsidiaries which the Bank controls, whether directly or indirectly, are consolidated.
- 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 March 31, 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 March 31, 2014, the exchange rate was established at ¢538.34 and ¢553.63 (2013: ¢492.72 and ¢504.65) to US\$1.00 for the purchase and sale of U.S. dollars, respectively.

As of March 31, 2014, the exchange rate for the purchase and sale of euros was established at ¢733.25 and ¢768.25 (2013: ¢621.96 and ¢651.96) to €1.00, respectively.

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

As of March 31, 2014, assets and liabilities denominated in U.S. dollars were valued at the exchange rate of ¢538.34 to US\$1.00 (2013: ¢492.72 to US\$1.00), which is the reference buy rate published by BCCR for March 31, 2014.

As of March 31, 2014, assets and liabilities denominated in euros were valued at the exchange rate of ¢742.91 to €1.00 (2013: ¢629.30 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 March 31, 2014, assets and liabilities denominated in DU were valued at the exchange rate of ¢831.05 to DU1.00 (2013: ¢806.92 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 March 31, 2014 gave rise to foreign exchange losses and gains of ¢182,774,349,561 and ¢180,375,036,844, respectively, for a net loss of ¢2,399,312,717 (2013: losses and gains of ¢29,495,351,086 and ¢31,578,540,278, respectively, for a net gain of ¢2,083,189,192). 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 March 31, 2014, valuation of other assets gave rise to gains of ¢216,183,831 (2013: gains of ¢333,680,719) (see note 33) and valuation of other liabilities gave rise to losses of ¢854,285,824 (2013: losses of ¢28,423,646) (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 March 31, 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 March 31, 2014, a foreign exchange gain in the amount of ¢2,580,978,977 (2013: foreign exchange gain of ¢109,078,917) is presented in equity for the translation of the financial statements of foreign operations. As of March 31, 2014, the adjustment for valuation of investments in other companies amounts to ¢6,994,182,974 (2013: ¢4,413,203,997).

(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 March 31, 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.

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."

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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.

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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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.

(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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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 March 31, 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 March 31, 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 ¢884,608,211 and ¢346,336,953, 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.

(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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(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 March 31, 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.

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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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.

(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 March 31, 2014 and 2013, the Bank has no finance leases.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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.

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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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 March 31, 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.

(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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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.

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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(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 March 31, 2014, a total of ¢22,262,134,062 (2013: ¢28,693,430,304) 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.

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%.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- 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.

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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.

(s) Accounts payable and other liabilities

Accounts payable and other liabilities are carried at cost.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(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 March 31, 2014, the legal reserve amounts to ¢209,058,123,505 (December and March 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 March 31 of each year. Any resulting tax is recognized in profit or loss and credited to a liability account in the balance sheet.

i. Current tax:

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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 and 230), 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 March 31, 2014, the Bank booked a current income tax liability in the net amount of ¢797,580,345 (2013: ¢632,630,062), 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), the National Trust Fund (FINADE), 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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

However, transition provision III of Law No. 8634 “Development Banking System Act”, published in the Official Gazette on May 7, 2008, establishes that for a five-year period starting in 2007, the contributions made to CONAPE by State-owned banks equivalent to 5% of their net earnings, prescribed by paragraph a) of article 20 of Law No. 6041 will be allocated as follows: 2% to CONAPE and 3% to the equity of FINADE. This law also prescribes that starting on the sixth year and until the tenth year, the contributions to FINADE and CONAPE will be gradually reduced and increased, respectively. However, Legislative Decree No. 9092 repeals article 41 and transition provision III of Law No. 8634 starting January 2013. Accordingly, the 3% contribution to the equity of FINADE is now transferred to CONAPE, resulting in a total contribution of 5% for this period.

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, 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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated 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.

(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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- d. The term of the agreement is five years, renewable for equal and successive periods, unless a written order by the Governing Board provides otherwise and is notified at least three months in advance. If a lack of capacity and competence is 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.

(2) Collateralized or restricted assets

Collateralized or restricted assets are as follows:

Restricted asset	Carrying amount		Cause of restriction
	March 2014	March 2013	
Cash and due from banks	¢ 539,571,198,046	495,851,735,156	Minimum cash reserve
Cash and due from banks	¢ 466,387,352	301,320,099	Liquidation and compensation risk
Investments in financial instruments	¢ 42,948,109,392	44,928,387,732	management fund
Investments in financial instruments	¢ 8,064,527,562	-	Guarantee for repurchase agreements (tri-party)
Investments in financial instruments	¢ 296,041,341,662	104,305,083,786	Guarantee for margin calls - term operations
Investments in financial instruments	¢ 334,896,900	126,950,100	Guarantee for obligations with foreign financial entities
Investments in financial instruments	¢ 32,171,573,770	-	Investments securing repurchase agreements
Other assets (note 11)	¢ 246,037,196	215,077,309	Interbank Electronic Payment System (SINPE) guarantee
			Guarantee deposits

As of March 31, 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 March 31, 2014, the Bank must maintain a minimum cash reserve of ¢539,571,198,046 (2013: ¢495,851,735,156).

(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		March 2014	March 2013
			Carrying amount	Carrying amount
Checking account – colones	Minimum cash reserve	¢	3,553,263,862,704	328,882,064,811
Checking account – euros	Minimum cash reserve	€	8,143,212	8,543,304
Checking account – U.S. dollars	Minimum cash reserve	US\$	334,839,808	327,961,863
Checking account – colones	Liquidation and compensation risk management fund	¢	466,387,352	301,320,099
Investments in financial instruments	Guarantee for repurchase agreements (tri-party)	¢	42,948,109,392	44,928,387,732
Securities issued by BCCR and the Government	Investments securing repurchase agreements	¢	334,896,900	126,950,100
External debt bonds	Guarantee for margin calls - term operations – Bank of America	¢	3,768,068,323	-
External debt bonds	Guarantee for margin calls - term operations – Citi Swap	¢	2,146,544,617	-
External debt bonds	Guarantee for margin calls - term operations – JP Morgan Swap	¢	2,149,914,622	-
Monetary stabilization bonds	Citibank guarantee	¢	33,876,780,000	-
External debt bonds	Credit Suisse guarantee - Foreign bonds	¢	110,489,770,708	74,610,472,684
External debt bonds	Barclays guarantee	¢	76,803,875,728	28,918,452,937
External debt bonds	Credit Suisse guarantee	¢	74,870,915,226	-
Monetary stabilization bonds	Interbank Electronic Payment System (SINPE) guarantee	¢	1,382,796,370	-
Securities issued by BCCR and the Government	Investments securing repurchase agreements	¢	30,788,777,400	776,158,165
Other assets	Guarantee deposits	¢	246,037,196	215,077,309

(Continued)

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Notes to Consolidated Financial Statements

As of March 31, 2014 and 2013, the Brokerage Firm has restricted assets in the amount of ¢43,414,496,743 and ¢45,229,707,831, respectively, corresponding to guarantees for tri-party repurchase agreements and contributions to the liquidation and compensation risk management fund.

(3) Balances and transactions with related parties

Balances and transactions with related parties are as follows:

	March 2014	March 2013
Assets:		
Checking accounts and demand deposits	¢ 2,831,932,951	10,277,554,070
Investments in financial instruments and accrued interest receivable	26,917,000,000	-
	¢ 29,748,932,951	10,277,554,070
Liabilities:		
Demand deposits	¢ 236,374,973	67,340,602
	¢ 236,374,973	67,340,602
Income:		
Finance	¢ 253,290,859	-
	¢ 253,290,859	-

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

	March 2014	March 2013
Short-term benefits	¢ 402,620,713	448,495,222
Other compensation	62,322,371	51,773,499
	¢ 464,943,084	500,268,721

(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:

	March 2014	December 2013	March 2013
Cash and due from banks	¢ 944,526,780,031	847,934,576,855	691,098,753,769
Investments with maturities of less than two months	22,663,090,575	58,713,337,958	105,533,924,510
	¢ 967,189,870,606	906,647,914,813	796,632,678,279

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Cash and due from banks is as follows:

		March 2014	December 2013	March 2013
<i>Local currency:</i>				
Cash	¢	35,175,931,265	36,202,051,912	36,658,156,030
Cash in transit		2,808,051,000	12,063,605,000	11,606,534,000
BCCR		390,124,254,709	358,096,970,638	324,794,394,648
Checking accounts and demand deposits		5,898,197,542	15,671,900,779	5,676,356,315
Outstanding checks and other		10,683,383,717	3,520,255,899	28,723,597,866
Margin calls – tri-party repurchase agreements		-	-	110,720,538
<i>Foreign currency:</i>				
Cash		11,986,224,312	12,795,079,963	13,618,772,106
Cash in transit		531,055,262	1,566,283,120	722,073,779
BCCR		191,826,481,944	169,386,771,312	169,917,588,445
Checking accounts and demand deposits		3,636,384	28,617,983	-
Foreign correspondent banks		180,000,565,206	100,523,093,693	30,222,234,807
Other demand deposits in foreign financial entities		148,781,251	54,304,930	26,311,785
Checking accounts and demand deposits in related parties		2,831,932,951	2,697,887,241	10,277,554,070
Overnight deposits in foreign financial entities		107,290,571,861	134,091,104,636	56,560,139,930
Outstanding checks and other		4,751,147,133	924,452,340	1,991,998,531
Margin calls – tri-party repurchase agreements		34,107,800	-	-
Guarantee fund of National Stock Exchange		432,279,552	311,498,351	190,599,562
Accrued interest receivable		178,142	699,058	1,721,357
	¢	<u>944,526,780,031</u>	<u>847,934,576,855</u>	<u>691,098,753,769</u>

Minimum cash reserve

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

Currency		March 2014	March 2013
Local currency	¢	353,263,862,704	328,882,064,811
Foreign currency		186,307,335,342	166,969,670,345
	¢	<u>539,571,198,046</u>	<u>495,851,735,156</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

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

As of March 31, 2014, deposits in BCCR amount to ¢581,950,736,653 (December 2013: ¢527,483,741,950) and (March 2013: ¢494,711,983,093).

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 March 31.

(5) Investments in financial instruments and derivative financial instruments

(a) Investments in financial instruments

Investments in financial instruments are as follows:

	March 2014	December 2013	March 2013
Available for sale	¢ 860,236,514,092	957,346,698,111	860,883,203,754
Held to maturity	26,280,955,059	25,823,991,217	34,023,830,506
Derivative financial instruments			
- Position gap (1)	14,324,730	-	207,210
Accrued interest receivable	8,804,888,642	12,901,374,609	10,269,633,055
Allowance for impairment of financial instruments	(58,438,446)	(53,668,984)	(597,798,503)
	¢ 895,278,244,080	996,018,394,593	904,579,076,022

Available for sale:

Local issuers:

Government of Costa Rica	¢ 348,102,128,561	416,695,405,776	305,095,067,731
BCCR	205,415,546,585	264,582,297,213	224,410,772,664
State-owned banks	2,965,761,688	31,855,384,007	110,200,711,972
Private banks	3,349,519,131	7,480,457,116	8,028,166,374
Private issuers	13,544,570,603	5,952,027,060	50,515,303,823
Other	-	-	126,950,073
	573,377,526,568	726,565,571,172	698,376,972,637

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	March 2014	December 2013	March 2013
<u>Foreign issuers:</u>			
Governments	117,192,944,320	118,160,726,219	68,514,249,320
Private issuers	41,890,961,229	14,694,527,871	12,424,971,237
Private banks	127,775,081,975	97,925,872,849	81,567,010,560
	<u>286,858,987,524</u>	<u>230,781,126,939</u>	<u>162,506,231,117</u>
	<u>860,236,514,092</u>	<u>957,346,698,111</u>	<u>860,883,203,754</u>
<i>Held to maturity:</i>			
Government of Costa Rica	26,280,955,059	25,823,991,217	34,023,830,506
	<u>26,280,955,059</u>	<u>25,823,991,217</u>	<u>34,023,830,506</u>
FX future - Other than hedge	1,238,690	-	-
FX future - Other than hedge	13,086,040	-	207,210
Accrued interest investments	8,804,888,645	12,901,374,609	10,269,633,055
Allowance for impairment of investments	(58,366,822)	(53,668,984)	(597,797,467)
Allowance for impairment of derivative instruments other than hedge	(71,624)	-	(1,036)
¢	<u>895,278,244,080</u>	<u>996,018,394,953</u>	<u>904,579,076,022</u>

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

	March 2014	December 2013	March 2013
Opening balance	¢ (53,668,984)	(609,308,473)	(609,308,473)
Allowance expense (note 30)	(71,624)	(1,036)	(1,036)
Decrease in allowance against income (note 31)	-	545,538,398	167,025
Foreign exchange differences	(4,697,838)	10,102,127	11,343,981
Closing balance	¢ <u>(58,438,446)</u>	<u>(53,668,984)</u>	<u>(597,798,503)</u>

As of March 31, 2014, the allowance for impairment of investments in non-derivative financial instruments amounts to ¢58,366,822 (December 2013: ¢53,668,984) and (March 2013, ¢597,797,467 and is booked for investments in Z Bonds related to the Mortgage Securitization Trust (impairment of 26%). Additionally, as of March 31, 2013, such allowance was booked for investments in Auction Rate Securities (ARSs) (impairment of 6.82%).

As of March 31, 2014, the allowance for impairment of derivative instruments other than hedge amounts to ¢71,624 (March 2013: ¢1,036). 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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Investments in financial instruments are detailed as follows:

	March 2014	December 2013	March 2013
<i>Available for sale:</i>			
Securities issued by BCCR	¢ 165,935,761,926	152,443,819,058	214,947,554,997
Securities issued by local non-financial public sector	169,566,644,870	288,583,836,119	290,758,848,493
Securities issued by local financial entities	4,562,039,082	35,427,090,260	94,805,664,295
Other securities issued by local entities	-	-	558,931,775
Securities issued by foreign financial entities	52,709,345,529	54,259,246,621	17,120,081,153
Financial instruments issued by foreign financial entities	36,440,275,123	31,827,748,267	41,857,224,642
Other securities issued by foreign entities	11,014,154,245	1,513,532,661	-
Foreign financial instruments	26,955,895,065	24,746,292,415	-
Liquidity market operations – own resources	8,000,000,000	-	45,500,000,000
Other available-for-sale financial instruments	5,491,948,966	6,407,563,673	5,974,476,781
Financial instruments restricted for margin calls on term operations (note 2)	8,064,527,562	6,422,745,082	-
Financial instruments restricted for tri-party repurchase agreements (note 2)	42,948,109,392	38,801,053,835	44,928,387,732
Financial instruments restricted for credit operations (note 2)	296,041,341,662	244,735,960,400	104,305,083,786
Other financial instruments (note 2)	334,896,900	132,042,600	126,950,100
Financial instruments for liquidity operations (note 2)	32,171,573,770	72,045,767,120	-
	<u>860,236,514,092</u>	<u>957,346,698,111</u>	<u>860,883,203,754</u>
<i>Held to maturity:</i>			
Securities issued by local non-financial public sector	26,280,955,059	25,823,991,217	34,023,830,506
	<u>26,280,955,059</u>	<u>25,823,991,217</u>	<u>34,023,830,506</u>
<i>Derivative financial instruments:</i>			
FX future - Other than hedge	1,238,690	-	-
FX future - Other than hedge	13,086,040	-	207,210
	<u>14,324,730</u>	<u>-</u>	<u>207,210</u>
Accrued interest	8,804,888,645	12,901,374,609	10,269,633,055
Allowance for impairment of investments	(58,366,822)	(53,668,984)	(597,797,467)
Allowance for impairment of derivative instruments other than hedge	(71,624)	-	(1,036)
¢	<u>895,278,244,080</u>	<u>996,018,394,953</u>	<u>904,579,076,022</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

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As of March 31, 2014, returns on investments in financial instruments range between 4.95% and 11.04% per annum (December 2013: between 5% and 11.04% per annum) and (March 2013: between 4% and 12.91% per annum) in colones, between 0.25% and 6.90% per annum (December 2013: between 0.25% and 6.90% per annum) and (March 2013: between 0.25% and 8.33% per annum) in U.S. dollars, between 0.25% and 7.5% per annum (December 2013: between 0.25% and 7.50% per annum) and (March 2013: between 0.25% and 5.00% per annum) in euros, and between 0.67% and 0.74% per annum (December 2013: between 0.67% and 0.74% per annum) and (March 2013: between 0.25% and 5.00% per annum) in DU.

As of March 31, 2014, valuation of available-for-sale investments and restricted financial instruments gave rise to an unrealized loss, net of deferred tax, in the amount of ¢1,440,545,598 (December 2013: unrealized loss of ¢2,545,997,239) and (March 2013: unrealized gain of ¢5,405,063,554). Accordingly, as of March 31, 2014, the cumulative balance of equity adjustments arising from valuation of these investments is an unrealized loss of ¢5,846,148,566 (December 2013: unrealized loss of ¢4,405,602,968) and (March 2013: unrealized loss of ¢3,545,457,825).

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

(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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Interest rate swaps are as follows:

March 2014				
Issuer		Notional amount	Valuation	Purpose
CitiBank	US\$	100,000,000	US\$ (314,108)	Swaps to hedge the 10-year issue
JP Morgan		200,000,000	(628,216)	
Bank of America		200,000,000	(628,216)	
Subtotal		500,000,000	(1,570,540)	
CitiBank		100,000,000	(583,049)	Swaps to hedge the 5-year issue
JP Morgan		150,000,000	(874,574)	
Subtotal		250,000,000	(1,457,623)	
Total	US\$	750,000,000	US\$ (3,028,163)	
U.S, dollars expressed in colones	¢	403,755,000,000	¢ (1,630,181,711)	

December 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)	

As of March 31, 2014, the total notional amount of US\$750 million, equivalent to ¢403,755,000,000 (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 March 31, 2014, the effectiveness of the 5- and 10-year issues is 104.62% (December 2013: 96.7%) and 106.18% (December 2013: 97.64%), respectively.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

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A valuation was performed as of March 31, 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 March 31, 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 March 31, 2014, the Bank booked a decrease in the fair value of these hedges in the amount of US\$3,028,164, equivalent to ₡1,630,181,711 under “Other sundry accounts payable” (see note 17).

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 March 31, 2013, this instrument is booked under “Other debit memoranda accounts” for a notional amount of US\$8,888,888, equivalent to ₡4,379,733,339 (see note 22).

As of March 31, 2013, the Bank booked a decrease in the fair value of this hedge in the amount of US\$15,308, equivalent to ₡7,542,651, under “Other sundry accounts payable” (see note 17).

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

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✓ Derivatives as investment instruments:

Forward contract:

On December 14, 2012, the Bank entered into a long forward contract with Barclays Bank PLC London, where the Bank is the counterparty to the contract and makes use of the market conditions to invoke arbitrage. The Bank uses this instrument for investment purposes only since it does not hedge any risk and is not used for speculative purposes. Since the forward position is closed through an investment, a risk-free profit is generated for the Bank.

Notional amount and valuation

March 2013				
Bank position		Notional amount	Valuation	Purpose
FORWARDS				
Purchases	US\$	6,000,000	¢ (56,279,400)	Investment
Sales		-	-	
Total	US\$	6,000,000	¢ (56,279,400)	
U.S. dollars expressed in colones		¢ 2,956,320,000		

As of March 31, 2014 and December 2013, no notional amount or assessment is booked for this instrument because it matured on June 4, 2013. This instrument was booked under “Contingent memoranda accounts” (see note 20). The Bank booked a decrease in the fair value of this forward under “Other sundry accounts payable” (see note 17). This financial instrument was a guarantee (Non-Deliverable Forward (NDF)) and the agreed forward exchange rate was ¢513.50.

✓ 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 41-c).

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Notional amount and valuation

March 2014			
Bank position	Notional amount	Valuation	Purpose
FORWARDS			
Purchases	US\$ 100,000	¢ 1,238,690	Authorized intermediary
Sales	700,000	13,086,040	
Total	US\$ 800,000	¢ 14,324,730	
U.S. dollars expressed in colones	¢ 430,672,000		
March 2013			
Bank position	Notional amount	Valuation	Purpose
FORWARDS			
Purchases	US\$ 50,000	¢ (126,110)	Authorized intermediary
Sales	50,000	207,210	
Total	US\$ 100,000	¢ 81,100	
U.S. dollars expressed in colones	¢ 49,272,000		

As of March 31, 2014, the Bank offers purchase and sale forward contracts, which notional amounts are booked under “Contingent memoranda accounts” in the amount of ¢430,672,000 (March 2013: ¢3,005,592,000, comprised as follows: ¢2,956,320,000 and ¢49,272,000) (see note 20).

As of March 31, 2014 and 2013, the increase and decrease in the purchase and sale forward contracts are booked under “Investments in financial instruments” (see note 5-a) and “Other accounts payable” (see note 17), respectively.

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

	March 2014	December 2013	March 2013
Gain on derivative financial instruments	¢ 9,494,394,612	314,659,002	96,234,883
Loss on derivative financial instruments	(2,879,038,470)	(11,666,706,399)	(191,242,234)
Net (loss) gain	¢ 6,615,356,142	(11,352,047,397)	(95,007,351)

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Notes to Consolidated Financial Statements

(6) Loan portfolio

(a) Loan portfolio by sector

The loan portfolio by sector is as follows:

	March 2014	December 2013	March 2013
Trade ¢	374,045,106,278	363,459,705,506	366,585,152,392
Services	599,597,228,625	584,577,782,384	538,330,438,517
Financial services	108,408,451,448	120,368,072,434	58,428,032,821
Mining	43,600,941	45,996,475	52,498,733
Manufacturing and quarrying	142,712,196,040	138,519,857,709	121,568,570,582
Construction	81,342,716,916	72,646,004,843	62,549,438,900
Agriculture and forestry	94,627,823,141	94,717,967,679	86,374,534,864
Livestock, hunting, and fishing	60,519,863,649	60,676,546,083	62,455,454,888
Electricity, water, sanitation, and other related sectors	225,049,936,292	190,788,599,603	107,199,425,736
Transportation and telecommunications	26,339,609,162	25,914,019,966	22,588,874,338
Housing	1,006,477,104,512	956,259,656,589	866,862,302,888
Personal or consumer loans	316,566,733,705	294,861,259,519	224,229,982,962
Tourism	122,705,460,195	109,830,068,175	101,594,164,379
Total direct loans	3,158,435,830,904	3,012,665,536,965	2,618,818,872,000
Accrued interest receivable	19,823,532,560	19,553,964,785	19,563,054,841
Allowance for loan impairment	(45,738,720,624)	(45,646,182,874)	(45,695,275,808)
Total loan portfolio ¢	3,132,520,642,840	2,986,573,318,876	2,592,686,651,033

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As of March 31, 2014, interest rates range between 6.25% and 34% per annum, average rate of 13.76% per annum for loans in colones (December 2013: between 6.25% and 34% per annum, average rate of 13.81% per annum) and (March 2013: between 7.25% and 37.75% per annum, average rate of 17.34% per annum); between 3.57% and 25.92% per annum, average rate of 8.11% per annum for loans in U.S. dollars (December 2013: between 3.57% and 25.92% per annum, average rate of 8.08% per annum) and (March 2013: between 2.57% and 26.88% per annum, average rate of 7.99% per annum); and between 3.85% and 10% per annum, average rate of 6.26% per annum for loans in DU (December 2013: between 3.85% and 10% per annum, average rate of 6.33% per annum) and (March 2013: between 3.85% and 10% per annum, average rate of 6.35% per annum).

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 March 31, 2014, the balance of the securitized portfolio is US\$121,581,729, which is equivalent to ¢65,452,308,194 (December 2013: US\$6,977,247, equivalent to ¢3,453,806,835) and (March 2013: US\$7,201,091, equivalent to ¢3,552,556,008).

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Notes to Consolidated Financial Statements

(b) Loan portfolio by arrears

The loan portfolio by arrears is as follows:

	March 2014	December 2013	March 2013
Current	¢ 2,960,236,481,549	2,800,540,470,762	2,383,046,824,644
1 to 30 days	60,175,339,536	67,718,710,377	76,514,210,793
31 to 60 days	62,389,868,087	51,842,956,058	70,225,328,359
61 to 90 days	11,678,585,255	19,901,210,891	20,850,124,982
91 to 120 days	3,630,355,453	11,359,244,688	5,681,208,626
121 to 180 days	7,588,195,663	11,174,903,939	13,751,772,403
More than 180 days	52,737,005,361	50,128,040,250	48,749,402,193
Total direct loans	3,158,435,830,904	3,012,665,536,965	2,618,818,872,000
Accrued interest receivable	19,823,532,560	19,553,964,785	19,563,054,841
Allowance for loan impairment	(45,738,720,624)	(45,646,182,874)	(45,695,275,808)
Total loan portfolio	¢ 3,132,520,642,840	2,986,573,318,876	2,592,686,651,033

(c) Loan portfolio by origin

The loan portfolio by origin is as follows:

	March 2014	December 2013	March 2013
Loans originated by the Bank	¢ 3,158,331,087,344	3,012,544,546,829	2,618,620,595,423
Loans purchased by the Bank	104,743,560	120,990,136	198,276,577
Total direct loans	3,158,435,830,904	3,012,665,536,965	2,618,818,872,000
Accrued interest receivable	19,823,532,560	19,553,964,785	19,563,054,841
Allowance for loan impairment	(45,738,720,624)	(45,646,182,874)	(45,695,275,808)
Total loan portfolio	¢ 3,132,520,642,840	2,986,573,318,876	2,592,686,651,033

As of March 31, 2014, loans purchased by the Bank were purchased from BICSA.

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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:

	March 2014	December 2013	March 2013
Past due loans in non-accrual status (2014: 10 loans, 0% of portfolio). (March 2013: 3 loans 0% of portfolio)	¢ 103,432,750	-	63,038,598
Past due loans in accrual status: 20,978 loans in 2014 (December 2013: 18,875 loans) and (March 2013: 22,575 loans)	¢ 132,160,748,737	138,735,758,526	165,127,224,229
Loans in legal collections: 4,165 loans, 2.05% of portfolio in 2014 (December 2013: 4,984 loans, 2.46% of portfolio) and (March 2013: 4,117 loans, 2.69% of portfolio)	¢ 64,719,904,570	73,965,839,402	70,468,372,377
Total unearned interest in 2014 and 2013.	¢ 679,064,865	1,082,349,202	672,461,777

As of March 31, 2014, the Bank increased and decreased the “Finance income on non-accrual loans” account by ¢679,064,865 (increases), as of December 31, 2013 and March 31, 2013 ¢1,082,349,202 (increases) and ¢672,461,777 (decreases) respectively, as a result of the recovery of loans receivable over 180 days past due.

As of March 31, 2014, restructured loans amount to a total of ¢29,985,071,069 (December 2013: ¢22,943,856,728) and (March 2013: ¢45,212,143,273).

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:

	March 2014	December 2013	March 2013
Current	¢ 10,593,245,049	10,441,683,885	9,156,226,701
Past due	2,749,043,387	2,530,929,634	3,421,200,957
In legal collections	6,481,244,124	6,581,351,266	6,985,627,183
	<u>¢ 19,823,532,560</u>	<u>19,553,964,785</u>	<u>19,563,054,841</u>

(f) Allowance for loan impairment

Movement in the allowance for loan impairment is as follows:

	March 2014	December 2013	March 2013
Opening balance	¢ 45,646,182,874	42,305,801,609	42,305,801,609
Expense for the year (note 27)	3,873,426,365	36,912,921,429	9,002,140,696
Settlements	(4,864,603,939)	(33,393,373,813)	(5,429,950,479)
Decrease in allowance against income (note 28)	-	(60,689,015)	(4,792,252)
Foreign exchange differences	1,083,715,324	(118,477,336)	(177,923,766)
Closing balance	<u>¢ 45,738,720,624</u>	<u>45,646,182,874</u>	<u>45,695,275,808</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:

	March 2014	December 2013	March 2013
Fees and commissions	¢ 745,185,348	980,713,884	890,841,579
Brokerage operations	27,138,808	31,304	6,302,956
Transactions with related parties (employees and officials)	323,068,301	29,057,085	40,959,132
Deferred tax (note 15-c)	2,378,572,083	2,178,648,250	1,448,736,161
Income tax	829,573,354	129,448,064	49,998,469
Other sundry accounts receivable	2,599,265,317	2,552,671,830	2,653,921,974
Accrued interest receivable on other sundry accounts receivable	1,698,456	1,608,084	1,500,890
Allowance for impairment of other accounts receivable	(2,815,204,392)	(2,303,226,624)	(2,446,003,333)
	¢ <u>4,089,297,275</u>	<u>3,568,951,877</u>	<u>2,646,257,828</u>

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

	March 2014	December 2013	March 2013
Opening balance	¢ 2,303,226,624	2,944,473,955	2,944,473,955
Allowance expense (note 30)	711,181,381	1,356,827,241	777,906,438
Decrease in allowance against income (note 31)	(91,659,427)	(1,627,926,839)	(1,255,278,763)
Items settled against allowance	(120,047,106)	(367,527,573)	(17,820,222)
Foreign exchange differences	12,502,920	(2,620,160)	(3,278,075)
Closing balance	¢ <u>2,815,204,392</u>	<u>2,303,226,624</u>	<u>2,446,003,333</u>

(8) Foreclosed assets

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

	March 2014	December 2013	March 2013
Assets acquired in lieu of payment	¢ 75,044,623,872	76,708,238,430	75,478,538,214
Idle property and equipment	1,756,777	1,756,777	1,756,777
Allowance for impairment and per legal requirements	(56,712,451,016)	(56,007,912,290)	(48,284,112,524)
	¢ <u>18,333,929,633</u>	<u>20,702,082,917</u>	<u>27,196,182,467</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

	March 2014	December 2013	March 2013
Opening balance	¢ 56,007,912,290	42,610,655,528	42,610,655,528
Allowance expense (note 34)	6,197,573,644	29,347,659,340	6,751,204,552
Sale of foreclosed assets	-	-	-
Decrease in allowance against income	(5,493,034,918)	(15,950,402,578)	(1,077,747,556)
Closing balance	¢ 56,712,451,016	56,007,912,290	48,284,112,524

(9) Investments in other companies

Investments in other companies are as follows:

	March 2014	December 2013	March 2013
Other foreign companies	46,322,264,824	41,307,000,622	38,606,630,815
Other local companies	30,000,000	30,000,000	30,000,000
Other local non-financial companies	20,623,300	20,623,300	20,623,300
	¢ 46,372,888,124	41,357,623,922	38,657,254,115

The Bank holds a 49% stake in BICSA, which is represented in 2014 by 6,159,251 ordinary shares (2013: 5,525,142 ordinary 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 2012 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.

At a BICSA shareholders meeting held in February 2012, shareholders agreed to capitalize US\$12.5 million, which was booked in 2012 and included in BICSA's financial statements. As a result of the capitalization, total share capital amounted to US\$112.75 million, represented by 11,275,800 shares of US\$10 par value each.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

	March 2014	December 2013	March 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 March 31, 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 March 31, 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 March 31, 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	-	255,867,960	1,094,883,178	1,039,708,951	-	2,390,460,089
Revaluation of assets	-	-	-	-	-	-
Retirements	-	-	(476,167,565)	(3,414,925,755)	-	(3,891,093,320)
Sales	-	-	-	-	-	-
Adjustments	-	-	14,015,708	(14,936,704)	-	(920,996)
Reclassifications	-	-	90,340	(90,340)	-	-
Closing balance	42,478,456,440	109,757,208,711	52,898,284,429	49,795,335,186	454,783,746	255,384,068,512
<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	-	645,873,729	1,076,192,279	1,144,700,304	11,527,642	2,878,293,954
Depreciation expense on revaluation	-	454,368,214	-	-	-	454,368,214
Retirements	-	-	(394,878,200)	(3,402,397,961)	-	(3,797,276,161)
Adjustments	-	-	12,652,533	43,021,352	-	55,673,885
Reclassifications	-	-	14,381,266	(14,381,266)	-	-
Closing balance	-	27,326,516,820	25,865,384,353	37,057,164,965	257,064,774	90,506,130,912
Net closing balance	¢ 42,478,456,440	82,430,691,891	27,032,900,076	12,738,170,221	197,718,972	164,877,937,600

(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 March 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	47,043,368,977	48,321,489,911	444,621,458	227,249,857,100
Additions	153,486,106	691,235,472	1,947,030,583	822,272,222	-	3,614,024,383
Retirements	778,801,425	(966,937,535)	-	-	-	(188,136,110)
Sales	-	-	(145,622,579)	(463,123,333)	-	(608,745,912)
Adjustments	-	(488,896,638)	998,134	(75,855,569)	-	(563,754,073)
Reclassifications	-	-	58,383	(58,383)	-	-
Closing balance	33,747,127,543	97,860,938,040	48,845,833,498	48,604,724,848	444,621,458	229,503,245,387
<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	-	346,096,140	970,077,924	1,209,723,820	8,629,763	2,534,527,647
Depreciation expense on revaluation	-	280,162,305	-	-	-	280,162,305
Retirements	-	-	(115,702,144)	(432,740,253)	-	(548,442,397)
Sales	-	-	-	-	-	-
Adjustments	-	-	(21,542,202)	20,495,424	-	(1,046,778)
Reclassifications	-	-	58,383	(58,383)	-	-
Closing balance	-	24,373,496,915	22,677,634,735	37,425,838,593	210,639,915	84,687,610,158
Net closing balance	¢ 33,747,127,543	73,487,441,125	26,168,198,763	11,178,886,255	233,981,543	144,815,635,228

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(11) Other assets

Other assets are as follows:

	March 2014	December 2013	March 2013
<i>Deferred charges:</i>			
Leasehold improvements	1,192,196,071	1,289,396,930	1,652,912,187
Cost if issue of financial instruments (3)	1,576,222,194	1,497,331,306	-
Cost of subordinated debt project	1,002,876	922,154	-
Direct deferred costs related to loans	3,041,041,049	-	-
Other deferred charges	5,972,928,692	6,306,564,937	94,279,307
Subtotal	11,783,390,882	9,094,215,327	1,747,191,494
<i>Intangible assets:</i>			
Software (2)	2,448,426,292	2,817,020,735	3,544,738,273
Other (2)	2,487,278	2,487,278	5,338,693
Subtotal	2,450,913,570	2,819,508,013	3,550,076,966
<i>Other assets:</i>			
Prepaid interest and fees and commissions	310,923,747	321,530,718	238,985,228
Estimated tax	15,214,874	1,834,661,449	187,039,191
Prepaid insurance policy	326,059,749	218,433,789	299,897,605
Other prepaid expenses	487,742,533	783,428,791	18,916,785
Stationery, office supplies, and other materials	178,874,430	190,224,530	282,032,795
Leased assets	150,889,483	151,192,594	152,112,662
Library and artwork	342,414,341	341,093,341	282,873,888
Construction work-in-progress	12,275,389,041	9,503,968,175	6,589,008,232
Software under development	217,296,189	207,898,009	155,559,218
Rights in welfare and trade associations	600,000	600,000	600,000
Other sundry assets	1,270,474,814	1,062,418,426	765,264,290
Operations pending settlement	8,584,788,923	4,764,073,414	4,951,475,459
Other operations pending application	512,645,037	370,699,092	718,313,840
Guarantee deposits (1)	199,982,892	199,896,497	169,023,005
Legal and administrative deposits (1)	46,054,304	46,054,304	46,054,304
Subtotal	24,919,350,357	19,996,173,129	14,857,156,503
Total	39,153,654,809	31,909,896,468	20,154,424,963

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(1) As of March 31, 2014, guarantee deposits amount to ¢246,037,196 (2013: ¢215,077,309) (see note 2).

(2) Intangible assets, net are as follows:

March 2014			
	Software	Other intangible assets	Total
<i>Cost:</i>			
Opening balance	¢ 15,834,005,002	96,516,837	15,930,521,839
Additions	109,224,366	2,487,278	111,711,644
Retirements	(143,335,687)	-	(143,335,687)
Reclassifications	-	(2,487,278)	(2,487,278)
Adjustments	-	-	-
Closing balance	15,799,893,681	96,516,837	15,896,410,518
<i>Accumulated amortization:</i>			
Opening balance	13,016,984,268	94,029,559	13,111,013,827
Expense for the year	478,005,752	-	478,005,752
Retirements	(143,522,631)	-	(143,522,631)
Reclassifications	-	-	-
Adjustments	-	-	-
Closing balance	13,351,467,389	94,029,559	13,445,496,948
Net closing balance	¢ 2,448,426,292	2,487,278	2,450,913,570
December 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

March 2013

		Software	Other intangible assets	Total
<i>Cost:</i>				
Opening balance	¢	14,684,963,131	98,613,969	14,783,577,100
Additions		610,401,257	754,283	611,155,540
Retirements		(43,913,711)	-	(43,913,711)
Reclassifications		(3,783,072)	-	(3,783,072)
Adjustments		(8,963,733)	-	(8,963,733)
Closing balance		<u>15,238,703,872</u>	<u>99,368,252</u>	<u>15,338,072,124</u>
<i>Accumulated amortization:</i>				
Opening balance		11,271,292,774	94,029,559	11,365,322,333
Expense for the year		484,459,857	-	484,459,857
Retirements		(43,913,711)	-	(43,913,711)
Adjustments		(17,873,321)	-	(17,873,321)
Closing balance		<u>11,693,965,599</u>	<u>94,029,559</u>	<u>11,787,995,158</u>
Net closing balance	¢	<u>3,544,738,273</u>	<u>5,338,693</u>	<u>3,550,076,966</u>

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

March 2014

		5-year issue	10-year issue	Total
Commission - structuring banks	¢	269,170,000	269,170,000	538,340,000
Commission - Moody's Investors Service		134,585,000	134,585,000	269,170,000
Commission - Société de la Bourse de Luxembourg, S.A.		6,578,683	6,578,683	13,157,366
RR Donelley		5,893,351	5,893,351	11,786,701
BNY Mellon		2,128,125	2,128,125	4,256,251
Moody's - issuer rating		17,819,054	17,819,054	35,638,108
Fitch Ratings		134,585,000	134,585,000	269,170,000
Milbank		79,222,114	79,222,114	158,444,229
Shearman & Sterling		79,325,075	79,325,075	158,650,149
External audit		<u>102,284,600</u>	<u>102,284,600</u>	<u>204,569,200</u>
Subtotal		831,591,002	831,591,002	1,663,182,004
Deferral		<u>(61,715,217)</u>	<u>(25,244,593)</u>	<u>(86,959,810)</u>
Total	¢	<u>769,875,785</u>	<u>806,346,409</u>	<u>1,576,222,194</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 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.

(12) Obligations with the public

(a) By cumulative amount

Obligations with the public by cumulative amount are as follows:

	March 2014	December 2013	March 2013
<i>Demand obligations:</i>			
Checking accounts	¢ 1,118,384,423,871	1,103,852,248,659	1,054,399,993,983
Certified checks	139,966,686	123,192,416	230,209,951
Savings deposits	994,414,035,994	934,435,231,917	835,576,166,456
Matured term deposits	19,985,244,106	23,752,056,570	28,505,161,865
Other demand deposits	28,598,393,588	26,860,438,817	25,982,071,345
Drafts and transfers	232,376,827	224,837,748	404,374,556
Cashier's checks	5,922,783,187	4,106,080,883	4,705,442,739
Advance collections from			
customers for credit cards	6,126,443,775	5,902,144,599	5,295,594,669
Obligations for trust funds	28,018,022	75,205,432	55,577,531
Carried forward	¢ 2,173,831,686,056	2,099,331,437,041	1,955,154,593,095

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	March 2014	December 2013	March 2013
Brought forward	¢ 2,173,831,686,056	2,099,331,437,041	1,955,154,593,095
<i>Term obligations:</i>			
Deposits from the public	1,243,796,707,412	1,223,095,399,375	1,316,457,191,643
Other term deposits	59,902,865,176	51,763,942,905	56,235,224,736
Subtotal	1,303,699,572,588	1,274,859,342,280	1,372,692,416,379
<i>Other obligations with the public:</i>			
Obligations for tri-party repurchase agreements	39,892,329,298	36,165,531,600	46,156,285,776
Subtotal	39,892,329,298	36,165,531,600	46,156,285,776
Charges payable for obligations with the public	16,656,850,737	19,343,249,996	23,051,453,705
Total	¢ 3,534,080,438,679	3,429,699,560,917	3,397,054,748,955

As of March 31, 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.

Term obligations correspond to term certificates of deposit in colones, U.S. dollars, and euros. As of March 31, 2014, certificates denominated in colones bear interest at rates ranging between 3% and 6.25% per annum (December 2013: between 3% and 6.50% per annum) and (March 2013: between 4.30% and 7.30% per annum); certificates denominated in U.S. dollars bear interest at rates ranging between 0.25% and 1.80% per annum (December 2013: between 0.25% and 1.80% per annum) and (March 2013: between 1.75% and 3.70% per annum) ; and certificates denominated in euros bear interest at rates ranging between 0.06% and 0.39% per annum (December 2013: between 0.06% and 0.39% per annum) and (March 2013: between 0.06% and 0.39% per annum).

The Bank has term certificates of deposit that are restricted to secure certain loan operations. As of March 31, 2014, those term certificates of deposit amount to ¢19,157,562,653 (December 2013: ¢16,343,727,980) and (March 2013: ¢13,716,797,943). As of that date, the Bank has no inactive deposits with State-owned entities or other banks.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(b) By number of customers

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

	March 2014	
	Demand	Term
Obligations with the public	1,741,569	67,591
	December 2013	
	Demand	Term
Obligations with the public	1,719,980	64,050
	March 2013	
	Demand	Term
Obligations with the public	1,676,576	66,162

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

	March 2014	December 2013	March 2013
<i>Obligations with the public:</i>			
Deposits from the public	¢ 3,494,188,109,381	3,393,534,029,317	3,350,898,463,179
Obligations for tri-party repurchase agreements	39,892,329,298	36,165,531,600	46,156,285,776
Subtotal	3,534,080,438,679	3,429,699,560,917	3,397,054,748,955
<i>Obligations with State-owned entities:</i>			
Deposits from State-owned entities	22,196,355,699	29,911,289,724	215,274,900
Subtotal	22,196,355,699	29,911,289,724	215,274,900
<i>Obligations with financial entities:</i>			
Deposits from other banks	100,510,523,686	72,810,602,153	40,049,631,918
Deposits from other local entities	12,322,796,098	41,209,686,331	3,088,032,953
Deposits from management of funds	139,387,431,913	129,381,229,651	119,543,057,177
Deposits from other foreign entities	819,841,529,236	775,726,681,386	263,430,226,752
Charges due to other entities	14,720,633,730	6,684,656,900	2,458,489,681
Subtotal	1,086,782,914,663	1,025,812,856,421	428,569,438,481
Total	¢ 4,643,059,709,041	4,485,423,707,062	3,825,839,462,336

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(13) Obligations with BCCR

Obligations with BCCR are as follows:

	March 2014	December 2013	March 2013
Financing for loans using internal funds	¢ 22,002,843,494	29,702,889,402	3,026,780
Financing for loans using external funds	190,567,560	201,388,234	212,208,909
Interest payable on obligations	2,944,645	7,012,088	39,211
Subtotal	¢ 22,196,355,699	29,911,289,724	215,274,900

(14) Obligations with entities

Obligations with entities are as follows:

	March 2014	December 2013	March 2013
<i>Demand:</i>			
Checking accounts of local financial entities	¢ 80,102,866,957	57,789,494,163	22,830,495,857
Savings deposits from local financial entities	25,884,440	39,298,498	15,097,408
FCD fund management	139,387,431,913	129,381,229,651	119,543,057,177
Outstanding checks	9,910,290,411	2,571,590,762	3,028,837,966
Checking accounts and obligations with related parties	236,374,973	107,476,356	67,340,602
Other demand obligations with financial entities	572,796,098	434,686,331	838,032,954
Subtotal	230,235,644,792	190,323,775,761	146,322,861,964
<i>Term:</i>			
Term deposits from local financial entities	10,235,106,905	12,302,742,374	14,107,860,085
Term deposits from foreign financial entities (3)	528,559,060,847	479,333,818,592	-
Loans from local financial entities	1,750,000,000	1,875,000,000	2,250,000,000
Loans from foreign financial entities (1)(2)	291,282,468,389	296,392,862,794	263,430,226,752
Liquidity market obligations	10,000,000,000	38,900,000,000	-
Carried forward	¢ 841,826,636,141	828,804,423,760	279,788,086,837

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	March 2014	December 2013	March 2013
Brought forward	¢ 841,826,636,141	828,804,423,760	279,788,086,837
Charges payable for other demand and term obligations with financial entities –foreign currency	7,145,442	6,987,650	-
Charges payable for other demand and term obligations with financial entities –local currency	76,670,008	116,390,933	-
Charges payable for other obligations with financial entities and non financial entities–foreign currency (1)(2)	2,148,957,159	1,951,687,515	2,445,411,556
Charges payable for other obligations with financial entities and non financial entities– local currency	10,710,070	20,435,590	13,078,125
Charges payable for term deposits from foreign financial entities (3)	12,477,151,051	4,589,155,212	-
Subtotal	14,720,633,730	6,684,656,900	2,458,489,681
Total	¢ 1,086,782,914,663	1,025,812,856,421	428,569,438,482

(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		
	March 2014	December 2013	March 2013	March 2014	December 2013	March 2013	March 2014	December 2013	March 2013
CABEI	4.55% to 8.00%	4.55% to 8.00%	4.5479% to 8.00%	2015 to 2021	2015 to 2021	2015 to 2021	¢ 25,986,743,143	25,233,861,203	29,139,638,848
Barclays	6.20% to 6.65%	6.20% to 6.65%	6.20% to 6.65%	2023 to 2029	2023 to 2029	2023 to 2029	68,731,680,957	62,198,745,577	62,907,221,907
Bank of New York	-	1.68%	1.7500%	-	2014	2013	-	4,974,419,016	4,946,361,334
China Development Bank	-	-	2.9513%	-	-	2013	-	-	4,413,182,348
Banco Latinoamericano Exportaciones, S.A. (Bladex - Panama)	-	-	3.79 to 4.74%	-	-	2013 - 2016	-	-	24,740,917,074
Commerce, N.A. Miami	-	2.80%	2.52%	-	2014	2013	-	10,054,895,641	16,534,750,044
Banco Comercio Exterior	-	-	2.2703%	-	-	2013	-	-	1,982,811,970
Deutsche Bank AG New York	-	1.69%	-	-	2014	-	-	12,443,943,981	-
Bank of America	-	-	1.9100%	-	-	2013	-	-	7,409,023,951
Standard Chartered Bank	2.37%	2.37%	2.3500%	2014	2014	2013	33,931,065,653	31,382,931,086	6,934,103,306
Credit Suisse Bank	3.58%	3.97%	3.9700%	2017	2017	2017	56,818,253,785	52,790,109,579	52,026,620,941
Citibank	2.98%	3.02%	2.6197%	2016 to 2017	2017	2015	107,963,682,010	99,265,644,226	17,274,905,590
Wells Fargo Bank	-	-	1.98% to 3.17%	-	-	2013 to 2014	-	-	37,566,100,995
							¢ 293,431,425,548	298,344,550,309	265,875,638,308

(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 2.37% and 8% per annum (2013: between 1.75% 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 ¢534,041,355,100 in March 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:

	March 2014		
	5-year issue	10-year issue	Total
Issue	¢ 264,606,684,637	260,881,851,983	525,488,536,620
Adjustment to fair value of item hedged measured at cost of international issues	1,059,033,834	1,802,022,111	2,861,055,945
Amortization of discount in traded amount of issue	133,639,648	75,828,634	209,468,282
Subtotal	265,799,358,119	262,759,702,728	528,559,060,847
Charges payable	5,467,515,625	7,009,635,426	12,477,151,051
Total	¢ 271,266,873,744	269,769,338,154	541,036,211,898

(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 March 31, 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 March 31, 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.

As of March 31, 2014, the Bank booked an increase in the fair value of these issues in the amount of ¢2,861,055,945 (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	¢	32,004,109,448	33,931,065,653	65,935,175,101
Between 1 and 2 years		-	3,157,046,824	3,157,046,824
Between 3 and 5 years		1,824,467,229	173,408,280,097	175,232,747,326
More than 5 years		128,489,092	82,935,032,974	83,063,522,066
	¢	<u>33,957,065,769</u>	<u>293,431,425,548</u>	<u>327,388,491,317</u>
		December 2013		
		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>
		March 2013		
		Local	Foreign	Total
Between 1 and 2 years	¢	-	101,815,500,688	101,815,500,688
Between 3 and 5 years		2,349,680,565	86,244,984,060	88,594,664,625
More than 5 years		128,672,460	77,815,153,560	77,943,826,020
	¢	<u>2,478,353,025</u>	<u>265,875,638,308</u>	<u>268,353,991,333</u>

As of March 31, 2014, December 31 and March 31 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:

	March 2014	December 2013	March 2013
Current	¢ 797,580,345	1,777,170,946	637,250,468
Decrease in income tax	-	(66,978,928)	(4,620,406)
	<u>¢ 797,580,345</u>	<u>1,710,192,018</u>	<u>632,630,062</u>

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:

	March 2014	March 2013
Expected income tax on accounting income	¢ 2,808,969,827	3,393,346,271
Plus (less):		
Nondeductible expenses	2,263,581,437	1,037,046,109
Deductible expenses	(152,911,958)	(4,207,532,668)
Nontaxable income	(4,167,683,157)	(828,957,760)
Taxable income	-	1,677,583
Tax loss from excess deductible expenses over taxable income	45,624,196	1,237,050,527
Total income tax payable	<u>¢ 797,580,345</u>	<u>632,630,062</u>

b) Prior period income tax

	March 2014	March 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	5,529,339	9,673,907
	<u>¢ 5,529,339</u>	<u>6,533,715,664</u>

- (1) As of March 31, 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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

c) Deferred tax

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

		March 2014	December 2013	March 2013
Unrealized losses	¢	2,188,782,119	2,009,931,243	1,334,543,947
Legal provisions		189,789,964	168,717,007	114,192,214
	¢	<u>2,378,572,083</u>	<u>2,178,648,250</u>	<u>1,448,736,161</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	March 31, 2014
Unrealized losses	¢	2,009,931,243	125,743,361	53,107,515	2,188,782,119
Legal provisions		168,717,007	21,072,957	-	189,789,964
	¢	<u>2,178,648,250</u>	<u>146,816,318</u>	<u>53,107,515</u>	<u>2,378,572,083</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>

As of March 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	March 31, 2013
Unrealized losses	¢	,408,707,421	-	(74,163,474)	1,334,543,947
Legal provisions		78,016,230	37,953,400	(1,777,416)	114,192,214
	¢	<u>,486,723,651</u>	<u>37,953,400</u>	<u>(75,940,890)</u>	<u>1,448,736,161</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

		March 2014	December 2013	March 2013
Revaluation of assets	¢	13,283,636,327	13,605,138,374	12,509,192,472
Unrealized gains		224,034,788	671,583,288	1,946,292,076
	¢	<u>13,507,671,115</u>	<u>14,276,721,662</u>	<u>14,455,484,548</u>

As of March 31, 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	March 31, 2014
Revaluation of assets	¢	13,605,138,374	-	(321,502,047)	13,283,636,327
Unrealized gains		671,583,288	282,053,323	(729,601,823)	224,034,788
	¢	<u>14,276,721,662</u>	<u>282,053,323</u>	<u>(1,051,103,870)</u>	<u>13,507,671,115</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	March 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>

As of March 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	March 31, 2013
Revaluation of assets	¢	10,807,479,575	1,310,793,581	390,919,316	12,509,192,472
Unrealized gains		1,770,769,526	-	175,522,550	1,946,292,076
	¢	<u>12,578,249,101</u>	<u>1,310,793,581</u>	<u>566,441,866</u>	<u>14,455,484,548</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

(16) Provisions

Provisions are as follows:

	March 2014	December 2013	March 2013
Severance benefits	¢ 22,262,134,062	32,453,960,945	28,693,430,304
Litigation	9,585,442,181	9,468,849,446	5,131,442,895
Other	9,717,548,783	8,200,794,772	13,071,572,403
	¢ <u>41,565,125,026</u>	<u>50,123,605,163</u>	<u>46,896,445,602</u>

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	17,877,820,442	475,121,036	-	4,640,278,208	22,993,219,686
Used	(27,029,436,373)	(147,282,679)	-	(2,477,004,345)	(29,653,723,397)
Decrease in provisions against profit	(60,672,789)	(741,983)	(6,524,041,757)	(6,007,184)	(6,591,463,713)
Balance at March 31, 2013	28,693,430,304	5,131,442,895	-	13,071,572,403	46,896,445,602
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	9,417,659,133	2,225,648,166	-	3,692,388,327	15,335,695,626
Used	(19,609,486,016)	(2,108,329,433)	-	(2,175,447,917)	(23,893,263,366)
Decrease in provisions against profit	-	(725,998)	-	(186,399)	(912,397)
Balance at March 31, 2014	¢ <u>22,262,134,062</u>	<u>9,585,442,181</u>	<u>-</u>	<u>9,717,548,783</u>	<u>41,565,125,026</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The provision for litigation is comprised as follows:

	March 2014	December 2013	March 2013
Ordinary suits	¢ 9,166,564,772	9,050,683,978	3,331,598,723
Ordinary suits against subsidiaries	5,107,409	4,395,468	5,844,172
Phishing	413,770,000	413,770,000	1,794,000,000
	<u>¢ 9,585,442,181</u>	<u>9,468,849,446</u>	<u>5,131,442,895</u>

As of March 31, 2014, December 31 and March 31, 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:

- Ordinary suits filed against the Bank have been estimated at ¢65,573,262,871 in March 2014 (December 2013: ¢65,462,382,872) and (March 2013: ¢57,102,903,180) and US\$352,326,678 in March 2014 (December 2013: US\$352,326,678) and (March 2013 US\$333,954,965). Management of the Bank has provisioned ¢9,166,564,772 (December 2013: ¢9,050,683,978) and (March 2013: ¢3,331,598,723) 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 ¢407,633,812 in March 2014 (December 2013: ¢13,528,507) and (March 2013: ¢25,996,048) 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 ¢2,692,897,555 in March 2014 (December 2013: ¢2,681,824,395) and (March 2013: ¢2,332,629,534). 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 ¢5,107,409 (December 2013: ¢4,395,468) and. (March 2013: ¢5,844,172).
 - The provision recognized by the Pension Fund Manager amounts to ¢4,880,664 (December 2013: ¢4,171,928) and (March 2013: ¢5,698,861).
 - The provision booked by the Investment Fund Manager amounts to ¢226,745 (December 2013: ¢223,540) and (March 2013: ¢145,311).

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- 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 ¢413,770,000 in March 2014 and December 2013 (March 2013: ¢1,794,000,000). The Bank has provisioned 100% of that amount.

(17) Other sundry accounts payable

Other sundry accounts payable are as follows:

	March 2014	December 2013	March 2013
Professional fees	¢ 5,457,807	13,011,051	37,148,272
Creditors - goods and services	4,939,503,561	4,096,770,082	4,574,179,971
Current income tax (note 15)	797,580,345	1,568,317,957	632,630,062
Prior period income tax	-	-	299,051,678
Employer contributions (1)	6,573,999,304	7,689,762,909	7,217,607,554
Court-ordered withholdings	2,470,191,725	2,342,561,123	2,003,662,511
Tax withholdings	891,925,637	822,824,314	849,130,994
Employee withholdings	513,068,726	516,364,768	578,839,722
Other third-party withholdings	175,685,032	28,181,806	201,384,127
Compensation	1,979,411,615	6,578,444,461	1,718,716,271
Dividends	1,151,259	1,151,259	1,151,259
Statutory allocations	3,620,255,628	5,914,984,993	11,078,052,581
Obligation for loans with related parties	3,438	-	-
Clearing house operations	-	229,959,113	35,263,221
Accrued vacation	6,513,768,815	6,029,309,867	6,179,686,370
Accrued statutory Christmas bonus	3,130,190,198	1,428,344,910	3,184,447,621
Contributions to Superintendency budgets	30,729,153	7,458,997	25,809,778
Fees and commissions for custodial services	-	-	3,800,577
Foreclosed assets	369,186,955	625,131,888	152,019,376
Various creditors - local currency (2)	7,922,952,650	7,475,156,582	7,360,467,156
Various creditors - foreign currency	5,141,285,157	4,795,866,309	3,967,480,148
FX purchase options (Hedge) (3)	-	10,004,033,392	7,542,651
Interest rate future agreements (Hedge) (3)	1,630,181,711	-	-
FX future purchase (other than hedge) (4)	-	-	56,405,510
	¢ <u>46,706,528,716</u>	<u>60,167,635,781</u>	<u>50,164,477,410</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 March 31, 2014, the “Creditors – local currency” line item includes ¢1.079 million (December 2013: ¢819.1 million) and (March 2013: ¢546.4 million), 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 March 31, 2014, the Bank booked a decrease in the value of the interest rate hedge in the amount of US\$3,028,164, equivalent to ¢1,630,181,711 (December 2013: US\$20,209,760, equivalent to ¢10,004,033,392) and (March 2013: US\$15,308 equivalent to ¢7,542,651) (see note 5-b).
- (4) As of March 31, 2013, purchase forward contracts decreased by ¢56,405,510, which is comprised of two operations amounting to ¢56,279,400 and ¢126,110 (see note 5-b).

(18) Other liabilities

Other liabilities are as follows:

	March 2014	December 2013	March 2013
<i>Deferred income:</i>			
Deferred finance income	¢ 3,883,227,786	2,444,042,568	1,899,021,895
Deferred fees and commissions for trust management	12,677,665	13,976,993	11,790,425
Other	311,533	311,128	4,687
Subtotal	3,896,216,984	2,458,330,689	1,910,817,007
Allowance for stand-by credit losses (1)	884,608,211	138,964,729	346,336,953
<i>Operations pending application:</i>			
Operations pending settlement	14,484,712,107	22,238,412,623	32,376,554,910
Other	17,198,735,564	3,668,415,774	10,926,031,434
Subtotal	31,683,447,671	25,906,828,397	43,302,586,344
Total	¢ 36,464,272,866	28,504,123,815	45,559,740,304

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

	March 2014	December 2013	March 2013
Opening balance	¢ 138,964,729	346,388,473	346,388,473
Allowance expense charged to profit or loss (note 30)	699,784,457	26,785	-
Adjustment for foreign exchange differences	45,859,025	(38,896)	(51,520)
Decrease in allowance against income (note 31)	-	(207,411,633)	-
Closing balance	¢ 884,608,211	138,964,729	346,336,953

(19) Equity

(a) Share capital

The Bank's share capital is as follows:

	March 2014	December 2013	March 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
	¢ 118,130,303,482	118,130,303,482	118,130,303,482

On December 23, 2008, the Executive Branch of the Costa Rican Government authorized a capital contribution funded under Law No. 8703 "Amendment to Law No. 8627 on the Ordinary and Extraordinary Budget of the Republic for Tax Year 2008." Such law grants funds to capitalize three State-owned banks, including 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 March 31, 2014 and based on the exchange rate as of that date, the balance of those investments is ¢26,280,955,059 (December 2013: ¢25,823,991,217) and (March 2013: ¢34,023,830,506) (see note 5-a).

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of March 31, 2014, the Bank has appropriated ¢14,548,173,826 (December and March 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 March 31, 2014 and December 31, 2013, revaluation surplus amounts to ¢63,639,596,055 (March 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.

As of March 31, 2014 the adjustment for valuation of available-for-sale investments and restricted financial instruments amounts to ¢5,846,148,566 (unrealized loss) (December 2013: ¢4,405,602,968, unrealized loss) and (March 2013: ¢3,545,457,825, unrealized loss).

(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 March 31, 2014, the adjustment for valuation of investments in foreign associates by the equity method amounts to ¢6,994,182,974 (December 2013: ¢3,317,278,520) and (March 2013: ¢4,413,203,997, respectively. These investments correspond to the Bank's 49% ownership interest in BICSA and subsidiary.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(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:

	March 2014	December 2013	March 2013
Performance bonds	¢ 35,493,457,019	34,210,268,379	24,224,064,454
Bid bonds	2,021,188,601	3,014,257,962	1,930,397,477
Other guarantees	410,869,823	372,911,236	467,395,247
Letters of credit	18,092,863,388	10,127,000,305	30,473,034,030
Credits pending disbursement	327,477,686	339,897,778	417,170,932
Subtotal	56,345,856,517	48,064,335,660	57,512,062,140
Pre-approved lines of credit	187,576,369,274	149,666,830,500	124,473,368,404
Other contingencies – pending litigation and lawsuits (note 44)	258,440,889,918	241,840,248,807	225,023,023,291
Other contingencies not related to credits	211,670,338	203,790,716	203,790,716
Subtotal	¢ 446,228,929,530	391,710,870,023	349,700,182,411
Derivative instruments other than hedge (5-b)	430,672,000	-	3,005,592,000
Total	¢ 503,005,458,047	439,775,205,683	410,217,836,551

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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

	March 2014	December 2013	March 2013
<i>Contingencies without prior deposit:</i>			
Letters of credit	¢ 16,668,244,953	8,479,767,595	16,454,381,852
Guarantees and sureties granted	35,720,879,336	35,337,614,651	24,697,010,771
Subtotal	52,389,124,289	43,817,382,246	41,151,392,623
<i>Contingencies with prior deposit:</i>			
Letters of credit	1,424,618,435	1,647,232,710	14,018,652,178
Guarantees and sureties granted	2,204,636,106	2,259,822,926	1,924,846,407
Subtotal	3,629,254,541	3,907,055,636	15,943,498,585
Credits pending disbursement	327,477,687	339,897,778	417,170,932
Total	¢ 56,345,856,517	48,064,335,660	57,512,062,140

(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 March 31, 2014, trust capital is invested in the following assets:

Nature of trust	Guaranty and cash management	Cash or property management	Securitization	Portfolio management	Guaranty	Testamentary	Custody of stock with testamentary clause	Custody and management of stock	Pre-sales management	Management, custody, and guaranty	Guaranty and custody of stock	Total
<i>Trust assets</i>												
Cash and due from banks	¢ -	234,840,247	3,488,183	5,185,797	21,141,949	808,212	7,967	-	915,196	1,345,850	-	267,733,401
Investment securities and term deposits	-	155,683,783,353	4,037,566,540	1,081,380,293	627,704,423,450	1,414,880,175	-	1,577,735	516,350,474	4,879,595	-	790,444,841,615
Loan portfolio	-	1,839,426,565	429,320,594	2,100,120,650	55,930,866	-	-	-	-	-	-	4,424,798,675
Accounts and accrued interest receivable	-	9,587,172,811	1,686,828,842	2,572,777,319	1,529,709	272,719	-	-	98,261	-	-	13,848,679,661
Foreclosed assets	-	110,347,365	-	-	-	-	-	-	-	-	-	110,347,365
Investments in other companies	-	991,484,141	-	-	-	2,330,000	2,304,000	-	-	-	861,344,000	1,857,462,141
Property and equipment	1,544,041,161	2,852,809,635	73,471,025,858	5,970,096	71,163,189,834	-	-	-	-	-	-	149,037,036,584
Other assets	-	74,040,588	2,203,399	10,211,928	2,970,762,948	380,042	-	-	4,356	-	-	3,057,603,261
Total	¢ 1,544,041,161	171,373,904,705	79,630,433,416	5,775,646,083	701,916,978,756	1,418,671,148	2,311,967	1,577,735	517,368,287	6,225,445	861,344,000	963,048,502,703

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

Nature of trust	Guaranty and cash management	Cash or property management	Securitization	Portfolio management	Guaranty	Testamentary	Custody of stock with testamentary clause	Custody and management of stock	Pre-sales management	Management, custody, and guaranty	Guaranty and custody of stock	Total
<i>Trust assets</i>												
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	1,564,418	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 March 31, 2013, trust capital is invested in the following assets:

Nature of trust	Guaranty and cash management	Cash or property management	Securitization	Portfolio management	Guaranty	Testamentary	Custody of stock with testamentary clause	Custody and management of stock	Pre-sales management	Management, custody, and guaranty	Guaranty and custody of stock	Total
<i>Trust assets</i>												
Cash and due from banks	¢ 1,231,800	139,010,679	24,745,924	17,510,970	11,506,189	1,494	7,292	-	-	1,231,800	218,743	195,464,891
Investment securities and term deposits	49,272,000	132,469,589,122	16,620,938,756	801,587,969	619,419,976,332	1,424,098,147	-	1,248,738	15,066,481	19,059,681	346,959	770,821,184,185
Loan portfolio	-	853,754,026	646,135,989	1,968,112,011	62,261,439	-	-	-	-	-	-	3,530,263,465
Accounts and accrued interest receivable	-	7,156,232,108	1,447,188,588	2,896,334,363	1,659,073	34,662,404	-	-	-	-	-	11,536,076,536
Foreclosed assets	-	-	-	765,205	729,567	-	-	-	-	-	-	1,494,772
Investments in other companies	-	44,354,102	-	-	1,724,520,000	2,436,000	2,304,000	-	-	-	1,773,792,000	3,547,406,102
Property and equipment	1,544,041,161	3,897,507,569	79,145,905,387	156,512,302	66,364,465,438	-	-	-	-	-	-	151,108,431,857
Other assets	109,698	99,366,842	215,006,647	18,778,910	3,543,085,288	437,629	-	-	-	-	-	3,876,785,014
Total	¢ 1,594,654,659	144,659,814,448	98,099,921,291	5,859,601,730	691,128,203,326	1,461,635,674	2,311,292	1,248,738	15,066,481	20,291,481	1,774,357,702	944,617,106,822

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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.

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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:

	March 2014	December 2013	March 2013
Pension Fund Manager's own investments in custody – Face value of principal	¢ 5,680,351,000	6,623,851,500	8,248,507,998
Pension Fund Manager's own investments in custody – Coupons	746,112,642	940,979,738	1,532,293,252
Pension Fund Manager's own investments in custody – Share	23	23	25
Guarantees received in the Bank's custody	5,263,028,721,050	5,200,646,589,985	4,147,537,270,163
Unused, authorized lines of credit	613,887,987,659	500,818,978,300	365,246,050,367
Write-offs	163,666,557,700	161,028,091,538	141,992,393,338
Finance income on non-accrual loans	6,968,117,037	6,289,052,172	5,879,164,746
Supporting documentation received in the Bank's custody	676	619	480
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	583,302,521,041	592,420,321,537	235,191,363,764
Subtotal	6,721,012,303,168	6,552,237,102,470	4,941,321,799,292
Third-party debit memoranda accounts (a)	1,862,204,225,313	1,661,091,311,191	1,571,226,329,375
Own debit memoranda accounts for custodial activities	236,868,830,730	336,561,170,643	516,838,052,937
Third-party debit memoranda accounts for custodial activities	7,919,421,016,595	7,372,145,699,004	6,750,866,033,440
Subtotal	10,018,494,072,638	9,369,798,180,838	8,838,930,415,752
Total (note 22-a)	¢ 16,739,506,375,806	15,922,035,283,308	13,780,252,215,044

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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:

	March 2014	December 2013	March 2013
Bank	¢ 14,231,173,753,066	13,605,648,253,300	11,549,065,353,970
Brokerage Firm (note 23)	1,426,405,920,403	1,301,041,362,434	1,289,056,745,149
Investment Fund Manager (note 24)	305,599,519,813	260,871,943,536	270,712,142,837
Pension Fund Manager (note 25)	776,327,182,524	754,473,724,038	671,417,973,089
	<u>¢ 16,739,506,375,806</u>	<u>15,922,035,283,308</u>	<u>13,780,252,215,045</u>

Banking mandates are as follows:

	March 2014	December 2013	March 2013
Management of banking mandates	¢ 777,947,322,401	648,016,172,575	633,819,811,273
Assets in custody on behalf of third parties	2,359,967	2,359,966	2,359,966
“TUDES” securities received in custody from affiliates under article 75 of Law No, 7531	1,633,642,577	1,633,543,861	1,673,936,070
Pension funds (note 25)	768,231,286,155	745,236,108,975	659,930,957,648
Investment funds (note 24)	305,555,175,260	260,815,532,664	270,701,850,763
Portfolio management (note 23-a)	8,834,438,953	5,387,593,150	5,097,413,655
	<u>¢ 1,862,204,225,313</u>	<u>1,661,091,311,191</u>	<u>1,571,226,329,375</u>

As of March 31, 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 ¢403,755,000,000 (December 2013: US\$750,000,000, equivalent to ¢371,257,500,000 (March 2013: US\$8,888,888, equivalent to ¢4,379,733,339) (see note 5-b).

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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:

	March 2014	March 2013
<i>Own</i>		
Trading securities in custody (note 23-b)	¢ 9,677,320,675	12,115,325,300
Trading securities pledged as guarantees	41,010,404,662	47,896,084,479
Confirm cash agreements pending settlement	1,546,815,366	-
Repurchase agreements pending settlement (note 23-c)	40,070,875,683	46,502,299,799
Other own memoranda accounts	5,405,502,897	24,049,888
Subtotal	<u>97,710,919,283</u>	<u>106,537,759,466</u>
<i>Third-party</i>		
Trading securities in custody (note 23-b)	1,197,498,684,406	1,055,410,740,512
Trading securities received as guarantees	34,680,402,899	36,331,366,363
Trading securities pledged as guarantees	27,596,122,111	30,488,128,481
Trading securities pending to receive	3,685,082,261	7,390,798
Trading securities pending settlement	3,607,216,707	17,024,560
Repurchase agreements pending settlement (note 23-c)	50,875,232,935	54,617,870,025
Cash and accounts receivable	1,917,820,848	549,051,289
Portfolio management	8,834,438,953	5,097,413,655
Subtotal	<u>1,328,695,001,120</u>	<u>1,182,518,985,683</u>
Total	¢ <u>1,426,405,920,403</u>	<u>1,289,056,745,149</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		March 2014	March 2013
<i>Custodial activities on own behalf</i>				
Local	At face value - available	¢	8,081,667,243	12,081,523,600
Local	At purchase value of shares - available		21,561,315	21,561,315
Local	At purchase value of investments - available		511,425	441,377
Local	At face value - pledged		11,300,000	11,300,000
Local	Amount of physical coupons - pledged		280,692	499,008
Local	At face value pending delivery		1,562,000,000	-
			<u>9,677,320,675</u>	<u>12,115,325,300</u>
<i>Custodial activities on behalf of third parties</i>				
Local	At face value - available		803,301,346,660	758,259,003,844
Local	Amount of physical coupons - available		32,776,673	403,695,392
Local	At purchase value of shares - available		49,210,664,922	39,236,266,875
Local	At purchase value of investments - available		342,133,580,981	254,888,767,658
Local	At face value - pledged		2,576,635,617	2,447,835,439
Local	Amount of physical coupons - pledged		-	1,617,360
Local	At purchase value of shares - pledged		91,517,055	61,217,918
Local	At purchase value of investments - pledged		91,162,498	104,945,228
Local	At face value - pending delivery		61,000,000	7,390,798
			<u>1,197,498,684,406</u>	<u>1,055,410,740,512</u>
		¢	<u>1,207,176,005,081</u>	<u>1,067,526,065,812</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:

March 2014								
	Term buyer				Term seller			
	Colones	U.S. dollars	U.S. dollars expressed in colones	Total	Colones	U.S. dollars	U.S. dollars expressed in colones	Total
Own	34,344,520,803	10,637,060	5,726,354,880	40,070,875,683	-	-	-	-
Third parties	9,598,860,351	20,568,550	11,072,873,326	20,671,733,677	20,453,392,946	18,111,428	9,750,106,312	30,203,499,258
Total	43,943,381,154	31,205,610	16,799,228,206	60,742,609,360	20,453,392,946	18,111,428	9,750,106,312	30,203,499,258

March 2013								
	Term Buyer				Term Seller			
	Colones	U.S. dollars	U.S. dollars expressed in colones	Total	Colones	U.S. dollars	U.S. dollars expressed in colones	Total
Own	43,476,405,764	6,141,204	3,025,894,035	46,502,299,799	-	-	-	-
Third parties	5,758,291,696	35,644,510	17,562,762,967	23,321,054,663	18,221,900,376	26,536,197	13,074,914,986	31,296,815,362
Total	49,234,697,460	41,785,714	20,588,657,002	69,823,354,462	18,221,900,376	26,536,197	13,074,914,986	31,296,815,362

Term buyer and seller positions in tri-party repurchase agreements in U.S. dollars were valued at the exchange rate of ¢538.34 to US\$1.00 (March 2013: ¢492.72 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:

March 2014				
	Term buyer		Term seller	
	Colones	U.S. dollars	Colones	U.S. dollars
<i>Own</i>				
1 to 30 days	¢ 7,539,079,779	6,894,707	-	-
31 to 60 days	26,687,440,914	-	-	-
61 to 90 days	118,000,110	3,179,985	-	-
More than 91 days	-	562,368	-	-
	34,344,520,803	10,637,060	-	-
<i>Third parties</i>				
1 to 30 days	2,909,092,737	133,038	5,765,789,467	558,390
31 to 60 days	6,553,783,111	8,116,174	14,526,751,842	6,144,995
61 to 90 days	135,984,503	12,215,876	160,851,637	10,742,212
More than 91 days	-	103,462	-	665,831
	9,598,860,351	20,568,550	20,453,392,946	18,111,428
¢	43,943,381,154	31,205,610	20,453,392,946	18,111,428

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

		March 2013			
		Term buyer		Term seller	
		Colones	U.S. dollars	Colones	U.S. dollars
<i>Own</i>					
1 to 30 days	¢	3,979,011,957	677,954	-	-
31 to 60 days		38,526,195,625	4,754,261	-	-
61 to 90 days		971,198,182	708,989	-	-
		<u>43,476,405,764</u>	<u>6,141,204</u>	<u>-</u>	<u>-</u>
<i>Third parties</i>					
1 to 30 days		86,334,603	1,497,421	1,945,859,335	528,817
31 to 60 days		5,199,067,452	8,621,821	16,064,797,413	10,441,033
61 to 90 days		472,889,641	25,155,083	211,243,628	15,566,347
More than 91 days		-	370,185	-	-
		<u>5,758,291,696</u>	<u>35,644,510</u>	<u>18,221,900,376</u>	<u>26,536,197</u>
	¢	<u>49,234,697,460</u>	<u>41,785,714</u>	<u>18,221,900,376</u>	<u>26,536,197</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 March 31, 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:

	March 2014		
Fund	Net value	Shares	Value per share
<i>Funds in colones:</i>			
Súper Fondo - colones	¢ 25,061,165,053	7,266,957,210	3.448646294
Fon Depósito - colones	89,141,047,148	68,760,577,082	1.296397601
Crecí Fondo - colones	1,208,200,030	304,541,548	3.967274867
Redí Fondo - colones	3,073,968,282	1,081,954,123	2.841126271
Diner Fondo - colones	39,862,943,603	16,856,184,548	2.364885333
Subtotal - colones	¢ 158,347,324,116	94,270,214,511	
<i>Funds in U.S. dollars:</i>			
Súper Fondo - U.S. dollars	US\$ 38,246,332	27,383,335	1.396701007
Crecí Fondo - U.S. dollars	733,389	467,673	1.568164869
Redí Fondo - U.S. dollars	4,661,014	3,501,555	1.331126796
Diner Fondo - U.S. dollars	144,811,185	117,069,549	1.23696714
Fon Depósito - U.S. dollars	71,119,544	67,970,624	1.04632766
Super Fondo Plus- U.S. dollars	7,661,757	7,649,237	1.001636712
Fondo Hipotecario - U.S. dollars (mortgage fund)	715,762	710,002	806.9462345
Subtotal - U.S. dollars	US\$ 267,948,983	224,751,975	
Subtotal - U.S. dollars, expressed in colones	¢ 144,247,655,185	120,992,978,222	
<i>Funds in euros:</i>			
Diner Fondo - euros	€ 3,984,600	3,737,792	1.066030531
Subtotal - euros	€ 3,984,600	3,737,792	
Subtotal - euros, expressed in colones	¢ 2,960,195,959	2,776,840,064	
Total assets of managed funds (note 22-a)	¢ 305,555,175,260	218,040,032,797	
<i>Guarantees:</i>			
Performance bonds	¢ 42,734,155		
Outstanding checks	1,610,398		
Total memoranda accounts (note 22-a)	¢ 305,599,519,813		

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Fund	March 2013		
	Net value	Shares	Value per share
<i>Funds in colones:</i>			
Súper Fondo - colones	¢ 14,427,283,185	4,341,480,445	3.323125226
Fon Depósito - colones	92,240,076,196	73,538,888,520	1.254303377
Crecí Fondo - colones	625,400,519	166,932,916	3.746418227
Redí Fondo - colones	1,370,326,887	509,557,436	2.689249123
Diner Fondo - colones	63,584,139,514	27,769,188,092	2.289737075
Subtotal - colones	¢ 172,247,226,301	106,326,047,409	
<i>Funds in U.S. dollars:</i>			
Súper Fondo - U.S. dollars	US\$ 34,534,730	25,134,285	1.37400885
Crecí Fondo - U.S. dollars	424,126	277,137	1.530382794
Redí Fondo - U.S. dollars	1,948,438	1,500,085	1.298884924
Diner Fondo - U.S. dollars	105,109,387	86,189,150	1.21951989
Fon Depósito - U.S. dollars	52,578,545	50,978,686	1.031382912
Fondo Hipotecario - U.S. dollars (mortgage fund)	800,595	793,691	902.59
Subtotal - U.S. dollars	US\$ 195,395,821	164,873,034	
Subtotal - U.S. dollars, expressed in colones	¢ 96,275,428,781	81,236,241,312	
<i>Funds in euros:</i>			
Diner Fondo - euros	€ 3,462,878	3,253,978	1.064198182
Subtotal - euros	€ 3,462,878	3,253,978	
Subtotal - euros, expressed in colones	¢ 2,179,195,681	2,047,734,798	
Total assets of managed funds (note 22-a)	¢ 270,701,850,763	189,610,023,519	
<i>Guarantees:</i>			
Performance bonds	¢ 8,827,203		
Outstanding checks	1,464,871		
Total memoranda accounts (note 22-a)	¢ 270,712,142,837		

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:

	March 2014	March 2013
Mandatory Pension Fund (ROP) ¢	616,120,612,524	530,548,616,522
Mandatory Retirement Savings Account (FCL)	76,821,950,930	65,005,918,778
Voluntary Pension Fund in Colones A (FPC A)	37,788,369,003	30,891,467,220
Voluntary Pension Fund in Colones B (FPC B)	6,347,077,986	6,161,133,840
Notary Fund (NOT)	17,866,793,979	16,169,826,819
Voluntary Pension Fund in U.S. dollars A (FPD A) (a)	7,905,463,177	5,798,597,443
Voluntary Pension Fund in U.S. dollars B (FPD B) (b)	5,381,018,556	5,355,397,026
Total assets of managed funds (note 22-a)	768,231,286,155	659,930,957,648
Securities in DU	6,426,463,665	9,780,801,275
Bid and performance bonds – colones	23,437,334	18,380,110
Bid and performance bonds – U.S. dollars (c)	12,352,793	13,897,986
Securities and assets in custody	1,633,642,577	1,673,936,070
Total memoranda accounts (note 22-a) ¢	776,327,182,524	671,417,973,089

- (a) As of March 31, 2014, this fund amounts to US\$14,684,889 and was valued at the exchange rate of ¢538.34 to US\$1.00 (March 2013: US\$11,768,545 valued at the exchange rate of ¢492.72 to US\$1.00).

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- (b) As of March 31, 2014, this fund amounts to US\$9,995,576 and was valued at the exchange rate of ¢538.34 to US\$1.00 (March 2013: US\$10,869,047 valued at the exchange rate of ¢492.72 to US\$1.00).
- (c) As of March 31, 2014, this fund amounts to US\$22,946 and was valued at the exchange rate of ¢538.34 to US\$1.00 (March 2013: US\$28,207 valued at the exchange rate of ¢492.72 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:

		March 2014	March 2013
<i>Cash and due from banks:</i>			
Deposits in BCCR	¢	13,915,090	6,003,679
Checking accounts and demand deposits in local entities		6,454,001	9,476,637
Checking accounts and demand deposits in foreign entities		52,558,058	37,616,033
		<u>72,927,149</u>	<u>53,096,349</u>
<i>Financial instruments:</i>			
Investments in trading securities		-	15,129,542
Investments in available-for-sale securities		8,537,540,761	11,725,811,438
Investments in committed instruments and securities		2,533,340,842	-
Subtotal		<u>11,070,881,603</u>	<u>11,740,940,980</u>
Total	¢	<u>11,143,808,752</u>	<u>11,794,037,329</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:

	March 2014	March 2013
<i>Current loans:</i>		
Checking account overdrafts	¢ 26,970,090	10,148,480
Loans granted with funds from BCCR	437,156,655	544,227,471
Loans granted with other funds	55,363,087,643	52,678,119,628
Credit cards	4,147,119,089	3,670,154,293
Factoring	-	143,964,000
Issued letters of credit	15,635	12,959
Other loans	810,415	3,213,155
Subtotal	<u>59,975,159,527</u>	<u>57,049,839,986</u>
<i>Past due loans and loans in legal collections:</i>		
Checking account overdrafts	539,482	1,754,678
Loans granted with funds from BCCR	67,354,549	152,063,316
Loans granted with other funds	10,173,841,175	10,976,319,244
Credit cards	596,964,725	593,913,976
Other	1,303,832	673,571
Subtotal	<u>10,840,003,763</u>	<u>11,724,724,785</u>
Total	<u>¢ 70,815,163,290</u>	<u>68,774,564,771</u>

(28) Other finance income

Other finance income is as follows:

	March 2014	March 2013
Fees and commissions on letters of credit	¢ 31,908,192	15,769,027
Fees and commissions on guarantees granted	153,582,446	98,319,206
Fees and commissions on lines of credit	19,923,000	27,730,875
Realized gain on available for sale financial instruments	940,378,565	5,741,910,359
Gain on fair value hedge ítem measured at cost	2,861,055,945	-
Other sundry finance income	<u>1,017,509,423</u>	<u>579,193,624</u>
	<u>¢ 5,024,357,571</u>	<u>6,462,923,091</u>

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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:

	March 2014	March 2013
Demand deposits	¢ 8,108,538,040	10,114,636,876
Term deposits	15,680,660,992	24,217,391,876
Tri-party repurchase agreements and securities lending	506,847,631	851,343,712
Other term obligations with the public	-	757,794
	¢ <u>24,296,046,663</u>	<u>35,184,130,258</u>

(30) Expenses for allowances for impairment of assets

Expenses for allowances for impairment of assets are as follows:

	March 2014	March 2013
Allowance for loan impairment (note 6)	¢ 3,873,426,365	9,002,140,696
Allowance for impairment of other accounts receivable (note 7)	711,181,381	777,906,438
Allowance for stand-by credit losses (note 18)	694,930,436	-
Generic and uncyclic allowance for stand by credit (note 18)	4,854,021	-
Allowance for impairment of derivative instruments (note 5-a)	71,624	1,036
	¢ <u>5,284,463,827</u>	<u>9,780,048,170</u>

(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:

	March 2014	March 2013
Recovery of loan write-offs	¢ 3,108,354,341	2,283,079,057
Recovery of receivable write-offs	105,843	1,097,152
Decrease in allowance for loan impairment (note 6)	-	4,792,252
Decrease in allowance for impairment of other accounts receivable (note 7)	91,659,427	1,255,278,763
Decrease in allowance for impairment of investments in financial instruments (note 5-a)	-	167,025
	¢ <u>3,200,119,611</u>	<u>3,544,414,249</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(32) Operating income from service fees and commissions

Operating income from service fees and commissions is as follows:

	March 2014	March 2013
Drafts and transfers	¢ 1,685,385,995	1,590,362,921
Certified checks	1,513,975	3,849,172
Trusts	209,419,395	226,398,988
Custodial services	224,051,439	220,427,250
Banking mandates	185,948	64,648
Collections	11,843,696	10,599,340
Credit cards	8,711,687,931	7,367,110,136
Management services	729,843,355	613,056,025
Management of investment funds	968,448,745	983,370,841
Management of pension funds	1,548,506,363	2,006,520,769
Insurance underwriting	811,755,591	387,359,416
Brokerage operations (third parties in local market)	452,157,881	659,752,622
Brokerage operations (third parties in other markets)	11,575,762	11,605,020
Individual portfolio management	1,580,157	1,121,029
Other	8,730,626,370	7,960,404,142
	¢ <u>24,098,582,603</u>	<u>22,042,002,319</u>

(33) Other operating income

Other operating income is as follows:

	March 2014	March 2013
Leasing of assets	¢ 3,191,067	3,191,067
Recovery of expenses	378,238,383	480,682,548
Net valuation of other assets (note 1-d-iii)	216,183,831	333,680,719
Other income from accounts receivable	1,066,389	1,313,193
Sundry operating income	1,469,544,575	1,171,631,035
Decrease in provisions	912,397	67,421,956
	¢ <u>2,069,136,642</u>	<u>2,057,920,518</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(34) Operating expenses for foreclosed assets

Operating expenses for foreclosed assets are as follows:

	March 2014	March 2013
Loss on sale of property and other assets acquired in lieu of payment	¢ 2,804,132,757	283,875,962
Loss in sale of assets acquired in lieu of payment	-	5,237,158
Management of assets acquired in lieu of payment	2,005,300,569	817,103,262
Management of assets awarded in judicial auctions (note 8)	79,905,227	1,558,694
Loss on allowance for impairment and judicial auctions of foreclosed assets (note 8)	6,117,668,417	6,749,645,858
Other expenses for foreclosed assets	295,808,694	55,290,172
	¢ <u>11,302,815,664</u>	<u>7,912,711,106</u>

(35) Expenses for provisions

Expenses for provisions are as follows:

	March 2014	March 2013
Severance benefits	¢ 2,060,688,041	1,567,557,784
Pending litigation	136,550,869	475,121,036
Other provisions	1,954,142,129	2,539,688,120
	¢ <u>4,151,381,039</u>	<u>4,582,366,940</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(36) Other operating expenses

Other operating expenses are as follows:

	March 2014	March 2013
Penalties for noncompliance with regulatory provisions	9,853,618	49,632
Net valuation of other liabilities (note 1-d-iii)	854,285,824	28,423,646
Income tax (8%) on interest on investments in financial instruments	843,904,145	555,822,892
Property tax	52,539,498	30,868,713
Licenses	177,865,287	156,855,428
Other local taxes	188,328,854	740,306
Transfers to FINADE	416,658,514	183,843,659
Amortization of direct deferred costs related to loans	41,686,010	-
Sundry operating expenses	10,696,132,941	7,966,889,160
¢	<u>13,281,254,691</u>	<u>8,923,493,436</u>

(37) Personnel expenses

Personnel expenses are as follows:

	March 2014	March 2013
Salaries and bonuses, permanent staff	¢ 14,033,842,496	13,889,107,929
Salaries and bonuses, contractors	576,541,853	400,147,364
Compensation for directors and statutory examiners	47,198,277	44,861,025
Overtime	309,739,628	306,354,584
Travel expenses	264,040,115	208,019,712
Statutory Christmas bonus	1,706,486,211	1,682,641,742
Vacation	1,647,016,224	1,821,068,749
Other compensation	1,941,336,821	1,254,236,724
Severance Benefits	28,472,021	-
Employer social security taxes	7,649,438,697	7,182,941,123
Refreshments	174,623,762	152,022,939
Uniforms	3,141,072	28,951,571
Training	233,429,302	196,559,636
Employee insurance	69,079,567	56,788,314
Back-to-school bonus	1,473,480,499	1,429,977,846
Mandatory retirement savings account	625,073,867	601,034,208
Other personnel expenses	71,278,029	107,414,248
¢	<u>30,854,218,441</u>	<u>29,362,127,414</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(38) Other administrative expenses

Other administrative expenses are as follows:

	March 2014	March 2013
Outsourcing	¢ 3,598,453,535	2,848,970,829
Transportation and communications	1,352,516,958	1,113,187,071
Infrastructure	8,001,469,769	7,008,504,038
Overhead	3,367,364,519	2,924,230,501
	¢ <u>16,319,804,781</u>	<u>13,894,892,439</u>

(39) Statutory allocations

Statutory allocations are as follows:

	March 2014	March 2013
CONAPE (5%)	¢ 423,453,694	444,710,137
CNE (3%)	260,446,404	294,289,464
INFOCOOP (10%)	723,310,017	1,476,508,309
RIVM (5%)	291,405,210	634,343,067
	¢ <u>1,698,615,325</u>	<u>2,849,850,977</u>

As of December 31, the decrease in statutory allocations is as follows:

	March 2014	March 2013
CONAPE (5%) (2012: 2%)	¢ -	2,874,216
	¢ <u>-</u>	<u>2,874,216</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:

		March 2014	
		Carrying amount	Fair value
<i>Financial assets:</i>			
Cash and due from banks	¢	944,526,780,031	944,526,780,031
Investments in financial instruments		895,278,244,080	895,278,244,079
Loan portfolio		3,178,259,363,464	2,929,286,866,639
Total	¢	<u>5,018,064,387,575</u>	<u>4,769,091,890,749</u>
<i>Financial liabilities:</i>			
Demand deposits from the public and financial entities	¢	2,408,414,559,774	2,408,414,559,775
Other demand obligations with the public		12,309,621,811	12,309,621,811
Term deposits from the public and financial entities		2,167,719,619,783	2,175,476,398,618
Obligations for tri-party repurchase agreements		39,892,329,298	39,892,329,297
Total	¢	<u>4,628,336,130,666</u>	<u>4,636,092,909,501</u>
		March 2013	
		Carrying amount	Fair value
<i>Financial assets:</i>			
Cash and due from banks	¢	691,098,753,769	691,098,753,769
Investments in financial instruments		904,579,076,022	904,579,076,022
Loan portfolio		2,638,281,926,840	2,424,962,836,385
Total	¢	<u>4,234,059,756,631</u>	<u>4,020,640,666,176</u>
<i>Financial liabilities:</i>			
Demand deposits from the public and financial entities	¢	2,114,067,919,268	2,114,067,919,268
Other demand obligations with the public		10,460,989,496	10,460,989,496
Term deposits from the public and financial entities		1,652,695,738,905	1,680,882,800,598
Obligations for tri-party repurchase agreements		46,156,285,776	46,156,285,776
Total	¢	<u>3,823,380,933,445</u>	<u>3,851,567,995,138</u>

(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 March 31, 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 March 31, 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 March 31, 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:

	March 2014	March 2013
Less than 1 year	¢ -	151,500,977
	¢ -	151,500,977

As of March 31, 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 March 31, 2014							
		Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations	Consolidated
ASSETS									
Cash and due from banks	¢	940,447,739,172	6,330,082,138	287,476,619	275,021,623	769,476,816	948,109,796,368	3,583,016,337	944,526,780,031
Investments in financial instruments		831,948,316,772	53,810,593,194	3,894,259,219	5,907,862,449	-	895,561,031,634	282,787,554	895,278,244,080
Loan portfolio, net		3,132,520,642,840	-	-	-	-	3,132,520,642,840	-	3,132,520,642,840
Accounts and fees and commissions receivable, net		7,377,724,816	177,657,833	26,406,663	748,623,840	213,324,212	8,543,737,364	4,454,440,089	4,089,297,275
Fees and commissions		104,387,065	27,309,872	10,810,685	513,717,071	168,621,229	824,845,922	79,660,574	745,185,348
Brokerage services		-	27,138,808	-	-	-	27,138,808	-	27,138,808
Transactions with related parties		4,684,486,163	10,290	6,924,093	6,382,243	45,027	4,697,847,816	4,374,779,515	323,068,301
Deferred tax and income tax		2,870,961,559	118,458,547	8,593,231	166,546,235	43,585,865	3,208,145,437	-	3,208,145,437
Other		2,531,395,965	4,740,316	78,654	61,978,291	1,072,091	2,599,265,317	-	2,599,265,317
Accrued interest		1,698,456	-	-	-	-	1,698,456	-	1,698,456
Allowance for impairment of accounts and fees and commissions		(2,815,204,392)	-	-	-	-	(2,815,204,392)	-	(2,815,204,392)
Foreclosed assets, net		18,333,929,633	-	-	-	-	18,333,929,633	-	18,333,929,633
Investments in other companies		71,201,097,453	30,000,000	-	-	-	71,231,097,453	24,858,209,329	46,372,888,124
Property and equipment, net		163,795,550,420	481,112,236	128,321,116	455,779,801	17,174,027	164,877,937,600	-	164,877,937,600
Other assets		38,505,420,121	180,959,419	270,111,209	111,793,509	85,370,551	39,153,654,809	-	39,153,654,809
TOTAL ASSETS	¢	5,204,130,421,227	61,010,404,820	4,606,574,826	7,499,081,222	1,085,345,606	5,278,331,827,701	33,178,453,309	5,245,153,374,392
LIABILITIES AND EQUITY									
LIABILITIES									
Obligations with the public	¢	3,494,385,258,909	39,977,967,324	-	-	-	3,534,363,226,233	282,787,554	3,534,080,438,679
Obligations with BCCR		22,196,355,699	-	-	-	-	22,196,355,699	-	22,196,355,699
Obligations with entities		1,090,365,931,000	-	-	-	-	1,090,365,931,000	3,583,016,337	1,086,782,914,663
Demand		233,818,661,129	-	-	-	-	233,818,661,129	3,583,016,337	230,235,644,792
Term		841,826,636,141	-	-	-	-	841,826,636,141	-	841,826,636,141
Finance charges payable		14,720,633,730	-	-	-	-	14,720,633,730	-	14,720,633,730
Accounts payable and provisions		98,759,218,932	6,926,655,748	814,316,141	1,355,971,751	268,286,176	108,124,448,748	4,454,440,089	103,670,008,659
Other liabilities		36,464,272,861	-	-	-	-	36,464,272,861	-	36,464,272,861
TOTAL LIABILITIES	¢	4,742,171,037,401	46,904,623,072	814,316,141	1,355,971,751	268,286,176	4,791,514,234,541	8,320,243,980	4,783,193,990,561

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of March 31, 2014								
	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	4,501,457,969	369,700,000	131,101,461,451	12,971,157,969	118,130,303,482
Non-capitalized capital contributions	-	-	-	493,467,040	-	493,467,040	493,467,040	-
Equity adjustments	64,857,877,088	(210,587,883)	(14,798,437)	23,019,004	-	64,655,509,772	(202,367,316)	64,857,877,088
Capital reserves	209,058,123,505	978,689,215	300,000,000	300,000,000	50,242,478	210,687,055,198	1,628,931,693	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	58,431,854,976	9,285,333,992	49,146,520,984
Income for the year	6,218,384,941	216,987,385	196,453,354	224,658,975	43,586,242	6,900,070,897	681,685,951	6,218,384,946
FOFIDE	14,548,173,826	-	-	-	-	14,548,173,826	-	14,548,173,826
TOTAL EQUITY	¢ 461,959,383,826	14,105,781,748	3,792,258,685	6,143,109,471	817,059,430	486,817,593,160	24,858,209,329	461,959,383,831
TOTAL LIABILITIES AND EQUITY	¢ 5,204,130,421,227	61,010,404,820	4,606,574,826	7,499,081,222	1,085,345,606	5,278,331,827,701	33,178,453,309	5,245,153,374,392
Debit memoranda accounts	¢ 502,994,464,502	-	226,745	10,766,800	-	503,005,458,047	-	503,005,458,047
Trust assets	¢ 962,621,119,067	427,383,636	-	-	-	963,048,502,703	-	963,048,502,703
Trust liabilities	¢ 69,249,457,754	496,026	-	-	-	69,249,953,780	-	69,249,953,780
Trust equity	¢ 893,371,661,313	426,887,611	-	-	-	893,798,548,924	-	893,798,548,924
Other debit memoranda accounts	¢ 14,231,173,753,065	1,426,405,920,403	305,599,519,813	776,327,182,524	-	16,739,506,375,805	-	16,739,506,375,805

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Year ended March 31, 2014

	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations	Consolidated
Finance income	272,054,692,654	1,653,685,865	110,400,108	154,371,470	9,603,747	273,982,753,844	9,031,245	273,973,722,599
Finance expense	225,074,677,042	1,126,811,048	20,284,401	12,970,441	2,308,071	226,237,051,003	9,031,245	226,228,019,758
Allowance expense	5,284,463,827	-	-	-	-	5,284,463,827	-	5,284,463,827
Income from recovery of assets	3,200,119,611	-	-	-	-	3,200,119,611	-	3,200,119,611
FINANCE INCOME	44,895,671,396	526,874,817	90,115,707	141,401,029	7,295,676	45,661,358,625	-	45,661,358,625
Other operating income	38,036,880,860	722,290,967	974,678,458	1,560,238,349	376,438,548	41,670,527,182	913,202,744	40,757,324,438
Other operating expenses	30,121,216,695	144,349,163	180,804,024	230,977,441	23,340,765	30,700,688,088	147,147,543	30,553,540,545
GROSS OPERATING INCOME	52,811,335,561	1,104,816,621	883,990,141	1,470,661,937	360,393,459	56,631,197,719	766,055,201	55,865,142,518
Personnel expenses	28,710,494,824	650,570,479	433,399,350	799,382,104	263,512,667	30,857,359,424	-	30,857,359,424
Other administrative expenses	15,631,766,855	230,547,808	147,037,681	351,434,399	43,387,287	16,404,174,030	84,369,249	16,319,804,781
Total administrative expenses	44,342,261,679	881,118,287	580,437,031	1,150,816,503	306,899,954	47,261,533,454	84,369,249	47,177,164,205
NET OPERATING INCOME BEFORE STATUTORY ALLOCATIONS AND TAXES	8,469,073,882	223,698,334	303,553,110	319,845,434	53,493,505	9,369,664,265	681,685,952	8,687,978,313
Income tax	578,898,382	-	97,993,166	104,730,442	15,958,355	797,580,345	-	797,580,345
Decrease in income tax	-	-	-	19,139,345	7,462,952	26,602,297	-	26,602,297
Statutory allocations	1,671,790,559	6,710,950	9,106,593	9,595,363	1,411,860	1,698,615,325	-	1,698,615,325
INCOME FOR THE YEAR	6,218,384,941	216,987,384	196,453,351	224,658,974	43,586,242	6,900,070,892	681,685,952	6,218,384,940

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of March 31, 2013								
	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations	Consolidated
ASSETS								
Cash and due from banks	¢ 688,872,981,946	2,266,100,479	281,046,097	146,428,745	625,839,591	692,192,396,858	1,093,643,089	691,098,753,769
Investments in financial instruments	834,272,700,331	62,597,410,816	3,583,270,320	8,672,078,638	-	909,125,460,105	4,546,384,084	904,579,076,021
Loan portfolio, net	2,592,686,651,032	-	-	-	-	2,592,686,651,032	-	2,592,686,651,032
Accounts and fees and commissions receivable, net	1,578,050,145	165,647,884	79,974,388	835,927,988	122,460,822	2,782,061,227	135,803,398	2,646,257,829
Fees and commissions	105,333,887	29,677,149	56,862,213	640,584,101	87,185,563	919,642,912	28,801,333	890,841,579
Brokerage services	-	6,302,956	-	-	-	6,302,956	-	6,302,956
Transactions with related parties	112,798,118	13,935	14,569,927	20,579,218	-	147,961,197	107,002,065	40,959,132
Deferred tax and income tax	1,337,931,117	12,960,984	8,480,604	104,086,666	35,275,259	1,498,734,630	-	1,498,734,630
Other	2,466,489,465	116,692,861	61,645	70,678,003	-	2,653,921,974	-	2,653,921,974
Accrued interest	1,500,890	-	-	-	-	1,500,890	-	1,500,890
Allowance for impairment of accounts and fees and commissions	(2,446,003,333)	-	-	-	-	(2,446,003,333)	-	(2,446,003,333)
Foreclosed assets, net	27,196,182,466	-	-	-	-	27,196,182,466	-	27,196,182,466
Investments in other companies	68,091,552,333	30,000,000	-	-	-	68,121,552,333	29,464,298,188	38,657,254,117
Property and equipment, net	143,737,705,921	323,747,313	173,850,826	560,720,905	19,610,264	144,815,635,228	-	144,815,635,228
Other assets	19,430,115,707	198,289,659	242,987,580	268,987,716	14,044,301	20,154,424,963	-	20,154,424,963
TOTAL ASSETS	¢ 4,375,865,939,880	65,581,196,151	4,361,129,212	10,484,143,991	781,954,977	4,457,074,364,212	35,240,128,759	4,421,834,235,425
LIABILITIES AND EQUITY								
LIABILITIES								
Obligations with the public	¢ 3,355,251,303,554	46,349,829,485	-	-	-	3,401,601,133,039	4,546,384,084	3,397,054,748,955
Obligations with BCCR	215,274,900	-	-	-	-	215,274,900	-	215,274,900
Obligations with entities	429,663,081,571	-	-	-	-	429,663,081,571	1,093,643,089	428,569,438,482
Demand	147,416,505,053	-	-	-	-	147,416,505,053	1,093,643,089	146,322,861,964
Term	279,788,086,837	-	-	-	-	279,788,086,837	-	279,788,086,837
Finance charges payable	2,458,489,681	-	-	-	-	2,458,489,681	-	2,458,489,681
Accounts payable and provisions	106,800,687,977	1,888,711,578	624,704,661	2,730,184,355	150,696,038	112,194,984,608	135,803,398	112,059,181,210
Other liabilities	45,559,740,304	-	-	-	-	45,559,740,304	-	45,559,740,304
TOTAL LIABILITIES	¢ 3,937,490,088,306	48,238,541,063	624,704,661	2,730,184,355	150,696,038	3,989,234,214,422	5,775,830,570	3,983,458,383,852

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of March 31, 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	4,075,044,523	369,700,000	130,675,048,005	12,544,744,523	118,130,303,482
Non-capitalized capital contributions	-	-	-	919,880,485	-	919,880,485	919,880,485	-
Equity adjustments	57,255,124,951	708,778,646	9,811,862	136,534,295	-	58,110,249,754	855,124,802	57,255,124,951
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	8,097,711,668	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	12,721,439,144	1,085,000,895	234,801,473	614,669,065	11,355,891	14,667,266,468	1,945,827,296	12,721,439,144
FOFIDE	12,243,803,201	-	-	-	-	12,243,803,201	-	12,243,803,201
TOTAL EQUITY	¢ 438,375,851,574	17,342,655,089	3,736,424,551	7,753,959,637	631,258,940	467,840,149,790	29,464,298,188	438,375,851,574
TOTAL LIABILITIES AND EQUITY	¢ 4,375,865,939,880	65,581,196,151	4,361,129,212	10,484,143,991	781,954,977	4,457,074,364,212	35,240,128,759	4,421,834,235,425
Debit memoranda accounts	¢ 410,207,836,840	-	145,311	9,854,400	-	410,217,836,551	-	410,217,836,551
Trust assets	¢ 943,550,900,066	1,066,206,757	-	-	-	944,617,106,822	-	944,617,106,822
Trust liabilities	¢ 84,541,032,795	392,602	-	-	-	84,541,425,398	-	84,541,425,398
	¢ 859,009,867,270	1,065,814,155	-	-	-	860,075,681,425	-	860,075,681,425
Trust equity							-	860,075,681,425
Other debit memoranda accounts	¢ 11,549,065,353,970	1,289,056,745,149	270,712,142,837	671,417,973,089	-	13,780,252,215,045	-	13,780,252,215,045

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Year ended March 31, 2013

	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations	Consolidated
Finance income	¢ 115,579,383,342	2,733,926,975	86,132,487	421,083,180	9,932,252	118,830,458,236	124,157,884	118,706,300,353
Finance expense	66,635,337,508	1,042,253,314	8,014,245	5,519,806	398,655	67,691,523,528	124,157,884	67,567,365,644
Allowance expense	9,780,048,170	-	-	-	-	9,780,048,170	-	9,780,048,170
Income from recovery of assets	3,593,019,952	-	17,831,456	741,983	242,814	3,611,836,205	-	3,611,836,205
FINANCE INCOME	42,757,017,616	1,691,673,661	95,949,698	416,305,357	9,776,411	44,970,722,743	-	44,970,722,743
Other operating income	28,796,720,267	870,491,656	985,182,886	2,007,452,236	249,278,548	32,909,125,593	2,128,663,625	30,780,461,968
Other operating expenses	22,168,136,458	231,889,889	196,027,340	337,354,452	22,056,285	22,955,464,424	92,454,212	22,863,010,240
GROSS OPERATING INCOME	49,385,601,426	2,330,275,427	885,105,244	2,086,403,141	236,998,674	54,924,383,912	2,036,209,413	52,888,174,471
Personnel expenses	27,267,494,630	676,928,923	372,981,445	854,856,009	189,866,707	29,362,127,714	-	29,362,127,714
Other administrative expenses	13,223,902,326	251,789,858	125,186,527	351,052,424	33,343,422	13,985,274,556	90,382,116	13,894,892,439
Total administrative expenses	40,491,396,955	928,718,781	498,167,972	1,205,908,433	223,210,129	43,347,402,269	-	43,347,402,269
NET OPERATING INCOME BEFORE STATUTORY ALLOCATIONS AND TAXES	8,894,204,470	1,401,556,647	386,937,273	880,494,708	13,788,545	11,576,981,643	1,945,827,296	9,631,154,319
Income tax	2,699,681,299	96,296,743	23,966,089	28,895,511	1,011,335	2,849,850,977	-	2,849,850,977
Decrease in income tax	-	220,259,009	128,169,710	281,730,417	8,868,748	639,027,884	-	639,027,884
Statutory allocations	6,526,915,973	-	-	44,800,285	7,447,428	6,579,163,686	-	6,579,163,686
INCOME FOR THE YEAR	¢ 12,721,439,144	1,085,000,895	234,801,473	614,669,065	11,355,891	14,667,266,468	1,945,827,296	12,721,439,144

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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.

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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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	¢ 3,158,435,830,904	2,618,818,871,999	20	243,922,225,791	181,985,430,544
Accounts and accrued interest receivable		19,823,532,560	19,563,054,841		-	-
Carrying amount, gross		3,178,259,363,464	2,638,381,926,840		243,922,225,791	181,985,430,544
Allowance for loan impairment (accounting records)		(45,738,720,624)	(45,695,275,808)		(884,608,211)	(346,336,953)
Carrying amount, net	¢	<u>3,132,520,642,840</u>	<u>2,592,686,651,032</u>		<u>243,037,617,580</u>	<u>181,639,093,591</u>
Loan portfolio						
Total balances:						
A1		2,476,474,091,002	1,911,075,984,062		235,314,421,947	176,166,784,097
A2		27,963,742,652	20,194,536,020		318,269,146	243,468,595
B1		319,854,320,776	354,424,720,035		4,018,580,263	2,552,017,341
B2		12,854,276,327	16,530,014,903		23,936,315	24,766,170
C1		76,912,478,541	75,385,544,159		1,988,140,523	1,052,626,665
C2		5,496,673,222	8,274,979,389		19,135,069	10,550,507
D		118,344,221,363	118,036,994,937		1,135,983,133	1,138,909,052
E		140,359,559,581	134,459,153,335		1,103,759,395	796,308,117
		3,178,259,363,464	2,638,381,926,840		243,922,225,791	181,985,430,544
Structural allowance (subledger – database)		(43,043,933,013)	(45,979,528,944)		(868,554,953)	(61,341,328)
Carrying amount, net	¢	<u>3,135,215,430,451</u>	<u>2,592,402,397,896</u>		<u>243,053,670,838</u>	<u>181,924,089,216</u>

(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		2,476,474,091,002	721,378,520,115	231,850,968,629	39,745,817,684
A2		27,963,742,652	5,360,873,212	318,269,146	12,883,520
B1		319,854,320,776	69,317,285,098	3,901,033,488	559,102,927
B2		12,854,276,327	2,333,955,433	22,874,040	6,981,509
C1		76,912,478,541	14,002,248,601	1,951,855,932	66,762,719
C2		5,496,673,222	4,118,553,150	19,135,069	-
D		118,344,221,363	43,063,605,945	1,127,128,356	83,412,139
E		140,359,559,581	103,237,415,988	1,101,706,974	44,485,727
		<u>3,178,259,363,464</u>	<u>962,812,457,542</u>	<u>240,292,971,634</u>	<u>40,519,446,225</u>
Structural allowance (subledger – database)		(43,043,933,013)	(45,979,528,944)	(868,554,953)	(61,341,328)
Carrying amount, net	¢	<u>3,135,215,430,451</u>	<u>916,832,928,598</u>	<u>239,424,416,681</u>	<u>40,458,104,897</u>
Past due loans without allowance:					
	¢				
A1		-	27,558,628,662	-	120,013,194,551
A2		-	2,514,467,419	-	227,681,566
B1		-	35,660,184,413	-	1,885,189,053
B2		-	6,451,776,716	-	17,784,661
C1		-	10,854,382,699	-	922,528,205
C2		-	2,096,253,131	-	8,099,780
D		-	13,770,705,959	-	673,375,527
E		-	19,384,610,709	-	751,822,390
Carrying amount	¢	<u>-</u>	<u>118,291,009,708</u>	<u>-</u>	<u>124,499,675,733</u>

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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	¢		-		124,473,368,406
1 – 30 days		-	47,558,746,320	-	-
31 – 60 days		-	46,394,069,932	-	26,307,326
61 – 90 days		-	9,741,790,209	-	-
91 – 180 days		-	5,873,867,915	-	-
More than 180 days		-	8,722,535,332	-	-
Carrying amount	¢	-	118,291,009,708	-	124,499,675,733
Current loans without allowance:					
A1	¢	-	1,162,138,835,287	3,463,453,315	16,407,771,863
A2		-	12,319,195,389	-	2,903,508
B1		-	249,447,250,524	117,546,776	107,725,361
B2		-	7,744,282,754	1,062,275	-
C1		-	50,528,912,858	36,284,591	63,335,741
C2		-	2,060,173,108	-	2,450,727
D		-	61,202,683,032	8,854,778	382,121,386
E		-	11,837,126,638	2,052,422	-
Carrying amount	¢	-	1,557,278,459,590	3,629,254,157	16,966,308,586
Carrying amount, gross		3,178,259,363,464	2,638,381,926,840	243,922,225,791	181,985,430,544
Allowance for loan impairment (database)		(43,043,933,013)	(45,979,528,944)	(868,554,953)	(61,341,328)
(Excess) insufficiency of allowance over structural allowance		(2,694,787,611)	284,253,136	(16,053,258)	(284,995,625)
Carrying amount, net	6-a ¢	3,132,520,642,840	2,592,686,651,032	243,037,617,580	181,639,093,591
Restructured loans	6-d ¢	29,985,071,069	45,212,143,273	7,033,221	7,033,221

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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:

		March 2014	
		Loans to customers	
		Gross	Net
A1	¢	2,476,474,091,002	2,474,102,883,601
A2		27,963,742,652	27,958,117,826
B1		319,854,320,776	318,556,420,316
B2		12,854,276,327	12,734,361,720
C1		76,912,478,541	75,591,571,929
C2		5,496,673,222	5,204,454,366
D		118,344,221,363	110,411,930,049
E		140,359,559,581	107,960,903,033
	¢	<u>3,178,259,363,464</u>	<u>3,132,520,642,840</u>

		March 2013	
		Loans to customers	
		Gross	Net
A1	¢	1,911,075,984,062	1,908,686,013,758
A2		20,194,536,020	20,139,659,941
B1		354,424,720,035	353,189,880,341
B2		16,530,014,903	16,435,213,538
C1		75,385,544,159	74,158,528,964
C2		8,274,979,389	7,675,894,796
D		118,036,994,937	111,643,825,873
E		134,459,153,335	100,757,633,821
	¢	<u>2,638,381,926,840</u>	<u>2,592,686,651,032</u>

As shown above, as of March 31, 2014, the gross portfolio amounts to ¢3,178 billion. Of that amount, 89.27% is classified in risk ratings “A + B” and 10.73% in risk ratings “C+ D+ E” (2013: ¢2,638 billion, of which 87.25% is classified in risk ratings “A + B” and 12.75% 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	
		March 2014	March 2013	March 2014	March 2013
More than 180 days	¢	-	8,722,535,332	-	-

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

Restructured loans:

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Restructured loans are as follows:

		Direct		Stand-by	
		March 2014	March 2013	March 2014	March 2013
Restructured loans	¢	<u>29,985,071,069</u>	<u>45,212,143,273</u>	<u>7,033,221</u>	<u>7,033,221</u>

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	
		March 2014	March 2013	March 2014	March 2013
Group 1	¢	1,766,459,313,874	1,404,328,678,744	58,374,439,368	57,335,033,326
Group 2		<u>1,411,800,049,590</u>	<u>1,234,053,248,096</u>	<u>185,547,786,423</u>	<u>124,650,397,218</u>
	¢	<u>3,178,259,363,464</u>	<u>2,638,381,926,840</u>	<u>243,922,225,791</u>	<u>181,985,430,544</u>

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:

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

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

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

Analysis of historical payment behavior

The Bank must determine a borrower's historical payment behavior based on the level assigned to the borrower by SUGEF's 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	
		March 2014	March 2013	March 2014	March 2013
A1	30 days or less	¢ 2,476,474,091,002	1,911,075,984,300	235,314,421,947	176,166,784,097
A2	60 days or less	27,963,742,652	20,194,536,020	318,269,146	243,468,595
B1	60 days or less	319,854,320,776	354,424,720,035	4,018,580,263	2,552,017,341
B2	60 days or less	12,854,276,327	16,530,014,903	23,936,315	24,766,170
C1	90 days or less	76,912,478,541	75,385,544,159	1,988,140,523	1,052,626,665
C2	90 days or less	5,496,673,222	8,274,979,389	19,135,069	10,550,507
D	120 days or less	118,344,221,363	118,036,994,937	1,135,983,133	1,138,909,052
E	More than 120 days or other factors	140,359,559,581	134,459,153,097	1,103,759,395	796,308,117
		¢ <u>3,178,259,363,464</u>	<u>2,638,381,926,840</u>	<u>243,922,225,791</u>	<u>181,985,430,544</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%

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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 March 31, 2014, the Bank must maintain a structural allowance in the amount of ¢43,912,487,966 (¢43,043,933,013 and ¢868,554,953 for direct and stand-by credits, respectively), plus a gradual generic allowance as of March 31, 2014 in the amount of ¢2,704,099,953 (¢2,670,311,874 and ¢33,788,080 for direct and stand-by credits, respectively) in accordance with CONASSIF regulation No. 1058-07. The allowance booked by the Bank amounts to ¢46,623,328,835 (¢45,738,720,624 and ¢884,608,211 for direct and stand-by credits, respectively). Consequently, the allowance booked by the Bank exceeds the minimum allowance required by current regulations by ¢6,740,916 (0.0143%).

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 March 31, 2014, the balance of the Bank's allowance for loan impairment (direct and stand-by), accrued interest receivable, and other receivables amounts to ¢49,438,533,227 (2013: ¢48,487,616,094).

(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 March 31, 2014, the carrying amount of the allowance for impairment of foreclosed assets and per legal requirements amounts to ¢56,712,451,016 (2013: ¢48,284,112,524).

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

Sector		Direct		Stand-by	
		March 2014	March 2013	March 2014	March 2013
Trade	¢	375,961,516,094	368,902,017,529	75,686,889	116,772,260
Services		601,401,027,870	540,212,951,948	56,066,686,641	57,202,981,989
Financial services		108,699,505,799	58,617,744,689	-	-
Mining		43,600,941	52,498,733	-	-
Manufacturing and quarrying		143,073,265,277	122,081,962,220	3,268,613	33,124,904
Construction		82,029,902,879	63,124,842,552	-	-
Agriculture and forestry		95,551,914,443	87,147,150,875	12,400,951	11,402,997
Livestock, hunting, and fishing		61,267,763,193	63,354,142,618	3,013,017	3,013,017
Electricity, water, sanitation, and other related sectors		225,534,926,211	107,405,801,392	-	-
Transportation and telecommunications		26,377,938,710	22,622,188,009	-	-
Housing		1,015,534,539,274	875,943,627,175	11,700,290	11,818,857
Personal or consumer		319,292,000,711	226,679,665,980	187,576,369,277	124,473,368,406
Tourism		123,491,462,062	102,237,333,120	173,100,113	132,948,114
	¢	<u>3,178,259,363,464</u>	<u>2,638,381,926,840</u>	<u>243,922,225,791</u>	<u>181,985,430,544</u>

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

		Direct		Stand-by	
		2014	2013	2014	2013
Central America	¢	<u>3,178,259,363,464</u>	<u>2,638,381,926,840</u>	<u>243,922,225,791</u>	<u>181,985,430,544</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

Guarantee	Direct		Stand-by	
	March 2014	March 2013	March 2014	March 2013
Back to back	¢ 9,476,114,558	11,814,237,873	26,917,000	24,636,000
Mortgage bond	10,282,049,630	12,766,191,854	-	-
Assignment of loans	327,458,234,001	269,162,043,290	-	-
Mortgage	1,536,957,993,859	1,376,631,363,364	319,269,303	185,560,083
Surety	607,047,637,103	526,684,028,377	-	113,167,584
Trust	239,355,575,157	167,058,594,097	492,996,767	618,885,161
Securities	1,543,900,553	1,708,496,306	-	-
Chattel mortgage	107,412,464,882	57,744,925,090	-	-
Other	338,725,393,721	214,812,046,589	243,083,042,721	181,043,181,716
	¢ 3,178,259,363,464	2,638,381,926,840	243,922,225,791	181,985,430,544

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 March 31, 2014, 46.36% of the loan portfolio is secured by collateral guarantees (2013: 52.17%).

As of March 31, the concentration of the loan portfolio by individual borrower or economic interest group is as follows:

Loan portfolio concentration	Direct		Stand-by	
	March 2014	March 2013	March 2014	March 2013
¢1 to ¢3,000,000	¢ 145,581,668,688	132,235,714,854	86,666,114,171	61,965,698,146
¢3,000,001 to ¢15,000,000	494,334,349,056	443,217,108,984	99,101,121,663	63,570,976,532
¢15,000,001 to ¢30,000,000	395,293,804,023	354,203,261,247	5,522,599,688	4,078,900,632
¢30,000,001 to ¢50,000,000	356,849,336,800	304,757,804,122	2,445,168,266	2,114,054,954
¢50,000,001 to ¢75,000,000	238,975,407,788	188,819,539,425	1,128,091,301	1,795,116,211
¢75,000,001 to ¢100,000,000	113,055,833,213	98,768,515,663	859,137,335	807,158,691
¢100,000,001 to ¢200,000,000	196,765,429,616	174,594,767,319	3,516,738,643	4,937,431,126
More than ¢200,000,000	1,237,403,534,280	941,785,215,226	44,683,254,724	42,716,094,252
	¢ 3,178,259,363,464	2,638,381,926,840	243,922,225,791	181,985,430,544

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of March 31, 2014 and 2013, the portion of the loan portfolio (direct and stand-by loans) corresponding to economic interest groups amounts to ¢280,749,178,434 and ¢188,515,093,757,645, 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 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.

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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Loan portfolios in DUs present an increase with respect to March 2013 as a result of the increase in arrears of more than 90 days. However, the consolidated portfolio in DUs with arrears of more than 90 days represents 2.02% and the balance of this portfolio is trending downward.

On a year-on-year basis, of the Bank's 13 economic activities, only Agriculture presents a decrease in the VaR as a result of increased legal collections and arrears of more than 90 days.

In general, most activities present improved results with respect to the prior year due to the portfolio recovery, excluding Transport, Financial Services, and Construction, because, in such cases, decreases are originated by an effect of concentration.

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.

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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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.

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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- 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 March 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 (92.74%) of the Brokerage Firm's financial instruments is concentrated in the portfolio in colones.

The consolidated portfolio is comprised of investments in instruments issued by the Government of Costa Rica (76.90%), BCCR (13.82%), Banco Popular y de Desarrollo Comunal (1.93%), Banco Crédito Agrícola de Cartago (0.08%), and the Bank (0.02%). These issuers represent 92.74% of the consolidated portfolio. US Dollar portfolio represent 7.26%

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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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 March 31, 2014, the assets managed by the Pension Fund Manager amount to ¢768,745 million, growing year-on-year by ¢108,173.46 million. This implies a growth rate of 16.38% with respect to the portfolio managed as of March 2013. These data do not include the Pension Fund Manager's own assets.

The pension fund with the highest share is ROP, which represents 80.19% and shows a year-on-year growth of ¢85,445.39 million and a growth of 16.09% with respect to March 2013.

As of March 31, 2014, the portfolio of the Pension Fund Manager's own assets for ¢7,499.08 million, decreasing by ¢2,985.06 million with respect to the prior year. The VaR of credit in absolute terms is equivalent to ¢29 million, i.e. 0.49% in relative terms (2013: VaR in absolute terms equivalent to ¢38.06 million, i.e. 0.40% in relative terms).

Stress test results show that a general downgrade of the Pension Fund Manager's own securities would not give rise to a change in their value. The VaR of credit as of March 31, 2014 considers the maximum possible loss since the portfolio is concentrated in two issuers (Ministry of Finance and BCCR), which credit risk in colones is zero.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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 March 31, 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 March 31, 2014, the terms of the Bank's assets and liabilities denominated in local currency are matched as follows:

		Days							Total
		Past due	Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	
Cash and due from banks	¢	-	54,565,563,524	-	-	-	-	-	54,565,563,524
Minimum cash reserve in BCCR		-	390,124,254,708	-	-	-	-	-	390,124,254,708
Investments		-	-	8,976,206,979	5,287,412,785	7,475,765,282	34,975,252,603	139,317,446,678	507,732,311,685
Loan portfolio		102,375,868,507	821,884,635	34,007,350,119	36,391,214,707	26,020,252,568	55,373,474,823	81,226,479,917	1,916,306,452,264
Total recovery of assets	¢	102,375,868,507	445,511,702,867	42,983,557,098	41,678,627,492	33,496,017,850	90,348,727,426	220,543,926,595	2,868,728,582,181
Obligations with the public	¢	-	1,397,735,755,576	231,193,144,682	98,051,827,090	62,580,798,520	327,757,434,356	169,441,209,278	2,328,470,657,782
Obligations with BCCR		-	-	22,000,000,000	-	-	-	193,411,054	22,193,411,054
Obligations with financial entities		-	83,697,830,404	11,754,673,692	794,488,352	607,140,985	2,597,803,815	776,258,978	101,780,160,142
Charges payable		-	5,330,940,456	4,184,307,550	2,305,614,343	724,677,783	1,158,283,351	258,762,837	14,069,496,043
Total maturity of liabilities	¢	-	1,486,764,526,436	269,132,125,924	101,151,929,785	63,912,617,288	331,513,521,522	170,476,231,093	2,466,513,725,021
Difference	¢	102,375,868,507	(1,041,252,823,569)	(226,148,568,826)	(59,473,302,293)	(30,416,599,438)	(241,164,794,096)	50,067,695,502	402,214,857,160

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of March 31, 2014, 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	¢	-	307,578,200,301	-	-	-	-	-	308,010,479,855
Minimum cash reserve in BCCR		-	191,826,481,944	-	-	-	-	-	191,826,481,944
Investments		-	-	832,782,159	7,566,688,652	10,136,028,443	30,436,475,387	102,694,945,619	387,604,370,843
Loan portfolio		43,953,558,630	10,686,308,070	25,395,697,843	22,660,574,703	26,770,368,106	52,508,944,270	51,275,193,708	1,261,952,911,200
Total recovery of assets	¢	43,953,558,630	510,090,990,315	26,228,480,002	30,227,263,355	36,906,396,549	82,945,419,657	153,970,139,327	2,149,394,243,842
Obligations with the public	¢	-	776,095,930,480	96,626,501,296	84,638,267,055	44,552,219,536	147,240,723,326	32,594,961,560	1,190,583,111,872
Obligations with financial entities		-	150,120,830,725	47,610,262	231,852,696	2,443,149,684	34,054,516,262	31,832,179	970,282,120,791
Charges payable		-	823,007,857	734,979,585	12,999,510,506	1,922,141,169	686,162,803	109,459,902	17,310,933,070
Total maturity of liabilities	¢	-	927,039,769,062	97,409,091,143	97,869,630,257	48,917,510,389	181,981,402,391	32,736,253,641	2,178,176,165,733
Difference	¢	43,953,558,630	(416,948,778,747)	(71,180,611,141)	(67,642,366,902)	(12,011,113,840)	(99,035,982,734)	121,233,885,686	(28,781,921,891)

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of March 31, 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	¢	-	82,664,644,212	-	-	110,720,538	-	-	82,775,364,750
Minimum cash reserve in BCCR		-	324,794,394,647	-	-	-	-	-	324,794,394,647
Investments		-	-	65,564,717,760	23,024,051,255	6,829,738,846	66,243,919,821	237,420,460,198	641,103,777,420
Loan portfolio		117,821,619,807	2,090,835,767	38,604,765,308	24,333,588,206	18,714,189,161	55,836,781,632	64,000,428,156	1,753,661,875,200
Total recovery of assets	¢	117,821,619,807	409,549,874,626	104,169,483,068	47,357,639,461	25,654,648,545	122,080,701,453	301,420,888,354	2,802,335,412,017
Obligations with the public	¢	-	1,272,762,799,068	158,218,204,328	114,049,496,828	70,879,421,784	352,005,118,681	271,384,012,966	2,290,727,867,248
Obligations with BCCR		-	-	-	-	-	-	-	215,235,689
Obligations with financial entities		-	67,553,158,345	549,384,793	1,767,877,055	2,586,057,806	374,699,800	4,812,610,769	80,767,730,656
Charges payable		-	6,165,429,217	6,606,730,098	2,859,036,723	1,200,659,988	2,378,765,628	989,132,939	20,272,552,440
Total maturity of liabilities	¢	-	1,346,481,386,630	165,374,319,219	118,676,410,606	74,666,139,578	354,758,584,109	277,185,756,674	2,391,983,386,033
Difference	¢	117,821,619,807	(936,931,512,004)	(61,204,836,151)	(71,318,771,145)	(49,011,491,033)	(232,677,882,656)	24,235,131,680	410,352,025,984

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of March 31, 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	¢	-	113,420,806,366	-	-	-	-	-	113,611,405,924
Minimum cash reserve in BCCR		-	169,917,588,444	-	-	-	-	-	169,917,588,444
Investments		-	-	10,100,180,648	6,844,974,847	10,184,883,367	24,764,258,856	56,058,106,611	264,073,097,106
Loan portfolio		50,728,224,483	442,314,858	15,501,948,576	33,306,828,560	13,562,334,832	36,430,843,173	40,383,383,330	884,720,051,642
Total recovery of assets	¢	50,728,224,483	283,780,709,668	25,602,129,224	40,151,803,407	23,747,218,199	61,195,102,029	96,441,489,941	1,432,322,143,116
Obligations with the public	¢	-	682,391,794,027	90,767,807,069	71,156,040,845	48,439,087,605	127,456,104,207	51,707,022,360	1,083,339,376,166
Obligations with financial entities		-	79,863,346,707	960,194,680	62,700,985	31,544,198,877	41,407,215,126	14,982,686,817	345,343,218,143
Charges payable		-	903,961,235	658,013,340	666,285,712	1,888,953,478	850,475,278	234,118,712	5,237,430,154
Total maturity of liabilities	¢	-	763,159,101,969	92,386,015,089	71,885,027,542	81,872,239,960	169,713,794,611	66,923,827,889	1,433,920,024,463
Difference	¢	50,728,224,483	(479,378,392,301)	(66,783,885,865)	(31,733,224,135)	(58,125,021,761)	(108,518,692,582)	29,517,662,052	(1,597,881,347)

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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 99% confidence level								
	All movements		Withdrawals >Contributions		Extreme values		Extreme values	
	Feb	Mar	Feb	Mar	Feb	Mar	Feb	Mar
ROP	0.61%	0.60%	0.31%	0.31%	0.80%	0.79%	5.40%	4.10%
FCL	0.97%	0.97%	2.28%	2.25%	17.21%	19.84%	7.40%	2.60%
NOT	0.09%	0.09%	0.22%	0.21%	0.32%	0.32%	0.60%	1.20%
FPCA	0.79%	0.79%	1.20%	1.20%	3.01%	3.00%	3.00%	2.30%
FPCB	0.47%	0.49%	1.32%	1.32%	1.85%	2.34%	6.00%	4.50%
FPDA	1.38%	1.38%	3.00%	3.00%	7.61%	7.60%	4.50%	4.10%
FPDE	0.65%	0.76%	1.15%	1.84%	3.15%	3.43%	2.20%	2.70%

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 1.38%. 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 March 31, 2014, the VaR of such funds locates at 19.84% and 7.60%, 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.

Until November 2013, the Bank held a special type of instrument in its investment portfolio called Auction Rate Securities (ARS), which are typically traded through auctions. As a result of the global crisis, those securities became substantially illiquid in the U.S. market, where they are principally traded. Consequently, and due to the lack of price formation, the Mathematical Modeling Division (RiMer) of the Corporate Risk Division developed an internal valuation method for these investments, which was followed-up on monthly. However, CONASSIF issued a notice on December 9, 2009 instructing to book those instruments at 93.18% of their face value based on the "principle of prudence", thus dismissing a motion for reconsideration filed by the Bank to adopt the aforementioned method. However, the Bank began to sell these instruments in November 2013 and the last ARS was sold in November 25 of that year for US\$4.7 million.

As of March 31, 2014, investments in Z Bonds related to the Mortgage Securitization Trust in the amount of ¢58,366,823 (2013: ¢205,464,240) equivalent to US\$417,000 (2013: equivalent to US\$417,000) were valued at 74% of their face value (impairment of 26%). As of March 31, 2013, investments in ARSs in the amount of ¢7,834,248,000, equivalent to US\$15,900,000, were valued at 93.18% of their face value (impairment of 6.82%).

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.

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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.

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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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 March 31, the VaR of the Investment Fund Manager's portfolio is as follows:

	2014	2013
VaR (95% confidence level)	1.11%	0.88%
VaR (99% confidence level)	1.59%	1.41%

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 March 31, 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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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.

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 VeR, 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 VeR 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 March 31, 2014, the assets managed by the Pension Fund Manager amount to a total of ¢768,745 million (2013 ¢660,571.54 million). That amount is distributed in the following funds: ROP, FCL, FPC A, FPC B, FPD A, FPD B, NOT and OPC. ROP represents 80.19% of the balance managed.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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.

For example, in the case of the ROP fund, as of March 2014, such indicator located at 4.76%, which implies a decrease of 0.94%, in absolute terms with respect to the VaR as of March 2013. The increase in the most recent month is due to the fact that, once the instruments draw near the year 2022 achieve nominal returns of approximately 10%, they become especially attractive, taking into account a medium-term inflation expectation of approximately 5%. Therefore, a decision was made to invest a portion of the funds in such terms, which increases the portfolio VaR and return.

In the case of the Pension Fund Manager's own funds, the consolidated VaR increased in 2012, starting at 3.42% in January 2012. Subsequently, it increased at year-end and reached its maximum value in January 2013 at 6.03%. Since then, the consolidated VaR has presented a downward trend, locating at March 31, 2014 at 2.40%, which implies a decrease in absolute terms of 1.42% with respect to the 3.81% reported at March 31, 2013.

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 March 2014 close, the interest rate risk indicator in local and foreign currency closed considerably below SUGEF's regulatory maximum limit of 5%, at 0.12% (2013: 0.62%) and 0.06% (2013: 0.01%), respectively.

Fair value hedge

Fair value hedges are recognized as follows:

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

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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.

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 March 31, 2014, the Bank booked under “Other sundry accounts payable” a decrease in the fair value of this hedge in the amount of US\$3,028,164, equivalent to ¢1,630,181,711 (December 2013: US\$20,209,760, equivalent to ¢US\$10,004,033,392) and (March 2013: US\$15,308 equivalent to ¢7,542,651).

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 March 31, 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	¢	8,967,527,612	13,462,285,810	34,955,623,033	138,789,696,922	146,847,174,678	139,528,586,680	482,550,894,735
Loan portfolio		1,633,473,633,934	100,836,201,324	7,838,415,229	5,003,950,607	8,775,322,735	58,852,633,908	1,814,780,157,737
Total recovery of rate-sensitive assets LC (A)	¢	1,642,441,161,546	114,298,487,134	42,794,038,262	143,793,647,529	155,622,497,413	198,381,220,588	2,297,331,052,472
Obligations with the public	¢	237,606,054,450	164,036,508,510	331,321,442,695	171,062,653,354	16,043,188,301	27,738,208,439	947,808,055,749
Obligations with BCCR		22,000,015,292	2,990,678	10,866,763	11,033,977	22,394,329	149,054,657	22,196,355,696
Obligations with financial entities	¢	10,052,223,751	171,747,861	128,446,328	308,762,980	560,155,911	626,803,098	11,848,139,929
Total maturity of rate-sensitive liabilities LC (B)	¢	269,658,293,493	164,211,247,049	331,460,755,786	171,382,450,311	16,625,738,541	28,514,066,194	981,852,551,374
LC difference, recovery of assets less maturity of liabilities (A - B)	¢	1,372,782,868,053	(49,912,759,915)	(288,666,717,524)	(27,588,802,782)	138,996,758,872	169,867,154,394	1,315,478,501,098
<i>Foreign currency (FC)</i>								
Investments	¢	832,783,295	17,702,717,027	30,436,474,512	100,162,847,282	86,857,256,966	151,612,291,454	387,604,370,536
Loan portfolio		1,075,929,774,905	41,569,234,469	7,819,717,227	1,109,358,374	7,389,923,808	84,107,896,882	1,217,925,905,665
Total recovery of rate-sensitive assets FC (C)	¢	1,076,762,558,200	59,271,951,496	38,256,191,739	101,272,205,656	94,247,180,774	235,720,188,336	1,605,530,276,201
Obligations with the public	¢	97,592,468,521	144,998,309,182	149,311,360,508	33,701,442,550	2,139,502,386	534,028,502,286	961,771,585,433
Obligations with entities		2,290,088,993	1,311,898,447	35,381,623,088	2,990,663,787	5,919,239,976	245,544,953,331	293,438,467,622
Total maturity of rate-sensitive liabilities FC (D)	¢	99,882,557,514	146,310,207,629	184,692,983,596	36,692,106,337	8,058,742,362	779,573,455,617	1,255,210,053,055
FC difference, recovery of assets less maturity of liabilities (C - D)	¢	976,880,000,686	(87,038,256,133)	(146,436,791,857)	64,580,099,319	86,188,438,412	(543,853,267,281)	350,320,223,146
Total recovery of rate-sensitive assets 1/ (A + C)	¢	2,719,203,719,746	173,570,438,630	81,050,230,001	245,065,853,185	249,869,678,187	434,101,408,924	3,902,861,328,673
Total maturity of rate-sensitive liabilities 2/ (B + D)	¢	369,540,851,007	310,521,454,678	516,153,739,382	208,074,556,648	24,684,480,903	808,087,521,811	2,237,062,604,429
LC + FC difference, recovery of assets less maturity of liabilities (item 1 – item 2)	¢	2,349,662,868,739	(136,951,016,048)	(435,103,509,381)	36,991,296,537	225,185,197,284	(373,986,112,887)	1,665,798,724,244

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As of March 31, 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	¢	65,564,511,899	29,847,199,106	66,235,322,593	228,914,502,558	104,033,343,605	117,016,056,130	611,610,935,891
Loan portfolio		1,472,993,832,660	84,272,200,646	5,190,240,695	7,646,089,627	7,362,752,503	59,038,194,619	1,636,503,310,750
Total recovery of rate-sensitive assets								
LC (A)	¢	1,538,558,344,559	114,119,399,752	71,425,563,288	236,560,592,185	111,396,096,108	176,054,250,749	2,248,114,246,641
Obligations with the public	¢	200,717,545,609	165,292,547,270	348,901,692,540	275,482,626,933	34,450,058,785	24,504,655,612	1,049,349,126,749
Obligations with BCCR		29,299,923	85,017	10,866,537	11,038,267	22,402,172	170,867,690	244,559,606
Obligations with financial entities		41,387,985	97,605,205	128,820,455	310,297,953	565,104,596	1,119,861,932	2,263,078,126
Total maturity of rate-sensitive liabilities								
LC (B)	¢	200,788,233,517	165,390,237,492	349,041,379,532	275,803,963,153	35,037,565,553	25,795,385,234	1,051,856,764,481
LC difference, recovery of assets less maturity of liabilities (A - B)	¢	1,337,770,111,042	(51,270,837,740)	(277,615,816,244)	(39,243,370,968)	76,358,530,555	150,258,865,515	1,196,257,482,160
<i>Foreign currency (FC)</i>								
Investments	¢	10,092,018,433	17,029,857,694	24,772,421,928	56,058,105,843	25,394,768,422	130,725,924,390	264,073,096,710
Loan portfolio		729,744,849,006	57,789,288,466	4,216,871,276	2,373,743,314	3,448,641,256	36,605,240,210	834,178,633,528
Total recovery of rate-sensitive assets FC								
(C)	¢	739,836,867,439	74,819,146,160	28,989,293,204	58,431,849,157	28,843,409,678	167,331,164,600	1,098,251,730,238
Obligations with the public	¢	100,120,570,086	113,633,782,861	129,801,505,642	52,068,526,370	7,038,762,852	4,628,168,184	407,291,315,995
Obligations with entities		3,067,543,400	34,484,745,383	46,242,685,601	27,307,056,617	17,761,161,277	137,012,446,024	265,875,638,302
Total maturity of rate-sensitive liabilities								
FC (D)	¢	103,188,113,486	148,118,528,244	176,044,191,243	79,375,582,987	24,799,924,129	141,640,614,208	673,166,954,297
FC difference, recovery of assets less maturity of liabilities (C - D)	¢	636,648,753,953	(73,299,382,084)	(147,054,898,039)	(20,943,733,830)	4,043,485,549	25,690,550,392	425,084,775,941
Total recovery of rate-sensitive assets 1/ (A + C)	¢	2,278,395,211,998	188,938,545,912	100,414,856,492	294,992,441,342	140,239,505,786	343,385,415,349	3,346,365,976,879
Total maturity of rate-sensitive liabilities 2/ (B + D)	¢	303,976,347,003	313,508,765,736	525,085,570,775	355,179,546,140	59,837,489,682	167,435,999,442	1,725,023,718,778
LC + FC difference, recovery of assets less maturity of liabilities (item 1 – item 2)	¢	1,974,418,864,995	(124,570,219,824)	(424,670,714,283)	(60,187,104,798)	80,402,016,104	175,949,415,907	1,621,342,258,101

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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 March 2014, that indicator was quantified at 0.05%, which is below the 0.19% calculated for March 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 €43.2 million as of March 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 €40 million. The main issuers are Holland (30%), France (20%), Germany (19%) and Belgium (8%)

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- Most issuers comprising this portfolio are sovereign issuers with very high credit ratings.
- This portfolio shows the lowest VaR. VaR of fair value was 0.28% and duration locates at 1.45. VaR and duration present no significant changes with respect to the December 2013 year-end.
- The entire portfolio bears interest at a fixed rate. Of the total portfolio, 44% 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 \$158 million as of March 2014, 35% (\$452 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 24%. In the last quarter of 2013, the share of U.S. securities (treasury and corporate) 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 share of the Barclays note decreased to 12% in the first quarter of 2014.

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)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

		U.S. dollars	
		March 2014	March 2013
Assets:			
Cash and due from banks	US\$	906,683,178	549,913,249
Investments in financial instruments		656,805,934	482,166,473
Loan portfolio		2,319,137,218	1,772,294,597
Accounts and accrued interest receivable		389,457	97,760,215
Investments in other companies		86,046,485	78,354,097
Other assets		4,727,318	865,391
Total assets	US\$	<u>3,973,789,590</u>	<u>2,981,354,022</u>
Liabilities:			
Obligations with the public	US\$	2,143,071,768	2,133,203,339
Obligations with entities		1,820,021,170	699,533,377
Accounts payable and provisions		16,549,920	9,553,221
Other liabilities		19,181,206	15,350,558
Total liabilities	US\$	<u>3,998,824,064</u>	<u>2,857,640,495</u>
Excess of assets over liabilities in U.S. dollars	US\$	<u>(25,034,474)</u>	<u>123,713,527</u>

		Euros	
		March 2014	March 2013
Assets:			
Cash and due from banks	€	15,793,488	19,983,694
Investments in financial instruments		45,713,609	41,160,392
Accounts and accrued interest receivable		11	119
Other assets		-	61,144,925
Total assets	€	<u>61,507,108</u>	<u>122,289,130</u>
Liabilities:			
Obligations with the public	€	51,055,114	55,699,830
Obligations with entities		6,898,787	4,949,220
Accounts payable and provisions		122,942	106,612
Other liabilities		-	7,300
Total liabilities	€	<u>58,076,843</u>	<u>60,762,962</u>
Excess (deficit) of assets over liabilities in euros	€	<u>3,430,265</u>	<u>61,526,168</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

		DU	
		March 2014	March 2013
Assets:			
Investments in financial instruments	DU	39,085,959	49,347,715
Loan portfolio		49,966,962	62,415,658
Total assets	DU	89,052,921	111,763,373
Liabilities:			
Obligations with the public		-	-
Accounts payable and provisions		1,128,782	1,197,753
Other liabilities		8,590	8,772
Total liabilities	DU	1,137,372	1,206,525
Excess of assets over liabilities in DU	DU	87,915,549	110,556,848

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 March 31, 2014 and 2013, the financial statements show a net foreign exchange loss of ¢2,399,312,717 and a net foreign exchange gain of ¢2,083,189,192, 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)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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 March 31, 2014, 2.17% 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, 10.37%, 0.73%, 0.85%, and 12.43% 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:

- definition of operational risk and best practices;
- objectives of the operational risk function;

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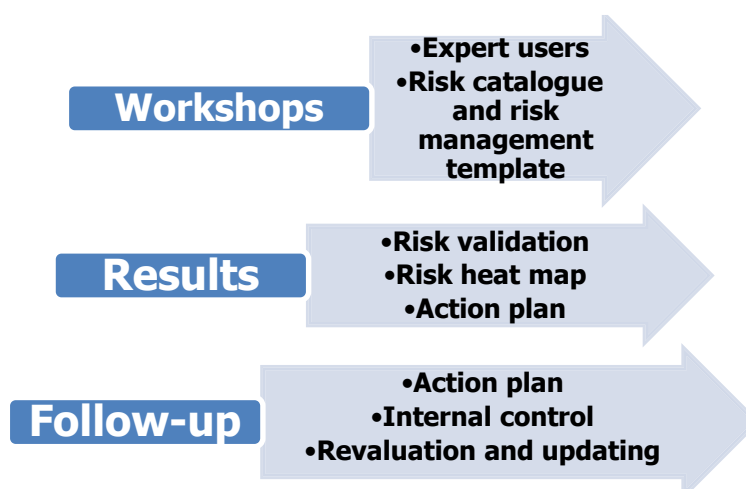
BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- the Bank's principles for operational risk management;
- roles and relationships; and
- specific framework for legal risk management.

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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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- 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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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- 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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

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 March 31, 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 March 31, 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	200	221	First instance	¢ 251,102,310,796	223,992,586,946
	11	17	Second instance	321,437,577	260,829,461
	7	9	Appeal	7,006,148,000	759,607,173
	218	247	Subtotal	¢ 258,429,896,373	225,013,023,580
Pension Fund Manager	1	1	Second instance	10,766,800	9,854,400
	1	1	Second instance	¢ 226,745	145,311
Investment Fund Manager	220	249	Total (note 20)	¢ 258,440,889,918	225,023,023,291

As of March 31, 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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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

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As of March 31, 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
35	59	First instance	¢ 1,084,080,399	10,391,352,438
1	2	Second instance	150,000,000	151,248,388
-	5	Appeal	-	759,607,173
36	66	Total	¢ 1,234,080,399	11,302,207,999

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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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

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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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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- *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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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

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)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

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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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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). SUGEVAL 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

SUGEVAL 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 SUGEVAL Directive 1-05 and that the allowance for loan losses be determined based on that classification. It also allows excess allowances to be booked. This Standard requires that the allowance for loan losses be determined based on a financial analysis of actual losses. This Standard also prohibits the booking of provisions for contingent accounts. Any excess allowance must be reversed in the income statement.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

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 AND SUBSIDIARIES

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 AND SUBSIDIARIES

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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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of March 31, FFD's financial statements are as follows:

Development Financing Fund Balance Sheet As of March 31, 2014 (With corresponding figures for 2013)		
<u>Assets</u>	March 2014	March 2013
Loan portfolio	¢ 11,312,857,233	9,264,951,457
Current	10,304,422,513	8,482,592,829
Past due	771,930,119	675,316,126
Legal collections	364,902,433	258,615,130
Accrued interest receivable	82,573,477	63,416,162
(Allowance for loan impairment)	(210,971,309)	(214,988,790)
Accounts receivable	2,839,465	-
Other assets	2,005,356,171	559,486,558
Total assets	¢ <u>13,321,052,869</u>	<u>9,824,438,015</u>
<u>Liabilities</u>		
Accounts payable and provisions	¢ 21,970,322	18,735,306
Other liabilities	24,776,372	23,519,060
Total liabilities	¢ <u>46,746,694</u>	<u>42,254,366</u>
<u>Equity</u>		
Equity of FFD (note 19-a)	¢ 13,007,081,986	9,648,736,241
Income for the year	267,224,189	133,447,408
Total equity	¢ <u>13,274,306,175</u>	<u>9,782,183,649</u>
Total liabilities and equity	¢ <u>13,321,052,869</u>	<u>9,824,438,015</u>
Other debit memoranda accounts	¢ <u>522,129,058</u>	<u>270,954,056</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Development Financing Fund
Income Statement
Three month period ended March 31, 2014
(With corresponding figures for 2013)

	March 2014	March 2013
Finance income	¢ 302,482,027	297,460,927
Income from recovery of assets and decrease in provisions	5,333,014	4,114,680
Expenses for allowance for impairment of assets	(1,989,332)	(137,763,959)
Gross finance income	305,825,709	163,811,648
Other operating income	10,284	44,137
Other operating expenses	(1,705,765)	(2,062,731)
Gross operating income	304,130,228	161,793,054
Administrative expenses	(36,906,039)	(28,345,646)
Income for the year	¢ 267,224,189	133,447,408

a. Loan portfolio

i. Loan portfolio by sector

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

	March 2014	March 2013
Trade	¢ 3,806,625,610	3,721,579,930
Services	3,041,616,846	2,722,278,401
Manufacturing and quarrying	620,918,811	552,461,230
Agriculture and forestry	1,442,615,620	977,100,283
Livestock, hunting, and fishing	1,360,497,499	857,106,046
Transportation and telecommunications	948,719,155	395,263,304
Tourism	220,261,524	190,734,891
Total direct loans	11,441,255,065	9,416,524,085
Accrued interest receivable	82,573,477	63,416,162
Allowance for loan impairment	(210,971,309)	(214,988,790)
Total	¢ 11,312,857,233	9,264,951,457

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of March 31, 2014, interest rates on loans range between 8.16% and 14.05% per annum (average rate of 10.83% per annum) for operations in colones (2013: between 7.35% and 17% per annum, average rate of 11.63% per annum).

ii. Loan portfolio by arrears

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

	March 2014	March 2013
Current	¢ 10,317,407,888	8,482,592,829
1 to 30 days	239,419,454	298,136,095
31 to 60 days	479,864,977	319,076,676
61 to 90 days	57,246,905	58,103,355
91 to 120 days	5,614,247	29,381,607
121 to 180 days	99,976,714	147,431,649
More than 180 days	241,724,880	81,801,874
Total	¢ 11,441,255,065	9,416,524,085
Accrued interest receivable	82,573,477	63,416,162
Allowance for loan impairment	(210,971,309)	(214,988,790)
Total	¢ 11,312,857,233	9,264,951,457

iii. Loan portfolio by origin

As of March 31, the loan portfolio by origin is as follows:

	March 2014	March 2013
Loans originated by the Bank	¢ 11,441,255,065	9,416,524,085
Total direct loans	¢ 11,441,255,065	9,416,524,085
Accrued interest receivable	82,573,477	63,416,162
Allowance for loan impairment	(210,971,309)	(214,988,790)
Total	¢ 11,312,857,233	9,264,951,457

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

iv. Past due loans

As of March 31, 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:

		March 2014	March 2013
Past due loans in accrual status: 145 loans (2013: 128 loans)	¢	771,930,119	675,316,126
Loans in legal collections: 43 loans, 3.19% of portfolio (2013: 35 loans, 2.75% of portfolio)	¢	364,902,433	258,615,130
Total unearned interest	¢	3,553,569	746,166

For the 12 months ended March 31, 2014, the Bank increased the “Finance income on non-accrual loans” account by ¢3,553,569 (2013: ¢746,166), 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 March 31, 2014, restructured loans amount to a total of ¢70,208,043 (2013: ¢58,161,729).

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

As of March 31, accrued interest receivable is as follows:

		March 2014	March 2013
Current	¢	38,760,330	24,141,152
Past due		11,092,049	10,352,832
Legal collections		32,721,098	28,922,178
	¢	<u>82,573,477</u>	<u>63,416,162</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

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	
		March 2014	March 2013
Loan portfolio			
Principal	45-a	¢ 11,441,255,065	9,416,524,085
Accounts and accrued interest receivable		82,573,477	63,416,162
Carrying amount, gross		11,523,828,542	9,479,940,247
Allowance for loan impairment (accounting records)		(210,971,309)	(214,988,790)
Carrying amount, net	¢	11,312,857,233	9,264,951,457
Loan portfolio			
Total balances:			
A1	¢	9,609,290,297	8,282,988,898
A2		84,952,017	50,114,472
B1		596,110,233	350,921,202
B2		95,378,414	44,091,335
C1		290,707,001	265,799,338
C2		23,336,448	10,684,385
D		169,384,346	58,857,983
E		654,669,786	416,482,634
		11,523,828,542	9,479,940,247
Structural allowance (subledger – database)		(221,668,896)	(219,026,215)
Carrying amount, net	¢	11,302,159,646	9,260,914,032

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

		Direct	
		March 2014	March 2013
Individually assessed loans with allowance:			
A1	¢	9,609,290,297	3,511,736,789
A2		84,952,017	46,403,860
B1		596,110,233	80,664,944
B2		95,378,414	44,091,335
C1		290,707,001	98,377,454
C2		23,336,448	10,684,385
D		169,384,346	52,680,993
E		654,669,786	380,038,979
		<u>11,523,828,542</u>	<u>4,224,678,739</u>
Structural allowance (subledger – database)		(221,668,896)	(219,026,215)
Carrying amount, net	¢	<u>11,302,159,646</u>	<u>4,005,652,524</u>
Past due loans without allowance:			
A1	¢	-	179,290,222
B1		-	183,240,693
B2		-	-
C1		-	32,331,897
C2		-	-
D		-	-
E		-	24,202,828
Carrying amount	¢	<u>-</u>	<u>419,065,640</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	Note	Direct	
		March 2014	March 2013
Aging of loan portfolio			
1 – 30 days	¢	-	195,445,364
31 – 60 days		-	174,970,485
61 – 90 days		-	35,534,984
91 – 180 days		-	487,585
More than 180 days		-	12,627,222
Carrying amount	¢	-	419,065,640
Current loans without allowance:			
A1	¢	-	4,591,961,887
A2		-	3,710,612
B1		-	87,015,565
C1		-	135,089,987
D		-	6,176,990
E		-	12,240,827
Carrying amount	¢	-	4,836,195,868
Carrying amount, gross		11,523,828,542	9,479,940,247
Allowance for loan impairment (database)		(221,668,896)	(219,026,215)
(Excess) insufficiency of allowance over structural allowance		10,697,587	4,037,425
Carrying amount, net	45-a ¢	11,312,857,233	9,264,951,457
Restructured loans	45-a ¢	70,208,043	58,161,729

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:

		March 2014	
		Loans to customers	
		Gross	Net
A1	¢	9,609,290,297	9,618,066,026
A2		84,952,017	84,935,026
B1		596,110,233	588,459,953
B2		95,378,414	93,757,967
C1		290,707,001	277,246,221
C2		23,336,448	21,788,402
D		169,384,346	143,466,665
E		654,669,786	485,136,973
	¢	11,523,828,542	11,312,857,233

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 2013		
Loans to customers		
	Gross	Net
A1	¢ 8,282,988,898	8,275,983,537
A2	50,114,472	49,441,394
B1	350,921,202	348,644,601
B2	44,091,335	42,087,755
C1	265,799,338	256,065,339
C2	10,684,385	8,342,192
D	58,857,983	46,679,954
E	416,482,634	237,706,685
	¢ 9,479,940,247	9,264,951,457

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.

	March 2014	March 2013
More than 180 days	¢ -	12,627,222

Restructured loans:

As of March 31, restructured loans are as follows:

	March 2014	March 2013
Restructured loans	¢ 70,208,043	58,161,729

Borrower classification

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

	March 2014	March 2013
Borrower classification:		
Group 1	¢ 550,876,886	333,500,340
Group 2	10,972,951,656	9,146,439,907
	¢ 11,523,828,542	9,479,940,247

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

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>March 2014</u>	<u>March 2013</u>
A1	30 days or less	¢ 9,609,290,297	8,282,988,897
A2	60 days or less	84,952,017	50,114,472
B1	60 days or less	596,110,233	350,921,202
B2	60 days or less	95,378,414	44,091,335
C1	90 days or less	290,707,001	265,799,338
C2	90 days or less	23,336,448	10,684,385
D	120 days or less	169,384,346	58,857,983
E	More than 120 days or other factors	654,669,786	416,482,635
		¢ <u>11,523,828,542</u>	<u>9,479,940,247</u>

Loan portfolio by sector

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

<u>Sector</u>	<u>March 2014</u>	<u>March 2013</u>
Agriculture and forestry	¢ 1,464,789,887	989,145,777
Livestock, hunting, and fishing	1,382,387,586	869,104,739
Manufacturing and quarrying	623,357,794	558,626,185
Trade	3,829,354,403	3,741,534,983
Transportation and telecommunications	953,067,543	396,395,671
Services	3,050,062,778	2,733,413,237
Tourism	220,808,551	191,719,655
	¢ <u>11,523,828,542</u>	<u>9,479,940,247</u>

Loan portfolio by geographic area

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

	<u>March 2014</u>	<u>March 2013</u>
Central America	¢ <u>11,523,828,542</u>	<u>9,479,940,247</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Loan portfolio by type of guarantee

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

Guarantee		March 2014	March 2013
Back to back	¢	14,224,505	18,388,732
Mortgage bond		-	2,504,113
Assignment of loans		31,233,958	4,714,708
Mortgage		6,692,188,710	5,715,669,940
Surety		3,378,374,525	3,171,200,200
Trust		131,637,111	132,238,058
Securities		100,882,038	32,703,990
Chattel mortgage		1,145,883,230	389,519,913
Other		29,404,465	13,000,593
	¢	<u>11,523,828,542</u>	<u>9,479,940,247</u>

Loan portfolio by individual borrower or economic interest group

As of March 31, the concentration of the loan portfolio by individual borrower or economic interest group is as follows:

Loan portfolio concentration		March 2014	March 2013
¢1 to ¢3,000,000	¢	1,510,551,065	1,565,401,866
¢3,000,001 to ¢15,000,000		5,144,635,161	4,706,006,675
¢15,000,001 to ¢30,000,000		2,304,492,868	1,769,621,190
¢30,000,001 to ¢50,000,000		1,693,667,931	1,100,220,587
¢50,000,001 to ¢75,000,000		870,481,517	338,689,929
	¢	<u>11,523,828,542</u>	<u>9,479,940,247</u>

(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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- ii. Private banks must open at least four agencies or branches distributed throughout the Chorotega, Central Pacific, Brunca, Atlantic Huetar, and Nothern 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.

As of March 31, 2014, FCD's financial statements are as follows:

Development Credit Fund
Balance Sheet
As of March 31, 2014

<u>Assets</u>	March 2014	March 2013
Investments in financial instruments	¢ 138,264,845,326	109,285,366,309
Accounts and accrued interest receivable	15,472,049	1,614,181
Other assets	1,663,035,034	11,291,655,691
Total assets	¢ 139,943,352,409	120,578,636,181
<u>Liabilities</u>		
Obligations with entities	¢ 139,387,431,913	119,543,057,177
Accounts payable and provisions	8,813,270	193,606,346
Other liabilities	-	792,951,997
Total liabilities	¢ 139,396,245,183	120,529,615,520
<u>Equity</u>		
Equity adjustments	¢ (23,655,984)	9,348,904
Prior period retained earnings	503,798,027	-
Income for the year	66,965,183	39,671,757
Total equity	¢ 547,107,226	49,020,661
Total liabilities and equity	¢ 139,943,352,409	120,578,636,181

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Development Credit Fund

Income Statement

For the three month period ended March 31, 2014

	March 2014	March 2013
Finance income	¢ 8,203,796,137	743,042,593
Finance expense	(7,589,963,836)	(501,385,087)
Gross finance income	613,832,301	241,657,506
Other operating expenses	(546,867,118)	(201,985,749)
Income for the year	¢ 66,965,183	39,671,757

a. Investments in financial instruments

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

	March 2014	March 2013
Available for sale	¢ 137,409,211,444	107,444,516,004
Accrued interest receivable	855,633,882	1,840,850,305
	¢ 138,264,845,326	109,285,366,309

	March 2014	March 2013
<i>Available for sale:</i>		
<u>Local issuers:</u>		
Government of Costa Rica	¢ 65,297,019,413	69,504,484,532
BCCR	16,405,655,250	-
State-owned banks	1,075,588,513	12,721,533,856
	82,778,263,176	82,226,018,388
<u>Foreign issuers:</u>		
Governments	18,033,916,127	14,288,755,925
Private issuers	28,357,512,340	-
Private Banks	8,239,519,800	10,929,741,690
Subtotal	54,630,948,267	25,218,497,615
Accrued interest receivable on investments	855,633,883	1,840,850,306
	¢ 138,264,845,326	109,285,366,309

As of March 31, 2014, returns on investments in financial instruments range between 0.00% and 9.20% per annum in colones (2013: 6.05% and 9.75%), between 0.00% and 5.15% per annum in U.S. dollars (2013: 0.00% and 7.10%) and are established at 0.63% per annum for securities in euros (2013: 0.00%).

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of March 31, 2014, valuation of available-for-sale investments gave rise to an unrealized loss, net of deferred tax, in the amount of ¢29,713,001 (2013: unrealized gain ¢53,368,985), 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

As of March 31, finance income is as follows:

	March 2014	March 2013
Accrued interest on investments in available-for-sale securities ¢	1,038,831,868	216,286,657
Foreign exchange differences on other financial obligations	40,334,337	525,980,740
Foreign exchange differences on investments in financial instruments	7,090,401,740	106,267
Realized gain on available-for-sale financial instruments	34,228,193	668,928
	<u>¢ 8,203,796,138</u>	<u>743,042,592</u>

d. Finance expense

As of March 31, finance expense is as follows:

	March 2014	March 2013
Demand obligations with financial entities ¢	434,009,692	77,909,579
Foreign exchange differences on other financial obligations	7,065,386,820	-
Foreign exchange differences on investments in financial instruments	90,377,481	423,475,508
	<u>¢ 7,589,773,993</u>	<u>501,385,087</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

e. Other operating expenses

As of March 31, other operating expenses are as follows:

		<u>March 2014</u>	<u>March 2013</u>
Fees and commissions for brokerage services	¢	34,442,444	1,031,882
Fees and commissions for custodial services of financial instruments		12,920,593	-
Income tax (8%) on interest on investments in financial instruments		82,845,567	17,110,209
Transfer to FINADE (1)		<u>416,658,514</u>	<u>183,843,659</u>
	¢	<u>546,867,118</u>	<u>201,985,750</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 ¢228,270,966) to FOFIDE; 37% (equivalent to ¢141,787,110) to the Surety Fund; and 1% (equivalent to ¢46,600,438) 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:

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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.

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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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.

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 Financial-Accounting Information System (SIFCO) 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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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.

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).

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

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

Various technical tools are used to provide other angles for the analysis, 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.

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

		<u>March 2014</u>	<u>March 2013</u>
<i>U.S. dollars</i>			
<u>Assets:</u>			
Investments in financial instruments	US\$	157,177,335	129,277,177
Other assets	US\$	1,456,441	20,219,035
Total assets	US\$	<u>158,633,776</u>	<u>149,496,212</u>
<u>Liabilities:</u>			
Obligations with entities	US\$	158,210,351	149,274,932
Total liabilities	US\$	<u>158,210,351</u>	<u>149,274,932</u>
Excess of assets over liabilities in U.S. dollars	US\$	<u>423,425</u>	<u>221,280</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	<u>March 2014</u>	<u>March 2013</u>
<i>Euros</i>		
<u>Assets:</u>		
Investments in financial instruments	€ 3,215,472	1,649,851
Other assets	378,759	2,112,398
Total assets	€ <u>3,594,231</u>	<u>3,762,249</u>
<u>Liabilities:</u>		
Obligations with entities	€ 3,636,695	3,694,612
Total liabilities	€ <u>3,636,695</u>	<u>3,694,612</u>
Excess (deficit) of assets over liabilities in euros	€ <u>(42,464)</u>	<u>67,637</u>

As of March 31, assets and liabilities in local and foreign currency are as follows:

<u>Assets</u>	<u>March 2014</u>	<u>March 2013</u>
<i>Local currency:</i>		
Financial instruments from BCCR – own resources	¢ 16,405,655,250	-
Financial instruments from the local non-financial public sector	34,461,706,792	42,748,379,000
Financial instruments from the local financial entities – own resources	-	392,576,670
Accrued interest receivable associated to investments in financial instruments	393,830,699	1,408,708,438
Deferred tax	15,472,049	1,614,181
Balances with other departments	51,097,207,996	-
Total assets in local currency	<u>102,373,872,786</u>	<u>44,551,278,289</u>
<i>Foreign currency:</i>		
Financial instruments from the local non-financial public sector - own resources	¢ 30,835,312,266	26,756,105,529
Financial instruments from local financial entities - own resources	1,075,588,564	12,328,957,240
Financial instruments from central banks and foreign public sector entities - own resources	33,901,959,876	16,727,734,213
Financial instruments from foreign financial entities - own resources	20,728,988,961	8,490,763,397
Accrued interest receivable associated to investments in financial instruments	461,802,917	432,141,820
Balances with other departments	80,831,177,421	11,291,655,691
Total assets in foreign currency	<u>167,834,830,005</u>	<u>76,027,357,890</u>
Total	¢ <u>270,208,702,791</u>	<u>120,578,636,179</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

<u>Liabilities</u>		<u>March 2014</u>	<u>March 2013</u>
<i>Local currency:</i>			
Obligations for management of FCD	¢	51,514,733,724	43,667,292,929
Deferred tax		8,813,270	9,762,687
Balances with other departments		50,499,618,184	792,951,997
Total liabilities in local currency		<u>102,023,165,178</u>	<u>44,470,007,613</u>
<i>Foreign currency:</i>			
Obligations for management of FCD	¢	87,872,698,189	73,550,745,155
Reciprocal accounts		79,765,732,198	-
Total liabilities in foreign currency		<u>167,638,430,387</u>	<u>73,550,745,155</u>
Total liabilities	¢	<u>269,661,595,565</u>	<u>118,020,752,768</u>

(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.

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BANCO NACIONAL DE COSTA RICA

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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.

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 year ended December 31, 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	¢ <u>94,065,358,756</u>	<u>41,081,698,984</u>	<u>68,243,730,027</u>	<u>43,457,750,120</u>	<u>37,168,486,790</u>	<u>(14,054,480,433)</u>	<u>43,457,750,120</u>
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	¢ <u>69,112,146,159</u>	<u>53,232,416,675</u>	<u>58,573,987,026</u>	<u>25,141,909,678</u>	<u>42,149,136,979</u>	<u>(3,368,193,706)</u>	<u>25,141,909,678</u>