

**BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES**

Financial Information Required by the  
Superintendency General of Financial Entities

Consolidated Financial Statements

September 30, 2015

*(With corresponding figures for 2014)*

*(With Independent Auditors' 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 SEPTEMBER 30, 2015 AND DECEMBER AND SEPTEMBER 2014**  
(In colones)

	Note	September 2015	December 2014	September 2014
<b>ASSETS</b>				
<b>Cash and due from banks</b>	<b>4</b>	<b>813,943,459,272</b>	<b>829,976,580,984</b>	<b>839,291,043,735</b>
Cash		65,659,092,757	69,196,626,393	57,582,378,998
Demand deposits in BCCR		625,121,103,557	576,311,012,910	584,708,061,080
Demand deposits in local financial entities		5,400,216,655	14,736,219,049	8,928,529,640
Demand deposits in foreign financial entities		108,558,782,910	163,881,119,963	177,049,198,672
Other cash and due from banks		9,204,262,330	5,851,602,669	11,022,741,840
Accounts and accrued interest receivable		1,063	-	133,505
<b>Investments in financial instruments</b>	<b>5</b>	<b>1,187,555,743,967</b>	<b>1,100,793,001,081</b>	<b>995,925,689,972</b>
Available for sale		1,129,765,253,180	1,052,451,509,868	953,800,904,189
Held to maturity		27,188,241,745	27,328,967,634	27,352,369,243
Derivative financial instruments - Position gap		21,697,958,692	11,281,570,780	5,517,107,882
Accounts and accrued interest receivable		8,987,691,792	9,791,452,357	9,316,811,416
(Allowance for impairment of investments in financial instruments)		(83,401,442)	(60,499,558)	(61,502,758)
<b>Loan portfolio</b>	<b>6</b>	<b>3,502,818,146,475</b>	<b>3,303,451,574,458</b>	<b>3,199,718,143,036</b>
Current		3,326,159,219,469	3,142,775,035,799	3,021,584,222,510
Past due		130,807,008,226	116,679,181,039	136,446,101,547
Legal collections		82,230,170,323	72,120,002,831	69,054,174,709
Accounts and accrued interest receivable		25,256,781,577	21,715,928,888	21,453,458,290
(Allowance for loan impairment)		(61,635,033,120)	(49,838,574,099)	(48,819,814,020)
<b>Accounts and fees and commissions receivable</b>	<b>7</b>	<b>2,842,757,736</b>	<b>3,140,260,913</b>	<b>4,525,169,340</b>
Fees and commissions receivable		1,023,648,612	1,011,708,508	858,350,952
Accounts receivable for brokerage operations		37,957,126	9,121,769	191,545,634
Accounts receivable for transactions with related parties		85,744,231	27,589,166	343,458,042
Deferred tax and income tax receivable		3,759,504,315	4,291,459,910	4,214,191,637
Other receivables		3,775,742,354	3,159,168,189	3,250,355,753
Accrued interest receivable		1,830,738	2,572,781	1,880,814
(Allowance for impairment of accounts and fees and commissions receivable)		(5,841,669,640)	(5,361,359,410)	(4,334,613,492)
<b>Foreclosed assets</b>	<b>8</b>	<b>17,521,083,339</b>	<b>19,355,058,030</b>	<b>18,361,199,988</b>
Assets and securities acquired in lieu of payment		78,484,156,005	76,541,792,707	74,714,151,470
Other foreclosed assets		1,770,510	1,756,777	1,756,777
(Allowance for impairment of foreclosed assets and per legal requirements)		(60,964,843,176)	(57,188,491,454)	(56,354,708,259)
<b>Investments in other companies</b>	<b>9</b>	<b>53,075,748,822</b>	<b>49,855,779,811</b>	<b>48,928,763,682</b>
<b>Property and equipment, net</b>	<b>10</b>	<b>183,067,677,673</b>	<b>167,465,656,710</b>	<b>164,286,460,501</b>
<b>Other assets</b>	<b>11</b>	<b>40,901,357,365</b>	<b>51,682,157,293</b>	<b>50,028,580,653</b>
Deferred charges		16,157,010,925	21,658,093,393	19,964,209,111
Intangible assets		4,051,791,159	4,502,747,244	3,455,899,440
Other assets		20,692,555,281	25,521,316,656	26,608,472,102
<b>TOTAL ASSETS</b>		<b>5,801,725,974,649</b>	<b>5,525,720,069,280</b>	<b>5,321,065,050,907</b>

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEET  
AS OF SEPTEMBER 30, 2015 AND DECEMBER AND SEPTEMBER 2014  
(In colones)

LIABILITIES AND EQUITY	Note	September 2015	December 2014	September 2014
<b>LIABILITIES</b>				
<b>Obligations with the public</b>	12	3,889,335,033,355	3,710,752,140,528	3,557,091,431,696
Deposits and other demand obligations		2,315,405,530,369	2,272,307,002,207	2,119,815,715,659
Deposits and other term obligations		1,520,555,874,739	1,388,059,529,970	1,387,090,243,597
Other obligations		31,571,893,580	31,028,841,773	31,652,140,140
Charges payable		21,801,734,667	19,356,766,578	18,533,332,300
<b>Obligations with BCCR</b>	13	125,644,412	182,746,931	182,520,293
Term obligations		125,644,412	182,452,312	182,498,392
Charges payable		-	294,619	21,901
<b>Obligations with entities</b>	14	1,155,198,728,396	1,089,524,631,830	1,074,409,431,059
Demand obligations		229,387,105,760	284,583,917,797	269,732,089,543
Term obligations		910,985,216,613	798,409,817,482	790,153,537,478
Charges payable		14,826,406,023	6,530,896,551	14,523,804,038
<b>Accounts payable and provisions</b>		115,875,116,121	124,048,750,344	119,409,190,104
Accounts payable for brokerage services		642,227,189	835,751,867	872,275,666
Deferred tax	15-c	16,783,726,446	14,167,519,270	14,012,943,530
Provisions	16	30,229,141,931	39,502,894,655	35,856,073,569
Other sundry accounts payable	17	68,220,020,555	69,542,584,552	68,667,897,339
<b>Other liabilities</b>	18	37,384,189,446	34,084,373,087	30,062,971,560
Deferred income		12,862,653,589	9,003,262,472	6,565,919,181
Allowance for stand-by credit losses		1,536,210,630	1,319,693,076	1,339,832,395
Other liabilities		22,985,325,227	23,761,417,539	22,157,219,984
<b>Subordinated obligations</b>	14	69,228,621,502	70,358,271,862	53,731,640,838
Subordinated obligations		68,720,600,000	69,330,300,000	53,402,000,000
Finance charges payable		508,021,502	1,027,971,862	329,640,838
<b>TOTAL LIABILITIES</b>		<b>5,267,147,333,232</b>	<b>5,028,950,914,582</b>	<b>4,834,887,185,550</b>
<b>EQUITY</b>				
<b>Share capital</b>		<b>118,130,303,482</b>	<b>118,130,303,482</b>	<b>118,130,303,482</b>
Paid-up capital	19-a	118,130,303,482	118,130,303,482	118,130,303,482
<b>Equity adjustments</b>		<b>76,462,665,008</b>	<b>66,252,321,126</b>	<b>66,703,830,468</b>
Surplus from revaluation of property and equipment	19-b	68,571,839,670	63,639,596,055	63,639,596,055
Adjustment for valuation of available-for-sale investments	19-c	2,104,437,503	(1,746,379,939)	(1,720,504,087)
Adjustment for valuation of restricted financial instruments	19-c	(1,068,988,657)	(2,041,047,936)	(1,809,347,633)
Surplus from revaluation of other assets		69,678,787	70,246,625	70,246,625
Adjustment for valuation of investments in other companies	19-d	6,785,697,705	6,329,906,321	6,523,839,508
<b>Equity reserves</b>	19-e	<b>248,457,997,514</b>	<b>216,895,556,917</b>	<b>209,058,123,505</b>
<b>Prior period retained earnings</b>		<b>45,534,870,270</b>	<b>41,309,087,572</b>	<b>49,146,520,984</b>
<b>Income for the year</b>		<b>27,846,729,903</b>	<b>39,633,711,775</b>	<b>28,590,913,092</b>
<b>Equity of the Development Financing Fund</b>	19-f	<b>18,146,075,240</b>	<b>14,548,173,826</b>	<b>14,548,173,826</b>
<b>TOTAL EQUITY</b>		<b>534,578,641,417</b>	<b>496,769,154,698</b>	<b>486,177,865,357</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>5,801,725,974,649</b>	<b>5,525,720,069,280</b>	<b>5,321,065,050,907</b>
<b>DEBIT MEMORANDA ACCOUNTS</b>	20	<b>519,776,281,428</b>	<b>511,255,824,426</b>	<b>522,494,165,097</b>
<b>TRUST ASSETS</b>	21	<b>933,775,195,905</b>	<b>905,709,567,459</b>	<b>871,975,709,387</b>
<b>TRUST LIABILITIES</b>		<b>62,229,206,918</b>	<b>76,808,871,122</b>	<b>68,196,106,566</b>
<b>TRUST EQUITY</b>		<b>871,545,988,987</b>	<b>828,900,696,336</b>	<b>803,779,602,821</b>
<b>TRUST MEMORANDA ACCOUNTS</b>		<b>16,885,236,491</b>	<b>14,427,215,779</b>	<b>11,303,474,455</b>
<b>OTHER DEBIT MEMORANDA ACCOUNTS</b>	22	<b>19,165,537,311,547</b>	<b>18,344,060,940,216</b>	<b>17,185,998,412,982</b>
Own debit memoranda accounts		7,574,014,804,707	7,557,679,197,394	6,693,179,445,803
Third-party debit memoranda accounts		2,142,754,644,281	2,128,036,259,000	2,069,968,242,221
Own debit memoranda accounts for custodial activities		329,881,276,167	334,980,739,704	289,124,868,017
Third-party debit memoranda accounts for custodial activities		9,118,886,586,392	8,323,364,744,118	8,133,725,856,941

Juan Carlos Corrales Salas  
General Manager

Wilberth Cerdas Bejarano  
Sub General Accountant

Ricardo Araya Jiménez  
General Auditor

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

**BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014**  
(In colones)

Note	For the nine months ended		For the three months ended	
	September 2015	September 2014	September 2015	September 2014
<b>Finance income</b>				
Cash and due from banks	26	271,920,005	219,835,558	70,896,578
Investments in financial instruments	26	36,607,610,788	30,779,531,172	12,264,155,010
Loan portfolio	27	246,582,114,575	224,172,383,757	84,552,442,198
Gain on foreign exchange differences and development units, net	43-c	68,977,524	417,057,983	(90,111,616)
Gain on available-for-sale financial instruments		1,597,799,026	1,808,760,985	767,410,448
Gain on derivative instruments	5-b	15,392,686,397	13,075,156,547	12,521,304,926
Other finance income	28	20,660,342,355	13,880,685,920	1,218,100,735
<b>Total finance income</b>		<b>321,181,450,670</b>	<b>284,353,411,922</b>	<b>111,304,198,279</b>
<b>Finance expense</b>				
Obligations with the public	29	83,476,370,025	75,892,825,741	27,566,827,676
Obligations with BCCR		556,658	1,026,199	74,919
Obligations with financial entities		34,857,861,985	28,563,155,799	11,653,355,846
Other sundry accounts payable		-	90,992	-
Subordinated, convertible, and preferred obligations		2,745,868,598	914,409,585	918,633,331
Loss on available-for-sale financial instruments		80,367,896	592,910,675	33,522,814
Other finance expense	14	27,110,743,535	22,894,384,016	11,475,833,423
<b>Total finance expense</b>		<b>148,271,768,697</b>	<b>128,858,803,007</b>	<b>51,648,248,009</b>
<b>Allowance for impairment of assets</b>	30	<b>27,017,989,367</b>	<b>24,853,897,417</b>	<b>3,465,495,454</b>
<b>Recovery of assets and decrease in allowances</b>	31	<b>9,251,391,121</b>	<b>12,430,094,488</b>	<b>2,662,262,590</b>
<b>FINANCE INCOME</b>		<b>155,143,083,727</b>	<b>143,070,805,986</b>	<b>58,852,717,406</b>
<b>Other operating income</b>				
Service fees and commissions	32	81,599,240,668	72,949,218,210	27,495,282,600
Foreclosed assets		1,277,706,323	19,078,606,696	476,750,446
Gain on investments in other foreign companies	1-a	3,687,775,920	4,170,973,658	972,870,008
Gain on investments in other local companies		4,394,615	4,850,997	-
Foreign currency exchange and arbitrage		17,827,994,108	18,708,746,221	6,086,556,578
Other income with related parties		19,840	-	19,840
Other operating income	33	13,328,022,471	16,376,921,765	2,102,220,306
<b>Total other operating income</b>		<b>117,725,153,945</b>	<b>131,289,317,547</b>	<b>37,133,699,778</b>
				<b>43,665,255,765</b>

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(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014  
(In colones)

		For the nine months ended		For the three months ended	
		September 2015	September 2014	September 2015	September 2014
Other operating expenses					
Service fees and commissions		4,532,404,117	4,876,788,557	1,449,798,051	1,541,188,959
Foreclosed assets	34	15,971,689,406	33,678,340,188	5,036,291,621	9,979,722,582
Sundry assets		1,186,804,820	175,227,847	200,324,308	494,553
Provisions	35	16,939,442,627	14,385,679,770	6,990,102,780	5,163,219,087
Discounts on fees and commissions of voluntary pension funds		61,487,585	-	19,835,264	-
Foreign currency exchange and arbitrage		1,582,480	11,988,942	480,046	393,278
Other expenses with related parties		26,510	-	(4,157,163)	-
Other operating expenses	36	40,698,360,003	37,806,627,208	13,620,261,745	12,462,826,392
Amortization of direct deferred costs related to loans		6,361,593,354	1,210,102,416	1,319,632,691	892,087,778
Total other operating expenses		85,753,390,902	92,144,754,928	28,632,569,343	30,039,932,629
GROSS OPERATING INCOME		187,114,846,770	182,215,368,605	67,353,847,841	62,621,362,232
Administrative expenses					
Personnel expenses	37	98,723,896,796	90,232,434,498	35,636,113,598	29,315,573,820
Other administrative expenses	38	44,644,855,156	46,296,800,516	15,399,355,663	13,768,403,921
Total administrative expenses		143,368,751,952	136,549,235,014	51,035,469,261	43,083,977,741
NET OPERATING INCOME BEFORE TAXES AND STATUTORY ALLOCATIONS		43,746,094,818	45,666,133,591	16,318,378,580	19,537,384,491
Income tax	15-a	8,143,357,408	8,953,327,556	2,664,589,988	4,356,063,401
Deferred tax		53,708,122	155,867,869	20,419,946	31,482,619
Decrease in income tax	15-a	1,269,188,626	293,061,927	20,419,947	8,616,298
Decrease in prior period income tax	15-b	-	5,529,340	-	1,999
Deductible temporary differences		142,985,011	86,313,079	67,568,354	22,353,664
Statutory allocations	39	9,484,420,880	8,350,929,420	3,380,245,540	3,494,702,965
Decrease in statutory allocations	39	369,947,858	-	57,178,243	-
INCOME FOR THE YEAR		27,846,729,903	28,590,913,092	10,398,289,650	11,686,107,467
OTHER COMPREHENSIVE INCOME, NET OF TAX					
Surplus from revaluation of property and equipment		5,065,492,323	-	(1)	-
Adjustment for valuation of available-for-sale investments, net of income tax		3,850,817,442	(60,711,977)	(197,854,646)	(222,454,481)
Adjustment for valuation of restricted financial instruments, net of income tax		972,059,279	936,463,225	(228,981,948)	832,470,078
Surplus from revaluation of other assets		(567,838)	-	-	-
Adjustment for valuation of investments in other companies		455,791,384	3,206,566,988	(130,590,666)	(277,835,958)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		10,343,592,590	4,082,312,236	(587,427,261)	332,179,639
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		38,190,322,493	32,673,225,328	9,810,862,389	12,018,287,106

Juan Carlos Morales Salas  
General Manager

Wilberth Cordas Bejarano  
SUE General Accountant

Ricardo Araya Jiménez  
General Auditor

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

Note	Share capital	Equity adjustments				Total equity adjustments	Equity reserves	Opening retained earnings	Equity 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					
Balances 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
Legal and other statutory reserves	-	-	-	-	-	-	12,148,897,524	(12,148,897,524)	-	-
Adjustment for changes in equity of BN Vital	-	-	-	-	-	-	-	32,495,651	-	32,495,651
Statutory allocations - Mandatory pension funds, Employee Protection Law No. 7983	-	-	-	-	-	-	-	(958,123,114)	-	(958,123,114)
Equity of the Development Financing Fund	-	-	-	-	-	-	-	(2,304,370,625)	2,304,370,625	-
Total transactions with owners booked directly in equity	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	49,146,520,984	14,548,173,826	453,504,640,029
Comprehensive income for the year:										
Income for the year	-	-	-	-	-	-	-	28,590,913,092	-	28,590,913,092
Adjustment for valuation of available-for-sale investments, net of income tax	-	-	(60,711,977)	-	-	(60,711,977)	-	-	-	(60,711,977)
Adjustment for valuation of restricted financial instruments, net of income tax	-	-	936,463,225	-	-	936,463,225	-	-	-	936,463,225
Adjustment for valuation of investments in other companies	-	-	-	-	3,206,560,988	3,206,560,988	-	-	-	3,206,560,988
Total comprehensive income for the year	-	-	875,751,248	-	3,206,560,988	4,082,312,236	-	28,590,913,092	-	32,673,225,328
Balances at September 30, 2014	118,130,303,482	63,639,596,055	(3,529,851,720)	70,246,625	6,523,839,508	66,703,830,468	209,058,123,505	77,737,434,076	14,548,173,826	486,177,865,357

Juan Carlos Corrales Salas  
General Manager

Wilberth Cerdas Bejarano  
Sub General Accountant

Ricardo Araya Jiménez  
General Auditor

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015  
(In colones)

Note	Share capital	Equity adjustments				Total equity adjustments	Equity reserves	Opening retained earnings	Equity 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					
Balances at January 1, 2015	118,130,303,482	63,639,596,055	(3,787,427,875)	70,246,625	6,329,906,321	66,252,321,126	216,895,556,917	80,942,799,347	14,548,173,826	496,769,154,698
Transactions with owners booked directly in equity:										
Legal and other statutory reserves	-	-	-	-	-	-	31,562,440,597	(31,562,440,597)	-	-
Statutory allocations - Mandatory pension funds, Employee Protection Law No. 7983	-	-	-	-	-	-	-	(380,835,774)	-	(380,835,774)
Equity of the Development Financing Fund	-	-	-	-	-	-	-	(3,597,901,414)	3,597,901,414	-
Total transactions with owners booked directly in equity	118,130,303,482	63,639,596,055	(3,787,427,875)	70,246,625	6,329,906,321	66,252,321,126	248,457,997,514	45,401,621,562	18,146,075,240	496,388,318,924
Comprehensive income for the year:										
Income for the year	-	-	-	-	-	-	-	27,846,729,903	-	27,846,729,903
Adjustment for valuation of available-for-sale investments, net of income tax	-	-	3,850,817,442	-	-	3,850,817,442	-	-	-	3,850,817,442
Adjustment for valuation of restricted financial instruments, net of income tax	-	-	972,059,279	-	-	972,059,279	-	-	-	972,059,279
Adjustment for valuation of investments in other companies	-	-	-	-	455,791,384	455,791,384	-	-	-	455,791,384
Realization of surplus from revaluation of property and equipment	-	(133,248,708)	-	-	-	(133,248,708)	-	133,248,708	-	-
Surplus from revaluation of property and equipment	-	5,065,492,323	-	-	-	5,065,492,323	-	-	-	5,065,492,323
Surplus from revaluation of other assets	-	-	-	(567,838)	-	(567,838)	-	-	-	(567,838)
Total comprehensive income for the year	-	4,932,243,615	4,822,876,721	(567,838)	455,791,384	10,210,343,882	-	27,979,978,611	-	38,190,322,493
Balances at September 30, 2015	118,130,303,482	68,571,839,670	1,035,448,846	69,678,787	6,785,697,705	76,462,665,008	248,457,997,514	73,381,600,173	18,146,075,240	534,578,641,417

Juan Carlos Corrales Salas  
General Manager

Wilberth Cerdas Bejarano  
Sub General Accountant

Ricardo Araya Jiménez  
General Auditor

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

**BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014**  
(In colones)

	<u>Note</u>	<u>2015</u>	<u>2014</u>
<b>Net cash flows from operating activities</b>			
Income for the year		27,846,729,903	28,590,913,092
<b>Items not requiring cash</b>			
Gain on sale of idle property and equipment		(796)	(67,142)
Gain on foreign exchange differences and development units, net		(3,884,537,218)	33,218,509,072
Loss on allowance for loan impairment, net		23,131,845,849	17,841,392,633
Loss on allowance for impairment of investments, net		23,410,374	3,604,310
Loss on allowances for foreclosed assets and other receivables, net		4,693,955,152	2,515,055,950
Loss on sale of foreclosed assets		12,161,933,886	8,505,552,245
Expense for provisions for severance benefits, net		29,209,848,384	1,673,850,788
Depreciation and amortization		11,182,014,337	10,945,270,052
Share in net profit of foreign associate		(3,687,775,920)	(4,170,973,658)
Statutory allocations		9,484,420,880	8,350,929,420
Deferred tax		(507,012,667)	(386,147,208)
Current tax expense	15 -a	8,143,357,408	8,953,327,556
Finance income on loan portfolio and investments		(283,189,725,363)	(254,951,914,929)
Finance expense on term obligations with the public and financial entities		89,560,597,572	76,858,944,185
		<u>(75,830,938,219)</u>	<u>(62,051,753,634)</u>
<b>(Increase) decrease in assets</b>			
Credits and cash advances		(249,620,533,600)	(209,694,314,793)
Foreclosed assets		5,328,333,267	68,508,725,297
Accrued interest receivable on other receivables		742,043	(272,730)
Other assets		8,060,783,956	(22,369,886,840)
		<u>(312,061,612,553)</u>	<u>(225,607,502,700)</u>
<b>Net increase (decrease) in liabilities</b>			
Demand and term obligations		203,121,440,583	58,879,116,239
Other accounts payable and provisions		(40,181,700,255)	(22,837,986,135)
Other liabilities		2,874,260,202	1,227,518,946
		<u>(146,247,612,023)</u>	<u>(188,338,853,650)</u>
Interest received on loan portfolio and investments		280,452,633,239	256,636,984,617
Income tax paid		(14,900,591,569)	(2,815,991,712)
Interest paid on term obligations with the public and financial entities		(78,820,414,630)	(69,836,704,930)
<b>Net cash from (used in) operating activities</b>		<u>40,484,015,017</u>	<u>(4,354,565,675)</u>
<b>Net cash flows from investing activities</b>			
Increase in financial instruments		(5,358,851,619,111)	(3,435,592,990,964)
Decrease in financial instruments		5,339,745,579,272	3,504,165,840,064
Acquisition of property and equipment		(20,034,358,735)	(7,857,126,819)
Sale of property and equipment		336,940,367	341,661,301
Cash investments in other companies		542,762,519	(1,119,232,577)
<b>Net cash (used in) from investing activities</b>		<u>(38,260,695,688)</u>	<u>59,938,151,005</u>
<b>Net cash flows from financing activities</b>			
Other new financial obligations		62,222,677,822	1,299,153,272
New subordinated obligations		-	53,402,000,000
Settlement of financial obligations		(8,794,333,916)	(74,980,873,031)
<b>Net cash from (used in) financing activities</b>		<u>53,428,343,906</u>	<u>(20,279,719,759)</u>
<b>Net increase in cash and cash equivalents</b>		<u>55,651,663,235</u>	<u>35,303,865,571</u>
<b>Cash and cash equivalents at beginning of year</b>		<u>1,005,007,009,161</u>	<u>906,647,914,809</u>
<b>Cash and cash equivalents at end of year</b>	4	<u>1,060,658,672,396</u>	<u>941,951,780,380</u>

Juan Carlos Corrales Salas  
General Manager

Wilberth Gerdas Bejarano  
Sub 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

September 30, 2015

*(With corresponding figures for 2014)*

(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 improve the quality of life of the largest possible number of people by offering prime financial services that promote the sustainable creation of wealth.

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

As of September 30, 2015 and 2014, the Bank has 181 offices (2014: 184 offices), 465 automated teller machines (2014: 464 automated teller machines), and, together with its subsidiaries, a total of 5,930 employees (2014: 5,888 employees). Employees are distributed as follows: Banco Nacional de Costa Rica - 5,499 employees (2014: 5,466 employees); BN Valores Puesto de Bolsa, S.A. - 76 employees (2014: 81 employees); BN Vital Operadora de Planes de Pensiones Complementarias, S.A. - 183 employees (2014: 183 employees); BN Sociedad Administradora de Fondos de Inversión, S.A. - 84 employees (2014: 86 employees); and BN Corredora de Seguros, S.A. - 88 employees (2014: 72 employees). The Bank's website is [www.bncr.fi.cr](http://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) was organized as a corporation on December 31, 1998. In January 1993, the Pension Fund Manager acted a voluntary pension "trust" called BN Vital. 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 September 30, the main components that comprise the financial statements of the entities in which the Bank holds ownership interest are detailed below:

September 2015						
		Brokerage Firm	Pension Fund Manager	Investment Fund Manager	Insurance Brokerage Firm	BICSA
Assets	¢	59,804,695,957	9,415,428,606	5,736,386,643	1,408,010,311	465,684,413,830
Liabilities	¢	42,553,666,792	2,386,264,349	890,701,657	492,235,350	412,659,288,308
Equity	¢	17,251,029,165	7,029,164,257	4,845,684,986	915,774,961	53,025,125,522
Income for the year	¢	1,885,901,035	689,472,002	960,863,657	410,066,383	3,687,775,920
Memoranda accounts	¢	1,591,805,418,636	1,001,192,525,318	429,608,988,208	-	-
September 2014						
		Brokerage Firm	Pension Fund Manager	Investment Fund Manager	Insurance Brokerage Firm	BICSA
Assets	¢	47,733,096,260	7,562,889,071	4,881,093,700	1,269,331,348	424,775,535,356
Liabilities	¢	33,256,533,533	964,932,217	641,272,215	285,839,697	375,897,394,974
Equity	¢	14,476,562,727	6,597,956,854	4,239,821,485	983,491,651	48,878,140,382
Income for the year	¢	498,050,784	687,930,644	640,833,994	210,018,463	4,170,973,658
Memoranda accounts	¢	1,412,632,061,586	847,494,897,639	314,383,152,185	-	-

(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 September 30, 2015 and 2014, the consolidated financial statements include the financial figures of the following subsidiaries:

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

Subsidiaries were consolidated based on the following accounting principles:

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

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

#### *ii. Associates*

Associates are those entities in which the Bank has significant influence, but not control. The Bank updates the value of its associates using the equity method from the date that significant influence commences until the date significant influence ceases. As of September 30, 2015 and 2014, the Bank holds 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 on 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.

##### *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.

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

As part of the transition toward an inflation targeting monetary scheme that requires greater exchange rate flexibility, the Board of Directors of the Central Bank of Costa Rica (BCCR), in Article 5 of Session 5677-2015 of January 30, 2015, declared the migration from a currency band regime to a managed float regime.

Under the managed float regime, the exchange rate is determined by the market, but BCCR still reserves the right to intervene in the foreign currency market to moderate significant fluctuations in the exchange rate and prevent deviations from the behavior of the variables that explain its medium and long-term trends (in effect as of February 2, 2015). 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 September 30, 2015, the exchange rate was established at ₡528.62 and ₡541.04 (2014: ₡534.02 and ₡545.52) to US\$1.00, for the purchase and sale of U.S. dollars, respectively.

As of September 30, 2015, the exchange rate for the purchase and sale of euros was established at ₡586.20 and ₡611.37 (2014: ₡661.90 and ₡696.59) to €1.00, respectively.

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

As of September 30, 2015, assets and liabilities denominated in U.S. dollars were valued at the exchange rate of ₡528.62 to US\$1.00 (2014: ₡534.02 to US\$1.00), which is the reference buy rate published by BCCR for September 30, 2015.

As of September 30, 2015, assets and liabilities denominated in euros were valued at the exchange rate of ₡591.00 to €1.00 (2014: ₡673.35 to €1.00). This exchange rate was calculated by multiplying the international exchange rate published by Reuters by the reference buy rate for U.S. dollars published by BCCR on the last business day of the month.

As of September 30, 2015, assets and liabilities denominated in DU were valued at the exchange rate of ₡859.74 to DU1.00 (2014: ₡864.93 to DU1.00). This exchange rate is based on the DU value tables published by SUGEVAL.

#### *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 September 30, 2015 and 2014, 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.

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

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 September 30, 2015, a foreign exchange gain in the amount of ¢455,791,384 (2014: foreign exchange gain of ¢3,206,560,988) is presented in equity for the translation of the financial statements of foreign operations. As of September 30, 2015, the adjustment for valuation of investments in other companies amounts to ¢6,785,697,705 (2014: ¢6,523,839,508).

#### (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.

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

- 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 September 30, 2015, 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."

#### 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.

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

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.

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.

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

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. (IPICA); 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.

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.

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.

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

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.

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.

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

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.

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.

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

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.”

##### 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.

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

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.

#### 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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(f) Loan portfolio

SUGEF defines a credit operation as any operation related to any type of underlying instrument or document, except investments in financial instruments, whereby credit risk is assumed either by providing or committing to provide funds or credit facilities, acquiring collection rights, or guaranteeing that obligations with third parties will be honored. Credit operations include loans, guarantees, letters of credit, pre-approved lines of credit, and loans pending disbursement.

The loan portfolio is presented at the amount of outstanding principal. Interest is calculated based on the value of outstanding principal and the contractual interest rates, and is accounted for as income using the accrual method of accounting. The Bank follows the policy of suspending interest accruals on loans when principal or interest payments are more than 180 days past due. The recovery or collection of that interest is recognized as income when collected.

(g) Allowance for loan impairment

The allowance for loan impairment is based on a periodic assessment of the collectibility of the loan portfolio that considers a number of factors, including current economic conditions, prior experience with the allowance, the portfolio structure, borrower liquidity, and loan guarantees.

Additionally, the collectibility of the loan portfolio is assessed in conformity with the provisions of SUGEF Directive 1-05, "Regulations for Borrower Classification", which was approved by CONASSIF on November 24, 2005, was published in Official Gazette No. 238 dated December 9, 2005, and is effective as of October 9, 2006. That assessment considers parameters including borrower payment history, creditworthiness, the quality of guarantees, delinquency, etc.

SUGEF may require an allowance to be established for an amount greater than the amount determined by the Bank.

Management considers the allowance to be sufficient to absorb any potential losses that may be incurred on recovery of the portfolio.

As of September 30, 2015 and 2014, increases in the allowance for loan impairment are included in the accounting records in accordance with article 10 of IRNBS.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

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

(i) Other receivables

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

(j) 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.

*ii. Leased assets*

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

iii. *Subsequent expenditure*

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

iv. *Depreciation and amortization*

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

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

(k) Intangible assets

• *Other intangible assets*

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

• *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.

• *Amortization*

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

(l) Lease operations

Lease receivables are presented net of unearned interest pending collection. Interest on finance leases is recognized as income over the term of the finance lease agreement using the effective interest method. The difference between lease payments receivable and the cost of the leased asset is recorded as unearned interest and amortized to income accounts over the term of the lease. As of September 30, 2015 and 2014, the Bank has no finance leases.

The Bank's operating leases are mainly for vehicles and equipment. Since the lease agreements have matured, the lease payment on the vehicles is made by means of a purchase order.

(m) Foreclosed assets

Foreclosed assets are assets owned by the Bank for realization or sale, i.e. assets acquired in lieu of payment, assets awarded in judicial auctions, assets purchased to be leased under finance and operating leases, goods produced for sale, idle property and equipment, and other foreclosed assets.

Foreclosed assets are valued at the lower of cost and fair value. If fair value is less than the cost booked in the accounting records, an impairment allowance must be booked for the amount of the difference between both values. Cost is the historical acquisition or production value in local currency. These assets should not be revalued or depreciated for accounting purposes and they are to be booked in local currency. The cost booked in the accounting records for a foreclosed asset may only be increased by the amount of improvements or additions, up to the amount by which they increase the asset's realizable value. Other expenditures related to foreclosed assets are to be expensed in the period incurred.

The net realizable value of an asset should be used as its fair value. Net realizable value is determined by applying strictly conservative criteria and is calculated by subtracting expenses to be incurred on the sale of the asset from its estimated selling price. The estimated selling price of the asset is determined by an appraiser based on current market conditions. Future expectations for market improvements are not considered and it is assumed that the assets must be sold in the shortest period of time possible to enable the Bank to recover the money invested and use it for its business activities. For all foreclosed assets, reports should be prepared by the appraisers who made the appraisals and those reports are to be updated at least annually.

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

If an asset booked in this group is used by the Bank, it should be reclassified to the appropriate account in the corresponding group.

SUGEF Directive 34-02 requires that the allowance for impairment of foreclosed assets acquired or produced after May 2010 be established gradually by booking one-twenty-fourth of the value of such assets each month during two years until the allowance is equivalent to 100% of the assets' carrying amount.

For foreclosed assets prior to the aforementioned date, management of the Bank follows the policy of recognizing an allowance equivalent to 100% of the asset's realizable value for assets that are not sold or leased, within two years from the date of acquisition or production.

(n) Investments in other companies

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

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

As of September 30, 2015 and 2014, the Bank has no total or partial interest or influence over the management of other companies other than its subsidiaries and associate, in accordance with article 73 of IRNBS and article 146 of the Internal Regulations of the Central Bank of Costa Rica.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(o) Impairment of non-financial assets

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

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

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

(p) Provisions

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

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

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

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

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

(q) Severance benefits

Costa Rican legislation requires the payment of severance benefits to employees in the event of retirement, invalidity, death, or dismissal without just cause, equivalent to 20 days' salary for each year of continuous service, up to a maximum of 8 years. In the specific case of the Bank, that limit is 17 years for employees with more than 25 years of service. The Bank follows the policy of booking a provision to cover future disbursements related therewith for employees with more than 20 years of service, in compliance with article 34 of the Collective Bargaining Agreement. As of September 30, 2015 and 2014, the severance benefit amount is included in the "Provisions" account (see note 16), which is sufficient to cover the provisions required by current legislation as of those dates. The Employee Association of Banco Nacional de Costa Rica (ASEBANACIO) was created in 2012. Accordingly, the Bank currently follows the practice of making monthly transfers of severance benefits to the Employee Association, equivalent to 5.33% of member employees' monthly salaries, for management and custody. Those funds are paid out to employees upon termination of employment. Severance payments are expensed when the funds are transferred.

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

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

(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:

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

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

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

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

*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).

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

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.

(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 is transferred to opening retained earnings.

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

#### Other statutory reserves

Pursuant to Panamanian regulations, the associate Banco Internacional de Costa Rica, S.A. and subsidiary (BICSA) must create the following statutory reserves:

*i. Statutory reserve for foreclosed assets:*

The Superintendency of Banks of Panama establishes at five (5) years the term to sell real estate acquired as payment for unpaid loans, from the date of the asset's registration in the Public Registry. Once this term has elapsed, if the Panamanian banks have not sold the acquired property, an independent appraisal must be performed to determine whether its value has decreased. If so, the provisions of IFRS apply.

Similarly, Panamanian banks must create a reserve in the equity account, through appropriation, in the following order, of: a) its retained earnings and b) profit for the period, making the following transfers of the value of the foreclosed asset:

First year:	10%
Second year:	20%
Third year:	35%
Fourth year:	15%
Fifth year:	10%

The aforementioned reserves will be maintained until the effective transfer of the acquired asset takes place. This reserve shall not be considered as a statutory reserve for purposes of the equity index calculation.

*ii. Excess of statutory reserve for loans:*

As per the General Resolution of the Board of Directors SBP-GJD-003-2013 of the Superintendency of Banks of Panama, dated July 9, 2013, which establishes the accounting treatment for differences arising between the prudential regulations issued by the Superintendency of Banks and International Financial Reporting Standards (IFRSs), so that 1) the accounting records and financial statements are prepared in conformity with IFRSs, as required by Agreement No. 006-2012 of December 18, 2012, and 2) in the event that the calculation of a provision or reserve according to prudential regulations applicable to banks, which have specific accounting issues additional to those required by IFRSs, is higher than the corresponding calculation under IFRS, the excess of the provision or reserve under prudential regulations shall be recognized as a statutory reserve in equity. This General Resolution became effective for accounting periods ending on or after December 31, 2014.

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

Subject to prior approval of the Superintendent of Banks, the established provision may be reversed, partially or in full, based on duly evidenced justifications submitted to the Superintendency of Banks of Panama.

*iii. Statutory dynamic provision:*

Agreement No. 004-2013 of the Superintendency of Banks of Panama indicates that specific provisions originate from objective and concrete evidence of impairment. These provisions must be created for credit facilities with a risk category of special mention, subnormal, doubtful, or uncollectible, both for individual credit facilities and a group of such facilities.

As a minimum, as of December 31, 2014, Panamanian banks must calculate and maintain at all times the amount of the specific provisions determined through the methodology specified in this Agreement, which takes into consideration the outstanding balance of each credit facility classified in any of the aforementioned categories subject to the provision; the present value of each guarantee available for risk mitigation, as established by type of guarantee in this Agreement; and a table of the weighting factors applied to the net balance exposed to loss of such credit facilities.

If there is an excess amount in a specific provision calculated according to this Agreement, in relation to the provision calculated according to IFRSs, this excess shall be recorded in a statutory reserve in equity that increases or decreases with allocations to or from retained earnings. The balance of the statutory reserves shall not be considered as capital funds for the calculation of certain indexes or prudential ratios mentioned in the Agreement.

*(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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(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 December 31 of each year. Any resulting tax is recognized in profit or loss and credited to a liability account in the consolidated balance sheet.

iv. *Current tax:*

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

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

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

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.

v. *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.

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

A deferred tax asset is recognized only to the extent that there is a reasonable probability that it will be realized.

(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.

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

DU are valued using the rates provided by SUGEVAL for such purposes. The effect of valuation of assets and liabilities denominated in DU is directly booked in the corresponding foreign exchange gain and foreign exchange loss accounts in the income statement.

#### *ii. Fee and commission income*

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

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

#### *iii. Income from foreign currency exchange and arbitrage*

Income from foreign currency exchange and arbitrage corresponds to foreign exchange gains arising from the purchase and sale of foreign currency. Cumulative foreign exchange gains arising from purchases and sales of foreign currency conducted during the month are recognized in the income statement on a monthly basis.

#### *iv. Operating lease expenses*

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

#### **(bb) Statutory allocations**

Under article 12 of IRNBS, the net earnings of commercial State-owned banks are allocated as follows: 50% to a legal reserve; 10% to increase the capital of the National Institute for Cooperative Development (INFOCOOP); and the remainder to increase the Bank's capital, pursuant to article 20 of Law No. 6074. In conformity with SUGEVAL's Chart of Accounts, statutory allocations on the year's net earnings payable to INFOCOOP, the National Emergency Commission (CNE), and the National Commission for Educational Loans (CONAPE) are presented as expenses in the income statement. Pursuant to paragraph a) of article 20 of Law No. 6041 "Law to Create the National Commission for Educational Loans (CONAPE)", the Bank is required to make statutory allocations equivalent to 5% of earnings before taxes and statutory allocations to CONAPE.

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

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

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

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

#### (cc) Development Financing Fund (FOFIDE)

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

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

#### (dd) Development Credit Fund (FCD)

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

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

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

- a. Under article 6 of Law No. 8634, the Managing Banks may offer first-tier banking services to the beneficiaries of the Development Banking System.
- b. Under article 35 of Law No. 8634, the Managing Banks may offer second-tier banking services with FCD funds for financial entities other than private banks, provided that the purposes and obligations established in Law No. 8634 are met and such entities are duly authorized by the Governing Board.
- c. Under article 35 of Law No. 8634, the Managing Banks may channel FCD funds through placements to: associations, cooperatives, foundations, non-governmental organizations, producer organizations, or other formal entities, provided that they perform loan operations through development financing programs that meet the objectives established in Law No. 8634 and are duly authorized by the Governing Board.
- d. The term of the agreement is five years, renewable for equal and successive periods, unless a written order by the Governing Board provides otherwise and is notified at least three months in advance. If a lack of capacity and competence is proven by the Managing Banks, this agreement may be terminated under paragraph j), article 12 of Law No. 8634 and the executive regulations thereto.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(2) Collateralized or restricted assets

Collateralized or restricted assets are as follows:

Restricted asset	Cause of restriction	September 2015 Carrying amount	December 2014 Carrying amount	September 2014 Carrying amount
<i>Cash and due from banks:</i>				
Checking account - colones	Minimum cash reserve	₡ 384,166,982,067	374,788,268,448	360,065,956,599
Checking account - euros	Minimum cash reserve	€ 8,462,490	7,962,840	7,832,480
Checking account - U.S. dollars	Minimum cash reserve	US\$ 351,684,945	316,529,644	319,744,587
Checking account - colones	Liquidation and compensation risk management fund	₡ 201,352,876	239,089,673	227,519,264
Total cash and due from banks		₡ 575,277,362,239	549,003,506,393	536,317,480,446
<i>Investments in financial instruments:</i>				
Investments in financial instruments	Guarantee for repurchase agreements (tri-party)	₡ 48,696,134,809	38,566,722,512	33,985,276,356
Securities issued by BCCR and the Government	Investments securing repurchase agreements	₡ 402,063,290	335,132,100	335,363,100
External debt bonds	Guarantee for margin calls - term operations Bank of America	₡ -	3,732,194,049	3,742,396,665
External debt bonds	Guarantee for margin calls - term operations Citi Swap	₡ -	2,130,530,785	2,132,405,943
External debt bonds	Guarantee for margin calls - term operations JP Morgan Swap	₡ -	2,131,736,481	2,135,578,018
Monetary stabilization bonds	Citibank guarantee	₡ 29,234,691,172	15,009,933,300	15,087,658,692
Central Bank bonds (global bonds)	Citibank guarantee	₡ 113,651,514,252	127,659,542,800	127,870,287,219
External debt bonds	Barclays guarantee	₡ 72,779,098,073	75,765,386,092	76,002,680,607
External debt bonds	Credit Suisse guarantee	₡ 68,882,490,907	70,493,844,179	71,893,756,279
Total investments in financial instruments		₡ 333,645,992,503	335,825,022,298	333,185,402,879
<i>Other assets:</i>				
Other assets (note 11)	Guarantee deposits	₡ 499,933,813	334,553,479	250,203,401

(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

For the periods indicated, 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 September 30, 2015, the Brokerage Firm has restricted assets in the amount of ₡48,897,487,685 (December and September 2014: ₡38,805,812,185 and ₡34,212,795,620, 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:

<u>Assets:</u>	<u>September 2015</u>	<u>December 2014</u>	<u>September 2014</u>
Checking accounts and demand deposits	₡ 7,077,002,274	7,799,157,076	3,401,211,050
Investments in financial instruments and accrued interest receivable	-	-	13,350,500,000
Accounts receivable (note 7)	-	1,444,411	-
Allowance for impairment of transactions with related parties	(43,004,470)	(24,735,310)	(31,595,168)
Investments in other companies (note 9)	53,075,748,822	49,855,779,811	48,928,763,682
	<u>₡ 60,109,746,626</u>	<u>57,631,645,988</u>	<u>65,648,879,564</u>
<u>Liabilities:</u>			
Demand obligations	₡ 19,757,588	463,489,825	33,790,508
	<u>₡ 19,757,588</u>	<u>463,489,825</u>	<u>33,790,508</u>
<u>Income:</u>			
Finance	₡ -	617,486,403	551,605,244
Operating	19,840	-	-
Gain on investments in other foreign companies	2,714,905,911	5,225,407,598	4,170,973,658
Gain on investments in entities supervised by SUGEVAL	4,394,615	4,850,997	4,850,997
	<u>₡ 2,719,320,366</u>	<u>5,847,744,998</u>	<u>4,727,429,899</u>
<u>Expenses:</u>			
Operating	26,510	-	-
	<u>26,510</u>	<u>-</u>	<u>-</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Compensation paid to key personnel is as follows:

	September 2015	December 2014	September 2014
Short-term benefits	¢ 1,311,107,427	2,012,799,746	1,504,924,159
Long-term benefits	170,443,967	261,663,966	195,640,140
Per diem for Board of Directors	107,401,024	138,528,618	100,125,658
	<u>¢ 1,588,952,418</u>	<u>2,412,992,330</u>	<u>1,800,689,957</u>

(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:

	September 2015	December 2014	September 2014
Cash and due from banks	¢ 813,943,459,272	829,976,580,984	839,291,043,735
Investments with maturities of less than two months	<u>246,715,213,124</u>	<u>175,030,428,177</u>	<u>102,660,736,645</u>
Cash and due from banks and cash equivalents	<u>¢ 1,060,658,672,396</u>	<u>1,005,007,009,161</u>	<u>941,951,780,380</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Cash and due from banks is as follows:

	September 2015	December 2014	September 2014
<i>Local currency:</i>			
Cash	¢ 35,309,242,644	39,070,745,022	33,927,979,997
Cash in transit	4,045,973,000	15,112,028,982	2,933,529,000
BCCR	425,892,421,515	393,336,216,822	390,779,222,656
Checking accounts and demand deposits at Central Bank (1)	5,399,528,275	14,735,796,667	8,609,880,157
Outstanding checks and other	5,647,385,532	4,080,795,014	7,880,898,242
Margin calls - tri-party repurchase agreements	36,063,473	-	-
<i>Foreign currency:</i>			
Cash	25,624,492,279	13,413,193,044	20,163,987,736
Cash in transit	679,384,834	1,600,659,345	556,882,265
BCCR	199,228,682,042	182,974,796,088	193,928,838,424
Checking accounts and demand deposits at Central Bank (1)	688,380	422,382	318,649,483
Foreign correspondent banks	97,832,824,667	151,045,102,800	128,612,969,936
Other demand deposits in foreign financial entities	85,224,973	53,607,475	40,507,125
Checking accounts and demand deposits in related parties	7,077,002,274	7,799,157,076	3,401,211,050
Overnight deposits in foreign financial entities	3,563,730,996	4,983,252,612	44,994,510,561
Outstanding checks and other	3,355,523,922	1,531,717,982	2,914,324,334
Guarantee fund of National Stock Exchange	165,289,403	239,089,673	227,519,264
Accrued interest receivable	1,063	-	133,505
	<u>¢ 813,943,459,272</u>	<u>829,976,580,984</u>	<u>839,291,043,735</u>

- (1) The minimum cash reserve balances required for each period are deposited in checking accounts and demand deposits at the Central Bank. These balances are shown in note 2 as restricted assets.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(5) Investments in financial instruments and derivative financial instruments

(a) Investments in financial instruments

Investments in financial instruments are as follows:

	September 2015	December 2014	September 2014
<i>Available for sale:</i>			
<i>Local issuers:</i>			
Government of Costa Rica	¢ 430,418,668,368	415,388,939,679	378,653,075,730
BCCR	127,170,963,111	203,635,312,251	140,300,336,122
State-owned banks	155,765,400,268	95,892,324,485	92,612,625,476
Private banks	5,512,925,028	25,390,077,595	16,633,089,573
Private issuers	191,997,564,672	4,611,733,631	51,288,322,669
	<u>910,865,521,447</u>	<u>744,918,387,641</u>	<u>679,487,449,570</u>
<i>Foreign issuers:</i>			
Governments	40,731,580,744	86,334,217,941	81,243,719,836
Private issuers	66,304,992,169	72,306,895,820	49,066,124,681
Private banks	111,863,158,820	148,892,008,466	144,003,610,102
	<u>218,899,731,733</u>	<u>307,533,122,227</u>	<u>274,313,454,619</u>
	<u>1,129,765,253,180</u>	<u>1,052,451,509,868</u>	<u>953,800,904,189</u>
<i>Held to maturity:</i>			
Government of Costa Rica	27,188,241,745	27,328,967,634	27,352,369,243
	<u>27,188,241,745</u>	<u>27,328,967,634</u>	<u>27,352,369,243</u>
Interest rate futures - Hedges (note 5-b)	21,566,706,312	10,619,377,926	4,620,479,100
Purchase of FX futures - Other than hedges (note 5-b)	131,252,380	662,192,854	896,628,782
	<u>21,697,958,692</u>	<u>11,281,570,780</u>	<u>5,517,107,882</u>
Accrued interest receivable	8,987,691,792	9,791,452,357	9,316,811,416
Allowance for impairment of investments	(57,312,980)	(57,821,470)	(57,898,448)
Allowance for impairment of derivative instruments other than hedges	(26,088,462)	(2,678,088)	(3,604,310)
	<u>¢ 1,187,555,743,967</u>	<u>1,100,793,001,081</u>	<u>995,925,689,972</u>

As of September 30, 2015, the allowance for impairment of investments amounts to ¢57,312,980 (December and September 2014: ¢57,821,470 and ¢57,898,448, respectively) and is booked for investments in Z Bonds related to the Mortgage Securitization Trust (impairment of 26% for both periods).

As of September 30, 2015, the allowance for impairment of derivative instruments other than hedges amounts to ¢26,088,462 (December and September 2014: ¢2,678,088 and ¢3,604,310, respectively) and is booked for FX futures other than hedges in accordance with SUGEF Directive 09-08.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

	September 2015	December 2014	September 2014
Opening balance	¢ 60,499,558	53,668,984	53,668,984
Allowance expense (note 30)	62,765,143	4,216,707	3,604,310
Decrease in allowance against income (note 31)	(39,354,768)	(1,538,619)	-
Foreign exchange differences	(508,491)	4,152,486	4,229,464
Closing balance	¢ 83,401,442	60,499,558	61,502,758

Investments in financial instruments are detailed below:

	September 2015	December 2014	September 2014
<i>Available for sale:</i>			
Securities issued by BCCR	¢ 90,316,819,025	117,955,741,724	124,578,906,258
Securities issued by local non-financial public sector	279,505,699,015	247,636,568,125	225,047,404,931
Securities issued by local financial entities	158,279,192,124	124,891,881,361	104,025,582,258
Securities issued by foreign financial entities	6,433,050,204	18,862,014,392	24,455,311,093
Financial instruments issued by foreign financial entities	41,351,158,568	68,275,605,974	64,864,539,304
Other securities issued abroad	29,453,938,365	33,906,883,848	13,283,249,355
Financial instruments issued abroad	-	-	13,380,672,130
Liquidity market operations – own resources	185,387,383,000	99,666,550,000	45,534,020,000
Other available-for-sale financial instruments	5,392,020,376	5,431,242,146	5,445,815,981
Financial instruments restricted for margin calls on term operations (note 2)	-	7,994,461,315	8,010,380,626
Financial instruments for tri-party repurchase agreements (note 2)	48,696,134,809	38,566,722,512	33,985,276,356
Financial instruments restricted for credit operations (note 2)	284,547,794,404	288,928,706,371	290,854,382,797
Other financial instruments (note 2)	402,063,290	335,132,100	335,363,100
	<u>1,129,765,253,180</u>	<u>1,052,451,509,868</u>	<u>953,800,904,189</u>
<i>Held to maturity:</i>			
Securities issued by local non-financial public sector	27,188,241,745	27,328,967,634	27,352,369,243
	<u>27,188,241,745</u>	<u>27,328,967,634</u>	<u>27,352,369,243</u>
<i>Derivative financial instruments:</i>			
Interest rate futures - Hedges (note 5-b)	21,566,706,312	10,619,377,926	4,620,479,100
Sale of FX futures - Other than hedges (note 5-b)	131,252,380	662,192,854	896,628,782
	<u>21,697,958,692</u>	<u>11,281,570,780</u>	<u>5,517,107,882</u>
Accrued interest receivable			
Allowance for impairment of investments	8,987,691,792	9,791,452,357	9,316,811,416
Allowance for impairment of derivative instruments other than hedges	(57,312,980)	(57,821,470)	(57,898,448)
	¢ <u>(26,088,462)</u>	<u>(2,678,088)</u>	<u>(3,604,310)</u>
	<u>1,187,555,743,967</u>	<u>1,100,793,001,081</u>	<u>995,925,689,972</u>

(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

Interest rates on investments in financial instruments are as follows:

<u>Currency</u>	<u>September 2015</u>	<u>December 2014</u>	<u>September 2014</u>
Colones	2.60% to 11.04%	4.25% to 11.04%	4.30% to 12.00%
U.S. dollars	0.05% to 7.63%	0.25% to 7.63%	0.06% to 7.59%
Euros	0.18% to 4.75%	0.25% to 4.25%	0.25% to 7.50%
DU	0.67% to 0.74%	0.67% to 0.74%	0.73% to 0.80%

As of September 30, 2015, the valuation of available-for-sale investments and restricted financial instruments gave rise to an unrealized gain, net of deferred tax, in the amount of ¢4,822,876,721 (December and September 2014: unrealized gain of ¢618,175,093 and unrealized loss of ¢875,751,248, respectively). Accordingly, as of September 30, 2015, the cumulative balance of equity adjustments arising from valuation of these investments is an unrealized gain of ¢1,035,448,846 (December and September 2014: unrealized loss of ¢3,787,427,875 and ¢3,529,851,720, respectively).

### (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 47-a).

As of September 30, 2015 and 2014, the Bank holds the following types of derivative financial instruments:

- Derivatives as risk hedging instruments:

#### Interest rate futures - Hedges:

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.

As of September 30, 2015 total notional amounts of US\$750,000,000, equivalent to ¢396,465,000,000 (December and September 2014: ¢399,982,500,000 and ¢400,515,000,000, respectively), are booked under "Other debit memoranda accounts".

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of September 30, 2015, the Bank booked an increase in the fair value of these hedges in the amount of US\$40,798,128, equivalent to ₡21,566,706,312 (see note 5-a).

Issuing bank	September 2015				Purpose
		Notional amount		Valuation	
Citibank	US\$	100,000,000	US\$	7,346,492	Swaps to hedge 10-year issues
JP Morgan		200,000,000		14,692,983	
Bank of America		200,000,000		14,692,983	
Subtotal		500,000,000		36,732,458	
Citibank		100,000,000		1,626,268	Swaps to hedge 5-year issues
JP Morgan		150,000,000		2,439,402	
Subtotal		250,000,000		4,065,670	
Total	US\$	750,000,000	US\$	40,798,128	
Amount in colones	₡	396,465,000,000	₡	21,566,706,312	

As of December 31, 2014, the Bank booked an increase in the fair value of these hedges in the amount of US\$19,912,205, equivalent to ₡10,619,377,926 (see note 5-a), and a decrease in the fair value of these hedges in the amount of US\$387,631, equivalent to ₡206,726,657, which is booked under "Other sundry accounts payable" (see note 17).

Issuing bank	December 2014				Purpose
		Notional amount		Valuation	
Citibank	US\$	100,000,000	US\$	3,982,441	Swaps to hedge 10-year issues
JP Morgan		200,000,000		7,964,882	
Bank of America		200,000,000		7,964,882	
Subtotal		500,000,000		19,912,205	
Citibank		100,000,000		(155,052)	Swaps to hedge 5-year issues
JP Morgan		150,000,000		(232,579)	
Subtotal		250,000,000		(387,631)	
Total	US\$	750,000,000	US\$	19,524,574	
Amount in colones	₡	399,982,500,000	₡	10,412,651,269	

As of September 30, 2014 the Bank booked an increase in the fair value of these hedges in the amount of US\$8,652,258, equivalent to ₡4,620,479,100 (see note 5-a), and a decrease in the fair value of these hedges in the amount of US\$1,538,691, equivalent to ₡821,691,851, which is booked under "Other sundry accounts payable" (see note 17).

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

		September 2014		Purpose
Issuing bank		Notional amount	Valuation	
Citibank	US\$	100,000,000	US\$ 1,730,452	Swaps to hedge 10-year issues
JP Morgan		200,000,000	3,460,903	
Bank of America		200,000,000	3,460,903	
Subtotal		500,000,000	8,652,258	
Citibank		100,000,000	(615,476)	Swaps to hedge 5-year issues
JP Morgan		150,000,000	(923,215)	
Subtotal		250,000,000	(1,538,691)	
Total	US\$	750,000,000	US\$ 7,113,567	
Amount in colones	¢	400,515,000,000	¢ 3,798,787,249	

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%.

	September 2015	December 2014 Effective rate	September 2014
5-year issue	95.37%	97.50%	98.58%
10-year issue	96.42%	112.41%	100.88%

A valuation was performed as of September 30, 2015 and December and September 2014 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 September 30, 2015 and December and September 2014;
- Only a portion of the bond cash flows is hedged (corresponding to the 5- and 10-year LIBOR rates in effect at the issue of the bond) rather than the total interest rate;
- Accrued and earned interest was segregated from the instruments to obtain variations in clean prices;
- Forward rate to calculate variable interest.

(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

- Derivatives for trading purposes:

Currency forwards:

In 2015, currency forwards were formalized with several clients. Under these derivative financial instruments, the Bank acts as an authorized intermediary (counterparty). These instruments serve as a trading tool that is not used for currency speculation and whereby no risks are hedged.

These instruments correspond to products that the Bank may offer to its customers as a result of the Central Bank's authorization granted to the Bank to act as an intermediary in the Foreign Exchange Derivatives Market.

As of September 30, 2015, the Bank booked an increase in the fair value of these forwards in the amount of ¢131,252,380 under an asset account (December and September 2014: ¢662,192,854 and ¢896,628,782, respectively) (see note 5-a) and a decrease in the fair value of these forwards (December and September 2014: ¢17,779,910 and ¢379,110, respectively) under "Other sundry accounts payable" (see note 17).

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

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

	<u>September 2015</u>	<u>December 2014</u>	<u>September 2014</u>
Gain on derivative financial instruments	¢ 33,333,088,912	33,852,436,868	24,067,814,753
Loss on derivative financial instruments	<u>(17,940,402,515)</u>	<u>(12,237,460,188)</u>	<u>(10,992,658,206)</u>
Gain (loss), net	¢ <u>15,392,686,397</u>	<u>21,614,976,680</u>	<u>13,075,156,547</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(6) Loan portfolio

(a) Loan portfolio by sector

The loan portfolio by sector is as follows:

	September 2015	December 2014	September 2014
Trade	¢ 361,869,193,470	346,050,158,255	352,526,332,191
Services	738,628,290,777	664,830,572,542	619,149,093,812
Financial services	121,983,793,365	109,161,104,520	97,100,620,831
Mining	399,245,022	408,526,735	406,877,805
Manufacturing and quarrying	143,338,382,110	157,211,033,158	141,662,683,583
Construction	85,063,512,075	72,841,393,278	70,984,382,949
Agriculture and forestry	105,648,388,926	107,959,101,016	99,364,061,592
Livestock, hunting, and fishing	60,773,684,091	60,329,212,920	60,608,342,788
Electricity, water, sanitation, and other related sectors	320,635,660,250	269,517,208,860	249,123,890,048
Transportation and telecommunications	25,304,100,221	20,347,758,445	25,817,462,530
Housing	1,091,268,869,932	1,054,252,479,390	1,046,833,065,414
Personal or consumer	354,968,244,138	347,528,047,842	340,521,237,831
Tourism	129,315,033,641	121,137,622,708	122,986,447,392
Total direct loans	3,539,196,398,018	3,331,574,219,669	3,227,084,498,766
Accrued interest receivable	25,256,781,577	21,715,928,888	21,453,458,290
Allowance for loan impairment	(61,635,033,120)	(49,838,574,099)	(48,819,814,020)
Total loan portfolio	¢ 3,502,818,146,475	3,303,451,574,458	3,199,718,143,036

Annual interest rates on loans receivable are as follows:

Currency	September 2015		December 2014		September 2014	
	Rates	Average	Rates	Average	Rates	Average
Colones	6.50% to 36.25%	15.10%	6.25% to 34.92%	15.20%	6.25% to 34.92%	15.08%
U.S. dollars	2.92% to 27.96%	8.23%	3.25% to 27.96%	8.35%	3.58% to 27.96%	8.26%
DU	3.85% to 11.00%	6.50%	3.85% to 10.00%	6.39%	3.85% to 10.00%	6.26%

(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

### Sold and securitized portfolio

On August 22, 2006, 1, 2014, the Bank reintroduced the strategy of selling the securitized portfolio. The sole buyer was the same buyer as of August 22, 2006, date on which 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 September 30, 2015, the balance of the securitized portfolio is US\$6,671,770, which is equivalent to ₡3,526,830,957 (December and September 2014: US\$6,892,764, equivalent to ₡3,675,980,193, and US\$396,958,391, equivalent to ₡211,983,720,127, respectively).

### Sale of portfolio

In 2014, the Bank partially assigned certain formalized loans to entities. The portfolio was sold at par; accordingly, no gains or losses were generated.

The Bank was the formal and final seller of the portfolio and will be unilaterally responsible for the management, follow-up, and control of the servicing of the loan.

As of September 30, 2015, the sales prices of the sold portfolio are as follows:

<u>Purchaser</u>		<u>Sales price</u>
Banco BICSA Panama	US\$	33,500,000
Employee Association of BNCR		19,500,000
Bancrédito (BCAC)		15,000,000
Banco Davivienda		27,000,000
Global Bank de Panamá		19,550,000
Total	US\$	<u>114,550,000</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(b) Loan portfolio by arrears

The loan portfolio by arrears is as follows:

	September 2015	December 2014	September 2014
Current	¢ 3,326,697,350,450	3,143,210,637,508	3,022,097,186,328
1 to 30 days	89,678,053,777	56,467,793,117	93,831,449,119
31 to 60 days	22,214,393,439	42,853,384,472	21,334,939,217
61 to 90 days	20,600,800,988	17,939,113,286	22,422,095,123
91 to 120 days	9,811,622,466	11,214,144,396	10,248,667,323
121 to 180 days	12,022,083,913	11,470,895,350	10,305,480,095
More than 180 days	58,172,092,985	48,418,251,540	46,844,681,561
Total direct loans	3,539,196,398,018	3,331,574,219,669	3,227,084,498,766
Accrued interest receivable	25,256,781,577	21,715,928,888	21,453,458,290
Allowance for loan impairment	(61,635,033,120)	(49,838,574,099)	(48,819,814,020)
Total loan portfolio	¢ 3,502,818,146,475	3,303,451,574,458	3,199,718,143,036

(c) Loan portfolio by origin

The loan portfolio by origin is as follows:

	September 2015	December 2014	September 2014
Loans originated by the Bank	¢ 3,539,134,961,944	3,331,508,652,889	3,227,016,820,510
Loans purchased by the Bank	61,436,074	65,566,780	67,678,256
Total direct loans	3,539,196,398,018	3,331,574,219,669	3,227,084,498,766
Accrued interest receivable	25,256,781,577	21,715,928,888	21,453,458,290
Allowance for loan impairment	(61,635,033,120)	(49,838,574,099)	(48,819,814,020)
Total loan portfolio	¢ 3,502,818,146,475	3,303,451,574,458	3,199,718,143,036

As of September 30, 2015 and 2014, loans purchased by the Bank were purchased from BICSA.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(d) Past due loans

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

	<u>September 2015</u>	<u>December 2014</u>	<u>September 2014</u>
Past due loans in accrual status:			
21,309 loans in 2015 (December 2014: 17,843 and September 2014: 21,341 loans)	¢ 155,059,081,045	115,703,988,334	135,240,800,356
Loans in legal collection: 6,506 loans in 2015, 4.38% of portfolio (December 2014: 6,025 loans, 2.16% of portfolio and September 2014: 5,005 loans, 2.14% of portfolio)	¢ 82,230,170,328	72,120,002,831	69,054,174,709
Total unearned interest in 2015 and 2014	¢ 1,177,821,374	424,946,962	38,250,187

As of September 30, 2015, the Bank increased the "Finance income on non-accrual loans" account as a result of the recovery of loans receivable over 180 days past due by ¢1,177,821,374 (increases) (December and September 2014: ¢424,946,962 and ¢38,250,187 (increases), respectively).

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

(e) Accrued interest receivable on loan portfolio

Accrued interest receivable is as follows:

	<u>September 2015</u>	<u>December 2014</u>	<u>September 2014</u>
Current	¢ 14,697,049,555	13,020,543,628	12,837,015,420
Past due	2,566,533,980	2,328,423,142	2,751,326,977
In legal collections	7,993,198,042	6,366,962,118	5,865,115,893
	¢ <u>25,256,781,577</u>	<u>21,715,928,888</u>	<u>21,453,458,290</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(f) Allowance for loan impairment

Movements in the allowance for loan impairment are as follows:

	September 2015	December 2014	September 2014
Opening balance	¢ 49,838,574,099	45,646,182,874	45,646,182,874
Expense for the year (note 27)	25,681,537,616	26,164,806,164	20,693,052,328
Settlements	(13,719,722,885)	(21,708,233,163)	(18,475,461,590)
Decrease in allowance against income (note 28)	-	(1,200,000,000)	-
Foreign exchange differences	(165,355,710)	935,818,224	956,040,408
Closing balance	¢ 61,635,033,120	49,838,574,099	48,819,814,020

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

(7) Other receivables

Other receivables are as follows:

	September 2015	December 2014	September 2014
Fees and commissions	¢ 1,023,648,612	1,011,708,508	858,350,952
Stock exchange transactions	37,957,126	9,121,769	191,545,634
Transactions with related parties	-	1,444,411	-
Transactions with related parties (officers and employees)	85,744,231	26,144,755	343,458,042
Deferred tax (note 15-c)	1,123,666,046	1,667,869,346	1,646,310,665
Income tax	2,635,838,269	2,623,590,564	2,567,880,972
Other sundry accounts	3,775,742,354	3,159,168,189	3,250,355,753
Accrued interest receivable on other sundry accounts receivable	1,830,738	2,572,781	1,880,814
Allowance for impairment of other accounts receivable	(5,841,669,640)	(5,361,359,410)	(4,334,613,492)
	¢ 2,842,757,736	3,140,260,913	4,525,169,340

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

	September 2015	December 2014	September 2014
Opening balance	¢ 5,361,359,410	2,303,226,624	2,303,226,624
Allowance expense (note 30)	1,046,393,576	4,558,394,588	2,992,435,492
Decrease in allowance against income (note 31)	(128,790,146)	(1,014,031,493)	(824,175,513)
Items settled against allowance	(434,962,144)	(495,113,902)	(146,227,507)
Foreign exchange differences	(2,331,056)	8,883,593	9,354,396
Closing balance	¢ <u>5,841,669,640</u>	<u>5,361,359,410</u>	<u>4,334,613,492</u>

(8) Foreclosed assets

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

	September 2015	December 2014	September 2014
Assets acquired in lieu of payment	¢ 78,484,156,005	76,541,792,707	74,714,151,470
Idle property and equipment	1,770,510	1,756,777	1,756,777
Allowance for impairment	<u>(60,964,843,176)</u>	<u>(57,188,491,454)</u>	<u>(56,354,708,259)</u>
	¢ <u>17,521,083,339</u>	<u>19,355,058,030</u>	<u>18,361,199,988</u>

Movement in the allowance for impairment is as follows:

	September 2015	December 2014	September 2014
Opening balance	¢ 57,188,491,454	56,007,912,290	56,007,912,290
Allowance expense (note 34)	3,933,977,234	23,421,294,389	17,868,288,494
Decrease in allowance against income	(157,625,512)	(22,240,715,225)	(17,521,492,525)
Closing balance	¢ <u>60,964,843,176</u>	<u>57,188,491,454</u>	<u>56,354,708,259</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(9) Investments in other companies

Investments in other companies are as follows:

	September 2015	December 2014	September 2014
Other financial and non-financial companies	¢ 50,623,300	50,623,300	50,623,300
Banco Internacional de Costa Rica, S.A. and Subsidiary (BICSA)	53,025,125,522	49,805,156,511	48,878,140,382
	¢ 53,075,748,822	49,855,779,811	48,928,763,682

The Bank holds a 49% stake in BICSA, which is represented in September 2015 and December 2014 by 6,506,563 ordinary shares (September 2014: 6,506,563 ordinary shares) with a par value of US\$10 each.

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

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

	September 2015	December 2014	September 2014	Concept
National Stock Exchange	¢ 15,000,000	15,000,000	15,000,000	Investment to operate as custodian of electronic securities
Central de Valores de la Bolsa Nacional de Valores, S.A.	15,000,000	15,000,000	15,000,000	Investment to operate as custodian of electronic securities
Interclar Central de Valores, S.A.	15,000,000	15,000,000	15,000,000	Investment to operate as custodian of electronic securities
Depósito Libre Comercial de Golfito (Golfito Duty Free Shopping Center) per article 24 of Law No. 7131	5,200,000	5,200,000	5,200,000	Investment in the Golfito Duty Free Shopping Center
Other entities	423,300	423,300	423,300	Investments in various cooperatives
	¢ 50,623,300	50,623,300	50,623,300	

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(10) Property and equipment

Property and equipment is as follows:

	September 2015				
	Land	Buildings	Furniture and equipment	Computer hardware	Vehicles
					Total
<i>Cost:</i>					
Opening balance	¢ 43,172,317,837	110,297,273,275	54,512,881,978	53,524,427,013	261,960,481,190
Additions	-	12,419,512,150	3,716,114,138	3,284,430,232	19,420,056,520
Revaluation of assets	-	159,681,438	-	-	159,681,438
Retirements	-	-	(910,910,048)	(736,925,756)	(1,650,429,479)
Adjustments	3,187,248,621	4,824,203,526	2,152,352	(29,089,845)	7,984,514,654
Reclassifications	-	-	1,410,199	(1,410,199)	-
Closing balance	46,359,566,458	127,700,670,389	57,321,648,619	56,041,431,445	287,874,304,323
<i>Accumulated depreciation:</i>					
Opening balance	-	26,840,836,640	27,066,836,851	40,296,173,459	94,494,824,478
Depreciation expense on historical cost	-	816,347,190	3,537,470,498	3,638,553,725	8,017,586,612
Depreciation expense on revaluation	-	1,143,313,329	-	-	1,143,313,329
Retirements	-	-	(651,865,228)	(659,302,081)	(1,313,489,908)
Adjustments	-	2,492,227,282	20,218,979	(48,054,122)	2,464,392,139
Reclassifications	-	-	2,730,237	(2,730,237)	-
Closing balance	-	31,292,724,441	29,975,391,337	43,224,640,744	104,806,626,650
Net closing balance	¢ 46,359,566,458	96,407,945,948	27,346,257,282	12,816,790,701	183,067,677,673

As of September 30, 2015, appraisals of the Bank's land and buildings were made by independent appraisers. The effect is shown in the accounts above.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 2014

	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	454,783,747	256,885,622,740
Additions	693,861,397	2,735,561,071	5,214,259,638	5,049,754,183	-	13,693,436,289
Retirements	-	-	(3,035,477,512)	(3,612,495,106)	(1,222,260)	(6,649,194,878)
Adjustments	-	(1,939,628,547)	(11,203,983)	(18,570,032)	19,600	(1,969,382,962)
Reclassifications	-	-	79,841,066	(79,841,066)	-	-
Closing balance	43,172,317,837	110,297,273,275	54,512,881,977	53,524,427,013	453,581,087	261,960,481,189
<i>Accumulated depreciation:</i>						
Opening balance	-	26,226,274,877	25,157,036,475	39,286,222,536	245,537,133	90,915,071,021
Depreciation expense on historical cost	-	1,586,922,291	4,368,524,426	4,584,089,714	46,643,055	10,586,179,486
Depreciation expense on revaluation	-	1,462,442,151	-	-	-	1,462,442,151
Retirements	-	-	(2,604,236,670)	(3,598,577,617)	(1,222,260)	(6,204,036,547)
Adjustments	-	(2,434,802,679)	73,453,410	96,498,037	19,600	(2,264,831,632)
Reclassifications	-	-	71,939,566	(71,939,566)	-	-
Closing balance	-	26,840,836,640	27,066,717,207	40,296,293,104	290,977,528	94,494,824,479
Net closing balance	¢ 43,172,317,837	83,456,436,635	27,446,164,770	13,228,133,909	162,603,559	167,465,656,710

As of December 31, 2014, no appraisals were made of the Bank's land and buildings by independent appraisers.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 2014						
	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	-	1,290,565,778	3,232,533,153	2,390,268,826	-	6,913,367,757
Retirements	-	-	(1,036,161,889)	(3,589,928,873)	-	(4,626,090,762)
Adjustments	-	-	(157,243,132)	(5,131,734)	-	(162,374,866)
Reclassifications	-	-	23,833,156	(23,833,156)	-	-
Closing balance	42,478,456,440	110,791,906,529	54,328,424,056	50,956,954,097	454,783,746	259,010,524,868
<i>Accumulated depreciation:</i>						
Opening balance	-	26,226,274,877	25,157,036,475	39,286,222,536	245,537,132	90,915,071,020
Depreciation expense on historical cost	-	1,348,776,031	3,264,197,127	3,424,918,670	34,904,690	8,072,796,518
Depreciation expense on revaluation	-	1,126,827,359	-	-	-	1,126,827,359
Retirements	-	-	(871,235,385)	(3,575,636,084)	-	(4,446,871,469)
Adjustments	-	(1,001,081,841)	13,661,441	43,661,339	-	(943,759,061)
Reclassifications	-	-	23,706,429	(23,706,429)	-	-
Closing balance	-	27,700,796,426	27,587,366,087	39,155,460,032	280,441,822	94,724,064,367
Net closing balance	¢ 42,478,456,440	83,091,110,103	26,741,057,969	11,801,494,065	174,341,924	164,286,460,501

As of September 30, 2014, no appraisals were made of the Bank's land and buildings by independent appraisers.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(11) Other assets

Other assets are as follows:

	September 2015	December 2014	September 2014
<i>Deferred charges:</i>			
Leasehold improvements	¢ 913,958,286	831,999,093	940,662,070
Cost of issue of financial instruments (3)	1,224,636,668	1,401,680,466	1,457,694,566
Cost of subordinated debt project	561,018,390	615,917,148	537,412,618
Deferred direct costs related to loans	9,477,397,641	13,834,802,293	11,722,386,655
Other deferred charges	3,979,999,940	4,973,694,393	5,306,053,202
Subtotal	16,157,010,925	21,658,093,393	19,964,209,111
<i>Intangible assets:</i>			
Software (2)	4,051,791,159	4,500,259,966	3,453,412,162
Other intangible assets (2)	-	2,487,278	2,487,278
Subtotal	4,051,791,159	4,502,747,244	3,455,899,440
<i>Other assets:</i>			
Prepaid interest and fees and commissions	226,907,201	218,164,300	218,212,037
Estimated tax	6,340,030,567	393,627,806	1,454,792,715
Prepaid insurance policy	504,415,694	274,222,485	481,547,120
Other prepaid expenses	446,840,137	728,793,671	1,026,135,252
Stationery, office supplies, and other materials	346,877,629	377,118,432	188,077,688
Leased assets	102,480,303	149,956,917	150,321,306
Library and artwork	341,267,151	342,335,900	342,400,640
Construction work-in-progress	5,321,901,655	17,031,899,617	16,412,273,581
Software under development	278,985,826	254,109,573	246,901,526
Rights in welfare and trade associations	600,000	600,000	600,000
Other sundry assets	1,529,264,167	1,784,494,330	1,546,932,236
Cash shortages	-	-	213,608
Operations pending settlement	4,280,265,731	3,179,252,421	3,695,664,294
Other operations pending application	472,785,407	452,187,725	594,196,698
Guarantee deposits (1)	324,799,267	255,640,680	199,374,097
Legal and administrative deposits (1)	175,134,546	78,912,799	50,829,304
Subtotal	20,692,555,281	25,521,316,656	26,608,472,102
Total	¢ 40,901,357,365	51,682,157,293	50,028,580,653

(1) As of September 30, 2015, guarantee deposits amount to ¢499,933,813 (December and September 2014: ¢334,553,479 and ¢250,203,401, respectively) (see note 2).

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(2) Intangible assets, net are as follows:

September 2015			
	Software	Other intangible assets	Total
<i>Cost:</i>			
Opening balance	¢ 19,066,822,045	96,516,837	19,163,338,882
Additions	1,196,237,701	4,258,122	1,200,495,823
Retirements	(122,295,227)	-	(122,295,227)
Reclassifications	(12,067,256)	(6,745,400)	(18,812,656)
Adjustments	(1,103,775)	-	(1,103,775)
Closing balance	20,127,593,488	94,029,559	20,221,623,047
<i>Accumulated amortization:</i>			
Opening balance	14,566,562,077	94,029,559	14,660,591,636
Expense for the year	1,626,926,849	4,974,556	1,631,901,405
Retirements	(79,145,230)	-	(79,145,230)
Reclassifications	(38,541,367)	(4,974,556)	(43,515,923)
Closing balance	16,075,802,329	94,029,559	16,169,831,888
Net closing balance	¢ 4,051,791,159	-	4,051,791,159
December 2014			
	Software	Other intangible assets	Total
<i>Cost:</i>			
Opening balance	¢ 15,834,005,003	96,516,837	15,930,521,840
Additions	3,598,000,565	9,949,112	3,607,949,677
Retirements	(265,209,329)	-	(265,209,329)
Reclassifications	(63,943,006)	(9,949,112)	(73,892,118)
Adjustments	(36,031,188)	-	(36,031,188)
Closing balance	19,066,822,045	96,516,837	19,163,338,882
<i>Accumulated amortization:</i>			
Opening balance	13,016,984,268	94,029,559	13,111,013,827
Expense for the year	1,793,014,994	9,949,112	1,802,964,106
Retirements	(243,437,183)	-	(243,437,183)
Reclassifications	-	(9,949,112)	(9,949,112)
Closing balance	14,566,562,079	94,029,559	14,660,591,638
Net closing balance	¢ 4,500,259,966	2,487,278	4,502,747,244

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 2014			
	Software	Other intangible assets	Total
<i>Cost:</i>			
Opening balance	¢ 15,834,005,002	96,516,837	15,930,521,839
Additions	2,037,451,952	7,461,834	2,044,913,786
Retirements	(252,996,231)	-	(252,996,231)
Reclassifications	(44,068,700)	(7,461,834)	(51,530,534)
Adjustments	(8,321,577)	-	(8,321,577)
Closing balance	17,566,070,446	96,516,837	17,662,587,283
<i>Accumulated amortization:</i>			
Opening balance	13,016,984,268	94,029,559	13,111,013,827
Expense for the year	1,307,441,625	7,461,834	1,314,903,459
Retirements	(211,767,609)	(7,461,834)	(219,229,443)
Closing balance	14,112,658,284	94,029,559	14,206,687,843
Net closing balance	¢ 3,453,412,162	2,487,278	3,455,899,440

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

September 2015			
	5-year issue	10-year issue	Total
Commission - structuring banks	¢ 264,310,000	264,310,000	528,620,000
Commission - Moody's Investors Service	132,155,000	132,155,000	264,310,000
Commission - Société de la Bourse de Luxembourg, S.A.	6,460,265	6,460,265	12,920,530
RR Donelley	5,786,803	5,786,782	11,573,585
BNY Mellon	2,089,635	2,089,635	4,179,270
Moody's - issuer rating	17,497,322	17,497,322	34,994,644
Fitch Ratings	132,155,000	132,155,000	264,310,000
Milbank	77,791,719	77,791,719	155,583,438
Shearman & Sterling	77,892,686	77,892,686	155,785,372
External audit	100,437,800	100,437,800	200,875,600
Subtotal	816,576,230	816,576,209	1,633,152,439
Deferral	(289,127,895)	(119,387,876)	(408,515,771)
Total	¢ 527,448,335	697,188,333	1,224,636,668

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	December 2014		
	5-year issue	10-year issue	Total
Commission - structuring banks ¢	266,655,000	266,655,000	533,310,000
Commission - Moody's Investors Service	133,327,500	133,327,500	266,655,000
Commission - Société de la Bourse de Luxembourg, S.A.	6,517,582	6,517,582	13,035,164
RR Donelley	5,838,145	5,838,123	11,676,268
BNY Mellon	2,108,174	2,108,174	4,216,348
Moody's - issuer rating	17,652,561	17,652,561	35,305,122
Fitch Ratings	133,327,500	133,327,500	266,655,000
Milbank	78,481,900	78,481,900	156,963,800
Shearman & Sterling	78,583,762	78,583,762	157,167,524
External audit	101,328,900	101,328,900	202,657,800
Subtotal	823,821,024	823,821,002	1,647,642,026
Deferral	(174,321,409)	(71,640,151)	(245,961,560)
Total	¢ 649,499,615	752,180,851	1,401,680,466

	September 2014		
	5-year issue	10-year issue	Total
Commission - structuring banks ¢	267,010,000	267,010,000	534,020,000
Commission - Moody's Investors Service	133,505,000	133,505,000	267,010,000
Commission - Société de la Bourse de Luxembourg, S.A.	6,526,258	6,526,258	13,052,516
RR Donelley	5,845,917	5,845,896	11,691,813
BNY Mellon	2,110,981	2,110,981	4,221,962
Moody's - issuer rating	17,676,062	17,676,062	35,352,124
Fitch Ratings	133,505,000	133,505,000	267,010,000
Milbank	78,586,383	78,586,383	157,172,766
Shearman & Sterling	78,688,381	78,688,381	157,376,762
External audit	101,463,800	101,463,800	202,927,600
Subtotal	824,917,782	824,917,761	1,649,835,543
Deferral	(136,244,768)	(55,896,209)	(192,140,977)
Total	¢ 688,673,014	769,021,552	1,457,694,566

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(12) Obligations with the public

(a) By cumulative amount

Obligations with the public by cumulative amount are as follows:

	September 2015	December 2014	September 2014
<i>Demand obligations:</i>			
Checking accounts	¢ 1,229,178,656,737	1,198,704,476,197	1,121,908,017,819
Certified checks	155,638,695	103,521,169	124,837,434
Savings deposits	1,040,403,950,207	1,015,801,186,963	939,283,051,941
Matured term deposits	18,732,266,227	19,745,314,768	23,198,314,885
Other demand deposits	14,178,180,594	24,057,553,654	24,742,499,773
Drafts and transfers	200,795,085	198,809,563	184,281,034
Cashier's checks	5,875,577,175	6,126,485,979	4,496,346,476
Advance collections from customers for credit cards	6,632,800,969	7,450,712,822	5,864,787,461
Obligations for trust funds	47,664,680	118,941,091	13,578,836
Subtotal	<u>2,315,405,530,369</u>	<u>2,272,307,002,207</u>	<u>2,119,815,715,659</u>
<i>Term obligations:</i>			
Deposits from the public	1,436,558,486,938	1,308,840,107,479	1,318,201,659,128
Other term deposits	83,997,387,801	79,219,422,491	68,888,584,469
Subtotal	<u>1,520,555,874,739</u>	<u>1,388,059,529,970</u>	<u>1,387,090,243,597</u>
<i>Other obligations with the public:</i>			
Obligations for tri-party repurchase agreements	31,571,893,580	31,028,841,773	31,652,140,140
Subtotal	<u>31,571,893,580</u>	<u>31,028,841,773</u>	<u>31,652,140,140</u>
Charges payable for obligations with the public	21,801,734,667	19,356,766,578	18,533,332,300
Total	<u>¢ 3,889,335,033,355</u>	<u>3,710,752,140,528</u>	<u>3,557,091,431,696</u>

As of September 30, 2015 and 2014, deposits in checking accounts denominated in colones bear interest at a maximum rate of 1.50% 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 nil per annum on balances greater than or equal to US\$1,000.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

<u>Currency</u>	<u>September 2015</u>	<u>December 2014</u>	<u>September 2014</u>
Colones	1.80% to 7.60%	3.52% to 7.05%	3.52% to 7.05%
U.S. Dollars	0.10% to 4.50%	0.50% to 2.15%	0.50 to 2.15%
Euros	0.01% to 0.05%	0.02% to 0.10%	0.05% to 0.20%

The Bank has term certificates of deposit that are restricted to secure certain loan operations. As of September 30, 2015, those term certificates of deposit amount to ¢29,050,586,862 (December and September 2014: ¢23,805,901,801 and ¢22,286,478,389, respectively). As of that date, the Bank has no inactive deposits with State-owned entities or other banks.

(b) By number of customers

The obligations with the public by number of customers are as follows:

	<u>September 2015</u>	<u>December 2014</u>	<u>September 2014</u>
<i>Obligations with the public:</i>			
Demand	1,833,274	1,777,763	1,774,302
Term	65,550	64,441	64,038

(13) Obligations with BCCR

Obligations with BCCR are as follows:

	<u>September 2015</u>	<u>December 2014</u>	<u>September 2014</u>
Financing for loans using internal funds	¢ -	2,705,427	2,751,507
Financing for loans using external funds	125,644,412	179,746,885	179,746,885
Interest payable on obligations	-	294,619	21,901
Subtotal	¢ <u>125,644,412</u>	<u>182,746,931</u>	<u>182,520,293</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(15) Obligations with entities and subordinated obligations

a. Obligations with entities

Obligations with entities are as follows:

	September 2015	December 2014	September 2014
<i>Demand:</i>			
Checking accounts of local financial entities	¢ 85,148,954,173	123,921,208,197	114,084,243,160
Savings deposits from local financial entities	30,737,909	38,289,746	37,111,433
FCD fund management	136,748,014,843	156,295,635,782	146,968,488,881
Outstanding checks	6,740,492,888	3,421,821,488	7,869,041,966
Checking accounts and obligations with related parties	19,757,588	463,489,825	33,790,508
Other demand obligations with financial entities	699,148,359	443,472,759	739,413,595
Subtotal	<u>229,387,105,760</u>	<u>284,583,917,797</u>	<u>269,732,089,543</u>
<i>Term:</i>			
Term deposits from local financial entities	51,740,175,969	6,135,267,119	6,450,488,062
Term deposits from foreign financial entities (3)	542,767,108,583	537,734,760,627	529,770,127,138
Funds from liquidity market	8,875,000,000	2,500,000,000	-
Loans from local financial entities	3,452,990,518	1,375,000,000	1,500,000,000
Loans from foreign financial entities (1)(2)	304,149,941,543	250,664,789,736	252,432,922,278
Subtotal	<u>910,985,216,613</u>	<u>798,409,817,482</u>	<u>790,153,537,478</u>
Charges payable for other demand and term obligations with financial entities –foreign currency	68,896,307	4,375,165	2,610,055
Charges payable for other demand and term obligations with financial entities –local currency	241,129,423	73,523,264	46,846,824
Charges payable for loans with foreign financial entities (1)	2,251,662,906	1,501,293,430	2,089,164,848
Charges payable for loans with local financial entities	12,847,576	7,476,563	8,156,250
Charges payable for term deposits from foreign financial entities (3)	12,251,869,811	4,944,228,129	12,377,026,061
Subtotal	<u>14,826,406,023</u>	<u>6,530,896,551</u>	<u>14,523,804,038</u>
Total	¢ <u>1,155,198,728,396</u>	<u>1,089,524,631,830</u>	<u>1,074,409,431,059</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- Loans from foreign financial entities are as follows:

Entity	Annual interest rate				Maturity		Balances		
	Sept 2015	Dec 2014	Sept 2014	Sept 2015	Dec 2014	Sept 2014	Sept 2015	Dec 2014	Sept 2014
BCIE	4.55% to 8.00%	4.55% to 8.00%	4.55% to 8.00%	2015 to 2021	2015 to 2021	2015 to 2021	16,929,329,949	21,430,327,428	22,898,567,526
Barclays	6.20% to 6.55%	6.20% to 6.65%	6.20% to 6.65%	2023 to 2029	2023 to 2029	2023 to 2029	67,502,571,415	67,011,197,761	68,192,128,915
Credit Suisse Bank	3.76% to 1.43%	3.58%	3.58%	2017	2017	2017	55,806,482,209	56,777,835,415	56,351,144,147
Citibank	3.08%	2.99%	2.98%	2016	2016 to 2017	2016 to 2017	126,679,338,217	106,946,722,562	107,080,246,538
KFW	3.32% to 1.48%	-	-	2023	-	-	6,125,829,266	-	-
Wells Fargo Bank	2.13%	-	-	2016	-	-	22,765,969,258	-	-
Commercebanc, N.A.-Miami	2.03%	-	-	2016	-	-	10,592,084,135	-	-
							¢ 306,401,604,449	252,166,083,166	254,522,087,126

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

Loans due to foreign financial entities bear interest at rates ranging between 1.43% and 8% per annum (December and September 2014: between 2.99% and 8% per annum and between 2.98% and 8% per annum, respectively).

- On October 29, 2013, the Bank made two international bond issues with a face value of US\$1 billion equivalent to ¢532,418,391,228 in September 2015 (December September 2014: ¢529,051,519,650 and ¢529,755,850,300, respectively) with the following characteristics:

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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:

	September 2015		
	5-year issue	10-year issue	Total
Issue	¢ 261,714,759,658	270,703,631,570	532,418,391,228
Adjustment to fair value of item hedged measured at cost of international issues	2,087,448,847	7,276,571,744	9,364,020,591
Amortization of discount in traded amount of issues	626,084,577	358,612,187	984,696,764
Subtotal	264,428,293,082	278,338,815,501	542,767,108,583
Charges payable	5,368,796,875	6,883,072,936	12,251,869,811
Total	¢ 269,797,089,957	285,221,888,437	555,018,978,394

	December 2014		
	5-year issue	10-year issue	Total
Issue	¢ 264,871,078,050	264,180,441,600	529,051,519,650
Adjustment to fair value of item hedged measured at cost of international issues	(834,343,773)	8,924,915,278	8,090,571,505
Amortization of discount in traded amount of issues	377,479,815	215,189,657	592,669,472
Subtotal	264,414,214,092	273,320,546,535	537,734,760,627
Charges payable	2,166,571,875	2,777,656,254	4,944,228,129
Total	¢ 266,580,785,967	276,098,202,789	542,678,988,756

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	September 2014		
	5-year issue	10-year issue	Total
Issue	¢ 265,223,703,100	264,532,147,200	529,755,850,300
Adjustment to fair value of item hedged measured at cost of international issues	(1,759,560,884)	1,310,911,313	(448,649,571)
Amortization of discount in traded amount of issues	295,027,850	167,898,559	462,926,409
Subtotal	263,759,170,066	266,010,957,072	529,770,127,138
Charges payable	5,423,640,625	6,953,385,436	12,377,026,061
Total	¢ 269,182,810,691	272,964,342,508	542,147,153,199

A valuation was performed as of September 30, 2015 and December and September 2014 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 September 30, 2015 and December and September 2014;
- Only a portion of the bond cash flows is hedged (corresponding to the 5- and 10-year LIBOR rates in effect at the issue of the bond) rather than the total interest rate;
- Accrued and earned interest was segregated from the instruments to obtain variations in clean prices;
- Forward rate to calculate variable interest.

For the period ended September 30, 2015, the Bank booked an increase in the fair value of these issues in the amount of ¢17,510,702,857 under "Other finance income" (December and September 2014: ¢11,354,254,000 and ¢10,423,760,802, respectively) (see note 25). For the year ended September 30, 2015, the Bank booked a decrease in the fair value of these issues in the amount of ¢26,910,970,713 (December and September 2014: ¢31,798,043,109 and ¢22,362,620,647, respectively) under "Other finance expenses". The balance of this account amounts to a total of ¢27,110,743,535 (December and September 2014: ¢32,412,368,057 and ¢22,894,384,016, respectively).

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Maturities of loans due to entities

The maturities of loans due to entities are as follows:

		September 2015		
		Local	Foreign	Total
Between 1 and 2 years		-	221,812,258,290	221,812,258,290
Between 3 and 5 years		-	10,960,945,478	10,960,945,478
More than 5 years		3,591,482,506	73,628,400,681	77,219,883,187
	¢	<u>3,591,482,506</u>	<u>306,401,604,449</u>	<u>309,993,086,955</u>
		December 2014		
		Local	Foreign	Total
Less than 1 year	¢	-	584,686,485	584,686,485
Between 1 and 2 years		-	54,811,230,679	54,811,230,679
Between 3 and 5 years		1,436,872,528	117,193,596,699	118,630,469,227
More than 5 years		128,350,966	79,576,569,303	79,704,920,269
	¢	<u>1,565,223,494</u>	<u>252,166,083,166</u>	<u>253,731,306,660</u>
		September 2014		
		Local	Foreign	Total
Between 1 and 2 years		-	55,867,777,520	55,867,777,520
Between 3 and 5 years		1,562,279,472	117,376,796,769	118,939,076,241
More than 5 years		128,397,071	81,277,512,837	81,405,909,908
	¢	<u>1,690,676,543</u>	<u>254,522,087,126</u>	<u>256,212,763,669</u>

As of September 30, 2015 and 2014, loans due to local entities correspond to obligations with Banco Crédito Agrícola de Cartago and BCCR.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

b. Subordinated obligations

The Bank's subordinated obligations are as follows:

Entity	Annual interest rate	Term	Maturity		September 2015	December 2014	September 2014
	6-month LIBOR + 4.50% in the first 5 years and 6-month LIBOR + 5.00% thereafter	10 years	08/15/2024	US\$	100,000,000	100,000,000	100,000,000
IDB							
	6-month LIBOR + 5.25% in the first 5 years and 6-month LIBOR + 5.75% thereafter	15 years	10/23/2029		30,000,000	30,000,000	-
CABEI				US\$	130,000,000	130,000,000	100,000,000
Total				€	68,720,600,000	69,330,300,000	53,402,000,000
Total in colones					508,021,502	1,027,971,862	329,640,838
Finance charges payable				€	69,228,621,502	70,358,271,862	53,731,640,838

As of September 30, 2015 and 2014, the Bank presents no instances of noncompliance with payments of principal or interest.

As of September 30, 2015, interest earned by subordinated liabilities amounts to US\$961,033, equivalent to €508,021,502 (December and September 2014: US\$1,927,532, equivalent to €1,027,971,862, and US\$617,282, equivalent to €329,640,838, respectively).

In accordance with IRNBS, the debt of State-owned commercial banks will be secured with guarantees issued by the Government and all its divisions and institutions. Government guarantees provided for in the aforementioned regulations do not apply to subordinated loans subscribed by State-owned commercial banks or rights and obligations derived therefrom. Subordinated financial instruments or loans (and the rights and obligations derived therefrom) may only be subscribed by multilateral development banks or bilateral development organizations.

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# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

Pursuant to SUGEF's prudential regulations on full unsubordinated debt prepayment by borrowers, if classified as Tier II capital, loans (including principal and interest) will be categorized as subordinated debt and ranked below other loans, such that borrowers will first fully repay any unsubordinated debt (existing on the effective date, or subsequently subscribed, assumed, or secured) in accordance with banking regulations.

### (16) Income tax

Pursuant to the Costa Rican Income Tax Law, the Bank is required to file annual income tax returns for the year ending September 30 of each year.

#### a) Current period income tax

The income tax expense is as follows:

	September 2015	December 2014	September 2014
Current	¢ 8,143,357,408	12,699,481,806	8,953,327,556
Decrease in income tax	(1,269,188,626)	(314,765,092)	(293,061,927)
Temporary differences	-	-	(21,703,164)
	¢ <u>6,874,168,783</u>	<u>12,384,716,714</u>	<u>8,638,562,465</u>

The difference between the income tax expense and the amount computed by applying the corresponding tax rate to pretax income (30%) is reconciled as follows:

	September 2015	December 2014	September 2014
Expected income tax on accounting income	¢ 14,307,719,366	19,913,592,067	14,310,890,243
Plus (less):			
Nondeductible expenses	9,677,620,997	9,508,773,325	6,828,186,166
Deductible expenses	(914,448,171)	(1,337,337,859)	(1,021,283,769)
Nontaxable income	(16,191,103,238)	(16,162,151,613)	(11,856,934,585)
Taxable income	(5,620,171)	-	-
Tax loss from excess deductible expenses on taxable income	-	461,840,794	377,704,410
Subtotal income tax	¢ <u>6,874,168,783</u>	<u>12,384,716,714</u>	<u>8,638,562,465</u>
Less:			
Estimated income tax	<u>(6,320,273,628)</u>	<u>(1,555,704,963)</u>	<u>(1,435,625,065)</u>
Total income tax payable (note 17)	<u>(553,895,155)</u>	<u>10,829,011,751</u>	<u>7,202,937,400</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

b) Prior period income tax

	<u>September 2015</u>	<u>December 2014</u>	<u>September 2014</u>
Decrease in Pension Fund Manager's prior period income tax	¢ -	1,743,205	1,743,205
Decrease in Insurance Brokerage Firm's prior period income tax	¢ -	3,786,135	3,786,135
	¢ <u>-</u>	<u>5,529,340</u>	<u>5,529,340</u>

c) Deferred tax

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

	<u>September 2015</u>	<u>December 2014</u>	<u>September 2014</u>
Unrealized losses	¢ 928,394,233	1,484,152,904	1,568,851,612
Legal provisions	195,271,813	183,716,442	77,459,053
Subtotal	¢ <u>1,123,666,046</u>	<u>1,667,869,346</u>	<u>1,646,310,665</u>

As of September 30, 2015, movement in temporary differences that give rise to deferred tax assets is as follows:

	<u>December 31, 2014</u>	<u>Included in income statement</u>	<u>Included in equity</u>	<u>September 30, 2015</u>
Unrealized losses	¢ 1,484,152,904	49,332,583	(605,091,254)	928,394,233
Legal provisions	183,716,442	34,075,407	(22,520,036)	195,271,813
	¢ <u>1,667,869,346</u>	<u>83,407,990</u>	<u>(627,611,290)</u>	<u>1,123,666,046</u>

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

	<u>December 31, 2013</u>	<u>Included in income statement</u>	<u>Included in equity</u>	<u>December 31, 2014</u>
Unrealized losses	¢ 2,009,931,243	-	(525,778,339)	1,484,152,904
Legal provisions	168,717,007	14,999,435	-	183,716,442
	¢ <u>2,178,648,250</u>	<u>14,999,435</u>	<u>(525,778,339)</u>	<u>1,667,869,346</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of September 30, 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	September 30, 2014
Unrealized losses	¢ 2,009,931,243	180,068,645	(621,148,276)	1,568,851,612
Legal provisions	168,717,007	(91,257,954)	-	77,459,053
	¢ <u>2,178,648,250</u>	<u>88,810,691</u>	<u>(621,148,276)</u>	<u>1,646,310,665</u>

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

	September 2015	December 2014	September 2014
Revaluation of assets	¢ 14,107,278,242	13,283,636,328	13,283,636,328
Unrealized gains	2,676,448,204	883,882,942	729,307,202
	¢ <u>16,783,726,446</u>	<u>14,167,519,270</u>	<u>14,012,943,530</u>

As of September 30, 2015, movement in temporary differences that give rise to deferred tax liabilities is as follows:

	December 31, 2014	Included in income statement	Included in equity	September 30, 2015
Revaluation of assets	¢ 13,283,636,328	-	823,641,914	14,107,278,242
Unrealized gains	883,882,942	1,579,740	1,790,985,522	2,676,448,204
	¢ <u>14,167,519,270</u>	<u>1,579,740</u>	<u>2,614,627,436</u>	<u>16,783,726,446</u>

As of December 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	December 31, 2014
Revaluation of assets	¢ 13,605,138,374	-	(321,502,046)	13,283,636,328
Unrealized gains	671,583,288	-	212,299,654	883,882,942
	¢ <u>14,276,721,662</u>	<u>-</u>	<u>(109,202,392)</u>	<u>14,167,519,270</u>

(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

	December 31, 2013	Included in income statement	Included in equity	September 30, 2014
Revaluation of assets	¢ 13,605,138,374	-	(321,502,046)	13,283,636,328
Unrealized gains	671,583,288	495,584,768	(437,860,854)	729,307,202
	¢ 14,276,721,662	495,584,768	(759,362,900)	14,012,943,530

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

Tax returns filed by the Bank for the periods ended 2010, 2011, 2012, 2013, and 2014, and the tax return that will be filed for the period ended 2015, are open to review by Tax Authorities.

### (17) Provisions

Provisions are as follows:

	September 2015	December 2014	September 2014
Severance benefits	¢ 17,488,622,249	28,436,142,592	26,457,992,559
Litigation	3,663,522,213	2,680,918,923	2,416,986,134
Other	9,076,997,469	8,385,833,140	6,981,094,876
	¢ 30,229,141,931	39,502,894,655	35,856,073,569

The movement in provisions is as follows:

	Severance benefits	Litigation	Other	Total
Balance at December 31, 2013	¢ 32,453,960,944	9,468,849,446	8,200,794,773	50,123,605,163
Provisioned	20,350,419,614	2,830,537,468	12,401,448,322	35,582,405,404
Used	(26,340,220,759)	(2,150,096,601)	(12,949,594,441)	(41,439,911,801)
Decrease in provisions against profit	(6,167,240)	(7,732,304,179)	(671,553,778)	(8,410,025,197)
Balance at September 30, 2014	26,457,992,559	2,416,986,134	6,981,094,876	35,856,073,569
Balance at December 31, 2013	¢ 32,453,960,945	9,468,849,446	8,200,794,772	50,123,605,163
Provisioned	9,942,743,000	1,333,646,569	7,986,651,475	19,263,041,044
Used	(13,959,071,685)	(387,507,369)	(7,127,857,932)	(21,474,436,986)
Decrease in provisions against profit	(1,489,668)	(7,734,069,723)	(673,755,175)	(8,409,314,566)
Balance at December 31, 2014	¢ 28,436,142,592	2,680,918,923	8,385,833,140	39,502,894,655
Provisioned	6,039,307,999	1,509,517,216	9,390,617,411	16,939,442,626
Used	(13,613,745,068)	(370,798,225)	(5,856,365,647)	(19,840,908,940)
Decrease in provisions against profit	(3,373,083,274)	(156,115,701)	(2,843,087,435)	(6,372,286,410)
Balance at September 30, 2015	17,488,622,249	3,663,522,213	9,076,997,469	30,229,141,931

(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

The provision for litigation is as follows:

	September 2015	December 2014	September 2014
Ordinary suits	¢ 2,882,373,378	1,998,040,666	1,997,744,442
Ordinary suits against subsidiaries	365,005,902	265,110,324	1,473,759
Phishing	416,142,933	417,767,933	417,767,933
	<u>¢ 3,663,522,213</u>	<u>2,680,918,923</u>	<u>2,416,986,134</u>

As of September 30, 2015 and 2014, the Bank is a defendant in litigation and management considers that an outflow of economic benefits will be required to settle the corresponding obligations. The Bank has estimated future disbursements and made the following provisions:

- Ordinary suits filed against the Bank have been estimated at ¢66,652,236,832 (December and September 2014: ¢65,961,788,888 and ¢65,416,440,888, respectively) and US\$345,053,143 (December and September 2014: US\$341,991,608 and US\$341,994,108, respectively). The Bank's management has provisioned ¢2,882,373,378 (December and September 2014: ¢1,998,040,666 and ¢1,997,744,442, respectively) for ordinary and labor suits and judicial litigation.
- For criminal proceedings in which the Bank is the civil defendant, the total potential liability has been estimated at ¢400,697,275 (December and September 2014: ¢427,042,800 and ¢4,140,000, respectively). The amount provisioned by the Bank in connection therewith is included in the provision for ordinary suits.
- Due to their nature, labor suits are difficult to estimate. However, they have been estimated at ¢1,561,333,665 (December and September 2014: ¢2,703,131,086 and ¢2,668,959,700, respectively). The amount provisioned by the Bank in connection therewith is included in the provision for ordinary suits.
- The accounting records of the Bank's subsidiaries include provisions for ordinary suits filed against the subsidiaries for a total of ¢365,005,902 (December and September 2014: ¢265,110,324 and ¢1,473,759, respectively).
  - The provision recognized by the Pension Fund Manager amounts to ¢265,110,324 in 2015 (December and September 2014: ¢265,110,324 and ¢1,473,759, respectively).
  - The provision booked by the Brokerage Firm amounts to ¢99,895,578 in September 2015 (December and September 2014: nil).

(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

- The Insurance Brokerage Firm has not booked provisions for pending litigation.
- As of September 30, 2015, the Bank faces 514 administrative actions related to Internet fraud (phishing) for a total of ₡416,142,933 (December and September 2014: 514 administrative actions for a total of ₡417,767,933). The Bank has provisioned 100% of that amount.

### (18) Other sundry accounts payable

Other sundry accounts payable are as follows:

	September 2015	December 2014	September 2014
Professional fees	₡ 2,427,475	3,220,299	7,480,706
Creditors - goods and services	3,632,219,259	2,729,365,999	5,793,171,579
Current tax (note 15)	6,874,168,783	10,829,011,751	8,638,562,465
Employer contributions (1)	7,410,513,301	9,152,489,769	7,622,573,481
Court-ordered withholdings	3,148,255,857	2,601,809,304	2,399,976,173
Tax withholdings	1,832,529,603	839,701,237	795,269,870
Employee withholdings	566,576,929	543,289,264	546,764,764
Other third-party withholdings	309,975,089	24,442,456	354,956,324
Compensation	5,892,506,817	6,962,434,513	5,215,699,731
Dividends	-	1,151,259	1,151,259
Statutory allocations	9,171,651,279	11,601,170,413	8,350,929,434
Obligation for loans with related parties	-	-	12,533
Clearing house operations	1,458,198,063	4,414,157,187	-
Accrued vacation	7,154,784,794	6,322,729,792	6,904,447,809
Accrued statutory Christmas bonus	6,829,957,643	1,633,351,748	6,683,496,870
Contributions to superintendencies	-	9,071,297	-
Foreclosed assets	144,027,670	502,916,892	469,282,399
Various creditors - Local currency (2)	7,882,774,339	6,608,677,466	8,514,290,548
Various creditors - Foreign currency	5,909,453,654	4,539,087,339	5,547,760,433
Interest rate futures - Hedges (note 5-b)	-	206,726,657	821,691,851
Purchase of FX futures - Other than hedges	-	-	379,110
Sale of FX futures - Other than hedges (note 5-b)	-	17,779,910	-
	₡ <u>68,220,020,555</u>	<u>69,542,584,552</u>	<u>68,667,897,339</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- (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).
- (2) As of September 30, 2015, the “Creditors - goods and services” line item includes ¢1,973 million (December and September 2014: ¢956 million and ¢1,158 million, respectively) for the operations of the Bank’s Electronic Means of Payment Division (Visa). The remaining amount corresponds to normal operations of other divisions.
- (19) Other liabilities

Other liabilities are as follows:

	September 2015	December 2014	September 2014
<i>Deferred income:</i>			
Deferred finance income	¢ 12,845,261,425	8,985,345,777	6,546,784,696
Deferred fees and commissions for trust management	17,315,741	17,605,208	18,860,492
Other	76,423	311,487	273,993
Subtotal	12,862,653,589	9,003,262,472	6,565,919,181
Allowance for stand-by credit losses (1)	1,536,210,630	1,319,693,076	1,339,832,395
<i>Operations pending application:</i>			
Operations pending settlement	8,509,391,582	16,684,027,434	10,286,026,729
Other	14,475,933,645	7,077,390,105	11,871,193,255
Subtotal	¢ 22,985,325,227	23,761,417,539	22,157,219,984
Total	37,384,189,446	34,084,373,087	30,062,971,560

- (1) Movement in the allowance for stand-by credit losses is as follows:

	September 2015	December 2014	September 2014
Opening balance	¢ 1,319,693,076	138,964,729	138,964,729
Allowance expense charged to profit or loss (note 30)	227,293,032	1,196,180,293	1,164,805,287
Adjustment for foreign exchange differences	(10,775,478)	34,548,054	36,062,379
Decrease in allowance against income (note 31)	-	(50,000,000)	-
Closing balance	¢ 1,536,210,630	1,319,693,076	1,339,832,395

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(20) Equity

(a) Share capital

The Bank's share capital is as follows:

	September 2015	December 2014	September 2014
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 the Bank, in order to stimulate productive sectors, particularly small and medium-sized enterprises. For such purposes, the Bank received four securities for a total of US\$50,000,000 (equivalent to ¢27,619,000,002) and denominated in DU maturing in 2013, 2017, 2018, and 2019 (No. 4183, No. 4184, No. 4185, and No. 4190 for DU10,541,265,09 each, at a reference exchange rate of ¢655.021 to DU1.00). As of September 30, 2015 and based on the exchange rate as of that date, the balance of those investments is ¢27,188,241,745 (December and September 2014: ¢27,328,967,634 and ¢27,352,369,243, respectively) (see note 5-a).

(b) Revaluation surplus

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

As of September 30, 2015, the revaluation surplus amounts to ¢68,571,839,670 (December and September 2014: ¢63,639,596,055).

(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 September 30, 2015, the adjustment for valuation of available-for-sale investments and restricted financial instruments amounts to ¢1,035,448,846 (unrealized gain), (December and September 2014: ¢3,787,427,875 and ¢3,529,851,720 (unrealized loss), respectively).

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(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 September 30, 2015, the adjustment for valuation of investments in foreign associates by the equity method amounts to ₡6,785,697,705 (December 2014: ₡6,329,906,321 and September 2014: ₡6,523,839,508). These investments correspond to the Bank's 49% ownership interest in BICSA and subsidiary.

(e) Equity reserves

As of September 30, the balances in equity reserves are detailed below:

	September 2015	December 2014	September 2014
Legal reserve	₡ 237,921,031,309	209,058,123,505	209,004,612,754
Statutory reserve for foreclosed assets	96,624,638	85,097,647	53,510,751
Excess of statutory reserve for loans	5,115,597,599	2,574,576,547	-
Statutory dynamic provision	5,324,743,968	5,177,759,218	-
	₡ 248,457,997,514	216,895,556,917	209,058,123,505

(f) Equity of the Development Financing Fund (FOFIDE)

As of September 30, 2015, the Bank appropriates the amount of ₡18,146,075,240 (December and September 2014: ₡14,548,173,826) of its earnings to create the equity of the Development Financing Fund (FOFIDE).

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(21) Commitments and contingencies

The Bank has off-consolidated 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:

	September 2015	September 2014
Performance bonds	¢ 27,291,441,259	38,617,636,447
Bid bonds	1,590,304,749	2,298,059,274
Other guarantees	3,320,913,247	2,324,119,694
Letters of credit	18,996,556,479	7,875,423,776
Credits pending disbursement	333,291,501	333,880,193
Subtotal	51,532,507,235	51,449,119,384
Pre-approved lines of credit	207,189,743,853	198,374,298,378
Other contingencies not related to credits	532,022,775	299,582,322
Other contingencies - Pending litigation and lawsuits (note 44)	251,429,743,565	251,256,014,213
Subtotal	¢ 459,151,510,193	449,929,894,913
FX futures - Other than hedges (note 5-b)	9,092,264,000	21,115,150,800
Total	¢ 519,776,281,428	522,494,165,097

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-consolidated 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.

(Continued)

# 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:

	<u>September 2015</u>	<u>September 2014</u>
<i>Contingencies without prior deposit:</i>		
Letters of credit	¢ 16,058,262,146	6,662,576,832
Guarantees and sureties granted	29,332,116,076	40,870,071,456
Subtotal	<u>45,390,378,222</u>	<u>47,532,648,288</u>
<i>Contingencies with prior deposit:</i>		
Letters of credit	2,938,294,333	1,212,846,944
Guarantees and sureties granted	2,870,543,179	2,369,743,959
Subtotal	<u>5,808,837,512</u>	<u>3,582,590,903</u>
Credits pending disbursement	333,291,501	333,880,193
Total	<u>¢ 51,532,507,235</u>	<u>51,449,119,384</u>

### (22) 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 September 30, 2015, trust capital is invested in the following assets:

Nature of trust	Cash or property management	Securitization	Portfolio management	Guaranty	Testamentary	Custody of stock with testamentary clause	Cash guaranty and management	Pre-sales management	Guaranty and custody of stock	Total
<i>Trust assets</i>										
Cash and due from banks	153,479,698	666,354	1,752,489	4,634,997	-	7,824	8,411	951,516	-	161,501,289
Investment securities and term deposits	173,094,238,846	15,811,618,416	2,785,712,035	593,361,531,232	1,331,118,772	-	1,852,674	432,131,720	-	786,818,203,695
Loan portfolio	2,496,322,661	-	2,871,806,669	-	-	-	-	-	-	5,368,129,330
Accounts and accrued interest receivable	7,484,809,250	1,175,987,515	1,992,898,316	23,087,956	-	-	-	-	-	10,703,679,188
Foreclosed assets	40,674,940	-	3,668,383	-	-	-	-	-	-	44,343,323
Investments in other companies	1,135,868,133	-	-	-	2,332,000	2,396,000	-	-	845,792,000	1,986,388,133
Property and equipment	981,675,745	53,745,642,498	-	68,941,665,567	-	-	-	-	-	125,213,024,971
Other assets	451,869,403	864,179,305	22,428,776	2,136,416,841	1,303,921	-	1,544,041,161	3,727,730	-	3,479,925,976
<b>Total</b>	<b>185,838,938,676</b>	<b>71,598,094,088</b>	<b>7,678,266,668</b>	<b>664,467,336,593</b>	<b>1,334,754,693</b>	<b>2,403,824</b>	<b>1,861,085</b>	<b>436,810,966</b>	<b>845,792,000</b>	<b>933,775,195,905</b>

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

Nature of trust	Cash or property management	Securitization	Portfolio management	Guaranty	Testamentary	Custody of stock with testamentary clause	Cash guaranty and management	Pre-sales management	Management, custody and guaranty	Guaranty and custody of stock	Total
<i>Trust assets</i>											
Cash and due from banks	184,745,217	1,974,779	300,000	241,075	139	7,903	-	907,834	-	-	188,176,947
Investment securities and term deposits	159,691,966,636	8,727,652,422	1,528,519,763	533,495,285,299	1,417,370,632	-	1,743,459	494,501,729	847,308	-	705,357,887,248
Loan portfolio	1,903,371,803	310,845,009	2,335,584,862	49,920,689	-	-	-	-	-	-	4,599,722,363
Accounts and accrued interest receivable	9,084,999,144	1,649,809,867	2,454,280,125	1,525,179	-	-	-	-	-	-	13,190,614,315
Foreclosed assets	70,880,042	-	8,003,746	-	-	-	-	-	-	-	78,883,788
Investments in other companies	1,006,405,335	-	-	-	2,320,000	2,426,000	-	-	-	854,432,000	1,865,583,335
Property and equipment	2,839,816,098	70,527,202,369	-	68,328,263,492	-	-	1,544,041,161	-	-	-	143,239,323,120
Other assets	80,359,962	757,232,532	26,878,932	2,590,540,460	502,031	-	-	4,354	-	-	3,455,518,271
<b>Total</b>	<b>174,862,544,237</b>	<b>81,974,716,978</b>	<b>6,333,567,428</b>	<b>604,465,776,194</b>	<b>1,420,192,802</b>	<b>2,433,903</b>	<b>1,743,459</b>	<b>495,413,917</b>	<b>847,308</b>	<b>854,432,000</b>	<b>871,975,709,387</b>

(Continued)

## 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 liquid assets by issuing asset-backed securities.

d) Portfolio management

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

g) Testamentary

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

(Continued)

# BANCO NACIONAL DE COSTA RICA 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.

### (23) Other debit memoranda accounts

Other debit memoranda accounts are as follows:

	September 2015	September 2014
Pension Fund Manager's own investments in custody – Face value of principal	¢ 7,110,943,000	5,516,753,000
Pension Fund Manager's own investments in custody – Coupons	2,396,156,089	1,293,011,907
Pension Fund Manager's own investments in custody – Number of shares	23	23
Guarantees received in the Bank's custody	5,918,509,510,867	5,278,518,392,566
Unused, authorized lines of credit	783,878,467,692	549,371,062,487
Write-offs	180,135,490,292	170,910,883,083
Finance income on non-accrual loans	7,891,820,508	6,327,302,359
Supporting documentation received in the Bank's custody	992	781
Nondeductible expenses	26,453,870,224	26,718,947,081
Nontaxable income	47,100,847,967	57,012,987,259
Other memoranda accounts	600,537,697,054	597,510,105,257
Subtotal	7,574,014,804,708	6,693,179,445,803
Third-party debit memoranda accounts (1)	2,142,754,644,280	2,069,968,242,221
Own debit memoranda accounts for custodial activities	329,881,276,167	289,124,868,017
Third-party debit memoranda accounts for custodial activities	9,118,886,586,392	8,133,725,856,941
Subtotal	11,591,522,506,839	10,492,818,967,179
Total (note 22-a)	¢ 19,165,537,311,547	17,185,998,412,982

- (1) 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.

(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

Other memoranda accounts by entity are as follows:

	September 2015	September 2014
Bank	¢ 16,142,930,379,385	14,611,488,301,572
Brokerage Firm (note 23)	1,591,805,418,636	1,412,632,061,586
Investment Fund Manager (note 24)	429,608,988,208	314,383,152,185
Pension Fund Manager (note 25)	1,001,192,525,318	847,494,897,639
	¢ 19,165,537,311,547	17,185,998,412,982

Banking mandates are as follows:

	September 2015	September 2014
Management of banking mandates	¢ 721,594,629,004	906,844,390,028
Assets in custody on behalf of third parties	392,901	392,901
“TUDES” securities received in custody from affiliates under article 75 of Law No. 7531	1,349,882,853	1,617,546,939
Pension funds (note 25)	990,267,937,709	839,010,350,862
Investment funds (note 24)	429,541,801,813	314,346,832,222
Portfolio management (note 23-a)	-	8,148,729,269
	¢ 2,142,754,644,280	2,069,968,242,221

### (24) Current and term brokerage operations and security portfolio management

Memoranda accounts are summarized as follows:

	September 2015	September 2014
<i>Own</i>		
Trading securities in custody (note 23-a)	¢ 7,628,704,137	9,669,733,872
Trading securities pledged as guarantees	33,849,129,220	32,700,901,279
Confirmed cash agreements pending settlement	264,309,999	147,558,853
Repurchase agreements pending settlement (note 23-b)	31,785,686,000	31,986,548,068
Other own memoranda accounts	5,298,832,232	5,363,904,794
	78,826,661,588	79,868,646,866
<i>Third-party</i>		
Trading securities in custody (note 23-a)	1,331,931,279,786	1,214,691,370,709
Trading securities received as guarantees	45,159,117,374	22,342,757,540
Trading securities pledged as guarantees	51,901,135,412	34,969,491,885
Trading securities pending receipt	2,367,113,657	2,260,433,863
Trading securities pending settlement	781,747,419	2,410,083,353
Repurchase agreements pending settlement (note 23-b)	80,158,146,841	46,876,728,869
Cash and accounts receivable	680,216,559	1,063,819,232
Portfolio management	-	8,148,729,269
	1,512,978,757,048	1,332,763,414,720
	¢ 1,591,805,418,636	1,412,632,061,586

(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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.

a) Securities held in custody are as follows:

Location	Type of custody	September 2015	September 2014
<i>Custodial activities on own behalf</i>			
Local	At face value - available	¢ 7,176,867,138	9,472,817,666
Local	At purchase value of shares - available	21,561,315	21,561,315
Local	At purchase value of investments - available	65,651,844	433,894
Local	At face value - pledged	31,000,000	31,300,000
Local	Amount of physical coupons - pledged	2,623,840	470,997
Local	At face value - pending delivery	331,000,000	143,150,000
		<u>7,628,704,137</u>	<u>9,669,733,872</u>
<i>Custodial activities on behalf of third parties</i>			
Local	At face value - available	963,071,298,779	808,490,174,838
Local	Amount of physical coupons - available	440,304	17,445,833
Local	At purchase value of shares - available	45,881,967,413	50,704,618,281
Local	At purchase value of investments - available	320,339,779,927	352,924,653,962
Local	At face value - pledged	2,441,813,839	2,329,585,343
Local	At purchase value of shares - pledged	63,384,800	53,906,601
Local	At purchase value of investments - pledged	16,094,724	26,082,068
Local	At face value - pending delivery	103,000,000	141,326,283
Local	At purchase value of shares - pending delivery	13,500,000	3,577,500
		<u>1,331,931,279,786</u>	<u>1,214,691,370,709</u>
		¢ <u>1,339,559,983,923</u>	<u>1,224,361,104,581</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:

September 2015							
Term buyer				Term seller			
		U.S. dollars expressed in colones	Total		U.S. dollars	U.S. dollars expressed in colones	Total
Colones	U.S. dollars			Colones			
30,038,838,119	3,304,544	1,746,847,881	31,785,686,000	-	-	-	-
24,076,255,026	33,726,375	17,828,436,363	41,904,691,389	25,404,516,530	24,306,570	12,848,938,922	38,253,455,452
54,115,093,145	37,030,919	19,575,284,244	73,690,377,389	25,404,516,530	24,306,570	12,848,938,922	38,253,455,452

September 2014							
Term buyer				Term seller			
		U.S. dollars expressed in colones	Total		U.S. dollars	U.S. dollars expressed in colones	Total
Colones	U.S. dollars			Colones			
30,150,928,210	3,437,362	1,835,619,858	31,986,548,068	-	-	-	-
14,385,932,820	23,304,838	12,445,249,362	26,831,182,182	19,404,939,547	1,199,594	640,607,140	20,045,546,687
44,536,861,030	26,742,200	14,280,869,220	58,817,730,250	19,404,939,547	1,199,594	640,607,140	20,045,546,687

As of September 30, 2015, term buyer and seller positions in tri-party repurchase agreements in U.S. dollars were valued at the exchange rate of ₡528.62 to US\$1.00 (2014: ₡534.02 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:

September 2015				
	Term buyer		Term seller	
	Colones	U.S. dollars	Colones	U.S. dollars
<i>Own</i>				
1 to 30 days	₡ 2,078,397,123	3,010,331	-	-
31 to 60 days	18,116,480,754	294,213	-	-
61 to 90 days	9,843,960,242	-	-	-
	<u>30,038,838,119</u>	<u>3,304,544</u>	<u>-</u>	<u>-</u>
<i>Third parties</i>				
1 to 30 days	3,151,103,738	1,722,897	2,697,445,944	1,159,671
31 to 60 days	15,313,964,550	18,699,870	19,367,337,303	13,942,844
61 to 90 days	4,972,722,460	12,684,452	2,701,269,006	9,204,055
More than 91 days	638,464,278	619,156	638,464,277	-
	<u>24,076,255,026</u>	<u>33,726,375</u>	<u>25,404,516,530</u>	<u>24,306,570</u>
	₡ 54,115,093,145	37,030,919	25,404,516,530	24,306,570

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

		September 2014			
		Term buyer		Term seller	
		Colones	U.S. dollars	Colones	U.S. dollars
<i>Own</i>					
1 to 30 days	¢	5,933,439,105	3,437,362	-	-
31 to 60 days		18,795,360,244	-	-	-
61 to 90 days		5,164,508,318	-	-	-
More than 91 days		257,620,543	-	-	-
		<u>30,150,928,210</u>	<u>3,437,362</u>	<u>-</u>	<u>-</u>
<i>Third parties</i>					
1 to 30 days		861,400,602	1,305,925	5,363,133,441	-
31 to 60 days		11,838,816,279	4,728,887	10,333,952,194	85,530
61 to 90 days		1,685,715,939	17,178,321	3,450,233,370	1,022,359
More than 91 days		-	91,705	257,620,542	91,705
	¢	<u>14,385,932,820</u>	<u>23,304,838</u>	<u>19,404,939,547</u>	<u>1,199,594</u>
		<u>44,536,861,030</u>	<u>26,742,200</u>	<u>19,404,939,547</u>	<u>1,199,594</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 September 30, 2015 and 2014, 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

(25) Investment fund management agreements

As of September 30, the Investment Fund Manager's memoranda accounts are as follows:

	September 2015		
Fund	Net value	Shares	Value per share
<i>Funds in colones:</i>			
Super Fondo - colones	¢ 103,460,576,040	28,192,867,471	3.669742929
Fon Depósito - colones	94,046,831,188	68,933,867,904	1.364305153
Creci Fondo - colones	2,377,980,267	540,374,009	4.400619251
Redi Fondo - colones	11,234,491,445	3,578,066,318	3.139822028
Diner Fondo - colones	65,924,570,568	26,452,563,160	2.492180821
Subtotal - colones	¢ 277,044,449,508	127,697,738,862	
<i>Funds in U.S. dollars:</i>			
Super Fondo - U.S. dollars	US\$ 22,945,608	16,149,705	1.420806611
Creci Fondo - U.S. dollars	1,729,464	1,054,398	1.64023872
Redi Fondo - U.S. dollars	9,934,546	7,168,992	1.385766127
Diner Fondo - U.S. dollars	101,671,799	81,120,850	1.253337452
Fon Depósito - U.S. dollars	64,977,500	61,249,453	1.060866623
Super Fondo Plus - U.S. dollars	83,534,265	81,712,004	1.022301015
Fondo Hipotecario - U.S. dollars (mortgage fund)	489,962	486,948	552.3809019
Subtotal - U.S. dollars	US\$ 285,283,144	248,942,350	
Subtotal - U.S. dollars, expressed in colones	¢ 150,806,375,924	131,595,905,057	
<i>Funds in euros:</i>			
Diner Fondo - euros	€ 2,861,226	3,056,847	1.066903012
Subtotal - euros	€ 2,861,226	3,056,847	
Subtotal - euros, expressed in colones	¢ 1,690,976,381	1,806,587,896	
Total assets of managed funds (note 22-a)	¢ 429,541,801,813	261,100,231,815	
<i>Guarantees:</i>			
Performance bonds	¢ 65,211,090		
Outstanding checks	1,975,305		
Total memoranda accounts (note 22- a)	¢ 429,608,988,208		

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Fund	September 2014		
	Net value	Shares	Value per share
<i>Funds in colones:</i>			
Super Fondo - colones	¢ 38,026,561,799	10,809,213,419	3.517976778
Fon Depósito - colones	81,586,383,088	61,909,873,001	1.317825076
Creci Fondo - colones	1,159,427,717	283,636,149	4.087729015
Redi Fondo - colones	3,329,611,729	1,138,471,254	2.924633992
Diner Fondo - colones	35,451,289,157	14,749,261,343	2.403597599
Subtotal - colones	¢ 159,553,273,490	88,890,455,166	
<i>Funds in U.S. dollars:</i>			
Super Fondo - U.S. dollars	US\$ 28,515,250	20,293,948	1.405111019
Creci Fondo - U.S. dollars	1,074,098	671,712	1.599045306
Redi Fondo - U.S. dollars	6,705,723	4,958,573	1.352349308
Diner Fondo - U.S. dollars	134,882,455	108,466,107	1.243544718
Fon Depósito - U.S. dollars	72,302,623	68,715,817	1.052197677
Super Fondo Plus - U.S. dollars	40,956,505	40,585,030	1.009153002
Fondo Hipotecario - U.S. dollars (mortgage fund)	570,102	565,997	642.7308343
Subtotal - U.S. dollars	US\$ 285,006,756	244,257,184	
Subtotal - U.S. dollars, expressed in colones	¢ 152,199,307,630	130,438,221,400	
<i>Funds in euros:</i>			
Diner Fondo - euros	€ 3,852,777	3,612,486	1.066516713
Subtotal - euros	€ 3,852,777	3,612,486	
Subtotal - euros, expressed in colones	¢ 2,594,251,102	2,432,467,448	
Total assets of managed funds (note 22-a)	¢ 314,346,832,222	221,761,144,014	
<i>Guarantees:</i>			
Performance bonds	¢ 34,709,565		
Outstanding checks	1,610,398		
Total memoranda accounts (note 22-a)	¢ 314,383,152,185		

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 Super 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 Creci 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 Redi 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 Super 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 Creci 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 Redi 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.

(Continued)

# 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.

### (26) Pension fund management agreements

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

	September 2015	September 2014
Mandatory Pension Fund	¢ 787,485,519,349	665,234,460,527
Mandatory Retirement Savings Account	110,224,346,804	93,918,022,403
Pension Fund in Colones	45,859,576,017	39,463,300,477
Pension Fund in Colones B	9,574,515,494	7,024,176,948
Notary Fund	21,166,713,376	18,770,996,949
Pension Fund in U.S. dollars (a)	9,729,068,118	8,518,940,299
Pension Fund in U.S. dollars B (b)	6,228,198,551	6,080,453,259
Total assets of managed funds (note 22-a)	990,267,937,709	839,010,350,862
Securities and assets in own custody	9,507,099,112	1,617,546,939
Bid and performance bonds – colones	14,378,817	19,290,652
Bid and performance bonds – U.S. dollars (c)	53,226,827	37,944,257
Securities in DU	1,349,882,853	6,809,764,929
Total memoranda accounts (note 22-a)	¢ 1,001,192,525,318	847,494,897,639

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- (a) As of September 30, 2015, this fund amounts to US\$18,404,654 and was valued at the exchange rate of ₡528.62 to US\$1.00 (September 2014: US\$15,952,474 valued at the exchange rate of ₡534.02 to US\$1.00).
- (b) As of September 30, 2015, this fund amounts to US\$11,781,996 and was valued at the exchange rate of ₡528.62 to US\$1.00 (September 2014: US\$11,386,190 valued at the exchange rate of ₡534.02 to US\$1.00).
- (c) As of September 30, 2015, this fund amounts to US\$100,690 and was valued at the exchange rate of ₡528.62 to US\$1.00 (September 2014: US\$71,054 valued at the exchange rate of ₡534.02 to US\$1.00).
- (27) 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:

	September		Quarter from July 1 to September 30	
	2015	2014	2015	2014
<i>Cash and due from banks:</i>				
Deposits in BCCR	₡ 24,207,361	32,139,688	3,623,120	8,685,186
Checking accounts and demand deposits in local entities	42,236,766	20,283,308	10,330,386	7,515,844
Checking accounts and demand deposits in foreign entities	205,475,878	167,412,562	56,943,072	72,514,287
	<u>271,920,005</u>	<u>219,835,558</u>	<u>70,896,578</u>	<u>88,715,317</u>
<i>Financial instruments:</i>				
Investments in available-for-sale securities	30,163,765,695	23,317,966,989	10,006,224,113	7,678,046,025
Investments in committed deposits and securities	6,443,845,093	7,461,564,183	2,257,930,897	2,269,460,321
Subtotal	<u>36,607,610,788</u>	<u>30,779,531,172</u>	<u>12,264,155,010</u>	<u>9,947,506,346</u>
Total	<u>₡ 36,879,530,793</u>	<u>30,999,366,730</u>	<u>12,335,051,588</u>	<u>10,036,221,663</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(28) Finance income on loan portfolio

Finance income on the loan portfolio is as follows:

	September		Quarter from July 1 to September 30	
	2015	2014	2015	2014
<i>Current loans:</i>				
Checking account overdrafts	¢ 63,584,088	64,815,709	14,437,751	30,069,277
Loans granted with funds from BCCR	1,076,522,051	1,313,742,036	341,367,592	427,592,764
Loans granted with other funds	195,709,009,581	174,839,036,633	67,483,704,967	60,659,801,137
Credit cards	14,720,217,838	13,804,378,242	4,916,664,407	4,938,765,265
Issued letters of credit	660,803	265,479	7,358	7,429
Loans for credit sales	398,676	-	398,676	-
Other loans	3,323,698	2,482,195	1,080,179	81,562
Subtotal	<u>211,573,716,735</u>	<u>190,024,720,294</u>	<u>72,757,660,930</u>	<u>66,056,317,434</u>
<i>Past due loans and loans in legal collections:</i>				
Checking account overdrafts	2,985,462	7,464,203	2,339,893	6,491,214
Loans granted with funds from BCCR	249,199,156	213,977,420	66,970,422	72,878,471
Loans granted with other funds	32,706,506,655	31,659,701,961	11,014,546,739	10,796,746,662
Credit cards	2,049,069,726	2,263,894,426	710,834,098	892,703,639
Other	636,841	2,625,453	90,116	1,262,546
Subtotal	<u>35,008,397,840</u>	<u>34,147,663,463</u>	<u>11,794,781,268</u>	<u>11,770,082,532</u>
Total	<u>¢ 246,582,114,575</u>	<u>224,172,383,757</u>	<u>84,552,442,198</u>	<u>77,826,399,966</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(29) Other finance income

Other finance income is as follows:

	September		Quarter from July 1 to September 30	
	2015	2014	2015	2014
Fees and commissions on letters of credit	¢ 50,461,172	53,267,480	29,209,425	9,428,741
Fees and commissions on guarantees granted	498,166,340	527,472,388	126,773,652	231,601,159
Fees and commissions on lines of credit	132,450,048	72,933,120	47,420,290	34,307,033
Gain on fair value hedge item measured at cost	17,510,702,857	10,423,760,802	76,156,061	6,311,406,706
Other sundry finance income	2,468,561,938	2,803,252,130	938,541,299	797,917,518
	<u>¢ 20,660,342,355</u>	<u>13,880,685,920</u>	<u>1,218,100,727</u>	<u>7,384,661,157</u>

(30) Expenses for obligations with the public

Expenses for obligations with the public are as follows:

	September		Quarter from July 1 to September 30	
	2015	2014	2015	2014
Demand deposits	¢ 25,406,414,758	24,367,294,619	8,171,115,243	8,145,328,197
Term deposits	56,348,198,876	49,893,571,885	18,845,306,060	18,108,474,056
Tri-party repurchase agreements and securities lending	1,721,075,478	1,631,959,237	550,406,373	570,535,467
Other term obligations with the public	680,913	-	-	-
	<u>¢ 83,476,370,025</u>	<u>75,892,825,741</u>	<u>27,566,827,676</u>	<u>26,824,337,720</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(31) Expenses for allowances for impairment of assets

Expenses for allowances for impairment of assets are as follows:

	September		Quarter from July 1 to September 30	
	2015	2014	2015	2014
Allowance for loan impairment (note 6)	¢ 24,147,185,562	20,487,036,443	2,405,688,569	6,858,831,169
Allowance for impairment of other accounts receivable (note 7)	1,046,393,576	2,992,435,492	242,262,833	1,814,092,021
Allowance for stand-by credit losses (note 18)	159,000,009	1,115,231,626	10,000,004	139,649,188
General and counter-cyclical allowance for stand-by credit losses (note 6)	1,534,352,054	206,015,885	773,427,027	180,445,003
General and counter-cyclical allowance for stand-by credit losses (note 18)	68,293,023	49,573,661	10,391,010	22,444,346
Allowance for impairment of derivative financial instruments (note 5-a)	62,765,143	3,604,310	23,726,011	2,058,497
	<u>¢ 27,017,989,367</u>	<u>24,853,897,417</u>	<u>3,465,495,454</u>	<u>9,017,520,224</u>

(32) 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:

	September		Quarter from July 1 to September 30	
	2015	2014	2015	2014
Recovery of loan write-offs	¢ 9,082,617,875	11,593,694,732	2,627,742,568	4,347,263,888
Recovery of receivables write-offs	628,332	12,224,243	2,912	11,890,329
Decrease in allowance for impairment of other accounts receivable (note 7)	128,790,146	824,175,513	34,481,595	104,693,709
Decrease in allowance for investments in financial instruments (note 5)	39,354,768	-	35,515	-
	<u>¢ 9,251,391,121</u>	<u>12,430,094,488</u>	<u>2,662,262,590</u>	<u>4,463,847,926</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(33) Operating income from service fees and commissions

Operating income from service fees and commissions is as follows:

	September		Quarter from July 1 to September 30	
	2015	2014	2015	2014
Drafts and transfers	¢ 5,344,766,761	5,135,137,886	1,808,318,991	1,717,334,340
Certified checks	3,855,607	4,545,040	1,383,446	1,520,542
Trusts	611,900,206	647,478,326	198,249,175	222,735,597
Custodial services	960,244,511	699,516,056	348,271,123	224,568,845
Banking mandates	111,872	298,828	37,283	46,421
Collections	28,659,098	35,608,815	9,027,437	10,700,491
Credit cards	30,874,103,555	25,878,330,627	10,237,642,565	8,707,934,210
Management services	2,576,018,978	2,578,488,287	865,409,661	915,092,476
Management of investment funds	3,430,986,754	2,918,784,288	1,317,242,755	985,002,421
Management of pension funds	6,001,720,844	4,931,778,507	2,107,889,923	1,751,920,983
Insurance underwriting	2,467,106,366	2,060,920,148	793,107,634	594,323,071
Brokerage operations (third parties in local market)	2,023,359,682	1,268,310,445	694,735,378	471,943,590
Brokerage operations (third parties in other markets)	61,835,362	43,116,543	17,126,330	11,467,289
Individual portfolio management	984,732	5,244,391	349,245	1,841,003
Other	27,213,586,340	26,741,660,023	9,096,491,654	9,375,023,708
	¢ 81,599,240,668	72,949,218,210	27,495,282,600	24,991,454,987

(34) Other operating income

Other operating income is as follows:

	September		Quarter from July 1 to September 30	
	2015	2014	2015	2014
Leasing of assets	¢ 33,410,228	12,652,877	9,843,365	6,270,743
Recovery of expenses	3,320,195,077	2,075,251,521	510,348,026	1,321,442,520
Net valuation of other assets (note 43-c)	255,087,989	610,110,976	19,227,742	85,448,774
Other income from accounts receivable	1,808,308	2,068,990	356,920	703,058
Sundry operating income	3,345,234,458	5,266,812,204	1,181,556,686	2,549,747,034
Decrease in provisions	6,372,286,411	8,410,025,197	380,887,575	1,558,558,482
	¢ 13,328,022,471	16,376,921,765	2,102,220,314	5,522,170,611

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(35) Expenses for foreclosed assets

Expenses for foreclosed assets are as follows:

	September		Quarter from July 1 to September 30	
	2015	2014	2015	2014
Loss on sale of assets acquired in lieu of payment	¢ 333,525,535	7,376,734,228	141,480,535	887,359,373
Loss on sale of assets awarded in judicial auctions	4,994,807,732	1,128,818,018	1,523,087,102	1,128,818,018
Management of assets acquired in lieu of payment	-	980,821	-	17,080
Management of assets awarded in judicial auctions (note 8)	6,630,235,151	6,571,315,582	2,351,574,456	2,272,613,294
Loss on impairment of foreclosed assets (note 8)	449,369,767	235,908,118	20,919,304	20,075,304
Loss on allowance for impairment of foreclosed assets and per legal requirements (note 8)	3,484,607,467	17,632,380,376	974,800,931	5,509,973,229
Other expenses for foreclosed assets	79,143,754	732,203,045	24,429,293	160,866,284
	<u>¢ 15,971,689,406</u>	<u>33,678,340,188</u>	<u>5,036,291,621</u>	<u>9,979,722,582</u>

(36) Expenses for provisions

Expenses for provisions are as follows:

	September		Quarter from July 1 to September 30	
	2015	2014	2015	2014
Severance benefits	¢ 6,039,307,999	7,737,259,099	2,751,222,758	2,755,951,463
Pending litigation	1,509,517,216	737,442,238	873,701,006	460,661,537
Other provisions	9,390,617,412	5,910,978,433	3,365,179,016	1,946,606,087
	<u>¢ 16,939,442,627</u>	<u>14,385,679,770</u>	<u>6,990,102,780</u>	<u>5,163,219,087</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(37) Other operating expenses

Other operating expenses are as follows:

	September		Quarter from July 1 to September 30	
	2015	2014	2015	2014
Penalties for noncompliance with regulatory provisions	¢ 101,475,893	12,153,613	69,304	637,968
Net valuation of other liabilities (note 43-c)	186,293,704	1,086,868,607	29,531,789	50,337,450
Income tax on foreign remittances	74,074,160	-	70,310,472	-
Income tax (8%) on interest on investments in financial instruments	2,507,783,155	2,269,642,569	813,293,555	726,139,086
Property tax	139,248,126	137,358,404	36,707,136	38,497,519
Licenses	578,471,142	316,335,588	162,885,326	90,472,181
Other local taxes	290,718,469	839,764,888	120,375,511	673,170
Transfers to FINADE	2,447,004,633	1,555,492,085	811,222,801	698,972,038
Sundry operating expenses	34,373,290,721	31,589,011,454	11,575,865,851	10,857,096,980
	¢ 40,698,360,003	37,806,627,208	13,620,261,745	12,462,826,392

(38) Personnel expenses

Personnel expenses are as follows:

	September		Quarter from July 1 to September 30	
	2015	2014	2015	2014
Salaries and bonuses, permanent staff	¢ 46,900,214,609	39,195,807,067	18,498,084,970	12,486,135,515
Salaries and bonuses, contractors	1,452,646,764	1,588,247,401	425,464,674	500,034,656
Compensation for directors and statutory examiners	144,518,864	130,351,288	52,058,045	42,929,420
Overtime	721,274,140	745,857,273	224,942,692	184,252,116
Travel expenses	554,149,134	722,428,980	194,588,465	214,986,243
Statutory Christmas bonus	5,565,258,407	5,420,510,603	1,888,010,985	1,899,949,706
Vacation	6,428,346,014	4,743,036,281	1,943,855,143	1,210,692,154
Other compensation	3,711,219,645	5,992,550,818	1,312,802,372	1,933,948,069
Severance benefits	3,261,358,942	3,284,888,623	1,100,585,889	1,086,301,668
Employer social security taxes	21,047,410,100	20,444,989,626	7,031,076,089	7,082,058,456
Refreshments	325,537,899	386,318,978	105,502,706	88,011,921
Uniforms	232,429,768	5,737,012	11,720,018	95,875
Training	738,480,120	633,497,465	299,228,854	198,257,354
Employee insurance	194,812,436	218,391,147	65,565,515	73,026,407
Back-to-school bonus	5,044,680,322	4,537,431,479	1,690,279,693	1,559,525,626
Mandatory retirement savings account	2,031,214,137	1,966,914,516	671,921,404	676,929,081
Other personnel expenses	370,345,495	235,475,941	120,426,084	78,439,553
	¢ 98,723,896,796	90,252,434,498	35,636,113,598	29,315,573,820

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(39) Other administrative expenses

Other administrative expenses are as follows:

	September		Quarter from July 1 to September 30	
	2015	2014	2015	2014
Outsourcing	¢ 9,615,912,315	10,174,756,314	3,807,211,329	2,247,026,691
Transportation and communications	3,166,610,892	3,636,187,442	1,081,573,667	1,113,712,474
Infrastructure	23,872,141,438	23,723,207,519	7,503,861,035	7,966,748,754
Overhead	7,990,190,511	8,762,649,241	3,006,709,632	2,440,916,002
	¢ 44,644,855,156	46,296,800,516	15,399,355,663	13,768,403,921

(40) Statutory allocations

Statutory allocations are as follows:

	Quarter from September		July 1 to September 30	
	2015	2014	2015	2014
CONAPE 5%	¢ 2,188,710,845	2,251,307,161	778,350,070	964,287,535
National Emergency Fund 3%	1,389,477,562	1,369,984,008	489,288,088	586,530,228
INFOCOOP 10%	3,344,565,038	3,332,055,134	1,222,470,712	1,362,999,266
Public capital pension operators	689,472,002	-	229,011,663	-
RIVM 5%	1,872,195,433	1,397,583,117	661,125,007	580,885,936
	¢ 9,484,420,880	8,350,929,420	3,380,245,540	3,494,702,965

The decreases in statutory allocations are as follows:

	September		Quarter from July 1 to September 30	
	2015	2014	2015	2014
CONAPE 5%	¢ 100,043,827	-	-	-
National Emergency Fund 3%	77,752,300	-	-	-
INFOCOOP 10%	57,431,174	-	-	-
RIVM 5%	77,542,314	-	-	-
Subtotal	312,769,615	-	-	-
FIDAGRO	57,178,243	-	57,178,243	-
Total	¢ 369,947,858	-	57,178,243	-

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(41) 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:

		September 2015	
		Carrying amount	Fair value
<i>Financial assets:</i>			
Cash and due from banks	¢	813,943,459,272	813,943,459,272
Investments in financial instruments		1,187,555,743,967	1,187,555,743,967
Loan portfolio		3,564,453,179,595	3,301,668,386,290
	¢	<u>5,565,952,382,836</u>	<u>5,303,167,589,531</u>
<i>Financial liabilities:</i>			
Demand deposits from the public and financial entities	¢	2,553,837,532,886	2,553,837,532,886
Other demand obligations with the public		12,756,837,910	12,756,837,910
Term deposits from the public and financial entities		2,500,895,357,267	2,481,084,239,314
Obligations for tri-party repurchase agreements		31,571,893,580	31,571,893,580
	¢	<u>5,099,061,621,644</u>	<u>5,079,250,503,691</u>
		September 2014	
		Carrying amount	Fair value
<i>Financial assets:</i>			
Cash and due from banks	¢	839,291,043,735	839,291,043,735
Investments in financial instruments		995,925,689,972	995,925,689,972
Loan portfolio		3,248,537,957,056	2,893,952,122,086
	¢	<u>5,083,754,690,763</u>	<u>4,729,168,855,793</u>
<i>Financial liabilities:</i>			
Demand deposits from the public and financial entities	¢	2,397,522,143,694	2,397,522,143,694
Other demand obligations with the public		10,558,993,808	10,558,993,808
Term deposits from the public and financial entities		2,231,157,920,305	2,250,652,581,096
Obligations for tri-party repurchase agreements		31,652,140,140	31,652,140,140
	¢	<u>4,670,891,197,947</u>	<u>4,690,385,858,738</u>

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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 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 September 30, 2015 and 2014.

- 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 September 30, 2015 and 2014.

- 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 September 30, 2015 and 2014.

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# 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.

As of September 30, 2015 and 2014, the following table analyzes financial instruments measured at fair value by the level in the fair value hierarchy:

		September 2015			
		Level 1	Level 2	Level 3	Total
Available for sale	¢	948,600,735,826	183,478,154,277	5,643,081,405	1,137,721,971,507
Held to maturity	¢	-	27,188,431,488	-	27,231,250,107
		September 2014			
		Level 1	Level 2	Level 3	Total
Available for sale	¢	797,680,364,782	159,022,356,161	5,690,496,677	962,393,217,620
Held to maturity	¢	-	27,352,369,243	-	27,352,369,243

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

		September 30	
		2015	2014
Opening balance	¢	5,641,682,132	5,729,553,134
Closing balance	¢	5,643,081,405	5,690,496,677

(42) Vehicle operating leases

Vehicle lease agreements have expired and extension requests are in the process of being reviewed and signed. Furthermore, the new tender documents are under review by the General Procurement Department.

(43) 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.

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## 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 September 30, 2015					
	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total
						Eliminations
						Consolidated
<b>ASSETS</b>						
Cash and due from banks	₡ 812,056,653,646	1,763,104,046	231,306,925	226,621,723	811,981,916	815,089,668,256
Investments in financial instruments	1,118,038,309,478	57,182,604,107	4,722,262,345	7,643,568,037	-	1,187,586,743,967
Loan portfolio, net	3,502,818,146,475	-	-	-	-	3,502,818,146,475
Accounts and fees and commissions receivable, net	1,519,446,186	172,237,883	72,087,882	892,335,646	251,674,560	2,907,782,157
Fees and commissions	153,728,682	24,246,664	16,911,474	660,699,784	199,787,267	1,055,373,871
Brokerage services	-	37,957,126	-	-	-	37,957,126
Transactions with related parties	109,410,584	520,971	3,130,978	3,872,399	2,108,461	119,043,393
Deferred tax and income tax	3,392,452,575	98,604,142	51,571,337	167,457,429	49,418,832	3,759,504,315
Other	3,703,693,247	10,908,980	474,093	60,306,034	360,000	3,775,742,354
Accrued interest	1,830,738	-	-	-	-	1,830,738
Allowance for impairment of accounts and fees and commissions	-5,841,669,640	-	-	-	-	-5,841,669,640
Foreclosed assets, net	17,521,083,339	-	-	-	-	17,521,083,339
Investments in other companies	83,087,402,183	30,000,000	-	-	-	83,117,402,183
Property and equipment, net	182,059,854,124	456,346,204	185,893,736	313,698,139	51,885,470	183,067,677,673
Other assets	39,544,444,467	200,403,717	524,835,755	339,205,061	292,468,365	40,901,357,365
<b>TOTAL ASSETS</b>	₡ 5,756,645,339,898	59,804,695,957	5,736,386,643	9,415,428,606	1,408,010,311	5,833,009,861,415
<b>LIABILITIES AND EQUITY</b>						
<b>LIABILITIES</b>						
Obligations with the public	₡ 3,857,658,247,884	31,707,785,471	-	-	-	3,889,366,033,355
Obligations with BCCR	125,644,412	-	-	-	-	125,644,412
Obligations with entities	1,147,456,687,637	8,888,249,735	-	-	-	1,156,344,937,372
Demand	230,533,314,737	-	-	-	-	230,533,314,737
Term	902,110,216,613	8,875,000,000	-	-	-	910,985,216,613
Finance charges payable	14,813,156,287	13,249,735	-	-	-	14,826,406,022
Accounts payable and provisions	110,213,307,600	1,957,631,586	890,701,657	2,386,264,349	492,235,350	115,940,140,542
Other liabilities	37,384,189,446	-	-	-	-	37,384,189,446
Subordinated obligations	69,228,621,502	-	-	-	-	69,228,621,502
<b>TOTAL LIABILITIES</b>	₡ 5,222,066,698,481	42,553,666,792	890,701,657	2,386,264,349	492,235,350	5,268,389,566,629
						1,242,233,397
						5,267,147,333,232

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# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

As of September 30, 2015

	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations	Consolidated
<b>EQUITY</b>								
Share capital	¢ 118,130,303,482	6,600,000,000	3,000,000,000	3,922,753,061	369,700,000	132,022,756,543	13,892,453,061	118,130,303,482
Non-capitalized capital contributions	-	-	-	1,072,171,948	-	1,072,171,948	1,072,171,948	-
Equity adjustments	76,462,665,008	620,654,087	33,646,177	84,890,790	-	77,201,856,062	739,191,054	76,462,665,008
Capital reserves	248,457,997,514	1,010,943,805	300,000,000	300,000,000	73,940,000	250,142,881,319	1,684,883,805	248,457,997,514
Prior period retained earnings	45,534,870,270	7,133,530,238	551,175,152	959,876,456	62,068,578	54,241,520,694	8,706,650,424	45,534,870,270
Income for the year	27,846,729,903	1,885,901,035	960,863,657	689,472,002	410,066,383	31,793,032,980	3,946,303,077	27,846,729,903
POFIDE	18,146,075,240	-	-	-	-	18,146,075,240	-	18,146,075,240
<b>TOTAL EQUITY</b>	¢ 534,578,641,417	17,251,029,165	4,845,684,986	7,029,164,257	915,774,961	564,620,294,786	30,041,653,369	534,578,641,417
<b>TOTAL LIABILITIES AND EQUITY</b>	¢ 5,756,645,339,898	59,804,695,957	5,736,386,643	9,415,428,606	1,408,010,311	5,833,009,861,415	31,283,886,766	5,801,725,974,649
<b>Debit memoranda accounts</b>	¢ 519,511,171,104	-	-	265,110,324	-	519,776,281,428	-	519,776,281,428
Trust assets	¢ 931,373,818,589	2,401,377,316	-	-	-	933,775,195,905	-	933,775,195,905
Trust liabilities	¢ 62,228,779,527	427,391	-	-	-	62,229,206,918	-	62,229,206,918
Trust equity	¢ 869,145,039,063	2,400,949,924	-	-	-	871,545,988,987	-	871,545,988,987
Other debit memoranda accounts	¢ 16,142,930,379,385	1,591,805,418,636	429,608,988,208	1,001,192,525,318	-	19,165,537,311,547	-	19,165,537,311,547

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

For the year ended September 30, 2015

	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations	Consolidated
Finance income	316,091,360,214	4,367,686,862	286,451,012	462,384,492	33,040,066	321,240,922,646	59,471,976	321,181,450,670
Finance expense	146,375,402,249	1,926,518,764	29,319,660	-	-	148,331,240,673	59,471,976	148,271,768,697
Allowance expense	27,017,989,367	-	-	-	-	27,017,989,367	-	27,017,989,367
Income from recovery of assets	9,251,391,121	-	-	-	-	9,251,391,121	-	9,251,391,121
FINANCE INCOME	151,949,359,719	2,441,168,098	257,131,352	462,384,492	33,040,066	155,143,083,727	-	155,143,083,727
Other operating income	108,129,900,390	2,922,900,498	3,540,326,692	6,102,255,063	1,818,197,181	122,513,579,824	4,788,425,879	117,725,153,945
Other operating expenses	84,350,692,112	549,013,564	492,099,720	1,014,999,217	84,285,294	86,491,089,907	737,699,005	85,753,390,902
GROSS OPERATING INCOME	175,728,567,997	4,815,055,032	3,305,358,324	5,549,640,338	1,766,951,953	191,165,573,644	4,050,726,874	187,114,846,770
Personnel expenses	91,427,154,867	2,156,321,690	1,480,942,951	2,606,470,675	1,053,006,613	98,723,896,796	-	98,723,896,796
Other administrative expenses	42,528,072,776	624,056,114	502,995,300	926,459,904	167,694,859	44,749,278,953	104,423,797	44,644,855,156
Total administrative expenses	133,955,227,643	2,780,377,804	1,983,938,251	3,532,930,579	1,220,701,472	143,473,175,749	104,423,797	143,368,751,952
NET OPERATING INCOME BEFORE STATUTORY ALLOCATIONS AND TAXES	41,773,340,354	2,034,677,228	1,321,420,073	2,016,709,759	546,250,481	47,692,397,895	3,946,303,077	43,746,094,818
Income tax	6,927,292,254	117,704,549	370,246,397	622,696,234	159,126,096	8,197,065,530	-	8,197,065,530
Decrease in income tax	1,248,768,679	29,968,673	49,332,583	45,431,772	38,671,930	1,412,173,637	-	1,412,173,637
Statutory allocations	8,618,034,734	61,040,317	39,642,602	749,973,295	15,729,932	9,484,420,880	-	9,484,420,880
Decrease in statutory allocations	369,947,858	-	-	-	-	369,947,858	-	369,947,858
INCOME FOR THE YEAR	27,846,729,903	1,885,901,035	960,863,657	689,472,002	410,066,383	31,793,032,980	3,946,303,077	27,846,729,903

(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 September 30, 2014							
	Insurance							
	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Brokerage Firm	Total	Eliminations	Consolidated
ASSETS								
Cash and due from banks	837,190,443,404	2,371,397,214	202,629,537	68,804,593	869,321,390	840,702,596,138	1,411,552,403	839,291,043,735
Investments in financial instruments	941,883,988,914	44,319,440,576	3,896,859,040	5,852,712,162	-	995,953,000,692	27,310,720	995,925,689,972
Loan portfolio, net	3,199,718,143,036	-	-	-	-	3,199,718,143,036	-	3,199,718,143,036
Accounts and fees and commissions receivable, net	3,332,612,545	294,699,326	35,831,563	711,669,225	194,121,720	4,568,934,379	43,765,039	4,525,169,340
Fees and commissions	111,859,371	20,247,380	10,858,630	578,818,487	160,623,083	882,406,951	24,055,999	858,350,952
Brokerage services	-	191,545,634	-	-	-	191,545,634	-	191,545,634
Transactions with related parties	346,226,046	18,525	14,711,097	2,161,414	50,000	363,167,082	19,709,040	343,458,042
Deferred tax and income tax	4,031,182,670	73,748,901	7,389,444	68,421,985	33,448,637	4,214,191,637	-	4,214,191,637
Other	3,176,077,136	9,138,886	2,872,392	62,267,339	-	3,250,355,753	-	3,250,355,753
Accrued interest	1,880,814	-	-	-	-	1,880,814	-	1,880,814
Allowance for impairment of accounts and fees and commissions	(4,334,613,492)	-	-	-	-	(4,334,613,492)	-	(4,334,613,492)
Foreclosed assets, net	18,361,199,988	-	-	-	-	18,361,199,988	-	18,361,199,988
Investments in other companies	75,196,596,398	30,000,000	-	-	-	75,226,596,398	26,297,832,716	48,928,763,682
Property and equipment, net	163,264,834,900	425,349,668	178,773,062	391,513,670	25,989,201	164,286,460,501	-	164,286,460,501
Other assets	48,451,282,221	292,209,476	567,000,498	538,189,421	179,899,037	50,028,580,653	-	50,028,580,653
TOTAL ASSETS	5,287,399,101,406	47,733,096,260	4,881,093,700	7,562,889,071	1,269,331,348	5,348,845,511,785	27,780,460,878	5,321,065,050,907
LIABILITIES AND EQUITY								
LIABILITIES								
Obligations with the public	3,525,342,946,128	31,775,796,288	-	-	-	3,557,118,742,416	27,310,720	3,557,091,431,696
Obligations with BCCR	182,520,293	-	-	-	-	182,520,293	-	182,520,293
Obligations with entities	1,075,820,983,463	-	-	-	-	1,075,820,983,463	1,411,552,404	1,074,409,431,059
Demand	271,143,641,947	-	-	-	-	271,143,641,947	1,411,552,404	269,732,089,543
Term	790,153,537,478	-	-	-	-	790,153,537,478	-	790,153,537,478
Finance charges payable	14,523,804,038	-	-	-	-	14,523,804,038	-	14,523,804,038
Accounts payable and provisions	116,080,173,768	1,480,737,245	641,272,215	964,932,217	285,839,697	119,452,955,142	43,765,037	119,409,190,105
Other liabilities	30,062,971,559	-	-	-	-	30,062,971,559	-	30,062,971,559
Subordinated obligations	53,731,640,838	-	-	-	-	53,731,640,838	-	53,731,640,838
TOTAL LIABILITIES	4,801,221,236,049	33,256,533,533	641,272,215	964,932,217	285,839,697	4,836,369,813,711	1,482,628,161	4,834,887,185,550

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of September 30, 2014

	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations	Consolidated
<b>EQUITY</b>								
Share capital	¢ 118,130,303,482	6,600,000,000	1,500,000,000	4,780,957,416	369,700,000	131,380,960,898	13,250,657,416	118,130,303,482
Non-capitalized capital contributions	-	-	-	213,967,593	-	213,967,593	213,967,593	-
Equity adjustments	66,703,830,468	(120,870,303)	(11,616,277)	14,594,718	-	66,585,938,606	(117,891,862)	66,703,830,468
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	28,590,913,092	498,050,784	640,833,994	687,930,644	210,018,463	30,627,746,977	2,036,833,885	28,590,913,092
FOFIDE	14,548,173,826	-	-	-	-	14,548,173,826	-	14,548,173,826
<b>TOTAL EQUITY</b>	¢ 486,177,865,357	14,476,562,727	4,239,821,485	6,597,956,854	983,491,651	512,475,698,074	26,297,832,717	486,177,865,357
<b>TOTAL LIABILITIES AND EQUITY</b>	¢ 5,287,399,101,406	47,733,096,260	4,881,093,700	7,562,889,071	1,269,331,348	5,348,845,511,785	27,780,460,878	5,321,065,050,907
<b>Debit memoranda accounts</b>	¢ 522,483,474,297	-	-	10,690,800	-	522,494,165,097	-	522,494,165,097
Trust assets	¢ 870,880,250,652	1,095,458,736	-	-	-	871,975,709,388	-	871,975,709,388
Trust liabilities	¢ 68,195,674,812	431,754	-	-	-	68,196,106,566	-	68,196,106,566
Trust equity	¢ 802,684,575,840	1,095,026,981	-	-	-	803,779,602,821	-	803,779,602,821
Other debit memoranda accounts	¢ 14,611,488,301,572	1,412,632,061,586	314,383,152,185	847,494,897,639	-	17,185,998,412,982	-	17,185,998,412,982

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

For the year ended September 30, 2014

	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Brokerage Firm	Insurance Total	Eliminations	Consolidated
Finance income	562,625,319,966	3,896,436,629	264,828,548	376,947,369	25,505,421	567,189,037,933	23,968,441	567,165,069,492
Finance expense	409,102,609,507	2,506,807,284	53,512,308	27,399,785	4,100,133	411,694,429,017	23,968,441	411,670,460,576
Allowance expense	24,853,897,417	-	-	-	-	24,853,897,417	-	24,853,897,417
Income from recovery of assets	12,430,094,487	-	-	-	-	12,430,094,487	-	12,430,094,487
FINANCE INCOME	141,098,907,529	1,389,629,345	211,316,240	349,547,584	21,405,288	143,070,805,986	-	143,070,805,986
Other operating income	122,723,134,744	2,027,371,537	2,928,610,139	4,952,323,968	1,397,544,103	134,028,984,491	2,739,666,944	131,289,317,547
Other operating expenses	90,966,564,134	386,466,794	524,698,205	763,661,851	123,290,399	92,764,681,383	619,926,455	92,144,754,928
GROSS OPERATING INCOME	172,855,478,139	3,030,534,088	2,615,228,174	4,538,209,701	1,295,658,992	184,335,109,094	2,119,740,489	182,215,368,605
Personnel expenses	83,631,469,734	1,881,893,628	1,309,862,048	2,570,840,034	858,369,054	90,252,434,498	-	90,252,434,498
Other administrative expenses	44,197,865,177	635,186,044	454,158,993	954,230,675	138,266,231	46,379,707,120	82,906,604	46,296,800,516
Total administrative expenses	127,829,334,911	2,517,079,672	1,764,021,041	3,525,070,709	996,635,285	136,632,141,618	82,906,604	136,549,235,014
NET OPERATING INCOME BEFORE TAXES	45,026,143,228	513,454,416	851,207,133	1,013,138,992	299,023,707	47,702,967,476	2,036,833,885	45,666,133,591
Income tax	8,270,624,692	15,403,632	25,536,214	30,394,170	8,970,712	8,350,929,420	-	8,350,929,420
Decrease in income tax	8,367,366,166	-	206,540,089	422,342,198	112,946,972	9,109,195,425	-	9,109,195,425
Statutory allocations	202,760,722	-	21,703,164	127,528,020	32,912,440	384,904,346	-	384,904,346
INCOME FOR THE YEAR	28,590,913,092	498,050,784	640,833,994	687,930,644	210,018,463	30,627,746,977	2,036,833,885	28,590,913,092

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(44) 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

i. Banco Nacional de Costa Rica (the Bank)

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.

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

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

The Bank has established the following credit risk management procedures:

- a. 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.
- b. The Bank has performed and reviewed the administrative loan follow-up procedures for branches and regional offices.
- c. 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."
- d. 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.

(Continued)

# 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	
		2015	2014		2015	2014
<b>Loan portfolio</b>						
Principal	6-a	¢ 3,539,196,398,018	3,227,084,498,766	20	258,722,251,088	249,823,417,762
Accounts and accrued interest receivable		25,256,781,577	21,453,458,290		-	-
Carrying amount, gross		3,564,453,179,595	3,248,537,957,056		258,722,251,088	249,823,417,762
Allowance for loan impairment (accounting records)		(61,635,033,120)	(48,819,814,020)		(1,536,210,630)	(1,339,832,395)
Carrying amount, net	¢	3,502,818,146,475	3,199,718,143,036		257,186,040,458	248,483,585,367
<b>Loan portfolio</b>						
Total balances:						
A1	¢	2,912,746,118,567	2,513,656,231,510		252,084,375,459	240,287,944,211
A2		35,942,192,148	31,262,451,153		418,982,382	329,512,318
B1		277,823,672,000	346,958,951,690		2,499,285,876	3,677,306,617
B2		8,119,278,260	7,401,948,109		26,152,834	21,236,872
C1		84,379,950,657	83,908,800,342		1,670,608,435	3,299,614,226
C2		4,798,758,862	7,378,655,896		9,198,443	18,079,722
D		82,769,983,255	116,273,690,769		606,081,277	974,530,475
E		157,873,225,846	141,697,227,587		1,407,566,382	1,215,193,321
Structural allowance (subledger – database)		3,564,453,179,595	3,248,537,957,056		258,722,251,088	249,823,417,762
Carrying amount, net	¢	(56,719,258,236)	(44,241,783,195)		(880,802,209)	(1,033,626,981)
		3,507,733,921,359	3,204,296,173,861		257,841,448,879	248,789,790,781
<b>Individually assessed loans with allowance:</b>						
A1	¢	2,912,746,118,567	2,513,656,231,510		246,322,862,486	236,875,271,449
A2		35,942,192,148	31,262,451,153		410,354,532	326,774,318
B1		277,823,672,000	346,958,951,690		2,470,696,173	3,529,340,584
B2		8,119,278,260	7,401,948,109		25,777,834	21,236,872
C1		84,379,950,657	83,908,800,342		1,666,128,210	3,299,614,226
C2		4,798,758,862	7,378,655,896		9,198,443	18,079,722
D		82,769,983,255	116,273,690,769		606,081,277	956,379,511
E		157,873,225,846	141,697,227,587		1,402,314,504	1,214,130,172
Structural allowance (subledger – database)		3,564,453,179,595	3,248,537,957,056		252,913,413,459	246,240,826,854
Carrying amount, net	¢	(56,719,258,236)	(44,241,783,195)		(880,802,209)	(1,033,626,981)
		3,507,733,921,359	3,204,296,173,861		252,032,611,250	245,207,199,873

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	Direct		Stand-by	
	2015	2014	2015	2014
Current loans without allowance:				
A1	-	-	5,761,512,973	-
A2	-	-	8,627,850	-
B1	-	-	28,589,703	-
B2	-	-	375,000	-
C2	-	-	4,480,225	-
D	-	-	-	-
E	-	-	5,251,879	-
Carrying amount	-	-	5,808,837,630	-
Carrying amount, gross	3,564,453,179,595	3,248,537,957,056	258,722,251,088	249,823,417,762
Allowance for loan impairment (database)	(56,719,258,236)	(44,241,783,195)	(880,802,209)	(1,033,626,981)
(Excess) insufficiency of allowance over structural allowance	(4,915,774,884)	(4,578,030,825)	(655,408,421)	(306,205,414)
Carrying amount, net	3,502,818,146,475	3,199,718,143,036	257,186,040,458	248,483,585,367
Restructured loans	38,958,776,207	39,933,190,821	4,020,204	7,033,221
6-a				

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of September 30, 2015, no information is available for past due and current loans without allowance because an allowance has been established for the whole loan portfolio pursuant to CONASSIF Directive No. 1058/07 dated August 21, 2013, which became effective on January 1, 2014.

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:

September 2015		
Loans to customers		
	Gross	Net
A1	¢ 2,912,746,118,567	2,902,878,468,075
A2	35,942,192,148	35,881,085,098
B1	277,823,672,000	276,297,514,060
B2	8,119,278,260	8,056,779,576
C1	84,379,950,657	83,113,599,315
C2	4,798,758,862	4,521,867,702
D	82,769,983,255	77,338,981,397
E	157,873,225,846	114,729,851,252
	¢ 3,564,453,179,595	3,502,818,146,475

September 2014		
Loans to customers		
	Gross	Net
A1	¢ 2,513,656,231,509	2,507,569,930,948
A2	31,262,451,153	31,243,686,468
B1	346,958,951,690	345,564,613,128
B2	7,401,948,109	7,339,057,969
C1	83,908,800,342	82,352,972,116
C2	7,378,655,896	7,039,245,182
D	116,273,690,769	107,331,820,999
E	141,697,227,588	111,276,816,226
	¢ 3,248,537,957,056	3,199,718,143,036

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

As shown above, as of September 30, 2015, the gross portfolio amounts to ₡3,564 billion. Of that amount, 90.75% is classified in risk ratings “A + B” and 9.25% in risk ratings “C+ D+ E” (2014: ₡3,248 billion, of which 89.25% is classified in risk ratings “A + B” and 10.75% 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.

#### Past due loans without allowance:

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

#### Restructured loans:

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

- Extended loan: Loan operation in which at least one full or partial payment of principal or interest due under the current contractual terms has been postponed.
- Modified loan: Loan operation in which at least one of the current contractual repayment terms has been modified, excluding extensions, additional payments not included in the loan repayment schedule, additional payments to reduce the amount of installments, and a change in the currency used while respecting the original loan maturity date.

(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

Restructured loans are as follows:

		Direct		Stand-by	
		September 2015	September 2014	September 2015	September 2014
Restructured loans	¢	<u>38,958,776,207</u>	<u>39,933,190,821</u>	<u>4,020,204</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 is as follows:

Borrower classification		Direct		Stand-by	
		September 2015	September 2014	September 2015	September 2014
Group 1	¢	<u>2,069,238,418,499</u>	<u>1,779,762,896,073</u>	<u>56,427,095,087</u>	<u>55,402,903,681</u>
Group 2		<u>1,495,214,761,096</u>	<u>1,468,775,060,983</u>	<u>202,295,156,001</u>	<u>194,420,514,081</u>
	¢	<u>3,564,453,179,595</u>	<u>3,248,537,957,056</u>	<u>258,722,251,088</u>	<u>249,823,417,762</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.

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

#### 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.
- 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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

*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.

Risk rating	Arrears	Direct		Stand-by	
		September 2015	September 2014	September 2015	September 2014
A1	30 days or less	¢ 2,912,746,118,808	2,513,656,231,510	252,084,375,306	240,287,944,211
A2	60 days or less	35,942,192,148	31,262,451,153	418,982,382	329,512,318
B1	60 days or less	277,823,672,000	346,958,951,690	2,499,285,876	3,677,306,617
B2	60 days or less	8,119,278,260	7,401,948,109	26,152,834	21,236,872
C1	90 days or less	84,379,950,657	83,908,800,342	1,670,608,435	3,299,614,226
C2	90 days or less	4,798,758,862	7,378,655,896	9,198,443	18,079,722
D	120 days or less	82,769,983,255	116,273,690,769	606,081,277	974,530,475
E	More than 120 days or other factors	157,873,225,6056	141,697,227,587	1,407,566,535	1,215,193,321
		¢ 3,564,453,179,595	3,248,537,957,056	258,722,250,088	249,823,417,762

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

Until December 31, 2013, for purposes of borrower classification, pursuant to SUGEF Directive 1-05, borrowers in Group 1 were 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 were to be classified based on arrears and historical payment behavior. Starting January 1, 2014, borrowers are classified in Group 1 and Group 2 based on arrears, historical payment behavior, and creditworthiness.

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

(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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.

### Structural allowance for loan impairment

From January 2014, the allowances for loan impairment are as follows:

- ✓ General allowance for total outstanding balances, not considering the corresponding guarantees.
- ✓ Specific allowance for covered portion (with guarantees).
- ✓ Specific allowance for uncovered portion (with no guarantees).

The general allowance only applies to loan operations corresponding to borrowers rated A1 and A2. The specific allowances for covered and uncovered portions are applicable to all borrowers, except for those rated A1 and A2. Until December 2013, allowances were established solely for the uncovered portion of loan operations.

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.

Risk ratings are as follows:

<u>Risk rating</u>	<u>Arrears</u>	<u>Historical payment behavior</u>	<u>Creditworthiness</u>
A1	30 days or less	Level 1	Level 1
A2	30 days or less	Level 2	Level 1
B1	60 days or less	Level 1	Level 1 or Level 2
B2	60 days or less	Level 2	Level 1 or Level 2
C1	90 days or less	Level 1	Level 1, Level 2, or Level 3
C2	90 days or less	Level 1 or Level 2	Level 1, Level 2, or Level 3
D	120 days or less	Level 1 or Level 2	Level 1, Level 2, Level 3, or Level 4

(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

Pursuant to articles 11 bis and 12 of SUGEF Directive 1-05, the calculations of the general allowance and the specific allowance for covered portion for loan operations must consider the provisions of Transition Provision XII of such Directive. Accordingly, as of September 30, 2014, the Bank applied an allowance percentage of 0.08%, which will gradually increase on a quarterly basis to 0.5%, pursuant to the aforementioned Transition Provision.

Allowance percentages based on borrower risk rating are as follows:

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

In accordance with article 11 bis, *General allowance*, of CONASSIF Directive 1058/07 dated August 21, 2013, at each month-end, entities must book the general allowance for a minimum of 0.5% of the total outstanding balance for loan portfolios rated A1 and A2, without considering the effect of guarantees. The provisions of article 13 of the aforementioned Directive are to be applied to stand-by credits.

Starting January 2014 and as an exception in the case of risk rating E, the minimum specific allowance for borrowers whose historical payment behavior is classified in level 3 should be calculated as follows:

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of September 30, 2015, the allowance was 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%

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

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

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

September 2015			
	Allowance booked	Structural allowance	Excess (insufficiency) of allowance
Direct	¢ 61,635,033,120	(56,719,258,236)	4,915,774,884
Stand-by	1,536,210,630	(880,802,209)	655,408,421
	¢ 63,171,243,750	(57,600,060,445)	5,571,183,305
September 2014			
	Allowance booked	Structural allowance	Excess (insufficiency) of allowance
Direct	¢ 48,819,814,020	(44,241,783,195)	4,578,030,825
Stand-by	1,339,832,395	(1,033,626,981)	306,205,414
	¢ 50,159,646,415	(45,275,410,176)	4,884,236,239

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 2015				
	Specific allowance	Generic allowance	Total excess (insufficiency) of allowance	Percentage of excess
Excess or insufficiency of allowance	¢ 5,510,187,619	60,995,686	5,571,183,305	9.57%
	¢ 5,510,187,619	60,995,686	5,571,183,305	
September 2014				
	Specific allowance	Generic allowance	Total excess (insufficiency) of allowance	Percentage of excess
Excess or insufficiency of allowance	¢ 3,000,000,000	1,884,236,239	4,884,236,239	7.62%
	¢ 3,000,000,000	1,884,236,239	4,884,236,239	

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 September 30, 2015, the balance of the Bank's allowance for loan impairment (direct and stand-by), accrued interest receivable, and other receivables amounts to ¢69,012,913,390 (2014: ¢54,494,259,907).

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:

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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.

As of September 30, 2015, the carrying amount of the allowance for impairment of foreclosed assets and per legal requirements amounts to ¢60,964,843,176 (2014: ¢56,354,708,259).

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

Sector	Direct		Stand-by	
	September 2015	September 2014	September 2015	September 2014
Trade	¢ 363,663,066,807	354,210,432,924	86,055,062	75,245,884
Services	740,843,079,730	620,921,503,004	51,231,823,375	51,152,109,862
Financial services	122,510,641,170	97,421,652,356	-	-
Mining	401,334,100	409,130,667	-	-
Manufacturing and quarrying	143,941,936,809	142,068,078,501	1,434,792	1,133,788
Construction	85,457,609,032	71,705,134,453	-	-
Agriculture and forestry	106,856,854,653	100,447,873,144	14,325,640	12,896,357
Livestock, hunting, and fishing	61,568,759,079	61,339,127,362	-	3,013,017
Electricity, water, sanitation, and other related sectors	323,574,466,365	250,980,988,633	-	-
Transportation and telecommunications	25,341,135,168	25,861,882,387	-	-
Housing	1,100,666,756,179	1,055,523,992,868	12,678,349	11,043,454
Personal or consumer	359,248,748,447	343,771,082,185	207,189,743,855	198,374,298,377
Tourism	130,378,792,056	123,877,078,572	186,190,015	193,677,023
	¢ <u>3,564,453,179,595</u>	<u>3,248,537,957,056</u>	<u>258,722,251,088</u>	<u>249,823,417,762</u>

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

	Direct		Stand-by	
	September 2015	September 2014	September 2015	September 2014
Central America	¢ <u>3,564,453,179,595</u>	<u>3,248,537,957,056</u>	<u>258,722,251,088</u>	<u>249,823,417,762</u>

The loan portfolio by type of guarantee is as follows:

Guarantee	Direct		Stand-by	
	September 2015	September 2014	September 2015	September 2014
Back to back	¢ 9,869,945,994	8,931,965,377	6,247,474	28,101,000
Mortgage bond	9,924,643,422	10,488,893,313	-	-
Assignment of loans	357,628,902,365	290,099,335,954	207,050	-
Mortgage	1,597,273,973,294	1,564,981,611,399	356,664,201	426,136,470
Surety	675,937,062,601	593,964,563,441	70,877,186	85,259,241
Trust	321,565,826,598	255,633,402,565	137,493,502	93,571,428
Securities	1,233,892,727	1,347,455,168	-	-
Chattel mortgage	141,040,927,903	122,777,857,884	-	-
Other	449,978,004,691	400,312,871,955	258,150,761,675	249,190,349,623
	¢ <u>3,564,453,179,595</u>	<u>3,248,537,957,056</u>	<u>258,722,251,088</u>	<u>249,823,417,762</u>

(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

### Guarantees:

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

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

The Bank conducts strict credit analyses before granting loans and requires guarantees from its borrowers before disbursing loans. As of September 30, 2015, 44.49% of the loan portfolio is secured by collateral guarantees (2014: 48.17%).

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

Loan portfolio concentration	Direct		Stand-by	
	September 2015	September 2014	September 2015	September 2014
¢1 to ¢3,000,000	¢ 143,350,037,443	148,987,739,130	91,157,066,080	87,838,033,469
¢3,000,001 to ¢15,000,000	512,248,575,141	507,791,224,454	113,063,537,537	108,306,250,784
¢15,000,001 to ¢30,000,000	412,608,910,081	404,706,842,136	6,350,481,334	5,602,218,068
¢30,000,001 to ¢50,000,000	402,222,618,887	373,677,747,500	2,698,428,365	1,969,690,620
¢50,000,001 to ¢75,000,000	277,793,659,601	257,524,250,665	2,040,264,457	1,688,065,156
¢75,000,001 to ¢100,000,000	124,860,911,190	114,261,964,308	1,324,732,355	1,312,186,608
¢100,000,001 to ¢200,000,000	206,194,700,104	198,498,222,984	3,531,006,167	3,297,037,376
More than ¢200,000,000	1,485,173,767,148	1,243,089,965,879	38,556,734,793	39,809,935,681
	¢ <u>3,564,453,179,595</u>	<u>3,248,537,957,056</u>	<u>258,722,251,088</u>	<u>249,823,417,762</u>

As of September 30, 2015 and 2014, the portion of the loan portfolio (direct and stand-by loans) corresponding to economic interest groups amounts to ¢230,755,126,073 and ¢234,251,798,507, 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).

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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. 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.

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

At the September 2015 close, the increase in arrears indicators did not affect the behavior of the consolidated VaR, which decreased with respect to the estimate for August 2015 due to the contraction of the balance of operations with arrears of 1 to 120 days.

By currency, the impairment of the VaR in colones corresponds to the monthly growth of the arrears in legal collections. On the contrary, the decrease in dollars is related to the decrease in arrears in legal collections, which went from 4.52% to 4.40% from August to September 2015.

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

Most of the economic activities show a monthly decrease in the VaR due to the recovery of arrears indicators (in legal collection, over 90 days past due, or both). This is the case for the Agriculture, Livestock, Construction, Transportation, Consumer, and Services sectors. The decrease observed in Housing is related to the decrease in the balance of operations in colones and DUs with arrears over 31 days.

The performance of the VaR of Mining, Energy, and Financial Services is strongly influenced by the concentration of such portfolios, which causes monthly and year-on-year variations. Industry and Commerce are the only ones that show a monthly VaR growth in response to the impairment of arrears over 90 days and in legal collections, respectively.

ii. BN Sociedad Administradora de Fondos de Inversión, S.A. (the Investment Fund Manager)

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
- policy compliance reviews through analyses of the composition of the investment portfolio.

(Continued)

## 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.

#### iii. BN Valores Puesto de Bolsa, S.A. (the Brokerage Firm)

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 & Poor's, 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.

(Continued)

## 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 indices, 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, which 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 September 2015, 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 (97.72%) of the Brokerage Firm's financial instruments is concentrated in the portfolio denominated in colones.

The consolidated portfolio is comprised of investments in instruments issued by the Government of Costa Rica (72.34%), BCCR (17.67%), BPDC (5.79%), MUCAP (1.50%), BCAC (0.36%), and the Bank (0.06%). These issuers represent 94.03% of the consolidated portfolio. The portfolio denominated in U.S. dollars represents 2.28%, comprised of investments issued by the Government of Costa Rica (1.22%), Banco de San José (0.95%) and other issuers (0.11%).

iv. BN Vital Operadora de Planes de Pensiones Complementarias, S.A. (the Pension Fund Manager)

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 those exposures are perfectly correlated, which causes VaR to be overestimated.

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

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

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

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

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

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

As of September 30, 2015, the assets of the funds managed by the Pension Fund Manager amount to ¢990,268 million, growing year-on-year by ¢151,258 million. This implies a growth rate of 18.03% with respect to the portfolio managed as of September 2014. These data do not include the Pension Fund Manager's own assets.

The pension fund with the highest share is ROP, which represents 79.52% and shows a year-on-year growth of ¢122,251 million and a growth rate of 18.38% with respect to September 2014.

The VaR of credit represented ¢27.94 million and 0.37% of the portfolio in absolute and relative terms, respectively (September 2014: 0.49% of the portfolio in relative terms).

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

v. BN Corredora de Seguros, S.A. (the Insurance Brokerage Firm)

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 September 30, 2015 and 2014, 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. As of September 30, 2015 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, levels of concentration of the Bank's funding sources, liquidity coverage ratio, systemic liquidity indicators, 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 and subsequently escalated to the Board of Directors.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of September 30, 2015, the terms of the Bank's assets and liabilities denominated in local currency are matched as follows:

	Past due	Days							Total
		Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	More than 365	
Cash and due from banks	¢ -	50,438,218,921	-	-	-	-	-	-	50,438,218,921
Minimum cash reserve in BCCR	-	267,083,894,360	25,175,830,974	14,359,874,764	25,473,259,560	55,013,785,232	25,667,210,500	13,118,566,124	425,892,421,514
Investments	-	-	194,551,788,109	3,159,083,050	9,576,794,096	50,968,037,110	93,175,808,095	271,584,684,899	623,016,195,359
Loan portfolio	100,018,588,183	-	31,641,024,032	38,718,554,581	20,966,585,660	66,218,284,337	85,738,956,279	1,837,087,351,807	2,180,389,344,879
Total recovery of assets	¢ 100,018,588,183	317,522,113,281	251,368,643,115	56,237,512,395	56,016,639,316	172,200,106,679	204,581,974,874	2,121,790,602,830	3,279,736,180,673
Obligations with the public	¢ -	1,561,999,843,083	178,937,646,185	181,130,109,488	117,530,630,275	368,951,434,244	163,354,748,695	89,237,810,186	2,661,142,222,156
Obligations with BCCR	-	-	-	-	-	-	-	125,644,412	125,644,412
Obligations with financial entities	-	80,816,651,709	10,281,906,403	3,075,986,781	6,514,217,080	16,442,233,955	409,488,914	2,748,696,267	120,289,181,109
Charges payable	-	6,912,269,399	5,988,919,851	3,114,815,045	1,326,973,873	1,880,756,808	413,215,253	134,773,977	19,771,724,206
Total maturity of liabilities	¢ -	1,649,728,764,191	195,208,472,439	187,320,911,314	125,371,821,228	387,274,425,007	164,177,452,862	92,246,924,842	2,801,328,771,883
Difference	¢ 100,018,588,183	(1,332,206,650,910)	56,160,170,676	(131,083,398,919)	(69,355,181,912)	(215,074,318,328)	40,404,522,012	2,029,543,677,988	478,407,408,790

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of September 30, 2015, the terms of the Bank's assets and liabilities denominated in foreign currency, expressed in local currency, are matched as follows:

	Past due	Demand	Days							Total
			1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	More than 365		
¢	-	138,298,911,848	-	-	-	-	-	-	85,224,949	138,384,136,797
Cash and due from banks	-	136,735,795,602	8,517,910,474	11,030,464,973	12,341,980,425	27,745,115,228	2,857,415,340	-	-	199,228,682,042
Minimum cash reserve in BCCR	-	-	27,456,293,602	21,548,048,363	27,557,132,989	66,295,249,812	140,482,439,127	281,283,786,157	-	564,622,950,050
Investments	-	-	25,175,751,906	24,692,994,496	24,166,730,192	72,878,655,711	55,766,049,220	1,118,117,110,617	-	1,384,063,834,717
Loan portfolio	63,266,542,575	-	-	-	-	-	-	-	-	-
Total recovery of assets	¢	63,266,542,575	275,034,707,450	57,271,507,832	64,065,843,606	166,919,020,751	199,105,903,687	1,399,486,121,723	-	2,286,299,603,606
Obligations with the public	-	753,405,687,286	80,549,766,774	90,491,410,989	81,018,023,209	128,907,020,148	66,366,066,480	5,653,101,647	-	1,206,391,076,533
Obligations with financial entities	-	149,716,663,028	4,905,533,337	2,648,386,200	5,286,200	56,073,366,500	94,116,297,730	712,617,608,269	-	1,020,083,141,264
Charges payable	-	677,914,941	581,389,549	12,787,530,293	1,944,063,014	690,859,006	156,375,940	18,283,741	-	16,856,416,484
Total maturity of liabilities	¢	903,800,265,255	86,036,689,660	105,927,327,482	82,967,372,423	185,671,245,654	160,638,740,150	718,288,993,657	-	2,243,330,634,281
Difference	¢	63,266,542,575	(628,765,557,805)	(48,655,819,650)	(18,901,528,817)	(18,752,224,903)	38,467,163,537	681,197,128,066	-	42,968,969,325

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# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

	Past due	Demand	Days						Total
			1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	More than 365	
Cash and due from banks	¢ -	53,352,287,395	-	-	-	-	-	-	53,352,287,395
Minimum cash reserve in BCCR	-	390,779,222,656	-	-	-	-	-	-	390,779,222,656
Investments	-	-	49,689,189,041	1,154,363,550	2,580,563,441	64,395,707,747	79,347,091,599	251,418,010,225	448,584,925,603
Loan portfolio	81,253,749,362	4,876,455,658	36,026,000,363	30,517,934,432	23,765,684,984	60,336,460,195	81,692,470,888	1,707,269,722,256	2,025,738,478,138
Total recovery of assets	¢ 81,253,749,362	449,007,965,709	85,715,189,404	31,672,297,982	26,346,248,425	124,732,167,942	161,039,562,487	1,958,687,732,481	2,918,454,913,792
Obligations with the public	¢ -	1,379,517,377,938	209,018,224,459	192,457,560,824	83,848,630,249	367,752,117,664	103,146,513,323	54,266,242,834	2,390,006,667,291
Obligations with BCCR	-	-	-	-	-	-	-	182,498,392	182,498,392
Obligations with financial entities	-	96,085,676,383	698,078,486	151,346,381	540,464,332	2,142,570,014	287,521,727	1,022,825,965	100,928,483,288
Charges payable	-	6,052,494,683	3,612,879,945	2,860,212,518	1,267,795,254	1,942,473,225	207,335,729	143,790,945	16,086,982,299
Total maturity of liabilities	¢ -	1,481,655,549,004	213,329,182,890	195,469,119,723	85,656,889,835	371,837,160,903	103,641,370,779	55,615,358,136	2,507,204,631,270
Difference	¢ 81,253,749,362	(1,032,647,583,295)	(127,613,993,486)	(163,796,821,741)	(59,310,641,410)	(247,104,992,961)	57,398,191,708	1,903,072,374,345	411,250,282,522

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

	Past due	Demand	Days							Total
			1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	More than 365		
Cash and due from banks	¢	201,003,176,000	-	-	-	-	-	-	227,519,259	201,230,695,259
Minimum cash reserve in BCCR	-	193,928,838,424	-	-	-	-	-	-	-	193,928,838,424
Investments	-	-	33,253,415,153	18,563,768,901	253,124,594	55,495,316,900	112,502,595,672	327,334,045,906	547,402,267,126	
Loan portfolio	37,032,006,842	19,022,118,144	21,340,081,815	22,773,295,388	17,699,047,753	57,981,676,674	48,676,485,510	998,274,766,793	1,222,799,478,919	
Total recovery of assets	¢	37,032,006,842	413,954,132,568	41,337,064,289	17,952,172,347	113,476,993,574	161,179,081,182	1,325,836,331,958	2,165,361,279,728	
Obligations with the public	¢	740,298,337,722	66,080,531,503	74,029,545,077	66,838,452,024	150,982,918,591	42,717,712,330	8,426,005,821	1,149,373,503,068	
Obligations with financial entities	-	175,057,965,563	32,336,331	5,357,112	2,222,400,063	21,360,800	346,052,815	781,271,671,050	958,957,143,734	
Charges payable	-	866,659,752	518,449,356	12,862,087,125	1,998,992,456	557,816,898	139,419,394	26,750,959	16,970,175,940	
Total maturity of liabilities	¢	916,222,963,037	66,631,317,190	86,896,989,314	71,059,844,543	151,562,096,289	43,203,184,539	789,724,427,830	2,125,300,822,742	
Difference	¢	37,032,006,842	(502,268,830,469)	(12,037,820,222)	(45,559,925,025)	(53,107,672,196)	(38,085,102,715)	536,111,904,128	40,060,456,986	

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

i. Banco Nacional de Costa Rica (the Bank)

To support liquidity risk management, the Market Risk Division monitors indicators such as liability structure, daily changes and trends in demand and term account balances, volatility of deposit-taking from the public (duration by liability and currency), VaR of liquidity, levels of concentration of the Bank's funding sources, liquidity coverage ratio, systemic liquidity indicators, 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 and subsequently escalated to the Board of Directors.

ii. BN Sociedad Administradora de Fondos de Inversión, S.A. (the Investment Fund Manager)

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.

iii. BN Valores Puesto de Bolsa, S.A. (the Brokerage Firm)

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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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.

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.

iv. BN Vital Operadora de Planes de Pensiones Complementarias, S.A. (the Pension Fund Manager)

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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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.

The methodology used consists of calculating the percentile (in this case 95% and 99%) on the empirical distribution of net withdrawals for each of the funds to be analyzed. The result will be considered in 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.

Fund	All movements		Withdrawals > Contributions		Extreme values		Cash/Equity	
	Aug 2015	Sept 2014	Aug 2015	Sept 2014	Aug 2015	Sept 2014	Aug 2015	Sept 2014
ROP	0.57%	0.56%	0.30%	0.30%	0.77%	0.77%	0.58%	2.86%
FCL	0.87%	0.87%	2.02%	2.01%	15.10%	14.77%	2.73%	1.76%
NOT	0.09%	0.09%	0.18%	0.18%	0.31%	0.31%	0.53%	0.53%
FPC A	0.75%	0.74%	1.19%	1.19%	2.90%	2.89%	1.77%	1.78%
FPC B	0.47%	0.47%	1.32%	1.32%	2.11%	2.09%	2.66%	2.98%
FPD A	1.34%	1.34%	3.00%	2.99%	7.34%	7.34%	3.76%	4.06%
FPD B	0.75%	0.75%	1.21%	1.21%	3.19%	3.18%	1.72%	2.11%

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 the FPD A where the VaR at 99%, eliminating two standard deviations, would reach 1.34%. The FPD A and FCL show the highest risk exposure considering all movements in cash and due from banks, while the VaR of NOT is almost nil, which is in line with prior liquidity reports and 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. The voluntary pension funds A and FCL are the funds with higher risk levels. In spite of presenting higher risk exposure, for all cases, risk levels are equivalent to or below 3%.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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, which represents a VaR of 14.77% as of September 2015, followed by FPD A with a VaR of 7.34%.

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.

Liquidity risk management

Risk Management policies establish a liquidity limit which determines that a minimum liquidity level will be maintained to address the investment needs and operations of the Company and the characteristics of the pension plan, according to the need arising from the nature of the Pension Fund Manager itself.

All policies and procedures are subject to review and approval by the Risk Committee and the Investment Committee. The Board of Directors has established minimum liquidity levels on the equity position of funds available to meet their requirements.

The liquidity level of the Pension Fund Manager corresponds to the nature of its operations. The entity holds a portion of the portfolio of short-term assets as well as highly-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.

v. BN Corredora de Seguros, S.A. (the Insurance Brokerage Firm)

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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

c) Market risks

i. Banco Nacional de Costa Rica (the Bank)

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.

ii. BN Sociedad Administradora de Fondos de Inversión, S.A. (the Investment Fund Manager)

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

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

Market risk management

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

For such purposes, the Investment Fund Manager uses the RiMeR methodology, which was internally developed by the Mathematical Modeling and Market Risk Divisions of the Bank. This methodology permits calculating the VaR of portfolios comprised of fixed income instruments. The model considers yield curves, rate model parameter estimation, scenario simulations, and calculation of VaR. This methodology uses a two-factor rate model (G2++ model), which involves decomposing the short rate into two processes and a deterministic function to be selected.

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 a portion of risk on its portfolios and the correlation between risk and return over a given period of time. The Sharpe ratio measures the risk-adjusted return based on the relationship between return and a risk-free assets and the volatility of returns.

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.

The VaR of the Investment Fund Manager's portfolio is as follows:

	<u>September 2015</u>	<u>September 2014</u>
VaR (99% confidence level)	0.81%	0.36%

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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of September 30, 2015 and 2014, the carrying amount of the following financial instruments approximates fair value: cash, investments in financial instruments, interest receivable, obligations under repurchase agreements, interest payable, fees and commissions, and other accounts payable. Investments are carried at the fair value determined using the method described above.

iii. BN Valores Puesto de Bolsa, S.A. (the Brokerage Firm)

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

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

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

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

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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

iv. BN Vital Operadora de Planes de Pensiones Complementarias, S.A. (the Pension Fund Manager)

The Pension Fund Manager manages its market risk and that of each of the funds managed by applying a VaR model. The VaR methodology used is the "Monte Carlo simulation" approach, whereby random simulations of interest rates are generated and stochastic market values are measured and then compared to prices to date, which represents the VaR, defined as the potential loss of market value of the portfolio in the event of a deviation from its current value over a 10-day holding period and with a 99% confidence level.

As of September 30, 2015, net assets managed by the Pension Fund Manager amount to a total of ¢990,268 million (2014: ¢795,871 million). That amount is distributed among eight funds, i.e. ROP, FCL, FPC A, FPC B, FPD A, FPD B, NOT, and OPC. ROP represents 79.52% of the balance managed.

Currently, the Pension Fund Manager's funds are comprised of funds in various currencies, i.e. the Costa Rican colon, the U.S. dollar (local issuers and international portfolio), and DU, for which the Corporate Risk Division performs separate VaR analyses in respect of each currency. Subsequently, those analyses are consolidated using a model that includes interest rate and currency risks.

v. BN Corredora de Seguros, S.A. (the Insurance Brokerage Firm)

For the Insurance Brokerage Firm, market risk is the risk of changes in market prices, including changes in foreign exchange rates and interest rates. The goal is to manage and control exposures to market risk within acceptable parameters.

Interest rate risk

For the Pension Fund Manager's own funds, the consolidated VaR shows a relative value of 1.75% in average, which remained relatively stable during the period from September 2014 and September 2015 (September 30, 2014: 1.69%).

(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

As of September 30, 2015, 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	194,551,788,072	12,722,907,949	50,931,400,181	93,077,812,761	176,705,053,898	67,669,077,846	595,658,040,707
Loan portfolio	131,945,907,772	47,590,177,240	61,365,630,834	85,968,801,592	146,235,240,824	1,621,690,886,218	2,094,796,644,480
Total recovery of rate-sensitive assets LC (A)	326,497,695,844	60,313,085,189	112,297,031,015	179,046,614,353	322,940,294,722	1,689,359,964,064	2,690,454,685,187
Obligations with the public	194,117,297,508	312,293,040,513	386,946,238,351	163,886,543,428	51,755,399,189	40,537,492,228	1,149,536,011,217
Obligations with BCCR	-	-	-	-	-	125,644,412	125,644,412
Obligations with financial entities LC	290,681,128	100,802,517	153,627,262	360,412,489	546,719,684	2,241,474,701	3,693,717,781
Total maturity of rate-sensitive liabilities LC (B)	194,407,978,636	312,393,843,030	387,099,865,613	164,246,955,917	52,302,118,873	42,904,611,341	1,153,355,373,410
LC difference, recovery of assets less maturity of liabilities (A - B)	132,089,717,208	(252,080,757,841)	(274,802,834,598)	14,799,658,436	270,638,175,849	1,646,455,352,723	1,537,099,311,777
<i>Foreign currency (FC)</i>							
Investments	27,456,290,775	48,752,804,115	66,376,314,134	137,716,711,481	133,719,903,291	129,034,219,883	543,056,243,679
Loan portfolio	40,310,627,719	42,402,095,173	70,248,195,747	52,607,154,534	99,122,448,032	1,038,907,095,978	1,343,597,617,183
Total recovery of rate-sensitive assets FC (C)	67,766,918,494	91,154,899,288	136,624,509,881	190,323,866,015	232,842,351,323	1,167,941,315,861	1,886,653,860,862
Obligations with the public	86,041,686,173	187,028,580,250	145,736,896,628	66,771,326,231	4,593,076,006	543,907,688,863	1,034,079,254,151
Obligations with entities	2,463,226,346	1,297,465,301	40,421,871,152	122,651,701,826	59,902,431,332	79,733,804,800	306,470,500,757
Total maturity of rate-sensitive liabilities FC (D)	88,504,912,519	188,326,045,551	186,158,767,780	189,423,028,057	64,495,507,338	623,641,493,663	1,340,549,754,908
FC difference, recovery of assets less maturity of liabilities (C - D)	(20,737,994,025)	(97,171,146,263)	(49,534,257,899)	900,837,958	168,346,843,985	544,299,822,198	546,104,105,954
Total recovery of rate-sensitive assets 1/ (A + C)	394,264,614,338	151,467,984,477	248,921,540,896	369,370,480,368	555,782,646,045	2,857,301,279,925	4,577,108,546,049
Total maturity of rate-sensitive liabilities 2/ (B + D)	282,912,891,155	500,719,888,581	573,258,633,393	353,669,983,974	116,797,626,211	666,546,105,004	2,493,905,128,318
LC + FC difference, recovery of assets less maturity of liabilities (item 1 - item 2)	111,351,723,183	(349,251,904,104)	(324,337,092,497)	15,700,496,394	438,985,019,834	2,190,755,174,921	2,083,203,417,731

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of September 30, 2014, the interest rate terms for the Bank's assets and liabilities are matched as follows (differences between the recovery of assets and the maturity of liabilities):

	1 to 30	31 to 90	91 to 180	181 to 360	361 to 720	More than 720	Total
<i>Local currency (LC)</i>							
Investments	49,403,499,673	3,669,926,074	64,115,198,546	76,064,332,467	155,082,544,085	71,650,337,129	419,985,837,974
Loan portfolio	136,613,566,111	41,160,150,314	55,053,034,246	79,325,538,196	138,018,368,346	1,499,444,334,442	1,949,614,991,655
Total recovery of rate-sensitive assets LC (A)	186,017,065,784	44,830,076,388	119,168,232,792	155,389,870,663	293,100,912,431	1,571,094,671,571	2,369,600,829,629
Obligations with the public	214,081,957,774	280,604,995,304	371,451,244,013	103,326,247,808	16,260,257,173	39,475,186,576	1,025,199,888,648
Obligations with BCCR	24,493,882	30,770	10,866,877	11,022,940	22,372,527	138,174,530	206,961,526
Obligations with financial entities LC	96,793,884	84,330,187	128,389,088	308,625,385	559,963,223	376,901,305	1,555,003,072
Total maturity of rate-sensitive liabilities LC (B)	214,203,245,540	280,689,356,261	371,590,499,978	103,645,896,133	16,842,592,923	39,990,262,411	1,026,961,853,246
LC difference, recovery of assets less maturity of liabilities (A - B)	(28,186,179,756)	(235,859,279,873)	(252,422,267,186)	51,743,974,530	276,258,319,508	1,531,104,409,160	1,342,638,976,383
<i>Foreign currency (FC)</i>							
Investments	33,253,414,948	18,772,345,476	55,495,318,077	110,646,738,058	132,326,569,868	192,634,670,914	543,129,057,341
Loan portfolio	36,283,002,998	34,655,862,791	56,700,750,977	44,783,814,167	100,032,282,545	913,623,338,103	1,186,079,051,581
Total recovery of rate-sensitive assets FC (C)	69,536,417,946	53,428,208,267	112,196,069,054	155,430,552,225	232,358,852,413	1,106,258,009,017	1,729,208,108,922
Obligations with the public	66,821,558,136	156,365,002,843	151,549,129,541	44,269,352,621	4,151,967,518	533,467,254,948	956,624,265,607
Obligations with entities	2,224,341,159	1,301,749,463	1,458,013,995	2,973,705,007	58,490,149,903	188,076,673,805	254,524,633,332
Total maturity of rate-sensitive liabilities FC (D)	69,045,899,295	157,666,752,306	153,007,143,536	47,243,057,628	62,642,117,421	721,543,928,753	1,211,148,898,939
FC difference, recovery of assets less maturity of liabilities (C - D)	490,518,651	(104,238,544,039)	(40,811,074,482)	108,187,494,597	169,716,734,992	384,714,080,264	518,059,209,983
Total recovery of rate-sensitive assets 1/ (A + C)	255,553,483,730	98,258,284,655	231,364,301,846	310,820,422,888	525,459,764,844	2,677,552,680,588	4,098,808,938,551
Total maturity of rate-sensitive liabilities 2/ (B + D)	283,249,144,835	438,356,108,567	524,597,643,514	150,888,953,761	79,484,710,344	761,534,191,164	2,238,110,752,185
LC + FC difference, recovery of assets less maturity of liabilities (item 1 - item 2)	(27,695,661,105)	(340,097,823,912)	(293,233,341,668)	159,931,469,127	445,975,054,500	1,915,818,489,424	1,860,698,186,366

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

i. Banco Nacional de Costa Rica (the Bank)

The Bank is sensitive to interest rate 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 September 2015 close, the interest rate risk indicator in local and foreign currency closed considerably below SUGEF's regulatory maximum limit of 5%, at 1.35% (2014: 1.36%), since the expected increase in the base rate was offset by a decrease in the duration, and 0.12% (2014: 0.05%), respectively.

*Fair value hedge*

Fair value hedges are recognized as follows:

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

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

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 (see note 5-b).

ii. BN Sociedad Administradora de Fondos de Inversión, S.A. (the Investment Fund Manager)

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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

iii. BN Vital Operadora de Planes de Pensiones Complementarias, S.A. (the Pension Fund Manager)

For the Pension Fund Manager's own funds, the consolidated VaR increased during the period from September 2014 to September 2015, from 1.10% to 4.22%. This is explained by management's strategy of increasing positions in the long term by taking advantage of the rate scenario and economic conditions of the period under analysis.

As of April 2014 the Pension Fund Manager adopted the RIMER methodology to calculate the VaR of market risk. Consequently, the 2014 values calculated under this methodology are not comparable to those from prior periods (calculated under another methodology).

iv. BN Corredora de Seguros, S.A. (the Insurance Brokerage Firm)

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.

Currency risk

Pursuant to SUGEF Directive 24-00, an entity faces currency risk when the value of its assets and liabilities in foreign currency is affected by exchange rate variations and the amounts of the corresponding assets and liabilities are mismatched.

Starting May 2009, the Bank's Asset and Liability Committee (ALCO) decided to take a neutral foreign currency position, which has been ratified annually by the Corporate Risk Committee. The goal is to protect the Bank from any variation 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 September 2015, that indicator was established at 0.01%, which is much lower than the 0.51% calculated for September 2014 and considerably below the regulatory maximum limit of 5%.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The assets and liabilities denominated in foreign currency are as follows:

		U.S. dollars	
		September 2015	September 2014
Assets:			
Cash and due from banks	US\$	622,118,242	717,631,586
Investments in financial instruments		1,024,365,811	968,978,078
Loan portfolio		2,584,401,174	2,257,957,703
Accounts and accrued interest receivable		458,929	576,101
Investments in other companies		100,308,587	91,528,670
Other assets		5,631,435	5,777,359
Total assets	US\$	4,337,284,178	4,042,449,497
Liabilities:			
Obligations with the public	US\$	2,228,720,432	2,094,433,022
Obligations with entities		1,956,050,148	1,813,967,897
Accounts payable and provisions		13,079,828	14,018,523
Other liabilities		22,333,611	15,033,326
Subordinated obligations		130,961,033	100,617,282
Total liabilities	US\$	4,351,145,052	4,038,070,050
Excess of assets over liabilities in U.S. dollars	US\$	(13,860,874)	4,379,447
		Euros	
		September 2015	September 2014
Assets:			
Cash and due from banks	€	14,767,734	17,717,256
Investments in financial instruments		38,934,172	44,391,035
Total assets	€	53,701,906	62,108,291
Liabilities:			
Obligations with the public	€	51,532,476	48,390,976
Obligations with entities		1,094,395	7,025,779
Accounts payable and provisions		149,741	200,383
Other liabilities		-	41,656
Total liabilities	€	52,776,612	55,658,794
Excess (deficit) of assets over liabilities in euros	€	925,294	6,449,497

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

		DU	
		September 2015	September 2014
Assets:			
Investments in financial instruments	UD	39,242,695	39,132,133
Loan portfolio		34,171,390	45,060,411
Other assets		-	-
Total assets	UD	73,414,085	84,192,544
Liabilities:			
Accounts payable and provisions	UD	947,163	1,097,526
Other liabilities		6,602	8,255
Total liabilities	UD	953,765	1,105,781
Excess of assets over liabilities in DU	UD	72,460,320	83,086,763

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

Foreign exchange rate gains and losses were generated from the valuation in colones of monetary assets and liabilities in foreign currency, as follows:

	September 2015	September 2014
Exchange rate gains	¢ 68,994,949,616	283,228,715,553
Exchange rate losses	68,925,972,092	282,811,657,570
Net gains (losses)	¢ 68,977,524	417,057,983

In addition, gains and losses resulted from the valuation of other liabilities and other assets for the year ended September 30, which are reflected under "Other operating expenses" and "Other operating income", respectively.

	September 2015	September 2014
Gain on net valuation of other assets (note 33)	¢ 255,087,989	610,110,976
Loss on net valuation of other liabilities (note 36)	186,293,704	1,086,868,607
Net (loss) gain	¢ 68,794,285	(476,757,631)

i. Banco Nacional de Costa Rica (the Bank)

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.

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

#### 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 €38 million as of the September 2015 close and represents 2% of the Bank's total investment portfolio, which is in line with the strategy for investment diversification and portfolio currency matching. This portfolio has remained relatively stable during the past year, ranging between €39 million and €43 million. The main issuers are the Netherlands (45%), France (21%), and Belgium (12%).
- Most issuers included in this portfolio are sovereign issuers with very high credit ratings.
- The VaR of fair value was 0.01% and the duration 0.84 years.
- Of the portfolio, 96% bears a fixed rate interest, and 56% matures between 6 months and 2 years.
- As a result of the ongoing monitoring performed by the Market 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*

- As of September 2015, the total balance of the portfolio in international dollars is \$115 million. Of that amount, 27% (equivalent to \$420 million) corresponds to a component of European instruments. However, excluding the note issued by Barclays with underlying bonds issued by the Government of Costa Rica, the share in the portfolio decreases to 15%.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- In this case, the portfolio concentrates in instruments issued by sovereign issuers that are considered to have very high credit ratings, including Germany, Belgium, France, the Netherlands, England, etc.

ii. BN Corredora de Seguros, S.A. (the Insurance Brokerage Firm)

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.

iii. BN Sociedad Administradora de Fondos de Inversión, S.A. (the Investment Fund Manager)

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.

The risk of capital requirement due to currency risk corresponds to the amount resulting from multiplying the absolute value of the total net position in foreign currency by 10%.

iv. BN Valores Puesto de Bolsa, S.A. (the Brokerage Firm)

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.

v. BN Vital Operadora de Planes de Pensiones Complementarias, S.A. (the Pension Fund Manager)

As of September 30, 2015, the Pension Fund Manager's assets of own funds represented by investments in U.S. dollars is 1.66%; therefore, currency risk is still quite low.

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 and the share value.

d) Operational risk

i. Banco Nacional de Costa Rica (the Bank)

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.

This policy is implemented through a comprehensive model that comprises three lines of defense:

- Business areas with the primary functions of execution and supervision.
- Support areas that have functions including surveillance, internal guideline generation, monitoring and control of key indicators, and regulatory compliance.
- Independent audits, both internal and external, that perform control testing and validation in conformity with that set forth by upper management and the applicable regulations.

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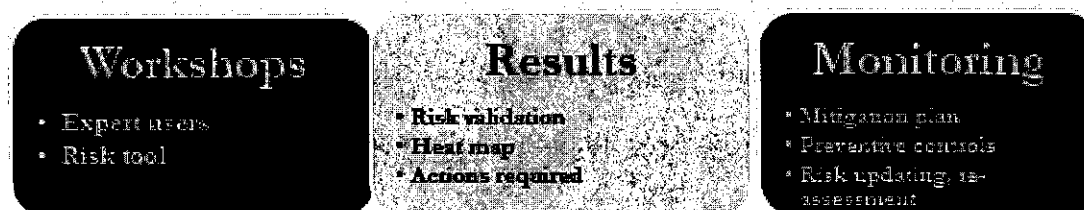
## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

Furthermore, the Bank has defined operating policies related to the implementation of new products, services, and operations and to fraud 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. Management of this risk entails a qualitative evaluation through a calculation of indicators and specific risk models, which periodically reflect behaviors and trends that serve as inputs for decision-making.

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.

(Continued)

## 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.

ii. BN Sociedad Administradora de Fondos de Inversión, S.A. (the Investment Fund Manager)

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).

(Continued)

## 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.

#### *iii.* BN Valores Puesto de Bolsa, S.A. (the Brokerage Firm)

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 number 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
- integrity, security, and availability of the Brokerage Firm's information technology (IT).

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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.

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.

iv. BN Corredora de Seguros, S.A. (the Insurance Brokerage Firm)

For the Insurance Brokerage Firm, operational risk is the risk of possible loss resulting from deficient, failed, or inadequate processes, personnel, technology, and infrastructure or from external events associated to such factors.

Operational risk includes legal risk and reputational risk.

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 a failure to process or renew individual insurance policies.

It is important to note that we are currently in the process of purchasing information systems, which implies a risk since the current information system process is not appropriate.

v. BN Vital Operadora de Planes de Pensiones Complementarias, S.A. (the Pension Fund Manager)

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.

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

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
- 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
- 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.

Legal risk: This risk focuses on the legal contingencies that result from the nature and operation of the industry when applying and interpreting pension's legislation and regulations. The Pension Fund Manager is provided with legal advice and agreements authorized by SUPEN.

Risk management is comprised of three types of risk, namely:

Contract risk: This risk is assumed when the Pension Fund Manager makes investments with its own funds or the funds it manages. Accordingly, the contracts must comply with the regulations in effect and the performance bond signed by the parties. To ensure that these actions are executed from a legal standpoint, measures are coordinated and backed by the Bank.

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

Regulatory compliance risk: This risk refers to the scope and adoption of regulations in effect of the Pension Fund Manager. For such purposes, a Compliance Officer is in charge of reviewing in a systematic and comprehensive manner any departure from regulations. The UAIR analyzes and verifies the limits established by SUPEN in the Investment Regulations of the regulated entities.

Litigation risk: The UAIR follows up monthly on the legal actions filed against the Pension Fund Manager. The legal actions must be timely communicated and fed by management into the database of the Bank's Legal Department. Mathematical models are then applied to estimate the amounts of EL and VaR.

As of September 30, 2015 the Bank's General Risk Division presented the results of the calculation of the VaR of legal actions for the Pension Fund Manager. The amount to be provisioned is equivalent to an expected loss of ¢265.11 million. In addition, the Pension Fund Manager is a defendant in 5 lawsuits, all of which are at the court of first instance.

#### 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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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.

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 September 30, 2015 and 2014, the Bank's risk rating is at a normal level since its capital adequacy ratio is above the required 10% ratio.

(45) Contingencies

As of September 30, 2015 and 2014, the Bank, Pension Fund Manager, and Investment Fund Manager are defendants in ordinary, labor, and criminal lawsuits. The legal actions filed are as follows:

	Number of cases		Phase	Total estimated amount	
	2015	2014		2015	2014
Bank	228	214	First instance	¢ 214,348,605,865	234,015,273,905
	21	13	Second instance	27,165,597,375	10,476,481,508
	4	6	Appeal	9,650,430,000	6,753,568,000
	253	233	Subtotal	¢ 251,164,633,240	251,245,323,413
Pension Fund Manager	4	1	Second instance	265,110,325	10,690,800
Investment Fund Manager	-	-	Second instance	¢ -	-
	257	234	Total (note 20)	¢ 251,429,743,565	251,256,014,213

(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

As of September 30, 2015 and 2014, the legal actions filed against the Bank and its subsidiaries are booked in memoranda accounts under "Other contingencies - pending litigation and lawsuits".

As of September 30, 2015 and 2014, 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	
2015	2014		2014	2014
134	55	First instance	¢ 709,781,978,532	7,901,348,998
1	1	Second instance	375,839,600	150,000,000
135	56	Total	¢ 710,157,818,132	8,051,348,998

### *Disclosure of legal action filed against SUGEF*

Starting September 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

Notes to Consolidated Financial Statements

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 three days to reply. As of the date of the approval of the 2013 audited 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.

Through Official Letter SGRF 093-2014 dated March 25, 2014, the Bank provided justification for the deferral of expenses associated with BN Vivienda 10, which is applicable to income. Additionally, Official Letter SGRF 094-2014 dated March 25, 2014 complemented and expanded on Official Letter SGRF 093-2014.

Through Official Letter SUGEF 0644-2014 dated March 28, 2014, SUGEF requested additional documentation, which was furnished by the Bank through Official Letter SGRF-112-2014 of April 2, 2014.

Through Official Letter 1417-201400096 dated June 16, 2014, SUGEF summarized the events occurring from the date Inquiry SGER-042-2013 was submitted by the Bank and reached a conclusion based on the documents submitted in Official Letter DGF 095-2014 on April 21, 2014 in respect of additional documentation filed with SUGEF to prevent amendment of the audited financial statements as of December 2013, as follows:

*"In light of the preceding arguments, the motion for reconsideration filed against Official Letter SUGEF 3020-2013 of December 16, 2013 is upheld, permitting Banco Nacional de Costa Rica to defer direct and incremental costs incurred in connection with the "BN Vivienda 10" and "BN Vivienda" products, as established in subaccount 182-05, i.e. for the entire life of the loan. Additionally, the arguments included in Official Letter SUGEF 180-2014 dated January 30, 2014 are dismissed".*

(46) 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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

b) Audit by Tax Authorities - 2010, 2011, 2012, and 2013 periods

On May 21, 2014, the Bank was informed that the Tax Authorities were to perform an audit in respect of the 2010, 2011, 2012, and 2013 periods. Through Notice No. 1-10-015-14-077-011-03 and Notice No. 1-10-015-14-078-111-03 issued by the Large Taxpayer Administration, the Bank received the "Notification of the Start of the Tax Audit and Initial Information Requirements" for the 2012 and 2013 periods, which involves confirming the veracity of the tax returns filed. Additionally, on June 27, 2014, the periods to be audited were extended to include 2010 and 2011 through the "Notification of the Extension to the Tax Audit and Initial Information Requirements" (Notice No. 1-10-015-14-025-012-03 and Notice No. 1-10-015-14-016-121-03).

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

On January 9, 2015, the National Large Taxpayer Audit Subdirection issued Document No. 1-10-015-14-091-341-03, "Regularization Proposal", detailing the required tax adjustments or corrections to the tax base included in the tax returns filed by the Bank for the 2010, 2011, 2012, and 2013 tax periods. The total tax liability, interest thereon, and the corresponding penalties amount to ₡29,089,100,723, ₡9,036,647,719, and ₡11,286,519,808, respectively.

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

The National Large Taxpayer Audit Subdirection issued Document No. SFGCN-020-15 dated January 19, 2015 (notified to the Bank on January 21, 2015), whereby it maintains its decision and confirms the actions taken.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Notification No. D.J. 176-2015 ref. 365 of the Legal Department, dated February 3, 2015, reads as follows:

*“Therefore, as a result of the consultations, no legally-binding tax liability has been established for the Bank. For such purposes, an administrative act must be issued in respect of the jeopardy assessment of taxes, which is subject to the decision of the Constitutional Chamber of the Supreme Court of Justice in respect of the appeal against article 144. If the appeal is dismissed by the Constitutional Chamber, the debt will become immediately applicable, final, and a present obligation, due to the issue of the jeopardy assessment of taxes”.*

(47) 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.

- *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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

*b- Amendments to accounting regulations*

Through Articles 8 and 5 of the minutes of meetings No. 1034-2013 and No. 1035-2013 held on April 2, 2013, CONASSIF upheld the amendments to SUGEF Directive 31-04 in respect of the financial statements and explanatory notes, SUGEF Directive 33-07 in respect of new accounts to be included in the financial reports, and SUGEF Directive 34-02 in respect of accounting regulations applicable to regulated entities. These amendments are effective starting January 1, 2014.

(48) 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, whereby regulated entities adopted IFRSs and the corresponding Interpretations issued by the IASB in effect as of January 1, 2008, except for the special treatment indicated in Chapter II of the Regulations.

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

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

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## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

Pursuant to the Regulations, adoption of new IFRSs or Interpretations issued by the IASB, as well as any other revisions of IFRSs adopted will require the prior authorization of 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:

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, foreign exchange differences, income taxes, etc. to be presented on a net basis. Given their nature, IFRSs require those balances to be presented net to prevent assets and liabilities or profit or loss from being overstated.

Also, 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 “Statement of 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. Other 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 separate income statement and statement of comprehensive income. Adoption of Revised IAS1 was mandatory for the 2009 financial statements. As of December 31, 2013, these changes had not been adopted by the Board; however, the approval of the amendments to SUGEF Directive 31-04 and SUGEF Directive 34-02 requires the aforementioned presentation for financial statements as of December 31, 2014.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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 authorized the booking of notices of deficiency received from Tax Authorities against prior period retained earnings under certain circumstances. The amendments to SUGEF Directive 34-02 eliminate the above treatment for notices of deficiency related to taxes and phase out the difference between IFRSs and the accounting regulations issued by the Board for financial statements as of December 31, 2014.

e) IAS 12: Income Taxes

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

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. The amendments to SUGEF Directive 31-04 and SUGEF Directive 34-02 eliminate the option of capitalizing the surplus derived from revaluation of assets for financial statements as of December 31, 2014.

Moreover, under 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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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.

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 may not be deferred in full, 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). With the amendments to SUGEF Directive 31-04 and SUGEF Directive 34-02, the Board adopted the accounting treatment prescribed by IAS 18 and IAS 39 for fees and commissions and transaction costs. However, the following differences remain between the accounting standards issued by the Board and IAS 18 and IAS 39:

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

- Under SUGEF regulations, in the event of issuance of a credit-related guarantee, deferred income and incremental costs pending deferral or amortization as of the issue date are not included in the instrument's amortized cost or the calculation of the foreclosed asset's carrying amount. As a result, upon issuance, fees and commissions pending deferral and costs pending amortization are booked in profit or loss for the period.

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.

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

(Continued)

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. Also, under SUGEVAL regulations, intangible assets must be amortized over 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.

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.

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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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.
- Any non-controlling (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. The Board adopted this Standard through the amendments to the accounting regulations in effect as of January 1, 2014. However, the Board established that a business combination between jointly controlled entities must consider assets and liabilities measured at fair value.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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.

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. The Board adopted this Standard through the amendments to the accounting regulations in effect as of January 1, 2014.

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t) IFRS 9: Financial Instruments

IFRS 9 replaces IAS 39, "*Financial Instruments: Recognition and Measurement*". IFRS 9 amends the classification and measurement requirements for financial instruments, including a new financial instrument impairment model based on the premise of providing for expected credit losses and the new guidelines on hedge accounting. IFRS 9 does not change the principles for financial instrument recognition and derecognition provided for under IAS 39.

The Standard is effective for annual periods beginning on or after January 1, 2018. Early application is permitted. This Standard has not been adopted by 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.

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 non-controlling 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.

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Notes to Consolidated Financial Statements

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.

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.

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Notes to Consolidated Financial Statements

This Interpretation became mandatory for annual periods beginning on or after July 1, 2009. The Board adopted this Standard through the amendments to the accounting regulations in effect as of January 1, 2014.

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. The Board adopted this Standard through the amendments to the accounting regulations in effect as of January 1, 2014.

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. The Board adopted this Standard through the amendments to the accounting regulations in effect as of January 1, 2014.

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. The Board adopted this Standard through the amendments to the accounting regulations in effect as of January 1, 2014.

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.

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Notes to Consolidated Financial Statements

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
- 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.

This Interpretation became mandatory for annual periods beginning on or after July 1, 2009. The Board adopted this Standard through the amendments to the accounting regulations in effect as of January 1, 2014.

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. The Board adopted this Standard through the amendments to the accounting regulations in effect as of January 1, 2014.

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. The Board adopted this Standard through the amendments to the accounting regulations in effect as of January 1, 2014.

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(49) 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.

(50) 2013 figures

Certain 2013 figures have been restated for purposes of comparison with the 2014 figures, as presented below.

Pursuant to articles 8 and 5 of the minutes of meetings No. 1034-2013 and No. 1035-2013, respectively, held on April 2, 2013, CONASSIF informed through Notice C.N.S. 1034-08 dated April 4, 2013 of the agreement reached to amend the income statement model included in SUGEF Directive 31-04, requiring the following modification:

- For the year ended December 31, 2014, foreign exchange gains and losses are presented under finance income and finance expenses, respectively. In the 2013 financial statements, those figures were presented on a net basis as foreign exchange gains in the amount of ¢2,957,518,326 (see note 43-c).