

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Financial Information Required by the
Superintendency General of Financial Entities
Consolidated Financial Statements

December 31, 2014

(With corresponding figures for 2013)

(With Independent Auditor's Report Thereon)

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



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Independent Auditors' Report

The Superintendency General of Financial Entities (SUGEF)
and the Board of Directors of Banco Nacional de Costa Rica

We have audited the accompanying consolidated financial statements of Banco Nacional de Costa Rica and Subsidiaries, which comprise the consolidated balance sheet as of December 31, 2014, and the consolidated statements of comprehensive income, changes in equity, and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information. The consolidated financial statements have been prepared by management based on the financial reporting provisions of the accounting regulations issued by the National Financial System Oversight Board (CONASSIF) and the Superintendency General of Financial Entities (SUGEF).

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation of these consolidated financial statements in accordance with the financial reporting provisions of the accounting regulations issued by CONASSIF and SUGEF, and for such internal control structure as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Banco Nacional de Costa Rica and Subsidiaries as of December 31, 2014, and of its consolidated financial performance and cash flows for the year then ended in accordance with the financial reporting provisions of the accounting regulations issued by CONASSIF and SUGEF.

Basis of accounting

Without qualifying our opinion, we draw attention to note 1-b to the consolidated financial statements, which describes the basis of accounting. The consolidated financial statements have been prepared by management in accordance with the financial reporting provisions issued by CONASSIF and SUGEF. As a result, the consolidated financial statements may not be suitable for another purpose.

January 31, 2015

San José, Costa Rica
Eric Alfaro V.
Member No. 1547
Policy No. 0116 FIG 7
Expires 9/30/2015

KPMG

¢1,000 tax stamp paid pursuant to Law No. 6663
and affixed to the original document



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

| | Note | 2014 | 2013 |
|--|-----------|--------------------------|--------------------------|
| ASSETS | | | |
| Cash and due from banks | 4 | 829,976,580,984 | 847,934,576,855 |
| Cash | | 69,196,626,393 | 62,627,019,995 |
| Demand deposits in BCCR | | 576,311,012,910 | 527,483,741,950 |
| Demand deposits in local financial entities | | 14,736,219,049 | 15,700,518,762 |
| Demand deposits in foreign financial entities | | 163,881,119,963 | 237,366,390,500 |
| Other cash and due from banks | | 5,851,602,669 | 4,756,206,590 |
| Accounts and accrued interest receivable | | - | 699,058 |
| Investments in financial instruments | 5 | 1,100,793,001,081 | 996,018,394,953 |
| Available for sale | | 1,052,451,509,868 | 957,346,698,111 |
| Held to maturity | | 27,328,967,634 | 25,823,991,217 |
| Derivative financial instruments | | 11,281,570,780 | - |
| Accounts and accrued interest receivable | | 9,791,452,357 | 12,901,374,609 |
| (Allowance for impairment of investments in financial instruments) | | (60,499,558) | (53,668,984) |
| Loan portfolio | 6 | 3,303,451,574,458 | 2,986,573,318,876 |
| Current | | 3,142,775,035,799 | 2,799,657,018,936 |
| Past due | | 116,679,181,039 | 139,042,678,627 |
| Legal collections | | 72,120,002,831 | 73,965,839,402 |
| Accounts and accrued interest receivable | | 21,715,928,888 | 19,553,964,785 |
| (Allowance for loan impairment) | | (49,838,574,099) | (45,646,182,874) |
| Accounts and fees and commissions receivable | 7 | 3,140,260,913 | 3,568,951,877 |
| Fees and commissions receivable | | 1,011,708,508 | 980,713,884 |
| Accounts receivable for brokerage operations | | 9,121,769 | 31,304 |
| Accounts receivable for transactions with related parties | | 27,589,166 | 29,057,085 |
| Deferred tax and income tax receivable | | 4,291,459,910 | 2,308,096,314 |
| Other receivables | | 3,159,168,189 | 2,552,671,830 |
| Accrued interest receivable | | 2,572,781 | 1,608,084 |
| (Allowance for impairment of accounts and fees and commissions receivable) | | (5,361,359,410) | (2,303,226,624) |
| Foreclosed assets | 8 | 19,355,058,030 | 20,702,082,917 |
| Assets and securities acquired in lieu of payment | | 76,541,792,707 | 76,708,238,430 |
| Other foreclosed assets | | 1,756,777 | 1,756,777 |
| (Allowance for impairment of foreclosed assets and per legal requirements) | | (57,188,491,454) | (56,007,912,290) |
| Investments in other companies | 9 | 49,855,779,811 | 41,357,623,922 |
| Property and equipment, net | 10 | 167,465,656,710 | 165,970,551,719 |
| Other assets | 11 | 51,682,157,293 | 31,592,262,960 |
| Deferred charges | | 21,658,093,393 | 9,094,215,327 |
| Intangible assets | | 4,502,747,244 | 2,819,508,013 |
| Other assets | | 25,521,316,656 | 19,678,539,620 |
| TOTAL ASSETS | | 5,525,720,069,280 | 5,093,717,764,079 |

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

Continued...

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

| LIABILITIES AND EQUITY | Note | 2014 | 2013 |
|---|-------------|---------------------------|---------------------------|
| LIABILITIES | | | |
| Obligations with the public | 12 | 3,710,752,140,528 | 3,429,699,560,917 |
| Deposits and other demand obligations | | 2,272,307,002,207 | 2,099,331,437,041 |
| Deposits and other term obligations | | 1,388,059,529,970 | 1,274,859,342,280 |
| Other obligations with the public | | 31,028,841,773 | 36,165,531,600 |
| Charges payable | | 19,356,766,578 | 19,343,249,996 |
| Obligations with BCCR | 13 | 182,746,931 | 29,911,289,724 |
| Term obligations | | 182,452,312 | 29,904,277,636 |
| Charges payable | | 294,619 | 7,012,088 |
| Obligations with entities | 14 | 1,089,524,631,830 | 1,025,812,856,421 |
| Demand obligations with entities | | 284,583,917,797 | 190,323,775,761 |
| Term obligations with entities | | 798,409,817,482 | 828,804,423,760 |
| Charges payable on obligations with entities | | 6,530,896,551 | 6,684,656,900 |
| Accounts payable and provisions | | 124,048,750,344 | 125,359,665,710 |
| Accounts payable for brokerage services | | 835,751,867 | 1,109,336,612 |
| Deferred tax | 15-c | 14,167,519,270 | 14,276,721,662 |
| Provisions | 16 | 39,502,894,655 | 50,123,605,163 |
| Other sundry accounts payable | 17 | 69,542,584,552 | 59,850,002,273 |
| Other liabilities | 18 | 34,084,373,087 | 28,504,123,815 |
| Deferred income | | 9,003,262,472 | 2,458,330,689 |
| Allowance for stand-by credit losses | | 1,319,693,076 | 138,964,729 |
| Other liabilities | | 23,761,417,539 | 25,906,828,397 |
| Subordinated obligations | 14 | 70,358,271,862 | - |
| Subordinated obligations | | 69,330,300,000 | - |
| Finance charges payable | | 1,027,971,862 | - |
| TOTAL LIABILITIES | | 5,028,950,914,582 | 4,639,287,496,587 |
| EQUITY | | | |
| Share capital | | 118,130,303,482 | 118,130,303,482 |
| Paid-up capital | 19-a | 118,130,303,482 | 118,130,303,482 |
| Equity adjustments | | 66,252,321,126 | 62,621,518,232 |
| Surplus from revaluation of property and equipment | 19-b | 63,639,596,055 | 63,639,596,055 |
| Adjustment for valuation of available-for-sale investments | 19-c | (1,746,379,939) | (1,659,792,110) |
| Adjustment for valuation of restricted financial instruments | 19-c | (2,041,047,936) | (2,745,810,858) |
| Surplus from revaluation of other assets | | 70,246,625 | 70,246,625 |
| Adjustment for valuation of investments in other companies | 19-d | 6,329,906,321 | 3,317,278,520 |
| Equity reserves | 1-u | 216,895,556,917 | 196,909,225,981 |
| Prior period retained earnings | | 41,309,087,572 | 39,383,506,918 |
| Income for the year | | 39,633,711,775 | 25,141,909,678 |
| Equity of the Development Financing Fund | 49 | 14,548,173,826 | 12,243,803,201 |
| TOTAL EQUITY | | 496,769,154,698 | 454,430,267,492 |
| TOTAL LIABILITIES AND EQUITY | | 5,525,720,069,280 | 5,093,717,764,079 |
| DEBIT MEMORANDA ACCOUNTS | 20 | 511,255,824,426 | 439,775,205,683 |
| TRUST ASSETS | 21 | 905,709,567,459 | 909,695,157,115 |
| TRUST LIABILITIES | | 76,808,871,122 | 65,814,616,652 |
| TRUST EQUITY | | 828,900,696,337 | 843,880,540,463 |
| TRUST MEMORANDA ACCOUNTS | | 14,427,215,779 | 5,293,296,993 |
| OTHER DEBIT MEMORANDA ACCOUNTS | 22 | 18,344,060,940,216 | 15,922,035,283,308 |
| Own debit memoranda accounts | | 7,557,679,197,394 | 6,552,237,102,470 |
| Third-party debit memoranda accounts | | 2,128,036,259,000 | 1,661,091,311,191 |
| Own debit memoranda accounts for custodial activities | | 334,980,739,704 | 336,561,170,643 |
| Third-party debit memoranda accounts for custodial activities | | 8,323,364,744,118 | 7,372,145,699,004 |

Juan Carlos Corrales Salas
Acting General Manager

Gerardo Gómez Solís
General Accountant

Ricardo Araya Jiménez
General Auditor

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

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2014
(With corresponding figures for 2013)
(In colones)

| | Note | 2014 | (Restated) 2013 |
|--|------|------------------------|------------------------|
| Finance income | | | |
| Cash and due from banks | 26 | 276,288,997 | 351,587,090 |
| Investments in financial instruments | 26 | 41,528,409,245 | 51,861,557,020 |
| Loan portfolio | 27 | 304,492,853,084 | 274,158,445,294 |
| Gain on foreign exchange differences and development units | 1-d | 318,988,606,890 | 78,282,221,375 |
| Gain on available-for-sale financial instruments | | 1,949,413,539 | 17,441,841,771 |
| Gain on derivative instruments | 5-b | 21,614,976,680 | - |
| Other finance income | 28 | 15,758,746,183 | 15,022,662,097 |
| Total finance income | | 704,609,294,618 | 437,118,314,647 |
| Finance expense | | | |
| Obligations with the public | 29 | 104,092,272,395 | 128,401,655,685 |
| Obligations with BCCR | | 1,302,337 | 1,736,494 |
| Obligations with financial entities | | 37,418,809,270 | 18,435,353,209 |
| Other sundry accounts payable | | 90,992 | - |
| Subordinated, convertible, and preferred obligations | | 1,626,258,416 | - |
| Loss on foreign exchange differences and development units | 1-d | 318,643,248,360 | 75,324,703,049 |
| Loss on available-for-sale financial instruments | | 596,735,327 | 269,403,734 |
| Loss on derivative instruments | 5-b | - | 11,352,047,397 |
| Other finance expense | 14 | 32,412,368,057 | 250,594,004 |
| Total finance expense | | 494,791,085,154 | 234,035,493,572 |
| Allowance for impairment of assets | 30 | 31,923,597,752 | 38,269,776,491 |
| Recovery of assets and decrease in allowances | 31 | 17,572,702,878 | 15,747,593,621 |
| FINANCE INCOME | | 195,467,314,590 | 180,560,638,205 |
| Other operating income | | | |
| Service fees and commissions | 32 | 102,837,035,641 | 92,266,194,277 |
| Foreclosed assets | | 24,079,765,543 | 16,604,463,853 |
| Gains on investments in other foreign companies | 1-a | 5,225,407,598 | 4,290,638,809 |
| Gains on investments in other local companies | | 4,850,997 | 1,697,855 |
| Foreign currency exchange and arbitrage | | 24,806,347,189 | 20,984,229,382 |
| Other operating income | 33 | 20,582,300,156 | 7,723,337,698 |
| Total other operating income | | 177,535,707,124 | 141,870,561,874 |

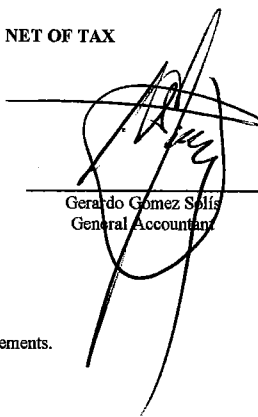
The notes are an integral part of these consolidated financial statements.

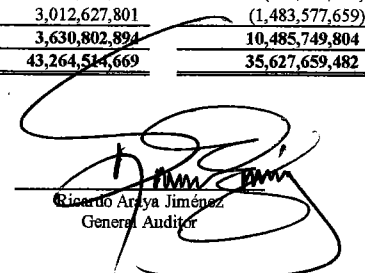
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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2014
(With corresponding figures for 2013)
(In colones)

| | | 2014 | (Restated) 2013 |
|---|------|------------------------|------------------------|
| Other operating expenses | | | |
| Services fees and commissions | | 6,402,622,594 | 6,197,822,555 |
| Foreclosed assets | 34 | 43,310,427,306 | 44,553,512,618 |
| Sundry assets | | 511,385,175 | 250,660,211 |
| Provisions | 35 | 19,263,041,044 | 22,187,548,443 |
| Discounts on fees and commissions of voluntary pension funds | | 4,975,062 | - |
| Foreign currency exchange and arbitrage | | 14,164,506 | 777,784 |
| Other operating expenses | 36 | 52,406,783,756 | 42,149,136,979 |
| Amortization of direct deferred costs related to loans | | 2,541,395,912 | - |
| Total other operating expenses | | 124,454,795,355 | 115,339,458,590 |
| GROSS OPERATING INCOME | | 248,548,226,359 | 207,091,741,489 |
| Administrative expenses | | | |
| Personnel expenses | 37 | 122,366,625,077 | 121,950,633,998 |
| Other administrative expenses | 38 | 62,582,531,169 | 58,997,184,232 |
| Total administrative expenses | | 184,949,156,246 | 180,947,818,230 |
| NET OPERATING INCOME BEFORE TAXES AND STATUTORY ALLOCATIONS | | 63,599,070,113 | 26,143,923,259 |
| Income tax | 15-a | 12,699,481,806 | 1,777,170,946 |
| Deferred tax | | 155,867,869 | 58,780,014 |
| Decrease in income tax | 15-a | 314,765,092 | 66,978,928 |
| Decrease in prior period income tax | 15-b | 5,529,340 | 6,533,715,664 |
| Deductible temporary differences | | 170,867,304 | 149,480,790 |
| Statutory allocations | 39 | 11,604,847,118 | 7,683,141,248 |
| Decrease in statutory allocations | 39 | 3,676,719 | 1,766,903,245 |
| INCOME FOR THE YEAR | | 39,633,711,775 | 25,141,909,678 |
| OTHER COMPREHENSIVE INCOME, NET OF TAX | | | |
| Surplus from revaluation of property | | - | 14,515,324,702 |
| Adjustment for valuation of available-for-sale investments, net of income tax | | (86,587,829) | (2,127,515,542) |
| Adjustment for valuation of restricted financial instruments, net of income tax | | 704,762,922 | (418,481,697) |
| Adjustment for valuation of investments in other companies | | 3,012,627,801 | (1,483,577,659) |
| OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX | | 3,630,802,894 | 10,485,749,804 |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | | 43,264,514,669 | 35,627,659,482 |


Juan Carlos Corrales Salas
Acting General Manager


Gerardo Gomez Solís
General Accountant


Ricardo Araya Jiménez
General Auditor

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

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2014
(With corresponding figures for 2013)
(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 December 31, 2012 | 118,130,303,482 | 49,124,271,353 | (1,859,605,729) | 70,246,625 | 4,800,856,179 | 52,135,768,428 | 170,958,556,380 | 69,112,146,159 | 8,750,108,360 | 419,086,882,809 |
| Transactions with owners booked directly in equity: | | | | | | | | | | |
| Legal and other statutory reserves | - | - | - | - | - | - | 25,950,669,601 | (25,950,669,601) | - | - |
| Adjustment for changes in equity of BN Vital | - | - | - | - | - | - | - | 7,427,050 | - | 7,427,050 |
| Statutory allocations - Mandatory pension funds, Employee Protection Law No. 7983 | - | - | - | - | - | - | - | (291,701,849) | - | (291,701,849) |
| Equity of the Development Financing Fund | - | - | - | - | - | - | - | (3,493,694,841) | 3,493,694,841 | - |
| Total transactions with owners booked directly in equity | 118,130,303,482 | 49,124,271,353 | (1,859,605,729) | 70,246,625 | 4,800,856,179 | 52,135,768,428 | 196,909,225,981 | 39,383,506,918 | 12,243,803,201 | 418,802,608,010 |
| Comprehensive income for the year: | | | | | | | | | | |
| Income for the year | - | - | - | - | - | - | - | 25,141,909,678 | - | 25,141,909,678 |
| Surplus from revaluation of property and equipment | - | 14,515,324,702 | - | - | - | 14,515,324,702 | - | - | - | 14,515,324,702 |
| Adjustment for valuation of available-for-sale investments, net of income tax | - | - | (2,127,515,542) | - | - | (2,127,515,542) | - | - | - | (2,127,515,542) |
| Adjustment for valuation of restricted financial instruments, net of income tax | - | - | (418,481,697) | - | - | (418,481,697) | - | - | - | (418,481,697) |
| Adjustment for revaluation of investments in other companies | - | - | - | - | (1,483,577,659) | (1,483,577,659) | - | - | - | (1,483,577,659) |
| Total comprehensive income for the year | - | 14,515,324,702 | (2,545,997,239) | - | (1,483,577,659) | 10,485,749,804 | - | 25,141,909,678 | - | 35,627,659,482 |
| Balances at December 31, 2013 | 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 |
| Transactions with owners booked directly in equity: | | | | | | | | | | |
| Legal reserves | - | - | - | - | - | - | 12,148,897,524 | (12,148,897,524) | - | - |
| Other statutory reserves | - | - | - | - | - | - | 7,837,433,412 | (7,837,433,412) | - | - |
| 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 | 216,895,556,917 | 41,309,087,572 | 14,548,173,826 | 453,504,640,029 |
| Comprehensive income for the year: | | | | | | | | | | |
| Income for the year | - | - | - | - | - | - | - | 39,633,711,775 | - | 39,633,711,775 |
| Adjustment for valuation of available-for-sale investments, net of income tax | - | - | (86,587,829) | - | - | (86,587,829) | - | - | - | (86,587,829) |
| Adjustment for valuation of restricted financial instruments, net of income tax | - | - | 704,762,922 | - | - | 704,762,922 | - | - | - | 704,762,922 |
| Adjustment for revaluation of investments in other companies | - | - | - | - | 3,012,627,801 | 3,012,627,801 | - | - | - | 3,012,627,801 |
| Total comprehensive income for the year | - | - | 618,175,093 | - | 3,012,627,801 | 3,630,802,894 | - | 39,633,711,775 | - | 43,264,514,669 |
| Balances at December 31, 2014 | 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 |

Juan Carlos Corrales Salas
Acting General Manager

Gerardo Gómez Solís
General Accountant

Rubén 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 YEAR ENDED DECEMBER 31, 2014
(With corresponding figures for 2013)
(In colones)

| | Note | 2014 | 2013 |
|--|-------|--------------------------|--------------------------|
| Net cash flows from operating activities | | | |
| Income for the year | | 39,633,711,775 | 25,141,909,678 |
| Items not requiring cash | | | |
| Gain on sale of idle property and equipment | | (67,142) | (2,883) |
| Loss (gain) on foreign exchange differences and development units, net | | 31,817,516,794 | (6,753,058,272) |
| Loss on allowance for loan impairment | | 18,232,051,225 | 23,182,475,187 |
| Expense (income) for reversal of allowance for impairment of investments | | 2,678,088 | (545,537,362) |
| Loss on allowances for foreclosed assets and other receivables | | 27,720,284,206 | 29,352,614,610 |
| Expense for severance accrual | | 12,108,737,925 | 15,435,970,228 |
| Depreciation and amortization | | 14,408,293,477 | 11,288,237,045 |
| Share in net profit of foreign associate | | (5,225,407,598) | (4,290,638,809) |
| Statutory allocations | | 11,604,847,118 | 7,683,141,248 |
| Deferred tax | | (507,012,667) | (329,821,571) |
| Current tax expense | 15 -a | 12,699,481,806 | 1,777,170,946 |
| Finance income on loan portfolio and investments | | (346,021,262,329) | (326,020,002,314) |
| Finance expense on term obligations with the public and financial entities | | 103,804,219,062 | 106,821,227,743 |
| | | <u>(79,721,928,260)</u> | <u>(117,256,314,526)</u> |
| (Increase) decrease in assets | | | |
| Credits and cash advances | | (239,915,091,403) | (481,021,420,640) |
| Foreclosed assets | | (22,828,896,225) | (20,489,969,699) |
| Accrued interest receivable on other receivables | | (964,697) | (94,425) |
| Other assets | | (24,961,165,408) | (14,562,040,208) |
| | | <u>(367,428,045,993)</u> | <u>(633,329,839,498)</u> |
| Increase (decrease) in liabilities | | | |
| Demand and term obligations | | 240,852,557,499 | 942,480,022,189 |
| Other accounts payable and provisions | | (36,070,395,611) | (21,952,705,173) |
| Other liabilities | | 5,942,996,745 | (23,530,536,131) |
| | | <u>(156,702,887,360)</u> | <u>263,666,941,387</u> |
| Interest received on loan portfolio and investments | | 346,969,220,478 | 321,258,972,258 |
| Income tax paid | | (1,927,153,004) | (2,241,136,493) |
| Interest paid on term obligations with the public and financial entities | | (103,951,180,297) | (104,489,785,801) |
| Net cash from operating activities | | <u>84,387,999,817</u> | <u>478,194,991,351</u> |
| Cash flows from investing activities | | | |
| Increase in financial instruments | | (3,731,992,939,295) | (5,261,605,165,822) |
| Decrease in financial instruments | | 3,766,812,816,809 | 4,859,049,808,482 |
| Acquisition of property and equipment | | (15,949,406,089) | (16,166,846,091) |
| Sale of property and equipment | | 2,405,969,440 | 1,096,130,831 |
| Cash investments in other companies | | (1,185,747,953) | (445,904,274) |
| Net cash from (used in) investing activities | | <u>20,090,692,912</u> | <u>(418,071,976,874)</u> |
| Cash flows from financing activities | | | |
| Other new financial obligations | | 3,042,916,505 | 202,125,387,900 |
| New subordinated obligations | | 69,330,300,000 | - |
| Settlement of obligations | | (78,492,814,886) | (98,909,242,876) |
| Net cash (used in) from financing activities | | <u>(6,119,598,381)</u> | <u>103,216,145,024</u> |
| Net increase in cash and cash equivalents | | <u>98,359,094,348</u> | <u>163,339,159,501</u> |
| Cash and cash equivalents at beginning of year | | <u>906,647,914,813</u> | <u>743,308,755,312</u> |
| Cash and cash equivalents at end of year | 4 | <u>1,005,007,009,161</u> | <u>906,647,914,813</u> |

Juan Carlos Cortales Salas
Acting General Manager

Gerardo Gómez Solís
General Accountant

Ricardo Araya Jiménez
General Auditor

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

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2014

(With corresponding figures for December 2013)

(1) Summary of operations and significant accounting policies

(a) Operations

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

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

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

Currently, due to major innovations in information technology and telecommunications, and especially because of the competition in the national and international financial sectors, the Bank has become a universal bank that offers services in all sectors of the Costa Rican market. Those services include: personal, business, corporate, and institutional banking, stock trading, pension fund management, investment funds, insurance brokerage, international banking services, and electronic banking services. The Bank aims to 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 December 31, 2014, the Bank has 183 offices (2013: 185 offices), 465 automated teller machines (2013: 462 automated teller machines), and, together with its subsidiaries, a total of 5,896 employees (2013: 5,904 employees). Employees are distributed as follows: Banco Nacional de Costa Rica - 5,476 employees (2013: 5,504 employees); BN Valores Puesto de Bolsa, S.A. - 82 employees (2013: 83 employees); BN Vital Operadora de Planes de Pensiones Complementarias, S.A. - 182 employees (2013: 185 employees); BN Sociedad Administradora de Fondos de Inversión, S.A. - 83 employees (2013: 82 employees); and BN Corredora de Seguros, S.A. - 73 employees (2013: 50 employees). The Bank's website is www.bncr.fi.cr.

The following subsidiaries are wholly owned by the Bank:

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

BN Sociedad Administradora de Fondos de Inversión, S.A. (the Investment Fund Manager) was organized as a corporation on April 29, 1998 under the laws of the Republic of Costa Rica. Its main activity is managing investment funds on behalf of third parties and managing closed and open investment funds listed in the Costa Rican National Stock Exchange and SUGEVAL.

BN Vital Operadora de Planes de Pensiones Complementarias, S.A. (the Pension Fund Manager) 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 December 31, the main components that comprise the financial statements of the entities in which the Bank holds ownership interest are detailed below:

2014

| | Brokerage Firm | Pension Fund Manager | Investment Fund Manager | Insurance Brokerage Firm | BICSA |
|------------------------|---------------------|-------------------------|----------------------------|-----------------------------|-----------------|
| Assets | ¢ 49,559,488,485 | 7,464,666,703 | 4,867,955,642 | 1,786,311,109 | 480,540,802,367 |
| Liabilities | ¢ 34,993,022,888 | 799,229,687 | 431,513,267 | 480,602,530 | 430,735,645,856 |
| Equity | ¢ 14,566,465,597 | 6,665,437,016 | 4,436,442,375 | 1,305,708,579 | 49,805,156,511 |
| Income for the year | ¢ 645,091,796 | 761,671,541 | 840,571,384 | 532,235,391 | 5,225,407,598 |
| Memoranda accounts | ¢ 1,477,037,409,123 | 873,939,898,464 | 328,856,939,312 | - | - |

2013

| | Brokerage Firm | Pension Fund Manager | Investment Fund Manager | Insurance Brokerage Firm | BICSA |
|------------------------|---------------------|-------------------------|----------------------------|-----------------------------|-----------------|
| Assets | ¢ 56,682,067,333 | 8,740,130,847 | 5,397,235,576 | 1,327,911,578 | 400,356,045,710 |
| Liabilities | ¢ 38,567,202,829 | 1,495,039,954 | 784,937,105 | 304,438,390 | 359,049,045,088 |
| Equity | ¢ 18,114,864,504 | 7,245,090,893 | 4,612,298,471 | 1,023,473,188 | 41,307,000,622 |
| Income for the year | ¢ 2,550,506,697 | 1,916,246,228 | 1,118,792,550 | 403,570,139 | 4,290,638,809 |
| Memoranda accounts | ¢ 1,301,041,362,435 | 754,483,624,038 | 260,871,943,536 | - | - |

(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 December 31, 2014 and 2013, 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 December 31, 2014 and 2013, the Bank holds a 49% ownership interest in BICSA.

(d) Foreign currency

i. Foreign currency transactions

Assets and liabilities held in foreign currency are translated to colones at the foreign exchange rate ruling at the balance sheet date, except for transactions that have a contractually agreed exchange rate. Transactions in foreign currency during the year are translated at the exchange rates ruling 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

On October 17, 2006, the Central Bank of Costa Rica (BCCR) revised the country's foreign exchange system, replacing mini-devaluations with an adjustable band. Under the new system, the Central Bank's board agreed to establish a rate floor and ceiling, which will be adjusted based on the country's financial and macroeconomic conditions. In accordance with the Chart of Accounts, assets and liabilities denominated in foreign currency should be expressed in colones using the reference buy rate published by BCCR. As of December 31, 2014, the exchange rate was established at ¢533.31 and ¢545.53 (2013: ¢495.01 and ¢507.80) to US\$1.00 for the purchase and sale of U.S. dollars, respectively.

As of December 31, 2014, the exchange rate for the purchase and sale of euros was established at ¢638.12 and ¢672.28 (2013: ¢669.49 and ¢704.58) to €1.00, respectively.

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

As of December 31, 2014, assets and liabilities denominated in U.S. dollars were valued at the exchange rate of ¢533.31 to US\$1.00 (2013: ¢495.01 to US\$1.00), which is the reference buy rate published by BCCR for December 31, 2014.

As of December 31, 2014, assets and liabilities denominated in euros were valued at the exchange rate of ¢648.98 to €1.00 (2013: ¢682.62 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 December 31, 2014, assets and liabilities denominated in DU were valued at the exchange rate of ¢864.19 to DU1.00 (2013: ¢816.60 to DU1.00). This exchange rate is based on the DU value tables published by SUGEVAL.

Valuation in colones of monetary assets and liabilities in foreign currency during the years ended December 31 gave rise to foreign exchange gains and losses, as follows:

| | 2014 | 2013 |
|-----------------------|-------------------|------------------|
| Foreign exchange gain | ¢ 318,988,606,890 | 78,282,221,375 |
| Foreign exchange loss | (318,643,248,360) | (75,324,703,049) |
| Net gain | ¢ 345,358,530 | 2,957,518,326 |

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

| | 2014 | 2013 |
|--|-----------------|---------------|
| Net gain on valuation of other assets (note 33) | 723,354,051 | 411,554,122 |
| Net loss on valuation of other liabilities (note 36) | (1,210,441,092) | (181,805,685) |
| Net (loss) gain | (487,087,041) | 229,748,437 |

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 December 31, 2014 and 2013, the Bank holds a 49% stake in BICSA. Accordingly, the Bank should value its investment in that entity by the equity method rather than on a consolidated basis.

The financial statements of foreign operations are translated as follows:

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

For the year ended December 31, 2014, a foreign exchange gain in the amount of ¢3,012,627,801 (2013: foreign exchange loss of ¢1,483,577,659) is presented in equity for the translation of the financial statements of foreign operations. As of December 31, 2014, the adjustment for valuation of investments in other companies amounts to ¢6,329,906,321 (2013: ¢3,317,278,520).

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(e) Financial instruments

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

i. Classification

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

- Investments in financial instruments of regulated entities are to be classified as available for sale.
- Own investments in open investment funds are to be classified as trading financial assets.
- Own investments in closed investment funds are to be classified as available for sale.
- Entities regulated by SUGEVAL and SUGEF may classify other investments in financial instruments as trading instruments, provided there is an express statement of intent to trade them within 90 days from the acquisition date.

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

As of December 31, 2014, the Bank no longer classifies financial instruments as held to maturity, except for the securities denominated in DU received from the Central Government to capitalize the Bank. Those securities were authorized by the Executive Branch of the Government of Costa Rica as a capital contribution and are funded under Law No. 8703 "Amendment to Law No. 8627 on the Ordinary and Extraordinary Budget of the Republic for Tax Year 2008."

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Trading securities

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

Available-for-sale securities

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

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

Derivative financial instruments

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

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

The valuation methodology applied to derivative financial instruments varies depending on the type of product to be valued. In the case of foreign exchange forward contracts (FX forwards), with short credit positions and maturities generally not exceeding one year, valuation involves comparing the present value of the negotiated forward exchange rate and the current foreign exchange rate. The present value of the negotiated forward exchange rate is calculated by using the difference between the zero coupon rates. In the case of swaps (FX swap or currency swap), valuation involves two steps. In the first step, future cash flows are estimated based on current market prices. The estimation of fixed-rate cash flows does not require assumptions but variable-rate cash flows are estimated based on the rates in effect. Calculating the present value of each type of cash flows requires a valuation rate for each cash flow, which is equivalent to the base rate plus a credit spread.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

Originated loans and other receivables

Originated loans and other receivables are loans and receivables originated by the Bank providing money to a debtor other than those created with the intention of short-term profit taking. Originated loans and other receivables comprise loans and advances to banks and customers other than loans and bonds purchased from the original issuer.

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

ii. Recognition

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

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

iii. Measurement

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

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

ARSs are valued using discounted future cash-flow models considering the instrument's options.

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

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

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

iv. Fair value measurement principles

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

v. Gains and losses on subsequent measurement

Gains and losses arising from changes in the fair value of available-for-sale assets are recognized directly in equity until an investment is considered to be impaired, at which time the loss is recognized in the income statement. When the financial assets are sold, collected, or otherwise disposed of, the cumulative gain or loss recognized in equity is transferred to the income statement.

vi. Derecognition

A financial asset is derecognized when the Bank loses control over the contractual rights that comprise the asset. This occurs when the rights are realized, expire, or are surrendered to a third party.

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

vii. Offsetting

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

viii. Impairment of financial assets

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

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

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

ix. Specific instruments

Cash and cash equivalents

Cash and cash equivalents include cash on hand, cash deposited in BCCR, deposits in other banks, and highly-liquid short-term investments with original maturities of two months or less.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Demand deposits – overnight

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

Investments in financial instruments

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

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

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

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Loans and advances to banks and customers

Loans originated by the Bank are classified as loan portfolio.

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

Securities sold under repurchase agreements

The Bank sells securities under agreements to repurchase them on a certain date in the future at a fixed price. The obligation to repurchase securities sold is reflected as a liability in the balance sheet and stated at the value of the original agreement. The underlying securities are booked in asset accounts. Interest is presented as finance expense in the income statement and accrued interest payable is recognized in the balance sheet.

Securities purchased under reverse repurchase agreements

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

(f) Loan portfolio

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(g) Allowance for loan impairment

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

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

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

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

As of December 31, 2014 and 2013, increases in the allowance for loan impairment are included in the accounting records in accordance with article 10 of IRNBS.

As of December 31, 2014 and 2013, the allowance for stand-by credit losses is presented in the liability section of the balance sheet, in the "Other liabilities" account, and amounts to ¢1,319,693,076 and ¢138,964,729, respectively (see note 18).

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(i) Other receivables

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

(j) Property and equipment

i. Own assets

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

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

As of December 31, 2014, no appraisals were made of the Bank's land and buildings by independent appraisers (2013: 33 appraisals were made of the Bank's land and 33 appraisals of the Bank's buildings by independent appraisers). The net effect derived therefrom in the amount of ¢14,515,324,702, net of deferred tax, was recognized in the "Surplus from revaluation of property and equipment" account.

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

i. *Other intangible assets*

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

ii. *Subsequent expenditure*

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

iii. *Amortization*

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(l) Lease operations

Lease receivables are presented net of unearned interest pending collection. Interest on finance leases is recognized as income over the term of the finance lease agreement using the effective interest method. The difference between lease payments receivable and the cost of the leased asset is recorded as unearned interest and amortized to income accounts over the term of the lease. As of December 31, 2014 and 2013, the Bank has no finance leases.

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

(m) Foreclosed assets

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

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

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

(n) Investments in other companies

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

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

As of December 31, 2014 and 2013, the Bank has no total or partial interest or influence over the management of other companies other than its subsidiaries and associate, in accordance with article 73 of IRNBS and article 146 of the Internal Regulations of the Central Bank of Costa Rica.

(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 December 31, 2014, a total of ¢28,436,142,592 (2013: ¢32,453,960,945) is booked in the "Provisions" account for severance benefits. That amount is sufficient to cover the provisions required by current legislation as of those dates (see note 16). The Employee Association of Banco Nacional de Costa Rica (ASEBANACIO) was created in 2012. Accordingly, the Bank currently follows the practice of making monthly transfers of severance benefits to the Employee Association, equivalent to 5.33% of member employees' monthly salaries, for management and custody. Those funds are paid out to employees upon termination of employment. Severance payments are expensed when the funds are transferred.

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(r) Employee benefits

Employee Protection and Retirement Fund

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

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

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

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

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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(u) Equity reserves

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.

Other statutory reserves

In order to comply with Panamanian regulations, the associate BICSA must create the following statutory reserves:

i. Statutory reserve for foreclosed assets:

The Superintendency of Banks of Panama established a term of five (5) years to dispose of real property acquired in lieu of payment, starting from the date of registration in the Public Registry. If after such period Panamanian banks have not sold such real property, an appraisal must be performed by an independent appraiser to determine if the value of that property has decreased; if so, the provisions of IFRSs must be applied.

Also, Panamanian banks must create a reserve under an equity account by appropriating funds first from retained earnings and second from profit for the year. The following portions of the value of the foreclosed assets are to be transferred to those accounts:

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

These reserves must be recognized until the acquired assets are effectively transferred; also, they are not considered to be statutory reserves for purposes of equity ratio calculation.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

ii. Excess of statutory reserve for loans:

General Decision No. SBP-GJD-003-2013 of the Board of Directors of the Superintendency of Banks of Panama dated July 9, 2013 establishes the accounting treatment for differences between the Prudential Standards issued by such Superintendency and IFRSs, as follows: 1) the accounting records are to be kept and the financial statements prepared in accordance with IFRSs, as required by Decision No. 006-2012 dated December 18, 2012; and 2) in the event that the amount calculated for a provision or reserve based on the Prudential Standards applicable to banks (which include specific accounting matters additional to those required by IFRSs) is higher than the amount determined in accordance with IFRSs, the excess of the provision or reserve calculated under the Prudential Standards is to be recognized under a statutory reserve in equity. This General Decision is effective for the accounting periods ending on or after December 31, 2014.

With prior approval of the Superintendency, the banks may reverse, partially or in full, the provision determined provided that a justification therefor is duly evidenced and presented to the aforementioned Superintendency.

iii. Statutory dynamic provision:

Decision No. 004-2013 of the Superintendency of Banks of Panama indicates that specific provisions arise from objective and concrete evidence of impairment. Such provisions must be created in respect of individual credit facilities or groups thereof classified under the following risk ratings: special mention, substandard, doubtful, and loss.

Starting December 31, 2014, Panamanian banks must calculate and maintain at all times, as minimum, the specific provisions determined using the methodology provided for in the aforementioned Decision, which considers the outstanding balance of each credit facility with the risk ratings mentioned above, the present value of each guarantee available (as established per guarantee type in the Decision), and a table with weighting factors applicable to the net balance exposed to losses.

In the event that the amount calculated for the specific provision in accordance with the aforementioned Decision is higher than the amount determined in accordance with IFRSs, the excess is to be booked under a statutory reserve in equity that increases or decreases with appropriations to or from retained earnings. Statutory reserves are not considered to be capital funds for purposes of calculation of certain prudential indexes or ratios mentioned in Decision No. 004-2013.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of December 31, equity reserves are as follows:

| | | 2014 | 2013 |
|---|---|------------------------|------------------------|
| Legal reserve | ¢ | 209,058,123,505 | 196,909,225,981 |
| Statutory reserve for foreclosed assets | | 85,097,647 | - |
| Excess of statutory reserve for loans | | 2,574,576,547 | - |
| Statutory dynamic provision | | 5,177,759,218 | - |
| | ¢ | <u>216,895,556,917</u> | <u>196,909,225,981</u> |

(v) Revaluation surplus

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

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

(w) Income tax

Income tax is determined pursuant to the provisions of the Income Tax Law, which require that the Bank file its income tax returns for the 12 months ending March 31 of each year. Any resulting tax is recognized in profit or loss and credited to a liability account in the balance sheet.

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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

As of December 31, 2014, the Bank booked a current income tax liability in the net amount of ¢10,829,011,751 (2013: ¢1,250,684,448), which was calculated using the AD-HOC methodology (see notes 15 and 17).

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

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.

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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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.

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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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 SUGEF'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.

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:

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

(cc) Development Financing Fund (FOFIDE)

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

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

(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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(2) Collateralized or restricted assets

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

| Restricted asset | Carrying amount | | Cause of restriction |
|--------------------------------------|-------------------|-----------------|---|
| | 2014 | 2013 | |
| Cash and due from banks | ¢ 548,764,416,720 | 512,939,448,276 | Minimum cash reserve |
| Cash and due from banks | ¢ 239,089,673 | 311,498,351 | Liquidation and compensation risk management fund |
| Investments in financial instruments | ¢ 38,566,722,512 | 38,801,053,835 | Guarantee for repurchase agreements (tri-party) |
| Investments in financial instruments | ¢ 7,994,461,315 | 6,422,745,082 | Guarantee for margin calls - term operations |
| Investments in financial instruments | ¢ 288,928,706,371 | 244,735,960,400 | Guarantee for obligations with foreign financial entities |
| Investments in financial instruments | ¢ 335,132,100 | 132,042,600 | Investments securing repurchase agreements |
| Investments in financial instruments | ¢ - | 72,045,767,120 | Interbank Electronic Payment System (SINPE) guarantee |
| Other assets (note 11) | ¢ 334,553,479 | 245,950,801 | Guarantee deposits |

As of December 31, 2014 and 2013, the applicable percentage for the minimum cash reserve is 15%. The corresponding amount must be deposited in cash in BCCR pursuant to current banking legislation. The reserve is calculated as a percentage of third-party deposits, which varies based on the term and form of deposit-taking used by the Bank. As of December 31, 2014, the Bank must maintain a minimum cash reserve of ¢548,764,416,720 (2013: ¢512,939,448,276).

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

| Restricted asset | Cause of restriction | | 2014 | 2013 |
|--|--|------|-----------------|-----------------|
| | | | Carrying amount | Carrying amount |
| Checking account – colones | Minimum cash reserve | ¢ | 374,788,268,448 | 347,894,567,731 |
| Checking account – euros | Minimum cash reserve | € | 7,962,840 | 8,323,774 |
| Checking account – U.S. dollars | Minimum cash reserve | US\$ | 316,529,644 | 321,938,761 |
| Checking account – colones | Liquidation and compensation risk management fund | ¢ | 239,089,673 | 311,498,351 |
| Investments in financial instruments | Guarantee for repurchase agreements (tri-party) | ¢ | 38,566,722,512 | 38,801,053,835 |
| Securities issued by BCCR and the Government | Investments securing repurchase agreements | ¢ | 335,132,100 | 132,042,600 |
| External debt bonds | Guarantee for margin calls - term operations – Bank of America | ¢ | 3,732,194,049 | 3,459,941,933 |
| External debt bonds | Guarantee for margin calls - term operations – Citi Swap | ¢ | 2,130,530,785 | 987,317,244 |
| External debt bonds | Guarantee for margin calls - term operations – JP Morgan Swap | ¢ | 2,131,736,481 | 1,975,485,905 |
| Monetary stabilization bonds | Citibank guarantee | ¢ | 15,009,933,300 | 50,891,800,000 |
| Central Bank bond (global bonds) | Citibank guarantee | ¢ | 127,659,542,800 | 43,246,320,000 |
| External debt bonds | Barclays guarantee | ¢ | 75,765,386,092 | 44,625,998,979 |
| Central Bank bond (global bonds) | Barclays guarantee | ¢ | - | 37,826,255,990 |
| External debt bonds | Credit Suisse guarantee | ¢ | 70,493,844,179 | 68,145,585,431 |
| Monetary stabilization bonds | Interbank Electronic Payment System (SINPE) guarantee | ¢ | - | 55,880,015,006 |
| Central Bank bonds (global bonds) | Interbank Electronic Payment System (SINPE) guarantee | ¢ | - | 16,165,752,114 |
| Other assets | Guarantee deposits | ¢ | 334,553,479 | 245,950,801 |

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of December 31, 2014 and 2013, the Brokerage Firm has restricted assets in the amount of ¢38,805,812,185 and ¢39,112,552,186, 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

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

| | 2014 | 2013 |
|--|-------------------------|-----------------------|
| <u>Assets:</u> | | |
| Checking accounts and demand deposits | ¢ 7,799,157,076 | 2,697,887,241 |
| Investments in financial instruments and accrued interest receivable | - | 24,750,500,000 |
| Accounts receivable (note 7) | 1,444,411 | - |
| Allowance for impairment of transactions with related parties | (24,735,310) | (23,976,123) |
| Investments in other companies (note 9) | 49,805,156,511 | 41,307,000,622 |
| | ¢ <u>57,581,022,688</u> | <u>68,731,411,720</u> |
| <u>Liabilities:</u> | | |
| Demand deposits | ¢ 463,489,825 | 107,476,356 |
| | ¢ <u>463,489,825</u> | <u>107,476,356</u> |
| <u>Income:</u> | | |
| Finance | 617,486,403 | 146,050,029 |
| Gain on investments in other foreign companies | 5,225,407,598 | 4,290,638,809 |
| | ¢ <u>5,842,894,001</u> | <u>4,436,688,838</u> |

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

| | 2014 | 2013 |
|---------------------------------|------------------------|----------------------|
| Short-term benefits | ¢ 2,012,799,746 | 2,133,020,400 |
| Long-term benefits | 261,663,966 | 277,292,652 |
| Per Diem for Board of Directors | 138,528,618 | 135,602,505 |
| | ¢ <u>2,412,992,330</u> | <u>2,545,915,557</u> |

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(4) Cash and due from banks

As of December 31, cash and due from banks is as follows for purposes of reconciliation with the consolidated statement of cash flows:

| | 2014 | 2013 |
|---|---------------------|-----------------|
| Cash and due from banks | ¢ 829,976,580,984 | 847,934,576,855 |
| Investments with maturities of less than two months | 175,030,428,177 | 58,713,337,958 |
| | ¢ 1,005,007,009,161 | 906,647,914,813 |

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

| | 2014 | 2013 |
|--|-------------------|-----------------|
| <i>Local currency:</i> | | |
| Cash | ¢ 39,070,745,022 | 36,202,051,912 |
| Cash in transit | 15,112,028,982 | 12,063,605,000 |
| BCCR | 393,336,216,822 | 358,096,970,638 |
| Checking accounts and demand deposits | 14,735,796,667 | 15,671,900,779 |
| Outstanding checks and other | 4,080,795,013 | 3,520,255,899 |
| <i>Foreign currency:</i> | | |
| Cash | 13,413,193,044 | 12,795,079,963 |
| Cash in transit | 1,600,659,345 | 1,566,283,120 |
| BCCR | 182,974,796,088 | 169,386,771,312 |
| Checking accounts and demand deposits | 422,382 | 28,617,983 |
| Foreign correspondent banks | 151,045,102,800 | 100,523,093,693 |
| Other demand deposits in foreign financial entities | 53,607,475 | 54,304,930 |
| Checking accounts and demand deposits in related parties | 7,799,157,076 | 2,697,887,241 |
| Overnight deposits in foreign financial entities | 4,983,252,613 | 134,091,104,636 |
| Outstanding checks and other | 1,531,717,982 | 924,452,340 |
| Guarantee fund of National Stock Exchange | 239,089,673 | 311,498,351 |
| Accrued interest receivable | - | 699,058 |
| | ¢ 829,976,580,984 | 847,934,576,855 |

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Minimum cash reserve

As of December 31, deposits in BCCR are restricted to cover minimum cash reserve requirements, as follows (see note 2):

| Currency | 2014 | 2013 |
|------------------|-------------------|-----------------|
| Local currency | ¢ 374,788,268,448 | 347,894,567,731 |
| Foreign currency | 173,976,148,272 | 165,044,880,545 |
| | ¢ 548,764,416,720 | 512,939,448,276 |

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

As of December 31, 2014, deposits in BCCR amount to ¢576,311,012,910 (2013: ¢527,483,741,950).

Estimated minimum cash reserve obligations are compared with the balance of deposits in BCCR with a 30 calendar-day delay. Consequently, for each year, the average amount for the second half differs from the balance of deposits as of December 31.

(5) Investments in financial instruments and derivative financial instruments

(a) Investments in financial instruments

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

| | 2014 | 2013 |
|--|---------------------|-----------------|
| Available for sale | ¢ 1,052,451,509,868 | 957,346,698,111 |
| Held to maturity | 27,328,967,634 | 25,823,991,217 |
| Interest rate futures - Hedges (note 5-b) | 10,619,377,926 | - |
| FX futures - Other than hedges (note 5-b) | 662,192,854 | - |
| Accrued interest receivable | 9,791,452,357 | 12,901,374,609 |
| Allowance for impairment of investments | (57,821,470) | (53,668,984) |
| Allowance for impairment of derivative instruments other than hedges | (2,678,088) | - |
| | ¢ 1,100,793,001,081 | 996,018,394,953 |

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

| | | 2014 | 2013 |
|--|---|--------------------------|------------------------|
| <i>Available for sale:</i> | | | |
| <u>Local issuers:</u> | | | |
| Government of Costa Rica | ¢ | 415,388,939,679 | 416,695,405,776 |
| BCCR | | 203,635,312,251 | 264,582,297,213 |
| State-owned banks | | 95,892,324,485 | 31,855,384,007 |
| Private banks | | 25,390,077,595 | 7,480,457,116 |
| Private issuers | | 4,611,733,631 | 5,952,027,060 |
| | | <u>744,918,387,641</u> | <u>726,565,571,172</u> |
| <u>Foreign issuers:</u> | | | |
| Governments | | 86,334,217,941 | 118,160,726,219 |
| Private issuers | | 72,306,895,820 | 14,694,527,871 |
| Private banks | | 148,892,008,466 | 97,925,872,849 |
| | | <u>307,533,122,227</u> | <u>230,781,126,939</u> |
| | | <u>1,052,451,509,868</u> | <u>957,346,698,111</u> |
| <i>Held to maturity:</i> | | | |
| Government of Costa Rica | | 27,328,967,634 | 25,823,991,217 |
| | | <u>27,328,967,634</u> | <u>25,823,991,217</u> |
| Interest rate futures - Hedges (note 5-b) | | 10,619,377,926 | - |
| FX futures - Other than hedges (note 5-b) | | 662,192,854 | - |
| Accrued interest receivable | | 9,791,452,357 | 12,901,374,609 |
| Allowance for impairment of investments | | (57,821,470) | (53,668,984) |
| Allowance for impairment of derivative instruments other than hedges | | (2,678,088) | - |
| | ¢ | <u>1,100,793,001,081</u> | <u>996,018,394,953</u> |

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

| | | 2014 | 2013 |
|--|---|-------------------|-------------------|
| Opening balance | ¢ | 53,668,984 | 609,308,473 |
| Allowance expense (note 30) | | 4,216,707 | 1,036 |
| Decrease in allowance against income (note 31) | | (1,538,619) | (545,538,398) |
| Foreign exchange differences | | 4,152,486 | (10,102,127) |
| Closing balance | ¢ | <u>60,499,558</u> | <u>53,668,984</u> |

As of December 31, 2014, the allowance for impairment of investments in non-derivative financial instruments amounts to ¢57,821,470 (2013: ¢53,668,984) and is booked for investments in Z Bonds related to the Mortgage Securitization Trust (impairment of 26%).

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of December 31, 2014, the allowance for impairment of derivative instruments other than hedges amounts to ¢2,678,088 and is booked for FX futures other than hedges in accordance with SUGEF Directive 09-08.

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

| | 2014 | 2013 |
|---|----------------------------|------------------------|
| <i>Available for sale:</i> | | |
| Securities issued by BCCR | ¢ 117,955,741,724 | 152,443,819,058 |
| Securities issued by local non-financial public sector | 247,636,568,125 | 288,583,836,119 |
| Securities issued by local financial entities | 124,891,881,361 | 35,427,090,260 |
| Securities issued by foreign financial entities | 18,862,014,392 | 54,259,246,621 |
| Financial instruments issued by foreign financial entities | 68,275,605,974 | 31,827,748,267 |
| Other securities issued abroad | 33,906,883,848 | 1,513,532,661 |
| Financial instruments issued abroad | - | 24,746,292,415 |
| Liquidity market operations – own resources | 99,666,550,000 | - |
| Other available-for-sale financial instruments | 5,431,242,146 | 6,407,563,673 |
| Financial instruments restricted for margin calls on term operations (note 2) | 7,994,461,315 | 6,422,745,082 |
| Financial instruments for tri-party repurchase agreements (note 2) | 38,566,722,512 | 38,801,053,835 |
| Financial instruments restricted for credit operations (note 2) | 288,928,706,371 | 244,735,960,400 |
| Other financial instruments (note 2) | 335,132,100 | 132,042,600 |
| Financial instruments for liquidity market operations | - | 72,045,767,120 |
| | <u>1,052,451,509,868</u> | <u>957,346,698,111</u> |
| <i>Held to maturity:</i> | | |
| Securities issued by local non-financial public sector | 27,328,967,634 | 25,823,991,217 |
| | <u>27,328,967,634</u> | <u>25,823,991,217</u> |
| <i>Derivative financial instruments:</i> | | |
| Interest rate futures - Hedges (note 5-b) | 10,619,377,926 | - |
| FX futures - Other than hedges (note 5-b) | 662,192,854 | - |
| | <u>11,281,570,780</u> | <u>-</u> |
| Accrued interest receivable | 9,791,452,357 | 12,901,374,609 |
| Allowance for impairment of investments | (57,821,470) | (53,668,984) |
| Allowance for impairment of derivative instruments other than hedges | (2,678,088) | - |
| | <u>¢ 1,100,793,001,081</u> | <u>996,018,394,953</u> |

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

| <u>Currency</u> | <u>2014</u> | <u>2013</u> |
|-----------------|-----------------|-----------------|
| Colones | 4.25% to 11.04% | 5.00% to 11.04% |
| U.S. dollars | 0.25% to 7.63% | 0.25% to 6.90% |
| Euros | 0.25% to 4.25% | 0.25% to 7.50% |
| DU | 0.67% to 0.74% | 0.67% to 0.74% |

As of December 31, 2014, valuation of available-for-sale investments and restricted financial instruments gave rise to an unrealized gain, net of deferred tax, in the amount of ¢618,175,093 (2013: unrealized loss of ¢2,545,997,239). Accordingly, as of December 31, 2014, the cumulative balance of equity adjustments arising from valuation of these investments is an unrealized loss of ¢3,787,427,875 (2013: unrealized loss of ¢4,405,602,968).

(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 December 31, 2014 and 2013, the Bank holds the following types of derivative financial instruments:

✓ Derivatives as risk hedging instruments:

Interest rate swaps:

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

Gains and losses on valuation of derivative financial instruments are booked under asset and liability accounts, respectively. As of December 31, 2014, the Bank booked an increase and a decrease in the fair value of these hedges in the amounts of US\$19,912,205, equivalent to ¢10,619,377,926 (see note 5-a), and US\$387,629, equivalent to ¢206,726,657 (2013: decrease of US\$20,209,761, equivalent to ¢10,004,033,392), respectively, under “Other sundry accounts payable” (see note 17).

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Valuation of these financial instruments is as follows:

| | | 2014 | | Purpose |
|-------------------|------|-----------------|------------------|-------------------------------|
| Issuing bank | | 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 | ¢ 10,412,651,253 | |

| | | 2013 | | Purpose |
|-------------------|------|-----------------|--------------------|-------------------------------|
| Issuing bank | | Notional amount | Valuation | |
| Citibank | US\$ | 100,000,000 | US\$ (3,429,800) | Swaps to hedge 10-year issues |
| JP Morgan | | 200,000,000 | (6,859,599) | |
| Bank of America | | 200,000,000 | (6,859,599) | |
| Subtotal | | 500,000,000 | (17,148,998) | |
| Citibank | | 100,000,000 | (1,224,305) | Swaps to hedge 5-year issues |
| JP Morgan | | 150,000,000 | (1,836,458) | |
| Subtotal | | 250,000,000 | (3,060,763) | |
| Total | US\$ | 750,000,000 | US\$ (20,209,761) | |
| Amount in colones | ¢ | 371,257,500,000 | ¢ (10,004,033,392) | |

For purposes of valuating the aforementioned interest rate swaps, the Bank elected to apply the “Fair Value Hedge Method”; while the “Dollar Offset Method” is used for testing hedge effectiveness. The latter method was established by SUGEF and prescribes that effectiveness is to be assessed retrospectively. A hedge is considered highly effective if the ratio of the changes in the derivative and primary instruments ranges between 80% and 125%. As of December 31, 2014, the effectiveness of the 5- and 10-year issues is 97.50% and 112.41%, respectively (2013: 96.7% and 97.64%, respectively).

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

- ✓ A 5- or 10-year LIBOR rate at the issue of the bond;
- ✓ Discount rates from Bloomberg;
- ✓ Zero rates corresponding to the swap curve as of December 31, 2014 and 2013;

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- ✓ Only a portion of the bond cash flows is hedged (corresponding to the 5- and 10-year LIBOR rate in effect at the issue of the bond) rather than the total interest rate;
- ✓ Accrued and earned interest were segregated from the instruments to obtain variations in clean prices;
- ✓ Forward rate to calculate variable interest.

As of December 31, 2014, total notional amounts of US\$750 million, equivalent to ¢399,982,500,000 (2013: ¢371,257,500,000), are booked under “Other debit memoranda accounts”.

- ✓ Derivatives for trading purposes:

Currency forwards:

In 2014, 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 December 31, 2014, the Bank booked an increase and a decrease in the fair value of these forwards in the amounts of ¢662,192,854 under an asset account (see note 5-a) and ¢17,779,910 under “Other sundry accounts payable” (see note 17), respectively.

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.

As of December 31, 2014, total notional amounts of US\$28,640,000, equivalent to ¢15,273,998,400, are booked under “Other debit memoranda accounts” (see note 20).

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

| | | 2014 | 2013 |
|--|---|-----------------------|-------------------------|
| Gain on derivative financial instruments | ¢ | 33,852,436,868 | 314,659,002 |
| Loss on derivative financial instruments | | (12,237,460,188) | (11,666,706,399) |
| Gain (loss), net | ¢ | <u>21,614,976,680</u> | <u>(11,352,047,397)</u> |

(6) Loan portfolio

(a) Loan portfolio by sector

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

| | | 2014 | 2013 |
|---|---|--------------------------|--------------------------|
| Trade | ¢ | 346,050,158,255 | 363,459,705,506 |
| Services | | 664,830,572,542 | 584,577,782,384 |
| Financial services | | 109,161,104,520 | 120,368,072,434 |
| Mining | | 408,526,735 | 45,996,475 |
| Manufacturing and quarrying | | 157,211,033,158 | 138,519,857,709 |
| Construction | | 72,841,393,278 | 72,646,004,843 |
| Agriculture and forestry | | 107,959,101,016 | 94,717,967,679 |
| Livestock, hunting, and fishing | | 60,329,212,920 | 60,676,546,083 |
| Electricity, water, sanitation, and other related sectors | | 269,517,208,860 | 190,788,599,603 |
| Transportation and telecommunications | | 20,347,758,445 | 25,914,019,966 |
| Housing | | 1,054,252,479,390 | 956,259,656,589 |
| Personal or consumer loans | | 347,528,047,842 | 294,861,259,519 |
| Tourism | | 121,137,622,708 | 109,830,068,175 |
| Total direct loans | | <u>3,331,574,219,669</u> | <u>3,012,665,536,965</u> |
| Accrued interest receivable | | 21,715,928,888 | 19,553,964,785 |
| Allowance for loan impairment | | (49,838,574,099) | (45,646,182,874) |
| Total loan portfolio | ¢ | <u>3,303,451,574,458</u> | <u>2,986,573,318,876</u> |

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

| <u>Currency</u> | <u>2014</u> | | <u>2013</u> | |
|-----------------|-----------------|----------------|-----------------|----------------|
| | <u>Rates</u> | <u>Average</u> | <u>Rates</u> | <u>Average</u> |
| Colones | 6.25% to 34.92% | 15.20% | 6.25% to 34.00% | 13.81% |
| U.S. dollars | 3.25% to 27.96% | 8.35% | 3.57% to 25.92% | 8.08% |
| DU | 3.85% to 10.00% | 6.39% | 3.85% to 10.00% | 6.33% |

Sold and securitized portfolio

On August 22, 2006, 1, 2014, the Bank reintroduced the strategy of selling the securitized portfolio. The sole buyer as of December 31, 2013 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 December 31, 2014, the balance of the securitized portfolio is US\$6,892,764, which is equivalent to ¢3,675,980,193 (2013: US\$6,977,247, equivalent to ¢3,453,806,835).

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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of December 31, 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> |

(b) Loan portfolio by arrears

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

| | <u>2014</u> | <u>2013</u> |
|-------------------------------|----------------------------|--------------------------|
| Current | ¢ 3,143,210,637,508 | 2,800,540,470,762 |
| 1 to 30 days | 56,467,793,117 | 67,718,710,377 |
| 31 to 60 days | 42,853,384,472 | 51,842,956,058 |
| 61 to 90 days | 17,939,113,286 | 19,901,210,891 |
| 91 to 120 days | 11,214,144,396 | 11,359,244,688 |
| 121 to 180 days | 11,470,895,350 | 11,174,903,939 |
| More than 180 days | 48,418,251,540 | 50,128,040,250 |
| Total direct loans | <u>3,331,574,219,669</u> | <u>3,012,665,536,965</u> |
| Accrued interest receivable | 21,715,928,888 | 19,553,964,785 |
| Allowance for loan impairment | <u>(49,838,574,099)</u> | <u>(45,646,182,874)</u> |
| Total loan portfolio | ¢ <u>3,303,451,574,458</u> | <u>2,986,573,318,876</u> |

(c) Loan portfolio by origin

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

| | <u>2014</u> | <u>2013</u> |
|-------------------------------|----------------------------|--------------------------|
| Loans originated by the Bank | ¢ 3,331,508,652,889 | 3,012,544,546,829 |
| Loans purchased by the Bank | 65,566,780 | 120,990,136 |
| Total direct loans | <u>3,331,574,219,669</u> | <u>3,012,665,536,965</u> |
| Accrued interest receivable | 21,715,928,888 | 19,553,964,785 |
| Allowance for loan impairment | <u>(49,838,574,099)</u> | <u>(45,646,182,874)</u> |
| Total loan portfolio | ¢ <u>3,303,451,574,458</u> | <u>2,986,573,318,876</u> |

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of December 31, 2014 and 2013, loans purchased by the Bank were purchased from BICSA.

(d) Past due loans

As of December 31, past due loans, including loans in accrual status (for which interest is recognized on a cash basis), and unearned interest on those loans, are as follows:

| | 2014 | 2013 |
|--|-------------------|-----------------|
| Past due loans in accrual status: 21,051 loans (2013: 21,373 loans) | ¢ 139,945,330,621 | 161,997,025,953 |
| Loans in legal collections: 6,025 loans, 2.16% of portfolio (2013: 4,984 loans, 2.46% of portfolio) | ¢ 72,120,002,831 | 73,965,839,402 |
| Total unearned interest in 2014 and 2013 | ¢ 424,946,962 | 1,082,349,202 |

For the years ended December 31, 2014 and 2013, 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 ¢424,946,962 and ¢1,082,349,202, respectively.

As of December 31, 2014, restructured loans amount to a total of ¢26,654,096,704 (2013: ¢22,943,856,728).

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

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

| | 2014 | 2013 |
|----------------------|-------------------------|-----------------------|
| Current | ¢ 13,020,543,628 | 10,441,683,885 |
| Past due | 2,328,423,142 | 2,530,929,634 |
| In legal collections | 6,366,962,118 | 6,581,351,266 |
| | ¢ <u>21,715,928,888</u> | <u>19,553,964,785</u> |

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(f) Allowance for loan impairment

For the years ended December 31, movement in the allowance for loan impairment is as follows:

| | 2014 | 2013 |
|--|------------------|------------------|
| Opening balance | ¢ 45,646,182,874 | 42,305,801,609 |
| Expense for the year (note 30) | 26,164,806,164 | 36,912,921,429 |
| Settlements | (21,708,233,163) | (33,393,373,813) |
| Decrease in allowance against income (note 31) | (1,200,000,000) | (60,689,015) |
| Foreign exchange differences | 935,818,224 | (118,477,336) |
| Closing balance | ¢ 49,838,574,099 | 45,646,182,874 |

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

As of December 31, other receivables are as follows:

| | 2014 | 2013 |
|---|-----------------|-----------------|
| Fees and commissions | ¢ 1,011,708,508 | 980,713,884 |
| Stock exchange transactions | 9,121,769 | 31,304 |
| Transactions with related parties | 1,444,411 | - |
| Transactions with related parties (officers and employees) | 26,144,755 | 29,057,085 |
| Deferred tax (note 15-c) | 1,667,869,346 | 2,178,648,250 |
| Income tax | 2,623,590,564 | 129,448,064 |
| Other sundry accounts | 3,159,168,189 | 2,552,671,830 |
| Accrued interest receivable on other sundry accounts receivable | 2,572,781 | 1,608,084 |
| Allowance for impairment of other accounts receivable | (5,361,359,410) | (2,303,226,624) |
| | ¢ 3,140,260,913 | 3,568,951,877 |

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

| | 2014 | 2013 |
|--|-----------------|-----------------|
| Opening balance | ¢ 2,303,226,624 | 2,944,473,955 |
| Allowance expense (note 30) | 4,558,394,588 | 1,356,827,241 |
| Decrease in allowance against income (note 31) | (1,014,031,493) | (1,627,926,839) |
| Items settled against allowance | (495,113,902) | (367,527,573) |
| Foreign exchange differences | 8,883,593 | (2,620,160) |
| Closing balance | ¢ 5,361,359,410 | 2,303,226,624 |

(8) Foreclosed assets

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

| | 2014 | 2013 |
|------------------------------------|------------------|------------------|
| Assets acquired in lieu of payment | ¢ 76,541,792,707 | 76,708,238,430 |
| Idle property and equipment | 1,756,777 | 1,756,777 |
| Allowance for impairment | (57,188,491,454) | (56,007,912,290) |
| | ¢ 19,355,058,030 | 20,702,082,917 |

For the years ended December 31, movement in the allowance for impairment is as follows:

| | 2014 | 2013 |
|--------------------------------------|------------------|------------------|
| Opening balance | ¢ 56,007,912,290 | 42,610,655,528 |
| Allowance expense (note 34) | 23,421,294,389 | 29,347,659,340 |
| Decrease in allowance against income | (22,240,715,225) | (15,950,402,578) |
| Closing balance | ¢ 57,188,491,454 | 56,007,912,290 |

(9) Investments in other companies

Investments in other companies are as follows:

| | 2014 | 2013 |
|--|------------------|----------------|
| Other financial and non-financial companies | ¢ 50,623,300 | 50,623,300 |
| Banco Internacional de Costa Rica, S.A. and Subsidiary (BICSA) | 49,805,156,511 | 41,307,000,622 |
| | ¢ 49,855,779,811 | 41,357,623,922 |

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

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

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

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

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

As of December 31, 2014 and 2013, the Brokerage Firm booked investments in the National Stock Exchange and Interclear Central de Valores, S.A. for ¢15,000,000 each, to operate as a custodian of electronic securities.

As of December 31, 2014 and 2013, the Bank holds investments in other non-financial entities, the most significant of which is the investment in the Golfito Duty Free Shopping Center for ¢5,200,000. The remaining ¢423,300 of the balance of investments in other non-financial entities booked as of those dates corresponds to investments in various cooperatives.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(10) Property and equipment

As of December 31, 2014, property and equipment is as follows:

| | Land | Buildings | Furniture and equipment | Computer hardware | Vehicles | Total |
|--|------------------|-----------------|----------------------------|----------------------|-------------|-----------------|
| <i>Cost:</i> | | | | | | |
| Opening balance | ¢ 42,478,456,440 | 109,501,340,751 | 52,265,462,768 | 52,185,579,034 | 454,783,747 | 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 | 27,066,717,027 | 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 |

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(11) Other assets

As of December 31, other assets are as follows:

| | 2014 | 2013 |
|--|------------------|----------------|
| <i>Deferred charges:</i> | | |
| Leasehold improvements | ¢ 831,999,093 | 1,289,396,930 |
| Cost of issue of financial instruments (3) | 1,401,680,466 | 1,497,331,306 |
| Cost of subordinated debt project | 615,917,148 | 922,154 |
| Deferred direct costs related to loans | 13,834,802,293 | - |
| Other deferred charges | 4,973,694,393 | 6,306,564,937 |
| Subtotal | 21,658,093,393 | 9,094,215,327 |
| <i>Intangible assets:</i> | | |
| Software (2) | 4,500,259,966 | 2,817,020,735 |
| Other intangible assets (2) | 2,487,278 | 2,487,278 |
| Subtotal | 4,502,747,244 | 2,819,508,013 |
| <i>Other assets:</i> | | |
| Prepaid interest and fees and commissions | 218,164,300 | 321,530,718 |
| Estimated tax | 393,627,806 | 1,517,027,940 |
| Prepaid insurance policy | 274,222,485 | 218,433,789 |
| Other prepaid expenses | 728,793,671 | 783,428,791 |
| Stationery, office supplies, and other materials | 377,118,432 | 190,224,530 |
| Leased assets | 149,956,917 | 151,192,594 |
| Library and artwork | 342,335,900 | 341,093,341 |
| Construction work-in-progress | 17,031,899,617 | 9,503,968,175 |
| Software under development | 254,109,573 | 207,898,009 |
| Rights in welfare and trade associations | 600,000 | 600,000 |
| Other sundry assets | 1,784,494,330 | 1,062,418,426 |
| Operations pending settlement | 3,179,252,421 | 4,764,073,414 |
| Other operations pending application | 452,187,725 | 370,699,092 |
| Guarantee deposits (1) | 255,640,680 | 199,896,497 |
| Legal and administrative deposits (1) | 78,912,799 | 46,054,304 |
| Subtotal | 25,521,316,656 | 19,678,539,620 |
| Total | ¢ 51,682,157,293 | 31,592,262,960 |

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(1) As of December 31, 2014, guarantee deposits amount to ¢334,553,479 (2013: ¢245,950,801) (see note 2).

(2) As of December 31, 2014, intangible assets, net are as follows:

| | 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 |

As of December 31, 2013, intangible assets, net are as follows:

| | Software | Other intangible assets | Total |
|----------------------------------|------------------|-------------------------------|----------------|
| <i>Cost:</i> | | | |
| Opening balance | ¢ 14,684,963,132 | 98,613,969 | 14,783,577,101 |
| Additions | 1,536,420,303 | 8,957,364 | 1,545,377,667 |
| Retirements | (374,174,253) | - | (374,174,253) |
| Reclassifications | (4,810,636) | (11,054,496) | (15,865,132) |
| Adjustments | (8,393,543) | - | (8,393,543) |
| Closing balance | 15,834,005,003 | 96,516,837 | 15,930,521,840 |
| <i>Accumulated amortization:</i> | | | |
| Opening balance | 11,271,292,775 | 94,029,559 | 11,365,322,334 |
| Expense for the year | 2,099,747,153 | 9,235,795 | 2,108,982,948 |
| Retirements | (91,423,723) | - | (91,423,723) |
| Reclassifications | (263,243,117) | (9,235,795) | (272,478,912) |
| Adjustments | 611,180 | - | 611,180 |
| Closing balance | 13,016,984,268 | 94,029,559 | 13,111,013,827 |
| Net closing balance | ¢ 2,817,020,735 | 2,487,278 | 2,819,508,013 |

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- (3) As of December 31, 2014, costs related to the issue of financial instruments are as follows:

| | 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 | 11,679,268 |
| 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 |

- As of December 31, 2013, costs related to the issue of financial instruments are as follows:

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(12) Obligations with the public

(a) By cumulative amount

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

| | 2014 | 2013 |
|---|---------------------|-------------------|
| <i>Demand obligations:</i> | | |
| Checking accounts | ¢ 1,198,704,476,197 | 1,103,852,248,659 |
| Certified checks | 103,521,169 | 123,192,416 |
| Savings deposits | 1,015,801,186,963 | 934,435,231,917 |
| Matured term deposits | 19,745,314,768 | 23,752,056,570 |
| Other demand deposits | 24,057,553,654 | 26,860,438,817 |
| Drafts and transfers | 198,809,563 | 224,837,748 |
| Cashier's checks | 6,126,485,979 | 4,106,080,883 |
| Advance collections from customers for credit cards | 7,450,712,822 | 5,902,144,599 |
| Obligations for trust funds | 118,941,091 | 75,205,432 |
| Subtotal | 2,272,307,002,207 | 2,099,331,437,041 |
| <i>Term obligations:</i> | | |
| Deposits from the public | 1,308,840,107,479 | 1,223,095,399,375 |
| Other term deposits | 79,219,422,491 | 51,763,942,905 |
| Subtotal | 1,388,059,529,970 | 1,274,859,342,280 |
| <i>Other obligations with the public:</i> | | |
| Obligations for tri-party repurchase agreements | 31,028,841,773 | 36,165,531,600 |
| Subtotal | 31,028,841,773 | 36,165,531,600 |
| Charges payable for obligations with the public | 19,356,766,578 | 19,343,249,996 |
| Total | ¢ 3,710,752,140,528 | 3,429,699,560,917 |

As of December 31, 2014 and 2013, deposits in checking accounts denominated in colones bear interest at a maximum rate of 2% per annum on balances and at a minimum rate of 0.25% per annum on balances greater than or equal to ¢500,001. Deposits in checking accounts denominated in U.S. dollars bear interest at a maximum rate of 0.05% per annum on balances and at a minimum rate of 0.01% per annum on balances greater than or equal to US\$1,000.

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

| <u>Currency</u> | 2014 | 2013 |
|-----------------|----------------|----------------|
| Colones | 3.52% to 7.05% | 3.00% to 6.50% |
| U.S. dollars | 0.50% to 2.15% | 0.25% to 1.80% |
| Euros | 0.02% to 0.10% | 0.06% to 0.39% |

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The Bank has term certificates of deposit that are restricted to secure certain loan operations. As of December 31, 2014, those term certificates of deposit amount to ₡23,805,901,801 (2013: ₡16,343,727,980). As of that date, the Bank has no inactive deposits with State-owned entities or other banks.

(b) By number of customers

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

| | 2014 | 2013 |
|-------------------------------------|-----------|-----------|
| <i>Obligations with the public:</i> | | |
| Demand | 1,777,763 | 1,719,980 |
| Term | 64,441 | 64,050 |

As of December 31, demand and term deposits from customers by cumulative amount are as follows:

| | 2014 | 2013 |
|---|---------------------|-------------------|
| <i>Obligations with the public:</i> | | |
| Deposits from the public | ₡ 3,679,723,298,756 | 3,393,534,029,317 |
| Obligations for tri-party repurchase agreements | 31,028,841,773 | 36,165,531,600 |
| Subtotal | 3,710,752,140,528 | 3,429,699,560,917 |
| <i>Obligations with State-owned entities:</i> | | |
| Deposits from State-owned entities | 182,746,931 | 29,911,289,724 |
| Subtotal | 182,746,931 | 29,911,289,724 |
| <i>Obligations with financial entities:</i> | | |
| Deposits from other banks | 133,980,076,375 | 72,810,602,153 |
| Deposits from other local entities | 1,818,472,759 | 41,209,686,331 |
| Deposits from management of funds | 156,295,635,782 | 129,381,229,651 |
| Deposits from other foreign entities | 790,899,550,363 | 775,726,681,386 |
| Charges due to other entities | 6,530,896,551 | 6,684,656,900 |
| Subtotal | 1,089,524,631,830 | 1,025,812,856,421 |
| | ₡ 4,800,459,519,289 | 4,485,423,707,062 |

(13) Obligations with BCCR

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

| | 2014 | 2013 |
|--|---------------|----------------|
| Financing for loans using internal funds | ₡ 2,705,427 | 29,702,889,402 |
| Financing for loans using external funds | 179,746,885 | 201,388,234 |
| Interest payable on obligations | 294,619 | 7,012,088 |
| Subtotal | ₡ 182,746,931 | 29,911,289,724 |

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(14) Obligations with entities and subordinated obligations

(a) Obligations with entities

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

| | 2014 | 2013 |
|---|----------------------------|--------------------------|
| <i>Demand:</i> | | |
| Checking accounts of local financial entities | ¢ 123,921,208,197 | 57,789,494,163 |
| Savings deposits from local financial entities | 38,289,746 | 39,298,498 |
| FCD fund management | 156,295,635,782 | 129,381,229,651 |
| Outstanding checks | 3,421,821,488 | 2,571,590,762 |
| Checking accounts and obligations with related parties | 463,489,825 | 107,476,356 |
| Other demand obligations with financial entities | 443,472,759 | 434,686,331 |
| Subtotal | <u>284,583,917,797</u> | <u>190,323,775,761</u> |
| <i>Term:</i> | | |
| Term deposits from local financial entities | 6,135,267,119 | 12,302,742,374 |
| Term deposits from foreign financial entities (3) | 537,734,760,627 | 479,333,818,592 |
| Funds from liquidity market | 2,500,000,000 | - |
| Loans from local financial entities | 1,375,000,000 | 1,875,000,000 |
| Loans from foreign financial entities (1)(2) | 250,664,789,736 | 296,392,862,794 |
| Liquidity market operations | - | 38,900,000,000 |
| Subtotal | <u>798,409,817,482</u> | <u>828,804,423,760</u> |
| Charges payable for other demand and term obligations with financial entities –foreign currency | 4,375,166 | 6,987,650 |
| Charges payable for other demand and term obligations with financial entities –local currency | 73,523,264 | 116,390,933 |
| Charges payable for loans with foreign financial entities (1) | 1,501,293,430 | 1,951,687,515 |
| Charges payable for loans with local financial entities | 7,476,563 | 20,435,590 |
| Charges payable for term deposits from foreign financial entities (3) | 4,944,228,129 | 4,589,155,212 |
| Subtotal | <u>6,530,896,551</u> | <u>6,684,656,900</u> |
| Total | <u>¢ 1,089,524,631,830</u> | <u>1,025,812,856,421</u> |

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

| Entity | Annual interest rate | | Maturity | | Balance | |
|-------------------------------|----------------------|-------------------|--------------|--------------|-------------------|-----------------|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| CABEI | 4.55% to 8.00% | 4.55% to 8.00% | 2015 to 2021 | 2015 to 2021 | ¢ 21,430,327,428 | 25,233,861,203 |
| Barclays | 6.20% to 6.65% | 6.20% to 6.65% | 2023 to 2029 | 2023 to 2029 | 67,011,197,761 | 62,198,745,577 |
| Bank of New York | - | 1.68% | - | 2014 | - | 4,974,419,016 |
| Commerce, N.A. Miami | - | 2.80% | - | 2014 | - | 10,054,895,641 |
| Deutsche Bank AG New York | - | 1.69% | - | 2014 | - | 12,443,943,981 |
| Standard Chartered Bank | - | 2.37% | - | 2014 | - | 31,382,931,086 |
| Credit Suisse Bank | 3.58% | 3.97% | 2017 | 2017 | 56,777,835,415 | 52,790,109,579 |
| Citibank | 2.99% | 3.01% to 3.02% | 2016 to 2017 | 2016 to 2017 | 106,946,722,562 | 99,265,644,226 |
| | | | | | ¢ 252,166,083,166 | 298,344,550,309 |

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

Loans due to foreign financial entities bear interest at rates ranging between 2.99% and 8% per annum (2013: between 1.68% and 8% per annum).

(3) On October 29, 2013, the Bank made two international issues with a face value of US\$1 billion equivalent to ¢529,051,519,650 in 2014 (2013: ¢491,037,340,641) and the following characteristics:

a. 5-year issue:

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

b. 10-year issue:

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

As of December 31, the balances of those issues in the accounting records are as follows:

| | 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

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

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

- ✓ A 5- or 10-year LIBOR rate at the issue of the bond;
- ✓ Discount rates from Bloomberg;
- ✓ Zero rates corresponding to the swap curve as of December 31, 2014 and 2013;
- ✓ Only a portion of the bond cash flows is hedged (corresponding to the 5- and 10-year LIBOR rate in effect at the issue of the bond) rather than the total interest rate;
- ✓ Accrued and earned interest were segregated from the instruments to obtain variations in clean prices;
- ✓ Forward rate to calculate variable interest.

For the year ended December 31, 2014, the Bank booked an increase in the fair value of these issues in the amount of ¢11,354,254,000 under “Other finance income” (2013: ¢11,780,565,447) (see note 25). For the year ended December 31, 2014, the Bank booked a decrease in the fair value of these issues in the amount of ¢31,798,043,109 under “Other finance expenses”. The balance of this account amounts to a total of ¢32,412,368,057 (2013: ¢250,594,004).

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Maturities of loans due to entities

As of December 31, loans due to entities mature as follows:

| | | 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> |
| | | 2013 | | |
| | | Local | Foreign | Total |
| Less than 1 year | ¢ | 68,616,840,278 | 58,856,189,754 | 127,473,030,032 |
| Between 1 and 2 years | | - | 1,042,552,494 | 1,042,552,494 |
| Between 3 and 5 years | | 1,961,350,019 | 162,717,053,312 | 164,678,403,331 |
| More than 5 years | | 128,535,017 | 75,728,754,749 | 75,857,289,766 |
| | ¢ | <u>70,706,725,314</u> | <u>298,344,550,309</u> | <u>369,051,275,623</u> |

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

(b) Subordinated obligations

As of December 31, 2014, the Bank's subordinated obligations are as follows:

| Entity | Annual interest rates | Maturity | | Balance |
|-------------------------|--|------------|------|-----------------------|
| IDB | 6-month LIBOR + 4.50% in the first 5 years and 6-month LIBOR + 5.00% thereafter | 08/15/2024 | US\$ | 100,000,000 |
| CABEI | 6-month LIBOR + 5.25% in the first 5 years and 6-month LIBOR + 5.75% thereafter | 10/23/2029 | | 30,000,000 |
| Total | | | US\$ | 130,000,000 |
| Total in colones | | | ¢ | 69,330,300,000 |
| Finance charges payable | | | | 1,027,971,862 |
| | | | ¢ | <u>70,358,271,862</u> |

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

For the year ended December 31, 2014, the Bank presents no instances of noncompliance with payments of principal or interest.

As of December 31, 2014, the Bank's subordinated debt amounts to US\$130,000,000, which is equivalent to ₡69,010,500,000. Subordinated debt was negotiated as follows:

- ✓ May 27, 2014: total face value of US\$100 million, equivalent to ₡53,085,000, with the Inter-American Development Bank (IDB) for a term of 10 years.
- ✓ October 23, 2014: total face value of US\$30 million, equivalent to ₡15,925,500, with the Central American Bank for Economic Integration (CABEI) for a term of 15 years.

As of December 31, 2014, interest earned by subordinated liabilities amount to US\$1,927,532, equivalent to ₡1,027,971,862.

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.

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.

(15) Income tax

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

a) Current period income tax

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

| | 2014 | 2013 |
|------------------------|------------------|---------------|
| Current | ¢ 12,699,481,806 | 1,777,170,946 |
| Decrease in income tax | (314,865,092) | (66,978,928) |
| | ¢ 12,384,716,714 | 1,710,192,018 |

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

| | 2014 | 2013 |
|--|------------------|------------------|
| Expected income tax on accounting income | ¢ 19,913,592,067 | 9,372,848,603 |
| Plus (less): | | |
| Nondeductible expenses | 9,508,773,325 | 11,140,996,149 |
| Deductible expenses | (1,337,337,859) | (2,126,001,245) |
| Nontaxable income | (16,162,151,613) | (19,187,883,743) |
| Taxable income | - | 277,096,108 |
| Tax loss from excess deductible expenses on taxable income | 461,840,794 | 2,233,136,146 |
| Subtotal income tax | ¢ 12,384,716,714 | 1,710,192,018 |
| Less: | | |
| Estimated income tax | (1,555,704,963) | (459,507,570) |
| Total income tax payable (note 17) | 10,829,011,751 | 1,250,684,448 |

b) Prior period income tax

| | 2014 | 2013 |
|--|-------------|---------------|
| Decrease in Bank's prior period income tax (1) | ¢ - | 6,524,041,757 |
| Decrease in Pension Fund Manager's prior period income tax | 1,743,205 | 9,673,907 |
| Decrease in Insurance Brokerage Firm's prior period income tax | 3,785,135 | - |
| | ¢ 5,529,340 | 6,533,715,664 |

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- (1) For the year ended December 31, 2013, the decrease in income tax in the amount of ¢6,524,041,757 corresponds to the reversal of the income tax provision for the 2008 tax year, established due to a difference in the calculation methodologies applied by the Bank and the Tax Administration. The statute of limitations for such provision expired in 2013.

c) Deferred tax

As of December 31, deferred tax assets arise from temporary differences in the following financial statement items:

| | 2014 | 2013 |
|-------------------|-----------------|---------------|
| Unrealized losses | 1,484,152,904 | 2,009,931,243 |
| Legal provisions | 183,716,442 | 168,717,007 |
| Subtotal | ¢ 1,667,869,346 | 2,178,648,250 |

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

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

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

| | December 31, 2012 | Included in income statement | Included in equity | December 31, 2013 |
|-------------------|----------------------|------------------------------------|-----------------------|----------------------|
| Unrealized losses | ¢ 1,408,707,419 | - | 601,223,824 | 2,009,931,243 |
| Legal provisions | 78,016,231 | 90,700,776 | - | 168,717,007 |
| | ¢ 1,486,723,650 | 90,700,776 | 601,223,824 | 2,178,648,250 |

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of December 31, deferred tax liabilities arise from temporary differences in the following financial statement items:

| | | 2014 | 2013 |
|-----------------------|---|-----------------------|-----------------------|
| Revaluation of assets | ¢ | 13,283,636,328 | 13,605,138,374 |
| Unrealized gains | | 883,882,942 | 671,583,288 |
| | ¢ | <u>14,167,519,270</u> | <u>14,276,721,662</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 | of ¢ | 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> |

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

| | | December 31, 2012 | Included in income statement | Included in equity | December 31, 2013 |
|-----------------------|---|-----------------------|------------------------------------|----------------------|-----------------------|
| Revaluation of assets | ¢ | 10,807,479,575 | - | 2,797,658,799 | 13,605,138,374 |
| Unrealized gains | | 1,770,769,526 | - | (1,099,186,238) | 671,583,288 |
| | ¢ | <u>12,578,249,101</u> | <u>-</u> | <u>1,698,472,561</u> | <u>14,276,721,662</u> |

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(16) Provisions

As of December 31, provisions are as follows:

| | | 2014 | 2013 |
|--------------------|---|-----------------------|-----------------------|
| Severance benefits | ¢ | 28,436,142,592 | 32,453,960,945 |
| Litigation | | 2,680,918,923 | 9,468,849,446 |
| Other | | 8,385,833,140 | 8,200,794,772 |
| | ¢ | <u>39,502,894,655</u> | <u>50,123,605,163</u> |

Movement in provisions is as follows:

| | | Severance benefits | Litigation | Income tax | Other | Total |
|---------------------------------------|---|-----------------------|------------------------|------------------------|----------------------|------------------------|
| Balance at December 31, 2012 | ¢ | 37,905,719,024 | 4,804,346,521 | 6,524,041,757 | 9,339,879,724 | 58,573,987,026 |
| Provisioned | | 35,705,296,307 | 7,923,186,146 | - | 12,090,377,936 | 55,718,860,389 |
| Used | | (40,729,050,955) | (2,454,227,409) | - | (12,990,340,971) | (56,173,619,335) |
| Decrease in provisions against profit | | <u>(428,003,431)</u> | <u>(804,455,812)</u> | <u>(6,524,041,757)</u> | <u>(239,121,917)</u> | <u>(7,995,622,917)</u> |
| 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 | | <u>(1,489,668)</u> | <u>(7,734,069,723)</u> | <u>-</u> | <u>(673,755,175)</u> | <u>(8,409,314,566)</u> |
| Balance at December 31, 2014 | ¢ | <u>28,436,142,592</u> | <u>2,680,918,923</u> | <u>-</u> | <u>8,385,833,140</u> | <u>39,502,894,655</u> |

As of December 31, the provision for litigation is as follows:

| | | 2014 | 2013 |
|-------------------------------------|---|----------------------|----------------------|
| Ordinary suits | ¢ | 1,998,040,666 | 9,050,683,978 |
| Ordinary suits against subsidiaries | | 265,110,324 | 4,395,468 |
| Phishing | | 417,767,933 | 413,770,000 |
| | ¢ | <u>2,680,918,923</u> | <u>9,468,849,446</u> |

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of December 31, 2014 and 2013, 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 ¢65,961,788,888 (2013: ¢65,462,382,872) and US\$341,991,608 (2013: US\$352,326,678). Management of the Bank has provisioned ¢1,998,040,666 (2013: ¢9,050,683,978) 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 ¢427,042,800 (2013: ¢13,528,507). The amount provisioned by the Bank in connection therewith is included in the provision for ordinary suits.
- Labor suits by nature are difficult to estimate. However, they have been estimated at ¢2,703,131,086 (2013: ¢2,681,824,395). 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 ¢265,110,324 (2013: ¢4,395,468).
 - The provision recognized by the Pension Fund Manager amounts to ¢265,110,324 (2013: ¢4,171,928).
 - The provision booked by the Investment Fund Manager amounts to ¢0 (2013: ¢223,540).
 - The Brokerage Firm and Insurance Brokerage Firm have not booked provisions for pending litigation.
- As of December 31, 2014, the Bank faces 514 administrative actions related to Internet fraud (phishing) for a total of ¢417,767,933 (2013: 514 administrative actions for a total of ¢413,770,000). The Bank has provisioned 100% of that amount.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(17) Other sundry accounts payable

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

| | 2014 | 2013 |
|---|-------------------------|-----------------------|
| Professional fees | ¢ 3,220,299 | 13,011,051 |
| Creditors - goods and services | 2,729,365,999 | 4,096,770,082 |
| Current tax (note 15) | 10,829,011,751 | 1,250,684,448 |
| Employer contributions (1) | 9,152,489,769 | 7,689,762,909 |
| Court-ordered withholdings | 2,601,809,304 | 2,342,561,123 |
| Tax withholdings | 839,701,237 | 822,824,314 |
| Employee withholdings | 543,289,264 | 516,364,768 |
| Other third-party withholdings | 24,442,456 | 28,181,806 |
| Compensation | 6,962,434,513 | 6,578,444,461 |
| Dividends | 1,151,259 | 1,151,259 |
| Statutory allocations | 11,601,170,413 | 5,914,984,993 |
| Clearing house operations | 4,414,157,187 | 229,959,113 |
| Accrued vacation | 6,322,729,792 | 6,029,309,867 |
| Accrued statutory Christmas bonus | 1,633,351,748 | 1,428,344,910 |
| Contributions to superintendencies | 9,071,297 | 7,458,997 |
| Foreclosed assets | 502,916,892 | 625,131,888 |
| Various creditors - Local currency (2) | 6,608,677,466 | 7,475,156,583 |
| Various creditors - Foreign currency | 4,539,087,339 | 4,795,866,309 |
| Interest rate futures - Hedges (note 5-b) | 206,726,657 | 10,004,033,392 |
| FX futures - Other than hedges (note 5-b) | 17,779,910 | - |
| | ¢ <u>69,542,584,552</u> | <u>59,850,002,273</u> |

- (1) The “Employer contributions” line item mainly includes employer contributions due to the CCSS, Banco Popular y de Desarrollo Comunal, National Learning Institute (INA), and Mixed Institute of Social Welfare (IMAS).
- (2) As of December 31, 2014, the “Creditors – goods and services” line item includes ¢956.3 million (2013: ¢819.1 million) for the operations of the Bank’s Electronic Means of Payment Division (Visa). The remaining amount corresponds to normal operations of other divisions.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(18) Other liabilities

As of December 31, other liabilities are as follows:

| | 2014 | 2013 |
|--|------------------|----------------|
| <i>Deferred income:</i> | | |
| Deferred finance income | ¢ 8,985,345,777 | 2,444,042,568 |
| Deferred fees and commissions for trust management | 17,605,208 | 13,976,993 |
| Other | 11,487 | 311,128 |
| Subtotal | 9,003,262,472 | 2,458,330,689 |
| Allowance for stand-by credit losses (1) | 1,319,693,076 | 138,964,729 |
| <i>Operations pending application:</i> | | |
| Operations pending settlement | 16,684,027,434 | 22,238,412,623 |
| Other | 7,077,390,105 | 3,668,415,774 |
| Subtotal | 23,761,417,539 | 25,906,828,397 |
| Total | ¢ 34,084,373,087 | 28,504,123,816 |

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

| | 2014 | 2013 |
|---|-----------------|---------------|
| Opening balance | ¢ 138,964,729 | 346,388,473 |
| Allowance expense charged to profit or loss (note 30) | 1,196,180,293 | 26,785 |
| Adjustment for foreign exchange differences | 34,548,054 | (38,896) |
| Decrease in allowance against income (note 31) | (50,000,000) | (207,411,633) |
| Closing balance | ¢ 1,319,693,076 | 138,964,729 |

(19) Equity

(a) Share capital

The Bank's share capital is as follows:

| | 2014 | 2013 |
|----------------------------|-------------------|-----------------|
| Capital under Law No. 1644 | ¢ 90,511,345,645 | 90,511,345,645 |
| Bank capitalization bonds | 27,618,957,837 | 27,618,957,837 |
| | ¢ 118,130,303,482 | 118,130,303,482 |

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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 December 31, 2014 and based on the exchange rate as of that date, the balance of those investments is ¢27,328,967,634 (2013: ¢25,823,991,217) (see note 5-a).

As of December 31, 2014, the Bank has appropriated ¢14,548,173,826 (2013: ¢12,243,803,201) from its earnings to form the equity of its FOFIDE.

(b) Revaluation surplus

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

As of December 31, 2014 and 2013, revaluation surplus amounts to ¢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 December 31, 2014 and 2013, the adjustment for valuation of available-for-sale investments and restricted financial instruments amounts to ¢3,787,427,875 (unrealized loss) and ¢4,405,602,968 (unrealized loss), respectively).

(d) Adjustment for valuation of investments in other companies

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

As of December 31, 2014 and 2013, the adjustment for valuation of investments in foreign associates by the equity method amounts to ¢6,329,906,321 and ¢3,317,278,520, respectively. These investments correspond to the Bank's 49% ownership interest in BICSA and subsidiary.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(20) Commitments and contingencies

The Bank has off-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:

| | 2014 | 2013 |
|---|-------------------|-----------------|
| Performance bonds | ¢ 37,617,018,016 | 34,210,268,379 |
| Bid bonds | 2,054,648,682 | 3,014,257,962 |
| Other guarantees | 2,423,528,942 | 372,911,236 |
| Letters of credit | 7,103,231,794 | 10,127,000,305 |
| Credits pending disbursement | 340,507,165 | 339,897,778 |
| Subtotal | 49,538,934,599 | 48,064,335,660 |
| Pre-approved lines of credit | 195,705,059,566 | 149,666,830,500 |
| Other contingencies not related to credits | 251,337,221 | 203,790,716 |
| Other contingencies – Pending litigation and lawsuits (note 44) | 250,486,494,640 | 241,840,248,807 |
| Subtotal | 446,442,891,428 | 391,710,870,023 |
| FX futures - Other than hedges (note 5-b) | 15,273,998,400 | - |
| Total | ¢ 511,255,824,426 | 439,775,205,683 |

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:

| | 2014 | 2013 |
|---|------------------|----------------|
| <i>Contingencies without prior deposit:</i> | | |
| Letters of credit | ¢ 5,928,406,427 | 8,479,767,595 |
| Guarantees and sureties granted | 37,928,171,005 | 35,337,614,651 |
| Subtotal | 43,856,577,432 | 43,817,382,246 |
| <i>Contingencies with prior deposit:</i> | | |
| Letters of credit | 1,174,825,367 | 1,647,232,710 |
| Guarantees and sureties granted | 4,167,024,634 | 2,259,822,926 |
| Subtotal | 5,341,850,001 | 3,907,055,636 |
| Credits pending disbursement | 340,507,166 | 339,897,778 |
| Total | ¢ 49,538,934,599 | 48,064,335,660 |

(21) Trust assets

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of December 31, 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 | Custody and management of stock | Cash guaranty and management | Pre-sales management | Guaranty and custody of stock | Total |
|--|-----------------------------|----------------|----------------------|-----------------|---------------|---|---------------------------------|------------------------------|----------------------|-------------------------------|-----------------|
| <i>Trust assets</i> | | | | | | | | | | | |
| Cash and due from banks | ¢ 152,055,081 | 1,444,909,475 | - | 38,048,091 | - | 7,893 | - | - | 906,627 | - | 1,635,927,167 |
| Investment securities and term deposits | 169,300,276,073 | 11,293,419,379 | 1,363,079,790 | 557,922,577,913 | 1,406,393,738 | - | 1,770,343 | - | 492,421,042 | - | 741,779,938,278 |
| Loan portfolio | 2,057,997,821 | - | 431,092,077 | - | - | - | - | - | - | - | 2,489,089,898 |
| Accounts and accrued interest receivable | 8,195,592,156 | 228,611,087 | 2,449,372,903 | - | - | - | - | - | - | - | 10,873,576,146 |
| Foreclosed assets | 55,104,261 | - | 2,314,082,361 | - | - | - | - | - | - | - | 2,369,186,622 |
| Investments in other companies | 588,742,426 | - | 6,669,788 | - | 2,320,000 | 2,406,000 | - | - | - | 853,296,000 | 1,453,434,214 |
| Property and equipment | 2,886,418,207 | 69,055,290,625 | - | 68,202,416,097 | - | - | - | 1,544,041,161 | - | - | 141,688,166,090 |
| Other assets | 287,643,096 | 580,483,704 | 14,260,566 | 2,537,704,227 | 157,451 | - | - | - | - | - | 3,420,249,044 |
| Total | ¢ 183,523,829,121 | 82,602,714,270 | 6,578,557,485 | 628,700,746,328 | 1,408,871,189 | 2,413,893 | 1,770,343 | 1,544,041,161 | 493,327,669 | 853,296,000 | 905,709,567,459 |

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

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

(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.

(22) Other debit memoranda accounts

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

| | 2014 | 2013 |
|---|----------------------|--------------------|
| Pension Fund Manager's own investments in custody – Face value of principal | ¢ 5,266,646,500 | 6,623,851,500 |
| Pension Fund Manager's own investments in custody – Coupons | 1,087,545,639 | 940,979,738 |
| Pension Fund Manager's own investments in custody – Number of shares | 23 | 23 |
| Guarantees received in the Bank's custody | 6,084,299,505,329 | 5,200,646,589,985 |
| Unused, authorized lines of credit | 599,371,531,413 | 500,818,978,300 |
| Write-offs | 172,006,315,708 | 161,028,091,538 |
| Finance income on non-accrual loans | 6,713,999,134 | 6,289,052,172 |
| Supporting documentation received in the Bank's custody | 805 | 619 |
| Nondeductible expenses | 26,453,870,224 | 26,431,554,423 |
| Nontaxable income | 47,100,847,967 | 57,037,682,635 |
| Other memoranda accounts | 615,378,934,652 | 592,420,321,537 |
| Subtotal | 7,557,679,197,394 | 6,552,237,102,470 |
| Third-party debit memoranda accounts (a) | 2,128,036,259,000 | 1,661,091,311,191 |
| Own debit memoranda accounts for custodial activities | 334,980,739,704 | 336,561,170,643 |
| Third-party debit memoranda accounts for custodial activities | 8,323,364,744,118 | 7,372,145,699,004 |
| Subtotal | 10,786,381,742,822 | 9,369,798,180,838 |
| Total | ¢ 18,344,060,940,216 | 15,922,035,283,308 |

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

| | 2014 | 2013 |
|-----------------------------------|-----------------------------|---------------------------|
| Bank | ¢ 15,664,502,469,840 | 13,605,648,253,300 |
| Brokerage Firm (note 23) | 1,477,037,409,123 | 1,301,041,362,434 |
| Investment Fund Manager (note 24) | 328,856,939,312 | 260,871,943,536 |
| Pension Fund Manager (note 25) | 873,664,121,941 | 754,473,724,038 |
| | ¢ <u>18,344,060,940,216</u> | <u>15,922,035,283,308</u> |

As of December 31, banking mandates are as follows:

| | 2014 | 2013 |
|---|----------------------------|--------------------------|
| Management of banking mandates | ¢ 923,639,233,682 | 648,016,172,575 |
| Assets in custody on behalf of third parties | 392,901 | 2,359,966 |
| “TUDES” securities received in custody from affiliates under article 75 of Law No. 7531 | 1,562,338,191 | 1,633,543,861 |
| Pension funds (note 25) | 865,697,880,399 | 745,236,108,975 |
| Investment funds (note 24) | 328,813,841,121 | 260,815,532,664 |
| Portfolio management (note 23-a) | 8,322,572,706 | 5,387,593,150 |
| | ¢ <u>2,128,036,259,000</u> | <u>1,661,091,311,191</u> |

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

As of December 31, memoranda accounts are summarized as follows:

| | | 2014 | 2013 |
|--|---|--------------------------|--------------------------|
| <i>Own</i> | | | |
| Trading securities in custody (note 23-a) | ¢ | 6,681,712,680 | 12,813,199,250 |
| Trading securities pledged as guarantees | | 33,256,888,141 | 36,843,983,768 |
| Repurchase agreements pending settlement (note 23-b) | | 31,189,134,614 | 36,362,871,829 |
| Other own memoranda accounts | | 5,355,120,990 | 4,970,897,139 |
| | | <u>76,482,856,425</u> | <u>90,990,951,986</u> |
| <i>Third-party</i> | | | |
| Trading securities in custody (note 23-a) | | 1,244,766,607,116 | 1,083,621,989,565 |
| Trading securities received as guarantees | | 40,209,483,249 | 41,085,646,695 |
| Trading securities pledged as guarantees | | 41,706,918,513 | 24,338,166,460 |
| Repurchase agreements pending settlement (note 23-b) | | 64,704,227,557 | 54,507,689,245 |
| Cash and accounts receivable | | 844,743,557 | 1,109,325,333 |
| Portfolio management | | 8,322,572,706 | 5,387,593,150 |
| | | <u>1,400,554,552,698</u> | <u>1,210,050,410,448</u> |
| | ¢ | <u>1,477,037,409,123</u> | <u>1,301,041,362,434</u> |

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

a) As of December 31, securities held in custody are as follows:

| Location | Type of custody | 2014 | 2013 |
|--|--|----------------------------|--------------------------|
| <i>Custodial activities on own behalf</i> | | | |
| Local | At face value - available | ¢ 6,583,194,332 | 12,779,586,981 |
| Local | At purchase value of shares - available | 21,561,315 | 21,561,315 |
| Local | At purchase value of investments - available | 65,186,036 | 470,262 |
| Local | At face value - pledged | 11,300,000 | 11,300,000 |
| Local | Amount of physical coupons - pledged | 470,997 | 280,692 |
| | | <u>6,681,712,680</u> | <u>12,813,199,250</u> |
| <i>Custodial activities on behalf of third parties</i> | | | |
| Local | At face value - available | 829,022,280,461 | 738,564,005,669 |
| Local | Amount of physical coupons - available | 22,066,757 | 66,243,947 |
| Local | At purchase value of shares - available | 48,606,586,539 | 43,652,908,024 |
| Local | At purchase value of investments - available | 364,734,052,326 | 298,595,016,846 |
| Local | At face value - pledged | 2,295,551,170 | 2,589,005,162 |
| Local | At purchase value of shares - pledged | 60,091,270 | 70,984,926 |
| Local | At purchase value of investments - pledged | 25,978,593 | 83,824,991 |
| | | <u>1,244,766,607,116</u> | <u>1,083,621,989,565</u> |
| | | ¢ <u>1,251,448,319,796</u> | <u>1,096,435,188,815</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:

| 2014 | | | | | | | | |
|---------------|-----------------------|-------------------|-----------------------------------|-----------------------|-----------------------|-------------------|-----------------------------------|-----------------------|
| | Term buyer | | | | Term seller | | | |
| | Colones | U.S. dollars | U.S. dollars expressed in colones | Total | Colones | U.S. dollars | U.S. dollars expressed in colones | Total |
| Own | 16,802,418,310 | 26,976,273 | 14,386,716,304 | 31,189,134,614 | - | - | - | - |
| Third parties | 13,108,409,241 | 35,383,107 | 18,870,165,047 | 31,978,574,288 | 18,604,338,777 | 26,478,623 | 14,121,314,492 | 32,725,653,269 |
| Total | <u>29,910,827,551</u> | <u>62,359,380</u> | <u>33,256,881,351</u> | <u>63,167,708,902</u> | <u>18,604,338,777</u> | <u>26,478,623</u> | <u>14,121,314,492</u> | <u>32,725,653,269</u> |

| 2013 | | | | | | | | |
|---------------|-----------------------|-------------------|-----------------------------------|-----------------------|-----------------------|-------------------|-----------------------------------|-----------------------|
| | Term buyer | | | | Term seller | | | |
| | Colones | U.S. dollars | U.S. dollars expressed in colones | Total | Colones | U.S. dollars | U.S. dollars expressed in colones | Total |
| Own | 31,236,915,866 | 10,355,257 | 5,125,955,963 | 36,362,871,829 | - | - | - | - |
| Third parties | 8,117,767,497 | 20,620,108 | 10,207,159,520 | 18,324,927,017 | 24,117,164,232 | 24,374,453 | 12,065,597,996 | 36,182,762,228 |
| Total | <u>39,354,683,363</u> | <u>30,975,365</u> | <u>15,333,115,483</u> | <u>54,687,798,846</u> | <u>24,117,164,232</u> | <u>24,374,453</u> | <u>12,065,597,996</u> | <u>36,182,762,228</u> |

As of December 31, 2014, term buyer and seller positions in tri-party repurchase agreements in U.S. dollars were valued at the exchange rate of ¢533.31 to US\$1.00 (2013: ¢493.51 to US\$1.00).

- c) As of December 31, the maturity structure of term buyer and seller positions in tri-party repurchase agreements involving the Brokerage Firm is as follows:

| 2014 | | | | |
|----------------------|-----------------------|-------------------|-----------------------|-------------------|
| | Term buyer | | Term seller | |
| | Colones | U.S. dollars | Colones | U.S. dollars |
| <i>Own</i> | | | | |
| 1 to 30 days | ¢ 3,380,565,972 | 2,685,945 | - | - |
| 31 to 60 days | 10,200,190,051 | 22,185,652 | - | - |
| 61 to 90 days | 2,964,041,744 | 1,729,607 | - | - |
| More than 91 days | 257,620,543 | 375,069 | - | - |
| | <u>16,802,418,310</u> | <u>26,976,273</u> | <u>-</u> | <u>-</u> |
| <i>Third parties</i> | | | | |
| 1 to 30 days | 3,269,258,526 | 1,316,263 | 6,535,921,318 | 672,226 |
| 31 to 60 days | 6,631,877,761 | 18,101,673 | 8,741,481,933 | 15,673,574 |
| 61 to 90 days | 3,207,272,954 | 15,393,782 | 3,069,314,984 | 9,186,364 |
| More than 91 days | - | 571,389 | 257,620,542 | 946,459 |
| | <u>13,108,409,241</u> | <u>35,383,107</u> | <u>18,604,338,777</u> | <u>26,478,623</u> |
| ¢ | <u>29,910,827,551</u> | <u>62,359,380</u> | <u>18,604,338,777</u> | <u>26,478,623</u> |

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

| | | 2013 | | | |
|----------------------|---|-----------------------|-------------------|-----------------------|-------------------|
| | | Term buyer | | Term seller | |
| | | Colones | U.S. dollars | Colones | U.S. dollars |
| <i>Own</i> | | | | | |
| 1 to 30 days | ¢ | 12,140,060,261 | 6,507,709 | - | - |
| 31 to 60 days | | 15,339,103,494 | 3,847,548 | - | - |
| 61 to 90 days | | 3,757,752,111 | - | - | - |
| | | <u>31,236,915,866</u> | <u>10,355,257</u> | <u>-</u> | <u>-</u> |
| <i>Third parties</i> | | | | | |
| 1 to 30 days | | 2,212,079,540 | 6,381,358 | 5,329,627,640 | 13,110,773 |
| 31 to 60 days | | 4,353,363,912 | 14,188,321 | 13,756,669,859 | 11,213,251 |
| 61 to 90 days | | 1,552,324,045 | 50,429 | 5,030,866,733 | 50,429 |
| | | <u>8,117,767,497</u> | <u>20,620,108</u> | <u>24,117,164,232</u> | <u>24,374,453</u> |
| | ¢ | <u>39,354,683,363</u> | <u>30,975,365</u> | <u>24,117,164,232</u> | <u>24,374,453</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 December 31, 2014 and 2013, the Brokerage Firm has no margin calls that require disclosure.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(24) Investment fund management agreements

As of December 31, the Investment Fund Manager's memoranda accounts are as follows:

| | | 2014 | | |
|---|------|-----------------|-----------------|-----------------|
| Fund | | Net value | Shares | Value per share |
| <i>Funds in colones:</i> | | | | |
| Súper Fondo - colones | ¢ | 46,588,169,197 | 13,100,267,863 | 3.556276076 |
| Fon Depósito - colones | | 77,241,246,680 | 58,078,310,340 | 1.329949963 |
| Crecí Fondo - colones | | 1,233,375,924 | 297,909,288 | 4.140105642 |
| Redí Fondo - colones | | 3,105,497,320 | 1,047,880,552 | 2.963598583 |
| Diner Fondo - colones | | 38,910,403,841 | 16,043,718,971 | 2.425273337 |
| Subtotal - colones | ¢ | 167,078,692,962 | 88,568,087,014 | |
| <i>Funds in U.S. dollars:</i> | | | | |
| Súper Fondo - U.S. dollars | US\$ | 34,027,174 | 24,154,235 | 1.408745677 |
| Crecí Fondo - U.S. dollars | | 1,377,410 | 858,029 | 1.605317796 |
| Redí Fondo - U.S. dollars | | 7,446,393 | 5,485,638 | 1.357434342 |
| Diner Fondo - U.S. dollars | | 125,331,629 | 100,550,543 | 1.246454020 |
| Fon Depósito - U.S. dollars | | 78,506,829 | 74,438,702 | 1.054650698 |
| Súper Fondo Plus - U.S. dollars | | 51,672,055 | 51,029,298 | 1.012595839 |
| Fondo Hipotecario - U.S. dollars (mortgage fund) | | 553,151 | 549,200 | 632.62050732 |
| Subtotal - U.S. dollars | US\$ | 298,914,641 | 257,065,645 | |
| Subtotal - U.S. dollars, expressed in colones | ¢ | 159,414,166,560 | 137,095,679,135 | |
| <i>Funds in euros:</i> | | | | |
| Diner Fondo - euros | € | 3,576,326 | 3,352,628 | 1.0667230660 |
| Subtotal - euros | € | 3,576,326 | 3,352,628 | |
| Subtotal - euros, expressed in colones | ¢ | 2,320,981,599 | 2,175,805,098 | |
| Total assets of managed funds (note 22-a) | ¢ | 328,813,841,121 | 227,839,571,247 | |
| <i>Guarantees:</i> | | | | |
| Performance bonds | ¢ | 41,487,793 | | |
| Outstanding checks | | 1,610,398 | | |
| Total memoranda accounts (note 22-a) | ¢ | 328,856,939,312 | | |

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

| | | 2013 | | |
|--|------|-----------------|-----------------|-----------------|
| Fund | | Net value | Shares | Value per share |
| <i>Funds in colones:</i> | | | | |
| Súper Fondo - colones | ¢ | 12,834,073,516 | 3,754,811,678 | 3.418033877 |
| Fon Depósito - colones | | 91,656,961,390 | 71,168,042,506 | 1.287894934 |
| Crecí Fondo - colones | | 897,793,119 | 229,020,395 | 3.920144829 |
| Redí Fondo - colones | | 3,137,143,736 | 1,116,797,322 | 2.809053778 |
| Diner Fondo - colones | | 34,813,864,119 | 14,823,274,458 | 2.34859472 |
| Subtotal - colones | ¢ | 143,339,835,880 | 91,091,946,359 | |
| <i>Funds in U.S. dollars:</i> | | | | |
| Súper Fondo - U.S. dollars | US\$ | 45,336,672 | 32,561,425 | 1.392343004 |
| Crecí Fondo - U.S. dollars | | 466,479 | 298,838 | 1.560977875 |
| Redí Fondo - U.S. dollars | | 3,602,849 | 2,716,335 | 1.326363905 |
| Diner Fondo - U.S. dollars | | 110,854,269 | 89,855,687 | 1.233692297 |
| Fon Depósito - U.S. dollars | | 72,126,571 | 69,131,197 | 1.04332883 |
| Fondo Hipotecario - U.S. dollars (mortgage fund) | | 738,958 | 732,762 | 833.0980722 |
| Subtotal - U.S. dollars | US\$ | 233,125,798 | 195,296,244 | |
| Subtotal - U.S. dollars, expressed in colones | ¢ | 115,399,601,005 | 96,673,593,742 | |
| <i>Funds in euros:</i> | | | | |
| Diner Fondo - euros | € | 3,041,369 | 2,853,723 | 1.065755039 |
| Subtotal - euros | € | 3,041,369 | 2,853,723 | |
| Subtotal - euros, expressed in colones | ¢ | 2,076,095,779 | 1,948,004,942 | |
| Total assets of managed funds (note 22-a) | ¢ | 260,815,532,664 | 189,713,545,043 | |
| <i>Guarantees:</i> | | | | |
| Performance bonds | ¢ | 54,800,474 | | |
| Outstanding checks | | 1,610,398 | | |
| Total memoranda accounts (note 22-a) | ¢ | 260,871,943,536 | | |

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

(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.

(25) Pension fund management agreements

As of December 31, the Pension Fund Manager's memoranda accounts are as follows:

| | | 2014 | 2013 |
|--|---|------------------------|------------------------|
| Mandatory Pension Fund (ROP) | ¢ | 680,868,875,375 | 583,745,278,015 |
| Mandatory Retirement Savings Account (FCL) | | 102,835,527,218 | 89,244,596,683 |
| Pension Fund in Colones A (FPC A) | | 40,548,274,428 | 36,240,542,784 |
| Pension Fund in Colones B (FPC B) | | 7,408,818,639 | 6,446,172,833 |
| Notary Fund (NOT) | | 19,160,066,343 | 17,542,067,387 |
| Pension Fund in U.S. dollars A (FPD A) (a) | | 8,605,709,558 | 6,477,978,259 |
| Pension Fund in U.S. dollars B (FPD B) (b) | | 6,270,608,838 | 5,539,473,014 |
| Total assets of managed funds (note 22-a) | | 865,697,880,399 | 745,236,108,975 |
| Securities and assets in own custody | | 6,354,192,162 | 7,564,831,261 |
| Bid and performance bonds – colones | | 9,908,664 | 27,881,402 |
| Bid and performance bonds – U.S. dollars (c) | | 39,802,525 | 11,358,539 |
| Securities in DU | | 1,562,338,191 | 1,633,543,861 |
| Total memoranda accounts (note 22-a) | ¢ | <u>873,664,121,941</u> | <u>754,473,724,038</u> |

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- (a) As of December 31, 2014, this fund amounts to US\$16,136,411 and was valued at the exchange rate of ¢533.31 to US\$1.00 (2013: US\$13,086,560 valued at the exchange rate of ¢495.01 to US\$1.00).
- (b) As of December 31, 2014, this fund amounts to US\$11,757,906 and was valued at the exchange rate of ¢533.31 to US\$1.00 (2013: US\$11,190,629 valued at the exchange rate of ¢495.01 to US\$1.00).
- (c) As of December 31, 2014, this fund amounts to US\$74,633 and was valued at the exchange rate of ¢533.31 to US\$1.00 (2013: US\$22,946 valued at the exchange rate of ¢495.01 to US\$1.00).
- (26) Finance income on cash and due from banks and investments in financial instruments

For the years ended December 31, finance income on cash and due from banks and investments in financial instruments is as follows:

| | 2014 | 2013 |
|---|-------------------------|-----------------------|
| <i>Cash and due from banks:</i> | | |
| Deposits in BCCR | ¢ 38,959,542 | 20,098,615 |
| Checking accounts and demand deposits in local entities | 31,194,466 | 28,064,438 |
| Checking accounts and demand deposits in foreign entities | 206,134,989 | 303,424,037 |
| | <u>276,288,997</u> | <u>351,587,090</u> |
| <i>Financial instruments:</i> | | |
| Investments in trading securities | - | 45,463,782 |
| Investments in available-for-sale securities | 31,979,333,959 | 49,031,500,092 |
| Investments in committed deposits and securities | 9,549,075,286 | 2,784,593,146 |
| Subtotal | <u>41,528,409,245</u> | <u>51,861,557,020</u> |
| Total | ¢ <u>41,804,698,242</u> | <u>52,213,144,110</u> |

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(27) Finance income on loan portfolio

For the years ended December 31, finance income on the loan portfolio is as follows:

| | 2014 | 2013 |
|---|--------------------------|------------------------|
| <i>Current loans:</i> | | |
| Checking account overdrafts | ¢ 87,270,200 | 106,324,747 |
| Loans granted with funds from BCCR | 1,731,667,201 | 1,960,734,780 |
| Loans granted with other funds | 238,342,578,523 | 212,619,014,457 |
| Credit cards | 18,810,360,626 | 15,084,636,372 |
| Factoring | | 143,964,000 |
| Issued letters of credit | 289,544 | 168,158 |
| Other loans | 3,422,364 | 7,467,434 |
| Subtotal | <u>258,975,588,458</u> | <u>229,922,309,948</u> |
| <i>Past due loans and loans in legal collections:</i> | | |
| Checking account overdrafts | 8,003,532 | 6,165,339 |
| Loans granted with funds from BCCR | 282,861,654 | 428,489,003 |
| Loans granted with other funds | 42,224,160,118 | 41,662,515,244 |
| Credit cards | 2,999,303,515 | 2,131,343,275 |
| Guarantees granted | - | 2,050,000 |
| Other | 2,935,807 | 5,572,485 |
| Subtotal | <u>45,517,264,626</u> | <u>44,236,135,346</u> |
| Total | ¢ <u>304,492,853,084</u> | <u>274,158,445,294</u> |

(28) Other finance income

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

| | 2014 | 2013 |
|--|-------------------------|-----------------------|
| Fees and commissions on letters of credit | ¢ 66,386,792 | 63,318,515 |
| Fees and commissions on guarantees granted | 654,009,876 | 444,170,159 |
| Fees and commissions on lines of credit | 95,940,130 | 132,758,626 |
| Gain on fair value hedge item measured at cost | 11,354,254,000 | 11,780,565,447 |
| Other sundry finance income | 3,588,155,385 | 2,601,849,350 |
| | ¢ <u>15,758,746,183</u> | <u>15,022,662,097</u> |

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(29) Expenses for obligations with the public

For the years ended December 31, expenses for obligations with the public are as follows:

| | 2014 | 2013 |
|--|--------------------------|------------------------|
| Demand deposits | ¢ 33,503,310,343 | 35,900,406,191 |
| Term deposits | 68,572,087,039 | 89,960,484,668 |
| Tri-party repurchase agreements and securities lending | 2,016,875,013 | 2,539,894,525 |
| Other term obligations with the public | - | 870,301 |
| | <u>¢ 104,092,272,395</u> | <u>128,401,655,685</u> |

(30) Expenses for allowances for impairment of assets

For the years ended December 31, expenses for allowances for impairment of assets are as follows:

| | 2014 | 2013 |
|---|-------------------------|-----------------------|
| Allowance for loan impairment (note 6) | ¢ 25,946,790,270 | 36,912,921,429 |
| General and counter-cyclical allowance for loan portfolio (note 6) | 218,015,894 | - |
| Allowance for impairment of other accounts receivable (note 7) | 4,558,394,588 | 1,356,827,241 |
| Allowance for stand-by credit losses (note 18) | 1,125,231,628 | 26,785 |
| General and counter-cyclical allowance for stand-by credit losses (note 18) | 70,948,665 | - |
| Allowance for impairment of derivative financial instruments (note 5-a) | 4,216,707 | 1,036 |
| | <u>¢ 31,923,597,752</u> | <u>38,269,776,491</u> |

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

For the years ended December 31, income from recovery of assets and decreases in allowances and provisions is as follows:

| | 2014 | 2013 |
|---|-------------------------|-----------------------|
| Recovery of loan write-offs | ¢ 15,294,525,461 | 13,304,743,632 |
| Recovery of receivables write-offs | 12,607,305 | 1,284,104 |
| Decrease in allowance for loan impairment (note 6) | 1,200,000,000 | 60,689,015 |
| Decrease in allowance for impairment of other accounts receivable (note 7) | 1,014,031,493 | 1,627,926,839 |
| Decrease in allowance for stand-by credit losses (note 18) | 50,000,000 | 207,411,633 |
| Decrease in allowance for impairment of investments in financial instruments (note 5-a) | 1,538,619 | 545,538,398 |
| | ¢ <u>17,572,702,878</u> | <u>15,747,593,621</u> |

(32) Operating income from service fees and commissions

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

| | 2014 | 2013 |
|---|--------------------------|-----------------------|
| Drafts and transfers | ¢ 6,950,090,882 | 6,602,426,692 |
| Certified checks | 5,700,727 | 8,143,052 |
| Trusts | 862,352,334 | 906,480,534 |
| Custodial services | 1,084,569,223 | 849,104,301 |
| Banking mandates | 340,133 | 421,842 |
| Collections | 47,398,658 | 38,414,447 |
| Credit cards | 36,293,715,985 | 31,116,552,233 |
| Management services | 3,573,672,292 | 2,522,347,175 |
| Management of investment funds | 3,939,787,047 | 4,100,006,669 |
| Management of pension funds | 6,748,035,498 | 8,196,853,819 |
| Insurance underwriting | 3,129,525,671 | 2,302,161,941 |
| Brokerage operations (third parties in local market) | 1,672,904,844 | 2,060,513,900 |
| Brokerage operations (third parties in other markets) | 59,088,528 | 62,974,307 |
| Individual portfolio management | 5,964,610 | 4,580,212 |
| Other | 38,463,889,208 | 33,495,213,153 |
| | ¢ <u>102,837,035,641</u> | <u>92,266,194,277</u> |

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(33) Other operating income

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

| | 2014 | 2013 |
|--|-------------------------|----------------------|
| Leasing of assets | ¢ 29,226,340 | 11,700,579 |
| Recovery of expenses | 4,629,504,490 | 1,107,623,228 |
| Net valuation of other assets (note 1-d-iii) | 723,354,051 | 411,554,122 |
| Other income from accounts receivable | 3,287,719 | 4,303,816 |
| Sundry operating income | 6,787,612,990 | 4,716,574,793 |
| Decrease in provisions | 8,409,314,566 | 1,471,581,160 |
| | ¢ <u>20,582,300,156</u> | <u>7,723,337,698</u> |

(34) Expenses for foreclosed assets

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

| | 2014 | 2013 |
|---|-------------------------|-----------------------|
| Loss on sale of property and other assets acquired in lieu of payment | ¢ 7,429,509,342 | 8,265,519,296 |
| Loss on sale of assets awarded in judicial auctions | 3,053,419,204 | - |
| Management of assets acquired in lieu of payment | 980,821 | 16,782,794 |
| Management of assets awarded in judicial auctions | 8,650,596,828 | 6,307,694,806 |
| Loss on allowance for impairment of foreclosed assets and per legal requirements (note 8) | 286,316,674 | 339,801,514 |
| Loss on impairment of foreclosed assets (note 8) | 23,134,977,715 | 29,007,857,826 |
| Other expenses for foreclosed assets | 754,626,722 | 615,856,382 |
| | ¢ <u>43,310,427,306</u> | <u>44,553,512,618</u> |

(35) Expenses for provisions

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

| | 2014 | 2013 |
|--------------------|-------------------------|-----------------------|
| Severance benefits | ¢ 9,942,743,000 | 9,223,615,877 |
| Pending litigation | 1,333,646,569 | 5,829,822,474 |
| Other provisions | 7,986,651,475 | 7,134,110,092 |
| | ¢ <u>19,263,041,044</u> | <u>22,187,548,443</u> |

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(36) Other operating expenses

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

| | 2014 | 2013 |
|---|-------------------------|-----------------------|
| Penalties for noncompliance with regulatory provisions | ¢ 1,090,677,814 | 3,610,407 |
| Net valuation of other liabilities (note 1-d-iii) | 1,210,441,092 | 181,805,685 |
| Income tax (8%) on interest on investments in financial instruments | 3,011,336,676 | 3,215,787,611 |
| Property tax | 153,818,785 | 135,008,198 |
| Licenses | 697,271,464 | 919,950,495 |
| Other local taxes | 840,476,407 | 1,629,489 |
| Transfers to FINADE | 2,189,343,489 | 1,623,651,331 |
| Sundry operating expenses | 43,213,418,029 | 36,067,693,763 |
| | ¢ <u>52,406,783,756</u> | <u>42,149,136,979</u> |

(37) Personnel expenses

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

| | 2014 | 2013 |
|--|--------------------------|------------------------|
| Salaries and bonuses, permanent staff | ¢ 50,999,497,187 | 57,204,268,112 |
| Salaries and bonuses, contractors | 2,085,676,256 | 2,085,505,600 |
| Compensation for directors and statutory examiners | 179,072,568 | 174,297,495 |
| Overtime | 974,155,594 | 1,424,560,388 |
| Travel expenses | 931,411,892 | 1,232,735,844 |
| Statutory Christmas bonus | 7,365,410,754 | 6,871,956,040 |
| Vacation | 6,014,230,955 | 5,849,477,803 |
| Other compensation | 7,814,934,670 | 7,068,607,192 |
| Severance benefits | 4,545,321,151 | - |
| Employer social security taxes | 29,898,580,625 | 28,854,628,265 |
| Refreshments | 589,186,131 | 714,911,262 |
| Uniforms | 25,478,808 | 121,505,268 |
| Training | 1,002,536,893 | 1,362,608,584 |
| Employee insurance | 285,407,250 | 217,218,130 |
| Back-to-school bonus | 6,086,945,461 | 6,009,578,324 |
| Mandatory retirement savings account | 2,905,269,550 | 2,387,844,921 |
| Other personnel expenses | 663,509,332 | 370,930,770 |
| | ¢ <u>122,366,625,077</u> | <u>121,950,633,998</u> |

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(38) Other administrative expenses

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

| | 2014 | 2013 |
|-----------------------------------|-------------------------|-----------------------|
| Outsourcing | ¢ 13,593,751,662 | 10,616,205,379 |
| Transportation and communications | 4,661,744,033 | 4,358,958,914 |
| Infrastructure | 32,103,311,766 | 28,895,200,832 |
| Overhead | 12,223,723,708 | 15,126,819,107 |
| | ¢ <u>62,582,531,169</u> | <u>58,997,184,232</u> |

(39) Statutory allocations

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

| | 2014 | 2013 |
|----------------|-------------------------|----------------------|
| CONAPE (5%) | ¢ 3,134,239,581 | 1,574,746,459 |
| CNE (3%) | 1,911,648,823 | 1,033,176,839 |
| INFOCOOP (10%) | 4,619,267,048 | 3,565,957,199 |
| RIVM (5%) | 1,939,691,666 | 1,509,260,751 |
| | ¢ <u>11,604,847,118</u> | <u>7,683,141,248</u> |

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

| | 2014 | 2013 |
|----------------|--------------------|----------------------|
| CONAPE (5%) | ¢ - | 359,856,707 |
| CNE (3%) | 3,676,719 | 333,060,360 |
| INFOCOOP (10%) | - | 660,262,618 |
| RIVM (5%) | - | 413,723,560 |
| | ¢ <u>3,676,719</u> | <u>1,766,903,245</u> |

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(40) Fair value of financial instruments

As of December 31, carrying amounts and fair values of all financial assets and liabilities that are not carried at fair value are compared in the following table:

| | | 2014 | |
|--|---|--------------------------|--------------------------|
| | | Carrying amount | Fair value |
| <i>Financial assets:</i> | | | |
| Cash and due from banks | ¢ | 829,976,580,984 | 829,976,580,984 |
| Investments in financial instruments | | 1,100,793,001,081 | 1,100,793,001,081 |
| Loan portfolio | | 3,353,290,148,557 | 2,867,538,794,577 |
| | ¢ | <u>5,284,059,730,622</u> | <u>4,798,308,376,642</u> |
| <i>Financial liabilities:</i> | | | |
| Demand deposits from the public and financial entities | ¢ | 2,562,352,737,127 | 2,562,352,737,127 |
| Other demand obligations with the public | | 13,894,949,455 | 13,894,949,455 |
| Term deposits from the public and financial entities | | 2,257,010,071,626 | 2,256,516,669,695 |
| Obligations for tri-party repurchase agreements | | 31,028,841,773 | 31,028,841,773 |
| | ¢ | <u>4,864,286,599,981</u> | <u>4,863,793,198,050</u> |
| | | 2013 | |
| | | Carrying amount | Fair value |
| <i>Financial assets:</i> | | | |
| Cash and due from banks | ¢ | 847,934,576,855 | 847,934,576,855 |
| Investments in financial instruments | | 996,018,394,953 | 996,018,394,953 |
| Loan portfolio | | 3,032,219,501,750 | 2,841,620,830,828 |
| | ¢ | <u>4,876,172,473,558</u> | <u>4,685,573,802,636</u> |
| <i>Financial liabilities:</i> | | | |
| Demand deposits from the public and financial entities | ¢ | 2,298,690,194,136 | 2,298,690,194,136 |
| Other demand obligations with the public | | 10,308,268,662 | 10,308,268,662 |
| Term deposits from the public and financial entities | | 2,133,568,043,676 | 2,142,523,110,995 |
| Obligations for tri-party repurchase agreements | | 36,165,531,600 | 36,165,531,600 |
| | ¢ | <u>4,478,732,038,074</u> | <u>4,487,687,105,393</u> |

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Fair value estimates

The following assumptions were used by management to estimate the fair value of each class of financial instruments, both on and off the 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 December 31, 2014 and 2013.

- d. Term deposits

The fair value of term deposits is calculated by discounting cash flows at the interest rates offered for term deposits with similar maturities as of December 31, 2014 and 2013.

- e. Obligations with entities

The fair value of obligations with entities is calculated by discounting cash flows at the interest rates in effect as of December 31, 2014 and 2013.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

As of December 31, 2014 and 2013, the following table analyzes financial instruments measured at fair value by the level in the fair value hierarchy:

| | | 2014 | | | |
|--------------------|---|------------------------|------------------------|----------------------|--------------------------|
| | | Level 1 | Level 2 | Level 3 | Total |
| Available for sale | ¢ | <u>907,225,109,283</u> | <u>148,835,968,183</u> | <u>5,386,777,967</u> | <u>1,061,447,855,433</u> |
| Held to maturity | ¢ | <u>-</u> | <u>27,328,967,634</u> | <u>-</u> | <u>27,328,967,634</u> |

| | | 2013 | | | |
|--------------------|---|------------------------|-----------------------|----------------------|------------------------|
| | | Level 1 | Level 2 | Level 3 | Total |
| Available for sale | ¢ | <u>871,519,957,628</u> | <u>91,680,156,012</u> | <u>6,366,121,447</u> | <u>969,566,235,087</u> |
| Held to maturity | ¢ | <u>-</u> | <u>25,824,307,455</u> | <u>-</u> | <u>25,824,307,455</u> |

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).

(Continued)

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:

| | | December 31, | |
|-----------------|---|----------------------|----------------------|
| | | 2014 | 2013 |
| Opening balance | ¢ | 6,366,121,447 | 6,390,183,895 |
| Purchases | | - | - |
| Sales | | 1,279,477,098 | - |
| Maturities | | - | - |
| Closing balance | ¢ | <u>5,386,777,967</u> | <u>6,366,121,447</u> |

(41) Vehicle operating leases

As of December 31, 2014, vehicle lease agreements have expired and are settled through a purchase order. Additionally, extension requests and the new tender process are under review in accordance with the new guidelines from senior management to minimize the expense for vehicle lease agreements.

(42) Segments

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of December 31, profit or loss, assets, and liabilities of each segment are as follows:

| | 2014 | | | | | | | |
|---|---------------------|----------------|-------------------------|----------------------|--------------------------|-------------------|----------------|-------------------|
| | Bank | Brokerage Firm | Investment Fund Manager | Pension Fund Manager | Insurance Brokerage Firm | Total | Eliminations | Consolidated |
| ASSETS | | | | | | | | |
| Cash and due from banks | ¢ 827,582,424,992 | 2,476,670,359 | 101,836,155 | 457,189,273 | 1,345,520,942 | 831,963,641,721 | 1,987,060,737 | 829,976,580,984 |
| Investments in financial instruments | 1,045,040,209,859 | 46,077,988,859 | 4,176,334,036 | 5,509,768,327 | - | 1,100,804,301,081 | 11,300,000 | 1,100,793,001,081 |
| Loan portfolio, net | 3,303,451,574,458 | - | - | - | - | 3,303,451,574,458 | - | 3,303,451,574,458 |
| Accounts and fees and commissions receivable, net | 1,956,793,547 | 105,129,851 | 29,956,223 | 837,145,884 | 225,999,685 | 3,155,025,190 | 14,764,277 | 3,140,260,913 |
| Fees and commissions | 211,673,506 | 22,407,460 | 21,489,676 | 619,773,599 | 150,399,907 | 1,025,744,148 | 14,035,640 | 1,011,708,508 |
| Brokerage services | - | 9,121,769 | - | - | - | 9,121,769 | - | 9,121,769 |
| Transactions with related parties | 26,735,434 | 26,370 | - | 1,555,999 | - | 28,317,803 | 728,637 | 27,589,166 |
| Deferred tax and income tax | 3,985,280,760 | 68,671,120 | 8,376,322 | 153,531,931 | 75,599,777 | 4,291,459,910 | - | 4,291,459,910 |
| Other | 3,091,890,476 | 4,903,132 | 90,228 | 62,284,353 | - | 3,159,168,189 | - | 3,159,168,189 |
| Accrued interest | 2,572,781 | - | - | - | - | 2,572,781 | - | 2,572,781 |
| Allowance for impairment of accounts and fees and commissions | (5,361,359,410) | - | - | - | - | (5,361,359,410) | - | (5,361,359,410) |
| Foreclosed assets, net | 19,355,058,030 | - | - | - | - | 19,355,058,030 | - | 19,355,058,030 |
| Investments in other companies | 76,799,833,378 | 30,000,000 | - | - | - | 76,829,833,378 | 26,974,053,567 | 49,855,779,811 |
| Property and equipment, net | 166,387,915,819 | 499,200,470 | 163,537,920 | 390,824,444 | 24,178,057 | 167,465,656,710 | - | 167,465,656,710 |
| Other assets | 50,455,015,839 | 370,498,946 | 396,291,305 | 269,738,777 | 190,612,426 | 51,682,157,293 | - | 51,682,157,293 |
| TOTAL ASSETS | ¢ 5,491,028,825,922 | 49,559,488,485 | 4,867,955,642 | 7,464,666,703 | 1,786,311,109 | 5,554,707,247,861 | 28,987,178,581 | 5,525,720,069,280 |
| LIABILITIES AND EQUITY | | | | | | | | |
| LIABILITIES | | | | | | | | |
| Obligations with the public | ¢ 3,679,636,119,142 | 31,127,583,364 | - | - | - | 3,710,763,702,506 | 11,561,978 | 3,710,752,140,528 |
| Obligations with BCCR | 182,746,931 | - | - | - | - | 182,746,931 | - | 182,746,931 |
| Obligations with entities | 1,089,004,307,672 | 2,507,122,918 | - | - | - | 1,091,511,430,590 | 1,986,798,760 | 1,089,524,631,830 |
| Demand | 286,570,716,555 | - | - | - | - | 286,570,716,555 | 1,986,798,760 | 284,583,917,795 |
| Term | 795,909,817,482 | 2,500,000,000 | - | - | - | 798,409,817,482 | - | 798,409,817,482 |
| Finance charges payable | 6,523,773,635 | 7,122,918 | - | - | - | 6,530,896,553 | - | 6,530,896,553 |
| Accounts payable and provisions | 120,993,852,530 | 1,358,316,606 | 431,513,267 | 799,229,687 | 480,602,530 | 124,063,514,620 | 14,764,276 | 124,048,750,344 |
| Other liabilities | 34,084,373,087 | - | - | - | - | 34,084,373,087 | - | 34,084,373,087 |
| Subordinated obligations | 70,358,271,862 | - | - | - | - | 70,358,271,862 | - | 70,358,271,862 |
| TOTAL LIABILITIES | ¢ 4,994,259,671,224 | 34,993,022,888 | 431,513,267 | 799,229,687 | 480,602,530 | 5,030,964,039,596 | 2,013,125,014 | 5,028,950,914,582 |

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

| 2014 | | | | | | | | |
|---------------------------------------|----------------------|-------------------|----------------------------|-------------------------|-----------------------------|--------------------|----------------|--------------------|
| | Bank | Brokerage Firm | Investment Fund Manager | Pension Fund Manager | Insurance Brokerage Firm | Total | Eliminations | Consolidated |
| EQUITY | | | | | | | | |
| Share capital | ¢ 118,130,303,482 | 6,600,000,000 | 1,500,000,000 | 3,616,344,535 | 369,700,000 | 130,216,348,017 | 12,086,044,535 | 118,130,303,482 |
| Non-capitalized capital contributions | ¢ - | - | - | 1,378,580,474 | - | 1,378,580,474 | 1,378,580,474 | - |
| Equity adjustments | 66,252,321,126 | (178,008,445) | (14,732,777) | 8,333,983 | - | 66,067,913,887 | (184,407,239) | 66,252,321,126 |
| Capital reserves | 216,895,556,917 | 1,010,943,805 | 300,000,000 | 300,000,000 | 50,242,478 | 210,719,309,788 | 1,661,186,283 | 216,895,556,917 |
| Prior period retained earnings | 41,309,087,572 | 6,488,438,441 | 1,810,603,768 | 600,506,483 | 353,530,710 | 58,399,600,386 | 9,253,079,402 | 41,309,087,572 |
| Income for the year | 39,633,711,775 | 645,091,796 | 840,571,384 | 761,671,541 | 532,235,391 | 42,413,281,887 | 2,779,570,112 | 39,633,711,775 |
| FOFIDE | 14,548,173,826 | - | - | - | - | 14,548,173,826 | - | 14,548,173,826 |
| TOTAL EQUITY | ¢ 496,769,154,698 | 14,566,465,597 | 4,436,442,375 | 6,665,437,016 | 1,305,708,579 | 523,743,208,265 | 26,974,053,567 | 496,769,154,698 |
| TOTAL LIABILITIES AND EQUITY | ¢ 5,491,028,825,922 | 49,559,488,485 | 4,867,955,642 | 7,464,666,703 | 1,786,311,109 | 5,554,707,247,861 | 28,987,178,581 | 5,525,720,069,280 |
| Debit memoranda accounts | ¢ 510,980,047,903 | - | - | 275,776,523 | - | 511,255,824,426 | - | 511,255,824,426 |
| Trust assets | ¢ 904,374,430,249 | 1,335,137,210 | - | - | - | 905,709,567,459 | - | 905,709,567,459 |
| Trust liabilities | ¢ 76,808,439,940 | 431,182 | - | - | - | 76,808,871,122 | - | 76,808,871,122 |
| Trust equity | ¢ 827,565,990,309 | 1,334,706,028 | - | - | - | 828,900,696,337 | - | 828,900,696,337 |
| Other debit memoranda accounts | ¢ 15,664,502,469,840 | 1,477,037,409,123 | 328,856,939,312 | 873,664,121,941 | - | 18,344,060,940,216 | - | 18,344,060,940,216 |

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

| | | 2014 | | | | | | |
|---|-------------------|----------------|-------------------------|----------------------|--------------------------|-----------------|---------------|-----------------|
| | Bank | Brokerage Firm | Investment Fund Manager | Pension Fund Manager | Insurance Brokerage Firm | Total | Eliminations | Consolidated |
| Finance income | ¢ 698,730,894,056 | 5,023,879,573 | 348,836,875 | 497,492,591 | 35,752,489 | 704,636,855,584 | 27,560,966 | 704,609,294,618 |
| Finance expense | 491,567,874,468 | 3,143,004,232 | 67,278,758 | 34,606,764 | 5,881,898 | 494,818,646,120 | 27,560,966 | 494,791,085,154 |
| Allowance expense | 31,923,597,752 | - | - | - | - | 31,923,597,752 | - | 31,923,597,752 |
| Income from recovery of assets | 17,572,702,878 | - | - | - | - | 17,572,702,878 | - | 17,572,702,878 |
| FINANCE INCOME | 192,812,124,714 | 1,880,875,341 | 281,558,117 | 462,885,827 | 29,870,591 | 195,467,314,590 | - | 195,467,314,590 |
| Other operating income | 165,581,853,807 | 2,683,213,221 | 3,950,619,255 | 6,772,300,096 | 2,329,949,776 | 181,346,633,908 | 3,782,229,031 | 177,535,707,124 |
| Other operating expenses | 122,803,226,589 | 500,667,109 | 580,629,198 | 1,302,433,266 | 151,042,688 | 125,508,890,610 | 883,203,495 | 124,454,795,355 |
| GROSS OPERATING INCOME | 235,590,751,932 | 4,063,421,453 | 3,651,548,174 | 5,932,752,657 | 2,208,777,679 | 251,305,057,888 | 2,899,025,536 | 248,548,226,359 |
| Personnel expenses | 113,258,446,407 | 2,501,928,454 | 1,877,208,787 | 3,481,557,976 | 1,247,483,453 | 122,224,431,070 | - | 122,366,625,077 |
| Other administrative expenses | 59,647,513,906 | 896,449,910 | 623,868,479 | 1,346,450,864 | 187,703,434 | 62,701,986,593 | 119,455,424 | 62,582,531,169 |
| Total administrative expenses | 172,905,960,313 | 3,398,378,364 | 2,501,077,266 | 4,828,008,840 | 1,435,186,887 | 184,926,417,663 | 119,455,424 | 184,949,156,246 |
| NET OPERATING INCOME BEFORE STATUTORY ALLOCATIONS AND TAXES | 62,684,791,619 | 665,043,089 | 1,150,470,908 | 1,104,743,817 | 773,590,792 | 66,378,640,225 | 2,779,570,112 | 63,599,070,113 |
| Income tax | 11,763,485,626 | - | 297,088,563 | 522,487,661 | 272,287,825 | 12,855,349,675 | - | 12,855,349,675 |
| Decrease in income tax | 202,760,722 | - | 21,703,165 | 212,557,700 | 54,140,149 | 491,161,736 | - | 491,161,736 |
| Statutory allocations | 11,490,354,940 | 19,951,293 | 34,514,126 | 36,819,034 | 23,207,725 | 11,604,847,118 | - | 11,604,847,118 |
| Decrease in statutory allocations | - | - | - | 3,676,719 | - | 3,676,719 | - | 3,676,719 |
| INCOME FOR THE YEAR | ¢ 39,633,711,775 | 645,091,796 | 840,571,384 | 761,671,541 | 532,235,391 | 42,413,281,887 | 2,779,570,112 | 39,633,711,775 |

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

| | 2013 | | | | | | | |
|---|---------------------|----------------|-------------------------|----------------------|--------------------------|-------------------|----------------|-------------------|
| | Bank | Brokerage Firm | Investment Fund Manager | Pension Fund Manager | Insurance Brokerage Firm | Total | Eliminations | Consolidated |
| ASSETS | | | | | | | | |
| Cash and due from banks | ¢ 846,171,086,226 | 2,475,118,402 | 88,334,557 | 246,897,560 | 1,086,461,481 | 850,067,898,226 | 2,133,321,369 | 847,934,576,855 |
| Investments in financial instruments | 931,449,118,555 | 53,399,192,480 | 4,814,703,386 | 6,943,430,006 | - | 996,606,444,427 | 588,049,474 | 996,018,394,953 |
| Loan portfolio, net | 2,986,573,318,876 | - | - | - | - | 2,986,573,318,876 | - | 2,986,573,318,876 |
| Accounts and fees and commissions receivable, net | 2,352,125,374 | 98,590,932 | 87,495,977 | 935,068,121 | 137,170,460 | 3,610,450,864 | 41,498,987 | 3,568,951,877 |
| Fees and commissions | 105,861,792 | 21,170,059 | 75,691,724 | 717,991,614 | 95,212,363 | 1,015,927,552 | 35,213,668 | 980,713,884 |
| Brokerage services | - | 31,304 | - | - | - | 31,304 | - | 31,304 |
| Transactions with related parties | 29,583,734 | 26,600 | 4,301,924 | 1,430,146 | - | 35,342,404 | 6,285,319 | 29,057,085 |
| Deferred tax and income tax | 2,065,557,346 | 43,864,354 | 7,238,863 | 149,502,762 | 41,932,988 | 2,308,096,313 | - | 2,308,096,314 |
| Other | 2,452,741,042 | 33,498,615 | 263,466 | 66,143,599 | 25,109 | 2,552,671,831 | - | 2,552,671,830 |
| Accrued interest | 1,608,084 | - | - | - | - | 1,608,084 | - | 1,608,084 |
| Allowance for impairment of accounts and fees and commissions | (2,303,226,624) | - | - | - | - | (2,303,226,624) | - | (2,303,226,624) |
| Foreclosed assets, net | 20,702,082,917 | - | - | - | - | 20,702,082,917 | - | 20,702,082,917 |
| Investments in other companies | 72,323,350,980 | 30,000,000 | - | - | - | 72,353,350,980 | 30,995,727,058 | 41,357,623,922 |
| Property and equipment, net | 164,829,338,029 | 503,969,444 | 137,218,470 | 481,539,201 | 18,486,576 | 165,970,551,720 | - | 165,970,551,719 |
| Other assets | 30,928,594,678 | 175,196,075 | 269,483,186 | 133,195,959 | 85,793,061 | 31,592,262,950 | - | 31,592,262,960 |
| TOTAL ASSETS | ¢ 5,055,329,015,635 | 56,682,067,333 | 5,397,235,576 | 8,740,130,847 | 1,327,911,578 | 5,127,476,360,969 | 33,758,596,888 | 5,093,717,764,079 |
| LIABILITIES AND EQUITY | | | | | | | | |
| LIABILITIES | | | | | | | | |
| Obligations with the public | ¢ 3,394,017,094,333 | 36,270,516,057 | - | - | - | 3,430,287,610,390 | 588,049,474 | 3,429,699,560,917 |
| Obligations with BCCR | 29,911,289,724 | - | - | - | - | 29,911,289,724 | - | 29,911,289,724 |
| Obligations with entities | 1,027,946,177,790 | - | - | - | - | 1,027,946,177,790 | 2,133,321,369 | 1,025,812,856,421 |
| Demand | 192,457,097,130 | - | - | - | - | 192,457,097,130 | 2,133,321,369 | 190,323,775,761 |
| Term | 828,804,423,760 | - | - | - | - | 828,804,423,760 | - | 828,804,423,760 |
| Finance charges payable | 6,684,656,900 | - | - | - | - | 6,684,656,900 | - | 6,684,656,900 |
| Accounts payable and provisions | 120,520,062,480 | 2,296,686,772 | 784,937,105 | 1,495,039,954 | 304,438,390 | 125,401,164,701 | 41,498,989 | 125,359,665,710 |
| Other liabilities | 28,504,123,816 | - | - | - | - | 28,504,123,816 | - | 28,504,123,815 |
| TOTAL LIABILITIES | ¢ 4,600,898,748,143 | 38,567,202,829 | 784,937,105 | 1,495,039,954 | 304,438,390 | 4,642,050,366,421 | 2,762,869,832 | 4,639,287,496,587 |

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

| | | 2013 | | | | | | | |
|---------------------------------------|---|--------------------|-------------------|-------------------------|----------------------|--------------------------|--------------------|----------------|--------------------|
| | | Bank | Brokerage Firm | Investment Fund Manager | Pension Fund Manager | Insurance Brokerage Firm | Total | Eliminations | Consolidated |
| EQUITY | | | | | | | | | |
| Share capital | ¢ | 118,130,303,482 | 6,600,000,000 | 1,500,000,000 | 4,410,776,166 | 369,700,000 | 131,010,779,648 | 12,880,476,166 | 118,130,303,482 |
| Non-capitalized capital contributions | | - | - | - | 584,148,842 | - | 584,148,842 | 584,148,842 | - |
| Equity adjustments | | 62,621,518,232 | 15,482,259 | 1,694,704 | 58,536,288 | - | 62,697,231,483 | 75,713,251 | 62,621,518,232 |
| Capital reserves | | 196,909,225,981 | 851,163,880 | 274,631,003 | 300,000,000 | 30,063,971 | 198,365,084,835 | 1,455,858,854 | 196,909,225,981 |
| Prior period retained earnings | | 39,383,506,918 | 8,097,711,668 | 1,717,180,214 | (24,616,631) | 220,139,078 | 49,393,921,247 | 10,010,414,329 | 39,383,506,918 |
| Income for the year | | 25,141,909,678 | 2,550,506,697 | 1,118,792,550 | 1,916,246,228 | 403,570,139 | 31,131,025,292 | 5,989,115,614 | 25,141,909,678 |
| FOFIDE | | 12,243,803,201 | - | - | - | - | 12,243,803,201 | - | 12,243,803,201 |
| TOTAL EQUITY | ¢ | 454,430,267,492 | 18,114,864,504 | 4,612,298,471 | 7,245,090,893 | 1,023,473,188 | 485,425,994,548 | 30,995,727,056 | 454,430,267,492 |
| TOTAL LIABILITIES AND EQUITY | ¢ | 5,055,329,015,635 | 56,682,067,333 | 5,397,235,576 | 8,740,130,847 | 1,327,911,578 | 5,127,476,360,969 | 33,758,596,888 | 5,093,717,764,079 |
| | | | | | | | | | |
| Debit memoranda accounts | ¢ | 439,765,081,943 | - | 223,540 | 9,900,200 | - | 439,775,205,683 | - | 439,775,205,683 |
| Trust assets | ¢ | 907,975,474,740 | 1,719,682,375 | - | - | - | 909,695,157,115 | - | 909,695,157,115 |
| Trust liabilities | ¢ | 65,814,216,435 | 400,217 | - | - | - | 65,814,616,652 | - | 65,814,616,652 |
| Trust equity | ¢ | 842,161,258,305 | 1,719,282,158 | - | - | - | 843,880,540,463 | - | 843,880,540,463 |
| Other debit memoranda accounts | ¢ | 13,605,648,253,300 | 1,301,041,362,435 | 260,871,943,536 | 754,473,724,037 | - | 15,922,035,283,308 | - | 15,922,035,283,308 |

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

| 2013 | | | | | | | | |
|---|-----------------|----------------|-------------------------|----------------------|--------------------------|-----------------|---------------|-----------------|
| | Bank | Brokerage Firm | Investment Fund Manager | Pension Fund Manager | Insurance Brokerage Firm | Total | Eliminations | Consolidated |
| Finance income | 354,391,154,161 | 6,618,414,209 | 356,404,355 | 1,030,261,506 | 27,768,318 | 362,424,002,549 | 315,731,950 | 362,108,270,600 |
| Finance expense | 156,767,745,464 | 2,544,997,455 | 28,438,554 | - | - | 159,341,181,473 | 315,731,950 | 159,025,449,525 |
| Allowance expense | 38,269,776,491 | - | - | - | - | 38,269,776,491 | - | 38,269,776,491 |
| Income from recovery of assets | 15,747,593,621 | - | - | - | - | 15,747,593,621 | - | 15,747,593,621 |
| FINANCE INCOME | 175,101,225,827 | 4,073,416,754 | 327,965,801 | 1,030,261,506 | 27,768,318 | 180,560,638,206 | - | 180,560,638,205 |
| Other operating income | 131,449,174,231 | 3,037,462,751 | 4,151,334,499 | 8,249,864,271 | 1,746,053,152 | 148,633,888,905 | 6,763,327,033 | 141,870,561,874 |
| Other operating expenses | 112,573,101,776 | 691,840,765 | 709,451,733 | 1,684,211,941 | 135,544,620 | 115,794,150,835 | 454,692,246 | 115,339,458,590 |
| GROSS OPERATING INCOME | 193,977,298,282 | 6,419,038,740 | 3,769,848,567 | 7,595,913,836 | 1,638,276,851 | 213,400,376,276 | 6,308,634,787 | 207,091,741,489 |
| Personnel expenses | 113,561,568,988 | 2,523,784,078 | 1,585,974,752 | 3,383,171,445 | 896,134,735 | 121,950,633,998 | - | 121,950,633,998 |
| Other administrative expenses | 56,117,934,246 | 1,043,896,076 | 568,685,912 | 1,439,760,586 | 146,426,585 | 59,316,703,405 | 319,519,173 | 58,997,184,232 |
| Total administrative expenses | 169,679,503,234 | 3,567,680,154 | 2,154,660,664 | 4,822,932,031 | 1,042,561,320 | 181,267,337,403 | 319,519,173 | 180,947,818,230 |
| NET OPERATING INCOME BEFORE STATUTORY ALLOCATIONS AND TAXES | 24,297,795,048 | 2,851,358,586 | 1,615,187,903 | 2,772,981,805 | 595,715,531 | 32,133,038,873 | 5,989,115,614 | 26,143,923,259 |
| Income tax | - | 215,310,594 | 447,939,716 | 930,513,210 | 242,187,439 | 1,835,950,959 | - | 1,835,950,960 |
| Decrease in income tax | 8,201,691,639 | 86,195,641 | - | 161,277,833 | 67,913,513 | 8,517,078,626 | - | 8,517,078,627 |
| Statutory allocations | 7,357,577,009 | 171,736,936 | 48,455,637 | 87,500,200 | 17,871,466 | 7,683,141,248 | - | 7,683,141,248 |
| INCOME FOR THE YEAR | 25,141,909,678 | 2,550,506,697 | 1,118,792,550 | 1,916,246,228 | 403,570,139 | 31,131,025,292 | 5,989,115,614 | 25,141,909,678 |

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(43) Risk management

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

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

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

Policies and procedures for managing market and liquidity risks are also being formalized in specific manuals for each type of risk that describe the methodologies used to manage those risks. This activity has been extended to the Bank's subsidiaries, i.e. Brokerage Firm, Investment Fund Manager, Pension Fund Manager, and Insurance Brokerage Firm.

The Bank manages the above risks as follows:

a) Credit risk

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The Bank has established the following credit risk management procedures:

1. The Bank has defined procedures for loan follow-up and processing as well as for the application of loan controls. The functions, tasks, and procedures performed by the Credit Risk Division have been documented with the support of the Quality Management Division. As a result, the Bank has been able to unify, standardize, and improve the process.
2. The Bank has performed and reviewed the administrative loan follow-up procedures for branches and regional offices.
3. The Bank is comprehensively evaluating the Loan Process and, based on that evaluation, the procedures performed through offices, business development centers (BDCs), shared service centers, trade zones, and corporate centers in accordance with the organizational structure project named "Transformation."
4. The work plan for loan follow-up includes an evaluation of main borrowers (higher balances in the loan portfolio), which involves continuous monitoring and visits to regional offices.

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

(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 | |
|--|------|---------------------|-------------------|------|-----------------|----------------|
| | | 2014 | 2013 | | 2014 | 2013 |
| Loan portfolio | | | | | | |
| Principal | 6-a | ¢ 3,331,574,219,669 | 3,012,665,536,965 | 20 | 245,243,994,165 | 48,064,335,660 |
| Accounts and accrued interest receivable | | 21,715,928,888 | 19,553,964,785 | | - | - |
| Carrying amount, gross | | 3,353,290,148,557 | 3,032,219,501,750 | | 245,243,994,165 | 48,064,335,660 |
| Allowance for loan impairment (accounting records) | | (49,838,574,099) | (45,646,182,874) | | (1,319,693,076) | (138,964,729) |
| Carrying amount, net | ¢ | 3,303,451,574,458 | 2,986,573,318,876 | | 243,924,301,089 | 47,925,370,931 |
| Loan portfolio | | | | | | |
| Total balances: | | | | | | |
| A1 | ¢ | 2,635,882,550,621 | 2,314,561,103,955 | | 235,908,076,162 | 45,613,102,292 |
| A2 | | 31,016,636,031 | 24,955,547,900 | | 369,307,028 | 12,947,143 |
| B1 | | 331,137,184,935 | 316,642,539,452 | | 4,092,087,569 | 1,300,797,686 |
| B2 | | 12,231,350,139 | 16,665,105,415 | | 111,939,538 | - |
| C1 | | 82,120,885,538 | 78,710,075,711 | | 2,638,515,447 | 652,666,500 |
| C2 | | 6,964,352,287 | 6,366,304,109 | | 14,380,718 | - |
| D | | 107,267,820,444 | 136,569,114,117 | | 759,735,195 | 456,289,368 |
| E | | 146,669,368,562 | 137,749,711,091 | | 1,349,952,508 | 28,532,671 |
| | | 3,353,290,148,557 | 3,032,219,501,750 | | 245,243,994,165 | 48,064,335,660 |
| Structural allowance (subledger – database) | | (47,843,823,004) | (45,696,634,354) | | (958,597,232) | (87,599,208) |
| Carrying amount, net | ¢ | 3,305,446,325,553 | 2,986,522,867,396 | | 244,285,396,933 | 47,976,736,452 |

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

| | | Direct | | Stand-by | |
|---|---|--------------------------|--------------------------|------------------------|-----------------------|
| | | 2014 | 2013 | 2014 | 2013 |
| Individually assessed loans with allowance: | | | | | |
| A1 | ¢ | 2,635,882,550,621 | 925,808,421,979 | 230,676,152,592 | 41,294,099,509 |
| A2 | | 31,016,636,031 | 6,923,183,779 | 361,965,378 | 6,147,135 |
| B1 | | 331,137,184,935 | 45,669,050,847 | 3,993,781,504 | 1,135,187,538 |
| B2 | | 12,231,350,139 | 2,740,467,772 | 111,939,538 | - |
| C1 | | 82,120,885,538 | 12,287,207,609 | 2,638,515,447 | 644,265,991 |
| C2 | | 6,964,352,287 | 1,521,618,732 | 14,380,718 | - |
| D | | 107,267,820,444 | 54,299,053,975 | 755,956,173 | 74,411,059 |
| E | | 146,669,368,562 | 105,035,807,101 | 1,349,452,788 | 18,620,204 |
| | | <u>3,353,290,148,557</u> | <u>1,154,284,811,794</u> | <u>239,902,144,139</u> | <u>43,172,731,436</u> |
| Structural allowance (subledger – database) | | (47,843,823,004) | (45,696,634,354) | (958,597,232) | (87,599,208) |
| Carrying amount, net | ¢ | <u>3,305,446,325,553</u> | <u>1,108,588,177,440</u> | <u>238,943,546,907</u> | <u>43,085,132,228</u> |
| Past due loans without allowance: | | | | | |
| A1 | ¢ | - | 20,618,129,825 | - | - |
| A2 | | - | 2,565,762,358 | - | - |
| B1 | | - | 25,160,298,731 | - | - |
| B2 | | - | 4,499,552,041 | - | - |
| C1 | | - | 11,931,012,683 | - | 3,013,017 |
| C2 | | - | 2,781,171,258 | - | - |
| D | | - | 14,452,902,775 | - | - |
| E | | - | 20,602,214,411 | - | - |
| Carrying amount | ¢ | <u>-</u> | <u>102,611,044,082</u> | <u>-</u> | <u>3,013,017</u> |

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

| | | Direct | | Stand-by | |
|---|-------|-------------------|-------------------|-----------------|----------------|
| | | 2014 | 2013 | 2014 | 2013 |
| Aging of loan portfolio | | | | | |
| 1 – 30 days | ¢ | - | 43,710,942,765 | - | - |
| 31 – 60 days | | - | 30,623,794,582 | - | 3,013,017 |
| 61 – 90 days | | - | 11,347,302,171 | - | - |
| 91 – 180 days | | - | 5,546,918,157 | - | - |
| More than 180 days | | - | 11,382,086,407 | - | - |
| Carrying amount | ¢ | - | 102,611,044,082 | - | 3,013,017 |
| Current loans without allowance: | | | | | |
| A1 | ¢ | - | 1,368,134,552,151 | 5,231,923,569 | 4,319,002,783 |
| A2 | | - | 15,466,601,763 | 7,341,650 | 6,800,008 |
| B1 | | - | 245,813,189,874 | 98,306,065 | 165,610,148 |
| B2 | | - | 9,425,085,602 | - | - |
| C1 | | - | 54,491,855,419 | - | 5,387,492 |
| C2 | | - | 2,063,514,119 | - | - |
| D | | - | 67,817,157,367 | 3,779,022 | 381,878,309 |
| E | | - | 12,111,689,579 | 499,720 | 9,912,467 |
| Carrying amount | ¢ | - | 1,775,323,645,874 | 5,341,850,026 | 4,888,591,207 |
| Carrying amount, gross | | 3,353,290,148,557 | 3,032,219,501,750 | 245,243,994,165 | 48,064,335,660 |
| Allowance for loan impairment (database) | | (47,843,823,004) | (45,696,634,354) | (958,597,232) | (87,599,208) |
| (Excess) insufficiency of allowance over structural allowance | | (1,994,751,095) | 50,451,480 | (361,095,844) | (51,365,521) |
| Carrying amount, net | 6-a ¢ | 3,303,451,574,458 | 2,986,573,318,876 | 243,924,301,089 | 47,925,370,931 |
| Restructured loans | 6-d ¢ | 26,654,096,704 | 22,943,856,728 | 7,033,221 | 7,033,221 |

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of December 31, 2014, 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:

| | | 2014 | |
|----|---|--------------------------|--------------------------|
| | | Loans to customers | |
| | | Gross | Net |
| A1 | ¢ | 2,635,882,550,621 | 2,631,781,130,666 |
| A2 | | 31,016,636,031 | 30,991,812,151 |
| B1 | | 331,137,184,935 | 329,622,045,129 |
| B2 | | 12,231,350,139 | 12,140,849,113 |
| C1 | | 82,120,885,538 | 80,518,142,385 |
| C2 | | 6,964,352,287 | 6,649,798,293 |
| D | | 107,267,820,444 | 99,778,142,388 |
| E | | 146,669,368,562 | 111,969,654,333 |
| | ¢ | <u>3,353,290,148,557</u> | <u>3,303,451,574,458</u> |

| | | 2013 | |
|----|---|--------------------------|--------------------------|
| | | Loans to customers | |
| | | Gross | Net |
| A1 | ¢ | 2,314,561,103,955 | 2,311,455,043,949 |
| A2 | | 24,955,547,900 | 24,888,989,471 |
| B1 | | 316,642,539,452 | 315,722,973,867 |
| B2 | | 16,665,105,415 | 16,561,100,520 |
| C1 | | 78,710,075,711 | 77,356,710,884 |
| C2 | | 6,366,304,109 | 6,012,847,111 |
| D | | 136,569,114,117 | 128,228,331,397 |
| E | | 137,749,711,091 | 106,347,321,677 |
| | ¢ | <u>3,032,219,501,750</u> | <u>2,986,573,318,876</u> |

As shown above, as of December 31, 2014, the gross portfolio amounts to ¢3,353 billion. Of that amount, 89.77% is classified in risk ratings “A + B” and 10.23% in risk ratings “C+ D+ E” (2013: ¢3,032 billion, of which 88.15% is classified in risk ratings “A + B” and 11.85% in risk ratings “C+ D+ E”).

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Individually assessed loans with allowance:

Pursuant to SUGEF Directive 1-05, a risk rating is assigned to all borrowers. Applicable allowance percentages are determined based on that risk rating. Individually assessed loans with allowance are loan operations that after considering the guarantee for the loan, there is still a balance to which the applicable allowance percentage will be applied.

Past due loans without allowance:

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

Restructured loans:

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Restructured loans are as follows:

| | Direct | | Stand-by | |
|--------------------|------------------|----------------|-----------|-----------|
| | 2014 | 2013 | 2014 | 2013 |
| Restructured loans | ¢ 26,654,096,704 | 22,943,856,728 | 7,033,221 | 7,033,221 |

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 | |
|-------------------------|---------------------|-------------------|-----------------|----------------|
| | 2014 | 2013 | 2014 | 2013 |
| Group 1 | ¢ 1,877,182,676,257 | 1,655,886,557,247 | 52,615,109,977 | 39,212,897,080 |
| Group 2 | 1,476,107,472,300 | 1,376,332,944,503 | 192,628,884,188 | 8,851,438,580 |
| | ¢ 3,353,290,148,557 | 3,032,219,501,750 | 245,243,994,165 | 48,064,335,660 |

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

Borrower classification

Analysis of creditworthiness

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

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

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

Analysis of historical payment behavior

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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 | |
|-------------|-------------------------------------|----------------------------|--------------------------|------------------------|-----------------------|
| | | 2014 | 2013 | 2014 | 2013 |
| A1 | 30 days or less | ¢ 2,635,882,550,621 | 2,314,561,103,955 | 235,908,076,162 | 45,613,102,292 |
| A2 | 60 days or less | 31,016,636,031 | 24,955,547,900 | 369,307,028 | 12,947,143 |
| B1 | 60 days or less | 331,137,184,935 | 316,642,539,452 | 4,092,087,569 | 1,300,797,686 |
| B2 | 60 days or less | 12,231,350,139 | 16,665,105,415 | 111,939,538 | - |
| C1 | 90 days or less | 82,120,885,538 | 78,710,075,711 | 2,638,515,447 | 652,666,500 |
| C2 | 90 days or less | 6,964,352,287 | 6,366,304,109 | 14,380,718 | - |
| D | 120 days or less | 107,267,820,444 | 136,569,114,117 | 759,735,195 | 456,289,368 |
| E | More than 120 days or other factors | 146,669,368,562 | 137,749,711,091 | 1,349,952,508 | 28,532,671 |
| | | ¢ <u>3,353,290,148,557</u> | <u>3,032,219,501,750</u> | <u>245,243,994,165</u> | <u>48,064,335,660</u> |

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

Borrower classification

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.

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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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 |

Pursuant to articles 11 bis and 12 of SUGEF Directive 1-05, the calculations of the general allowance and the specific allowance for covered portion for loan operations must consider the provisions of Transition Provision XII of such Directive. Accordingly, as of December 31, 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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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 December 31, 2013, 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:

| 2014 | | | |
|----------|---------------------|-------------------------|---|
| | Allowance booked | Structural allowance | Excess (insufficiency) of allowance |
| Direct | ¢ 49,838,574,099 | (47,843,823,004) | 1,994,751,095 |
| Stand-by | 1,319,693,076 | (958,597,232) | 361,095,844 |
| | ¢ 51,158,267,175 | (48,802,420,236) | 2,355,846,939 |
| 2013 | | | |
| | Allowance booked | Structural allowance | Excess (insufficiency) of allowance |
| Direct | ¢ 45,646,182,874 | (45,696,634,354) | (50,451,480) |
| Stand-by | 138,964,729 | (87,599,208) | 51,365,521 |
| | ¢ 45,785,147,603 | (45,784,233,562) | 914,041 |

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of December 31, 2014, the excess above the minimum allowance required by the current regulations in the amount of ¢2,355,846,939 (2.17%) corresponds to an excess of ¢1,296,492,530 arising from CONASSIF Directive 1058/07 (gradual general allowance) and an excess of ¢1,059,354,409 in the specific allowance.

As of December 31, 2013, the amount of ¢914,041 represents an excess of 0.00200% above the minimum allowance required by the current regulations.

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 December 31, 2014, the balance of the Bank's allowance for loan impairment (direct and stand-by), accrued interest receivable, and other receivables amounts to ¢56,519,626,585 (2013: ¢48,088,374,227).

Credit equivalent

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

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

(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 December 31, 2014, the carrying amount of the allowance for impairment of foreclosed assets and per legal requirements amounts to ¢57,188,491,454 (2013: ¢56,007,912,290).

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

| Sector | | Direct | | Stand-by | |
|---|---|--------------------------|--------------------------|------------------------|-----------------------|
| | | 2014 | 2013 | 2014 | 2013 |
| Trade | ¢ | 347,810,115,210 | 365,363,400,851 | 78,610,006 | 72,257,983 |
| Services | | 667,098,619,477 | 586,402,902,430 | 49,236,960,752 | 47,770,648,543 |
| Financial services | | 109,584,306,917 | 120,718,796,876 | - | - |
| Mining | | 410,960,192 | 45,996,475 | - | - |
| Manufacturing and quarrying | | 157,746,613,567 | 138,911,753,161 | 1,207,078 | 2,856,858 |
| Construction | | 73,188,865,755 | 73,277,612,934 | - | - |
| Agriculture and forestry | | 109,184,998,499 | 95,736,864,852 | 13,357,679 | 11,941,405 |
| Livestock, hunting, and fishing | | 61,070,301,075 | 61,407,703,363 | 3,013,017 | 3,013,017 |
| Electricity, water, sanitation, and other related sectors | | 270,714,594,381 | 191,300,915,455 | - | - |
| Transportation and telecommunications | | 20,381,040,260 | 25,947,755,371 | - | - |
| Housing | | 1,062,948,312,266 | 965,078,909,868 | 11,454,118 | 11,171,728 |
| Personal or consumer | | 351,050,567,454 | 297,356,567,675 | 195,705,059,563 | - |
| Tourism | | 122,100,853,504 | 110,670,322,439 | 194,331,952 | 192,446,126 |
| | ¢ | <u>3,353,290,148,557</u> | <u>3,032,219,501,750</u> | <u>245,243,994,165</u> | <u>48,064,335,660</u> |

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

| | | Direct | | Stand-by | |
|-----------------|---|--------------------------|--------------------------|------------------------|-----------------------|
| | | 2014 | 2013 | 2014 | 2013 |
| Central America | ¢ | <u>3,353,290,148,557</u> | <u>3,032,219,501,750</u> | <u>245,243,994,165</u> | <u>48,064,335,660</u> |

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

| Guarantee | | Direct | | Stand-by | |
|---------------------|---|--------------------------|--------------------------|------------------------|-----------------------|
| | | 2014 | 2013 | 2014 | 2013 |
| Investments | ¢ | 8,349,482,793 | 10,033,185,466 | 18,600,000 | 24,750,500 |
| Mortgage bond | | 10,491,930,530 | 12,357,755,747 | - | - |
| Assignment of loans | | 338,007,471,020 | 305,840,291,027 | - | - |
| Mortgage | | 1,571,558,153,121 | 1,474,219,074,670 | 488,137,360 | 144,488,065 |
| Surety | | 605,188,481,637 | 569,051,089,792 | 88,600,623 | 78,264,292 |
| Trust | | 244,750,948,840 | 219,812,852,312 | 105,152,706 | 448,136,402 |
| Securities | | 1,239,767,595 | 1,775,822,139 | - | - |
| Chattel mortgage | | 130,472,720,262 | 92,626,498,600 | - | 139,413,047 |
| Other | | 443,231,192,759 | 346,502,931,997 | 244,543,503,476 | 47,229,283,354 |
| | ¢ | <u>3,353,290,148,557</u> | <u>3,032,219,501,750</u> | <u>245,243,994,165</u> | <u>48,064,335,660</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 December 31, 2014, 46.87% of the loan portfolio is secured by collateral guarantees (2013: 48.62%).

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

| Loan portfolio concentration | | Direct | | Stand-by | |
|------------------------------|---|--------------------------|--------------------------|------------------------|-----------------------|
| | | 2014 | 2013 | 2014 | 2013 |
| ¢1 to ¢3,000,000 | ¢ | 149,673,830,951 | 145,804,265,448 | 87,874,875,196 | 1,094,139,021 |
| ¢3,000,001 to ¢15,000,000 | | 508,684,374,019 | 484,298,070,159 | 104,957,336,551 | 2,626,226,366 |
| ¢15,000,001 to ¢30,000,000 | | 406,013,413,084 | 385,048,104,483 | 5,266,273,117 | 2,041,016,645 |
| ¢30,000,001 to ¢50,000,000 | | 380,362,613,447 | 349,812,623,592 | 2,029,536,702 | 1,648,000,940 |
| ¢50,000,001 to ¢75,000,000 | | 260,382,514,361 | 218,860,225,025 | 1,731,246,236 | 488,071,319 |
| ¢75,000,001 to ¢100,000,000 | | 114,479,592,322 | 104,934,778,037 | 1,121,603,176 | 639,663,667 |
| ¢100,000,001 to ¢200,000,000 | | 200,308,176,988 | 182,523,206,041 | 4,274,404,998 | 4,785,998,842 |
| More than ¢200,000,000 | | 1,333,385,633,385 | 1,160,938,228,965 | 37,988,718,189 | 34,741,218,860 |
| | ¢ | <u>3,353,290,148,557</u> | <u>3,032,219,501,750</u> | <u>245,243,994,165</u> | <u>48,064,335,660</u> |

As of December 31, 2014 and 2013, the portion of the loan portfolio (direct and stand-by loans) corresponding to economic interest groups amounts to ¢235,469,707,428 and ¢285,154,516,323, respectively.

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

(Continued)

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.

As a result of the monthly increase in the Bank’s loan portfolio more than 90 days in arrears, the consolidated VaR slightly increased by 0.01 percentage points (pp) and located at 2.51%, which is below the target limit. By currency, only the portfolio in colones presents an increase in the VaR as a result of the increase in the loan portfolio more than 90 days in arrears. In U.S. dollars and DU, the decrease arises from the drop in loans in legal collections.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

In general, six of the sectors show monthly decreases in one or both delinquency indicators for the loan portfolio, which contributes to the drop in their VaR. The variations in Agriculture, Livestock, Industry, Housing, Trade, and Tourism range between 0.01 pp and 0.16 pp. Another sector with a decrease in VaR is Transportation, as a result of the decrease in the balance of operations between 46 and 120 days in arrears.

On the contrary, the VaR of Consumer, Services, and Construction increased with respect to the figures presented in November 2014 by 0.24 pp, 0.28 pp, and 0.29 pp, respectively, as a result of an increase in loan operations more than 90 days in arrears (for the first two sectors) and a climb in operations between 31 and 60 days in arrears (for the last sector).

The performance of the VaR of Energy, Financial Services, and Mining is strongly influenced by the concentration of such portfolios, which causes monthly increases and decreases.

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

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

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

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

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

(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.

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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- Investment grade corporate bonds and fixed income securities issued by supranational entities.
- Structured notes issued by investment grade banks, provided that the underlying instrument is not related to commodities, stock indexes, or shares; has a risk rating that is not below the risk rating assigned to Costa Rica; and is available for public offering on a national or international stock exchange, subject to prior approval of General Management.

Local currency:

In local currency, the Brokerage Firm may invest in instruments issued by the Government of Costa Rica, BCCR, commercial State-owned banks, and local and foreign public or private entities authorized by SUGEVAL, 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 December 2014, the accounting records showed investments in colones, investments in instruments issued by local issuers in U.S. dollars (\$CR), and investments in instruments issued by foreign issuers in U.S. dollars (\$USA). The Brokerage Firm holds no investments in DU. By currency, the majority (70%) 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 (71.9%), Banco Popular y de Desarrollo Comunal (12.1%), MUCAP (7.7%), and BCCR (6.8%). These issuers represent 98.5% of the consolidated portfolio.

Geographic area: 99.9% of the portfolio is represented by local issues and 0.1% by international issues.

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 December 31, 2014, the net assets managed by the Pension Fund Manager amount to ¢865,697.88 million, growing year-on-year by ¢120,461.77 million. This implies a growth rate of 16.16% with respect to the portfolio managed as of December 2013 (¢745,236.11 million). These data do not include the Pension Fund Manager's own assets.

The pension fund with the highest relative share is ROP, which represents 78.65% and shows a year-on-year growth of ¢97,123.59 million and a growth rate of 16.64% with respect to December 2013.

As of December 31, 2013, the portfolio of the Pension Fund Manager's own funds included available-for-sale investments in the amount of ¢6,699.29 million, which decreased year-on-year by ¢1,584.58 million to ¢5,114.72 million as of December 31, 2014. This drop is a result of recognition of returns not earned by affiliates related to the tax receivable adjustment process required by the precautionary measure issued by SUPEN in 2009.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The VaR of credit in absolute terms located at ¢28.19 million (0.52% in relative terms). As of December 2013, this indicator amounted to ¢26.27 million (0.38% in relative terms).

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

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

As of December 31, 2014 and 2013, exposure to credit risk is represented by the carrying amounts of cash and due from banks and available-for-sale investments. As of those dates, cash and due from banks corresponds to deposits made in checking accounts in a State-owned bank and investments in financial instruments correspond to investments in the investment fund denominated BN Fon Depósito - Colones No Diversificado (non-diversified – colones), which is secured by term certificates of deposit issued by the Bank.

b) Liquidity risk

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

To support liquidity risk management, the Market Risk Division monitors indicators such as liability structure, daily changes and trends in demand and term account balances, volatility of deposit-taking from the public (duration by liability and currency), VaR of liquidity, 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 December 31, 2014, the terms of the Bank's assets and liabilities denominated in local currency are matched as follows:

| | | Days | | | | | | | Total |
|-------------------------------------|---|----------------|---------------------|-------------------|------------------|------------------|-------------------|-----------------|-------------------|
| | | Past due | Demand | 1 to 30 | 31 to 60 | 61 to 90 | 91 to 180 | 181 to 365 | |
| Cash and due from banks | ¢ | - | 72,999,365,683 | - | - | - | - | - | 72,999,365,683 |
| Minimum cash reserve in BCCR | | - | 393,336,216,822 | - | - | - | - | - | 393,336,216,822 |
| Investments | | - | - | 112,433,220,839 | 17,317,734,751 | 29,241,902,947 | 24,403,938,689 | 73,776,314,244 | 502,559,782,177 |
| Loan portfolio | | 98,006,859,466 | 6,704,614,514 | 32,579,495,429 | 24,516,087,088 | 23,085,763,294 | 77,631,034,875 | 82,953,595,483 | 2,078,464,707,437 |
| Total recovery of assets | ¢ | 98,006,859,466 | 473,040,197,019 | 145,012,716,268 | 41,833,821,839 | 52,327,666,241 | 102,034,973,564 | 156,729,909,727 | 3,047,360,072,119 |
| Obligations with the public | ¢ | - | 1,509,135,482,087 | 304,936,628,367 | 92,825,192,860 | 108,562,675,264 | 257,354,767,998 | 159,976,288,947 | 2,497,310,037,847 |
| Obligations with BCCR | | - | - | - | - | - | - | - | 182,452,312 |
| Obligations with financial entities | | - | 97,828,411,906 | 4,757,721,417 | 120,933,392 | 229,302,557 | 792,516,361 | 216,458,952 | 104,287,736,397 |
| Charges payable | | - | 6,485,711,031 | 5,187,757,903 | 2,397,023,550 | 769,737,496 | 1,635,510,228 | 256,017,218 | 16,895,278,111 |
| Total maturity of liabilities | ¢ | - | 1,613,449,605,024 | 314,882,107,687 | 95,343,149,802 | 109,561,715,317 | 259,782,794,587 | 160,448,765,117 | 2,618,675,504,667 |
| Difference | ¢ | 98,006,859,466 | (1,140,409,408,005) | (169,869,391,419) | (53,509,327,963) | (57,234,049,076) | (157,747,821,023) | (3,718,855,390) | 428,684,567,452 |

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of December 31, 2013, the terms of the Bank's assets and liabilities denominated in local currency are matched as follows:

| | | Days | | | | | | | |
|-------------------------------------|---|-----------------|---------------------|-------------------|------------------|------------------|-------------------|-----------------|-------------------|
| | | Past due | Demand | 1 to 30 | 31 to 60 | 61 to 90 | 91 to 180 | 181 to 365 | More than 365 |
| Cash and due from banks | ¢ | - | 67,457,813,590 | - | - | - | - | - | - |
| Minimum cash reserve in BCCR | | - | 358,096,970,638 | - | - | - | - | - | - |
| Investments | | - | - | 36,458,549,635 | 3,641,459,165 | 32,884,405,867 | 44,467,930,859 | 84,604,872,347 | 406,588,649,091 |
| Loan portfolio | | 109,639,468,492 | 1,557,968,767 | 27,636,500,269 | 31,046,613,856 | 36,997,549,582 | 58,087,887,402 | 65,031,917,319 | 1,536,627,316,691 |
| Total recovery of assets | ¢ | 109,639,468,492 | 427,112,752,995 | 64,095,049,904 | 34,688,073,021 | 69,881,955,449 | 102,555,818,261 | 149,636,789,666 | 1,943,215,965,782 |
| Obligations with the public | ¢ | - | 1,399,726,413,223 | 277,143,699,652 | 100,469,921,543 | 114,970,049,234 | 262,729,601,614 | 122,038,320,173 | 49,985,091,333 |
| Obligations with BCCR | | - | - | 29,700,000,000 | - | - | - | - | 204,277,636 |
| Obligations with financial entities | | - | 90,224,476,059 | 42,889,078,133 | 1,672,583,460 | 609,417,172 | 1,734,412,018 | 660,880,741 | 1,281,096,894 |
| Charges payable | | - | 6,133,554,626 | 7,037,060,947 | 1,316,227,062 | 910,686,376 | 1,076,458,142 | 218,812,972 | 93,562,573 |
| Total maturity of liabilities | ¢ | - | 1,496,084,443,908 | 356,769,838,732 | 103,458,732,065 | 116,490,152,782 | 265,540,471,774 | 122,918,013,886 | 51,564,028,436 |
| Difference | ¢ | 109,639,468,492 | (1,068,971,690,913) | (292,674,788,828) | (68,770,659,044) | (46,608,197,333) | (162,984,653,513) | 26,718,775,780 | 1,891,651,937,346 |

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

| | | Days | | | | | | | Total |
|-------------------------------------|---|----------------|-------------------|------------------|-----------------|-----------------|------------------|-----------------|-------------------|
| | | Past due | Demand | 1 to 30 | 31 to 60 | 61 to 90 | 91 to 180 | 181 to 365 | |
| Cash and due from banks | ¢ | - | 180,427,112,717 | - | - | - | - | - | 180,666,202,391 |
| Minimum cash reserve in BCCR | | - | 182,974,796,088 | - | - | - | - | - | 182,974,796,088 |
| Investments | | - | - | 11,759,232,067 | 33,520,240,520 | 11,873,439,534 | 45,630,198,796 | 149,240,434,366 | 598,293,718,462 |
| Loan portfolio | | 41,739,245,478 | 15,420,979,266 | 21,706,768,889 | 27,184,507,678 | 35,566,067,013 | 77,384,944,376 | 69,730,721,324 | 1,274,825,441,120 |
| Total recovery of assets | ¢ | 41,739,245,478 | 378,822,888,071 | 33,466,000,956 | 60,704,748,198 | 47,439,506,547 | 123,015,143,172 | 218,971,155,690 | 2,236,760,158,061 |
| Obligations with the public | ¢ | - | 763,171,520,120 | 107,023,336,317 | 63,684,238,004 | 51,753,702,044 | 160,878,645,871 | 41,667,110,955 | 1,194,309,842,670 |
| Obligations with financial entities | | - | 188,742,304,649 | 1,270,844,100 | 10,025,561 | 862,466,159 | 238,204,255 | 704,525,976 | 978,705,998,882 |
| Charges payable | | - | 876,099,386 | 596,794,483 | 1,531,542,255 | 201,412,864 | 5,617,516,207 | 144,837,812 | 8,992,679,637 |
| Total maturity of liabilities | ¢ | - | 952,789,924,155 | 108,890,974,900 | 65,225,805,820 | 52,817,581,067 | 166,734,366,333 | 42,516,474,743 | 2,182,008,521,189 |
| Difference | ¢ | 41,739,245,478 | (573,967,036,084) | (75,424,973,944) | (4,521,057,622) | (5,378,074,520) | (43,719,223,161) | 176,454,680,947 | 54,751,636,872 |

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of December 31, 2013, the terms of the Bank's assets and liabilities denominated in foreign currency, expressed in local currency, are matched as follows:

| | | Days | | | | | | | Total |
|-------------------------------------|---|----------------|-------------------|------------------|------------------|------------------|------------------|-----------------|-------------------|
| | | Past due | Demand | 1 to 30 | 31 to 60 | 61 to 90 | 91 to 180 | 181 to 365 | |
| Cash and due from banks | ¢ | - | 252,681,522,955 | - | - | - | - | - | 252,993,021,316 |
| Minimum cash reserve in BCCR | | - | 169,386,771,312 | - | - | - | - | - | 169,386,771,312 |
| Investments | | - | - | 1,597,393,050 | 17,015,936,104 | 17,746,576,433 | 43,268,830,515 | 116,163,687,501 | 387,426,196,976 |
| Loan portfolio | | 42,782,289,644 | 11,686,597,287 | 21,458,542,423 | 20,676,054,058 | 23,693,655,945 | 55,066,189,765 | 39,652,054,090 | 1,165,594,279,371 |
| Total recovery of assets | ¢ | 42,782,289,644 | 433,754,891,554 | 23,055,935,473 | 37,691,990,162 | 41,440,232,378 | 98,335,020,280 | 155,815,741,591 | 1,975,400,268,975 |
| Obligations with the public | ¢ | - | 699,605,023,819 | 93,108,689,386 | 70,659,053,029 | 37,449,015,471 | 137,896,168,708 | 37,397,939,113 | 1,093,297,247,542 |
| Obligations with financial entities | | - | 102,232,621,071 | 73,111,586 | 63,628,650 | 29,458,699,304 | 231,364,308 | 31,291,547,003 | 880,056,255,044 |
| Charges payable | | - | 843,926,746 | 669,886,523 | 1,574,825,145 | 513,081,715 | 5,282,141,176 | 337,590,049 | 9,248,556,286 |
| Total maturity of liabilities | ¢ | - | 802,681,571,636 | 93,851,687,495 | 72,297,506,824 | 67,420,796,490 | 143,409,674,192 | 69,027,076,165 | 1,982,602,058,872 |
| Difference | ¢ | 42,782,289,644 | (368,926,680,082) | (70,795,752,022) | (34,605,516,662) | (25,980,564,112) | (45,074,653,912) | 86,788,665,426 | (7,201,789,897) |

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

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

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

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

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

| Fund | All movements | | Withdrawals> Contributions | | Extreme values | | Cash/Equity | |
|-------|---------------|-------|-------------------------------|-------|----------------|--------|-------------|-------|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| ROP | 0.58% | 0.64% | 0.30% | 0.32% | 0.78% | 0.82% | 1.20% | 1.60% |
| FCL | 0.95% | 1.00% | 2.11% | 2.49% | 15.90% | 18.11% | 2.30% | 3.40% |
| NOT | 0.09% | 0.09% | 0.18% | 0.29% | 0.32% | 0.32% | 1.20% | 0.80% |
| FPC A | 0.77% | 0.79% | 1.20% | 1.21% | 2.96% | 3.02% | 2.30% | 2.90% |
| FPC B | 0.49% | 0.47% | 1.32% | 1.32% | 2.21% | 1.94% | 2.80% | 3.80% |
| FPD A | 1.35% | 1.40% | 3.00% | 3.00% | 7.43% | 7.64% | 4.00% | 4.60% |
| FPD B | 0.76% | 0.73% | 1.22% | 1.17% | 3.27% | 3.17% | 2.70% | 3.10% |

According to the results, for the scenario that considers all movements, the VaR of funds at a 99% confidence level with two standard deviations would not exceed 1%, except for FPD A which VaR at 99%, eliminating two standard deviations, would reach 1.35%. FPD A and FCL show the highest credit risk exposure 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. FPD 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%.

The third scenario shows higher liquidity needs to face extreme conditions; however, as mentioned above, the most extreme situation is the transfer of FCL to ROP, followed by FPD A. As of December 31, 2014, the VaR of such funds locates at 15.90% and 7.43%, respectively.

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

c) Market risks

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

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

As of December 31, 2014, investments in Z Bonds related to the Mortgage Securitization Trust in the amount of ¢222,390,270, equivalent to US\$417,000 (2013: ¢206,419,170, equivalent to US\$417,000) were valued at 74% of their face value (impairment of 26%).

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

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

Market risk management

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

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

(Continued)

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.

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

| | 2014 | 2013 |
|----------------------------|-------|-------|
| VaR (99% confidence level) | 0.29% | 1.65% |

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Fair values

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

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

As of December 31, 2014 and 2013, the carrying amount of the following financial instruments approximates fair value: cash, investments in financial instruments, interest receivable, obligations under repurchase agreements, interest payable, fees and commissions, and other accounts payable. Investments are carried at the fair value determined using the method described above.

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Price risk exposure:

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

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

The Pension Fund Manager manages market risk for each of its funds by applying a VaR model pursuant to Section 41 of IFRS 7. The calculation of market risk indicators are mainly performed using the RiMeR software, which estimates the VaR of the portfolios managed by the Bank and its subsidiaries. VaR is determined by adjusting the portfolio and calculating its duration and price. The total portfolio duration is the average amount-weighted durations. The RiMeR methodology applies daily parameters (modeling rising volatility curves) and efficiently captures market movements. Such parameters are denominated G2++ and are an extension of the Hull-White model.

As of December 31, 2014, the assets managed by the Pension Fund Manager amount to a total of ¢865,697.88 million (2013: ¢745,236.11 million). That amount is distributed in the following funds: ROP, FCL, FPC A, FPC B, FPD A, FPD B, NOT, and OPC. ROP represents 78.65% of the balance managed.

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Interest rate risk

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

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

At the December 2014 close, the interest rate risk indicator in local and foreign currency closed considerably below SUGEF's regulatory maximum limit of 5%, at 1.17% (2013: 0.67%) (due to the change in the duration of equity (from 0.37% to 2.49%)) and 0.08% (2013: 0.06%), 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).

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

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

In general, the Pension Fund Manager sought to maintain the average term to maturity for investments in colones in order to receive the unusually high real returns presented in the past two years.

The consolidated VaR of the Pension Fund Manager's own funds located at an average of 1.32% and remained stable in 2014. The highest VaR was calculated on June 20, 2014 (2.50%).

Starting April 2014, the Pension Fund Manager adopted the RiMeR methodology to calculate the VaR of market risk. Accordingly, the VaR for prior periods should be recalculated.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of December 31, 2014, the interest rate terms for the Bank's assets and liabilities are matched as follows (differences between the recovery of assets and the maturity of liabilities):

| | | 1 to 30 | 31 to 90 | 91 to 180 | 181 to 360 | 361 to 720 | More than 720 | Total |
|---|---|-------------------|-------------------|-------------------|-----------------|-----------------|-------------------|-------------------|
| <i>Local currency (LC)</i> | | | | | | | | |
| Investments | ¢ | 112,368,158,510 | 46,271,308,191 | 24,582,225,986 | 73,213,697,036 | 145,278,836,054 | 72,180,302,851 | 473,894,528,628 |
| Loan portfolio | | 136,412,783,044 | 37,419,815,500 | 70,090,495,000 | 80,753,840,600 | 138,112,228,730 | 1,524,866,110,388 | 1,987,655,273,262 |
| Total recovery of rate-sensitive assets LC (A) | ¢ | 248,780,941,554 | 83,691,123,691 | 94,672,720,986 | 153,967,537,636 | 283,391,064,784 | 1,597,046,413,239 | 2,461,549,801,890 |
| Obligations with the public | ¢ | 315,270,421,343 | 204,487,238,335 | 259,377,830,988 | 160,661,115,417 | 17,451,119,458 | 48,828,850,902 | 1,006,076,576,443 |
| Obligations with BCCR | | 325,365 | 10,836,075 | 61,667 | 11,023,054 | 22,372,764 | 138,128,004 | 182,746,929 |
| Obligations with financial entities LC | ¢ | 126,424,605 | 84,306,047 | 128,352,335 | 308,537,037 | 559,824,037 | 252,473,195 | 1,459,917,256 |
| Total maturity of rate-sensitive liabilities LC (B) | ¢ | 315,397,171,313 | 204,582,380,457 | 259,506,244,990 | 160,980,675,508 | 18,033,316,259 | 49,219,452,101 | 1,007,719,240,628 |
| LC difference, recovery of assets less maturity of liabilities (A - B) | ¢ | (66,616,229,759) | (120,891,256,766) | (164,833,524,004) | (7,013,137,872) | 265,357,748,525 | 1,547,826,961,138 | 1,453,830,561,262 |
| <i>Foreign currency (FC)</i> | | | | | | | | |
| Investments | ¢ | 11,759,230,421 | 45,393,680,360 | 45,232,012,496 | 148,634,929,148 | 131,251,272,248 | 205,342,124,057 | 587,613,248,730 |
| Loan portfolio | | 33,739,469,567 | 52,348,099,340 | 63,075,545,785 | 56,361,052,853 | 88,478,637,173 | 939,555,491,406 | 1,233,558,296,124 |
| Total recovery of rate-sensitive assets FC (C) | ¢ | 45,498,699,988 | 97,741,779,700 | 108,307,558,281 | 204,995,982,001 | 219,729,909,421 | 1,144,897,615,463 | 1,821,171,544,854 |
| Obligations with the public | ¢ | 109,055,936,813 | 116,921,165,626 | 166,576,951,346 | 43,137,987,391 | 2,467,859,875 | 541,373,970,546 | 979,533,871,597 |
| Obligations with entities | | 1,649,485,128 | 1,300,258,178 | 1,466,509,811 | 2,973,626,469 | 57,979,957,090 | 186,800,599,927 | 252,170,436,603 |
| Total maturity of rate-sensitive liabilities FC (D) | ¢ | 110,705,421,941 | 118,221,423,804 | 168,043,461,157 | 46,111,613,860 | 60,447,816,965 | 728,174,570,473 | 1,231,704,308,200 |
| FC difference, recovery of assets less maturity of liabilities (C - D) | ¢ | (65,206,721,953) | (20,479,644,104) | (59,735,902,876) | 158,884,368,141 | 159,282,092,456 | 416,723,044,990 | 589,467,236,654 |
| Total recovery of rate-sensitive assets 1/ (A + C) | ¢ | 294,279,641,542 | 181,432,903,391 | 202,980,279,267 | 358,963,519,637 | 503,120,974,205 | 2,741,944,028,702 | 4,282,721,346,744 |
| Total recovery of rate-sensitive liabilities 2/ (B + D) | ¢ | 426,102,593,254 | 322,803,804,261 | 427,549,706,147 | 207,092,289,368 | 78,481,133,224 | 777,394,022,574 | 2,239,423,548,828 |
| LC + FC difference, recovery of assets less maturity of liabilities (item 1 – item 2) | ¢ | (131,822,951,712) | (141,370,900,870) | (224,569,426,880) | 151,871,230,269 | 424,639,840,981 | 1,964,550,006,128 | 2,043,297,797,916 |

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of December 31, 2013, the interest rate terms for the Bank's assets and liabilities are matched as follows (differences between the recovery of assets and the maturity of liabilities):

| | | 1 to 30 | 31 to 90 | 91 to 180 | 181 to 360 | 361 to 720 | More than 720 | Total |
|---|---|-------------------|-------------------|-------------------|------------------|-----------------|-------------------|-------------------|
| <i>Local currency (LC)</i> | | | | | | | | |
| Investments | ¢ | 32,416,476,261 | 32,061,968,550 | 51,715,143,518 | 85,767,342,190 | 228,690,088,467 | 152,669,711,633 | 583,320,730,619 |
| Loan portfolio | | 1,570,076,556,319 | 106,607,125,325 | 10,364,128,367 | 4,316,622,457 | 8,468,719,934 | 57,556,122,600 | 1,757,389,275,002 |
| Total recovery of rate-sensitive assets LC (A) | ¢ | 1,602,493,032,580 | 138,669,093,875 | 62,079,271,885 | 90,083,964,647 | 237,158,808,401 | 210,225,834,233 | 2,340,710,005,621 |
| Obligations with the public | ¢ | 288,177,504,386 | 219,948,473,962 | 265,472,835,986 | 122,568,343,843 | 31,779,011,562 | 21,371,798,872 | 949,317,968,611 |
| Obligations with BCCR | | 29,707,042,680 | 10,836,000 | 61,364 | 11,023,784 | 22,372,769 | 159,953,124 | 29,911,289,721 |
| Obligations with financial entities LC | | 39,089,035,790 | 84,388,363 | 128,477,659 | 308,838,294 | 560,257,009 | 751,589,260 | 40,922,586,375 |
| Total maturity of rate-sensitive liabilities LC (B) | ¢ | 356,973,582,856 | 220,043,698,325 | 265,601,375,009 | 122,888,205,921 | 32,361,641,340 | 22,283,341,256 | 1,020,151,844,707 |
| LC difference, recovery of assets less maturity of liabilities (A - B) | ¢ | 1,245,519,449,724 | (81,374,604,450) | (203,522,103,124) | (32,804,241,274) | 204,797,167,061 | 187,942,492,977 | 1,320,558,160,914 |
| <i>Foreign currency (FC)</i> | | | | | | | | |
| Investments | ¢ | 1,366,283,658 | 34,169,129,987 | 43,313,771,089 | 116,908,422,177 | 71,685,009,518 | 119,983,405,996 | 387,426,022,425 |
| Loan portfolio | | 979,223,094,211 | 32,088,021,889 | 20,490,269,969 | 3,397,496,229 | 6,565,552,091 | 80,657,489,489 | 1,122,421,923,878 |
| Total recovery of rate-sensitive assets FC (C) | ¢ | 980,589,377,869 | 66,257,151,876 | 63,804,041,058 | 120,305,918,406 | 78,250,561,609 | 200,640,895,485 | 1,509,847,946,303 |
| Obligations with the public | ¢ | 93,979,628,971 | 111,040,046,035 | 144,207,791,129 | 37,824,001,478 | 3,365,925,247 | 484,466,951,916 | 874,884,344,776 |
| Obligations with entities | | 2,081,454,307 | 28,432,663,249 | 1,351,389,631 | 33,942,091,279 | 5,704,278,010 | 226,839,559,783 | 298,351,436,259 |
| Total maturity of rate-sensitive liabilities FC (D) | ¢ | 96,061,083,278 | 139,472,709,284 | 145,559,180,760 | 71,766,092,757 | 9,070,203,257 | 711,306,511,699 | 1,173,235,781,035 |
| FC difference, recovery of assets less maturity of liabilities (C - D) | ¢ | 884,528,294,591 | (73,215,557,408) | (81,755,139,702) | 48,539,825,649 | 69,180,358,352 | (510,665,616,214) | 336,612,165,268 |
| Total recovery of rate-sensitive assets 1/ (A + C) | ¢ | 2,583,082,410,449 | 204,926,245,751 | 125,883,312,943 | 210,389,883,053 | 315,409,370,010 | 410,866,729,718 | 3,850,557,951,924 |
| Total recovery of rate-sensitive liabilities 2/ (B + D) | ¢ | 453,034,666,134 | 359,516,407,609 | 411,160,555,769 | 194,654,298,678 | 41,431,844,597 | 733,589,852,955 | 2,193,387,625,742 |
| LC + FC difference, recovery of assets less maturity of liabilities (item 1 - item 2) | ¢ | 2,130,047,744,315 | (154,590,161,858) | (285,277,242,826) | 15,735,584,375 | 273,977,525,413 | (322,723,123,237) | 1,657,170,326,182 |

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Currency risk

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

In October 2006, BCCR introduced an adjustable band foreign exchange system. For several months thereafter, the exchange rate remained consistently at the floor of that band. However, when the band experienced significant adjustments starting May 2009, the Bank's Asset and Liability Committee (which has been replaced by the Bank's Corporate Risk Committee) decided to take a neutral foreign currency position with the purpose of protecting the Bank from any changes in the exchange rate. The Bank's foreign currency position is monitored daily by the Market Risk Division. Additionally, the Bank calculates the SUGEF currency risk indicator on a monthly basis. As of December 2014, that indicator was quantified at 0.18%, which is slightly above the 0.10% calculated for December 2013 and considerably below the regulatory maximum limit of 5%.

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

Investments in Europe

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

Investments in euros - Europe

- The investment portfolio denominated in euros amounts to €41 million as of December 2014 and represents 3% 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 Holland (29%), France (21%), Germany (19%), and Belgium (13%).

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- Most issuers comprising this portfolio are sovereign issuers with very high credit ratings.
- VaR of fair value was 0.03% and duration locates at 1 year.
- The entire portfolio bears interest at a fixed rate. Of the total portfolio, 35% matures between 1 and 2 years, while 7% matures in more than 3 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 December 2014, the total balance of the portfolio denominated in international dollars is \$463 million. Of that amount, 36% (equivalent to \$165 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 27%.
- 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, Holland, England, etc.

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

| | | U.S. dollars | |
|---|------|---------------|---------------|
| | | 2014 | 2013 |
| Assets: | | | |
| Cash and due from banks | US\$ | 664,298,987 | 825,976,850 |
| Investments in financial instruments | | 1,069,195,816 | 725,261,823 |
| Loan portfolio | | 2,356,742,015 | 2,329,421,798 |
| Accounts and accrued interest receivable | | 570,425 | 403,776 |
| Investments in other companies | | 93,388,754 | 83,446,800 |
| Other assets | | 5,983,299 | 5,642,986 |
| Total assets | US\$ | 4,190,179,296 | 3,970,154,033 |
| Liabilities: | | | |
| Obligations with the public | US\$ | 2,182,324,953 | 2,121,208,273 |
| Obligations with entities | | 1,838,659,376 | 1,781,457,372 |
| Accounts payable and provisions | | 11,140,467 | 32,040,093 |
| Other liabilities | | 26,602,531 | 27,140,426 |
| Subordinated obligations | | 131,927,532 | - |
| Total liabilities | US\$ | 4,190,654,859 | 3,961,846,164 |
| (Deficit) excess of assets over liabilities in U.S. dollars | US\$ | (475,563) | 8,307,869 |

| | | Euros | |
|--|---|------------|------------|
| | | 2014 | 2013 |
| Assets: | | | |
| Cash and due from banks | € | 14,428,342 | 19,795,775 |
| Investments in financial instruments | | 43,180,185 | 41,546,795 |
| Accounts and accrued interest receivable | | 20 | 67 |
| Other assets | | 20 | - |
| Total assets | € | 57,608,567 | 61,342,637 |
| Liabilities: | | | |
| Obligations with the public | € | 50,525,715 | 52,700,818 |
| Obligations with entities | | 7,057,943 | 6,980,270 |
| Accounts payable and provisions | | 39,803 | 57,938 |
| Other liabilities | | 101,829 | 924,438 |
| Total liabilities | € | 57,725,290 | 60,663,464 |
| (Deficit) excess of assets over liabilities in euros | € | (116,723) | 679,173 |

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

| | | DU | |
|---|----|------------|------------|
| | | 2014 | 2013 |
| Assets: | | | |
| Investments in financial instruments | DU | 39,220,808 | 39,089,427 |
| Loan portfolio | | 41,956,600 | 52,948,336 |
| Total assets | DU | 81,177,408 | 92,037,763 |
| Liabilities: | | | |
| Accounts payable and provisions | DU | 1,046,672 | 1,137,285 |
| Other liabilities | | 8,708 | 9,771 |
| Total liabilities | DU | 1,055,380 | 1,147,056 |
| Excess of assets over liabilities in DU | DU | 80,122,028 | 90,890,707 |

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

As of December 31, 2014 and 2013, the financial statements show a net foreign exchange gain of ¢345,358,530 and ¢2,957,518,326, respectively.

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

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

As of December 31, 2014, 2.32% of the Pension Fund Manager's assets of own funds is represented by investments in U.S. dollars. Accordingly, the Pension Fund Manager's exposure to currency risk is still relatively 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, the share value, and accordingly, the portfolio yield.

d) Operational risk

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

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

That policy is implemented through a comprehensive model with roles and responsibilities assigned to each level:

- Board of Directors: Approve and provide a general oversight of the operational risk management framework.
- Corporate Risk Committee: Analyze, validate, and authorize policies, best practices, limits, and strategies.
- General Risk Management: Implement the strategy.
- Operational Risk Management: Implement the strategy in coordination with the respective processes and areas.
- Monitoring and follow-up groups: Perform independent evaluations to determine the effectiveness of the management framework.

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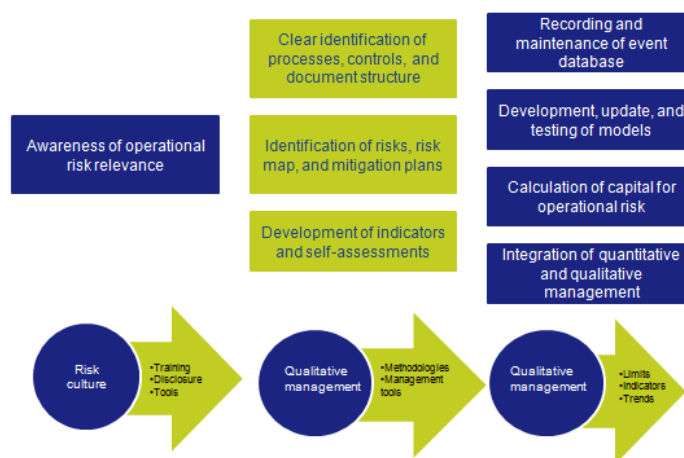
BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- Process owners: Implement and follow up on mitigating action.
- Process guardians: Update and adjust the process to the operating reality.
- Risk liaisons: Liaise with the Operational Risk Management to identify and assess risks, report events, etc.
- Heads of Business Areas and Support Units: Establish mitigating action and controls necessary to reduce operational risk.
- Officers: Apply procedures in job positions and support superior officers to mitigate risk.

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:



(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Upper management has defined operational risk limits that specifically measure the performance of risk management and total operating losses. These measurements are performed and reported to the upper levels on a monthly basis.

For legal risk, the Bank applies a model to estimate the EL and VaR of legal actions, considering the subject matter of the cases when calculating the likelihood of loss and a continuous model for the duration of the legal actions. Such model provides a direct estimate of the duration of each legal action in the corresponding court and the possible outcomes. The results thereof are used to address possible losses from unfavorable rulings.

For IT risk, the critical systems supporting the business are identified. System availability is measured on a monthly basis, while risk maps are updated annually based on a methodology established for such purposes. Events affecting normal operations are identified, classified, and reported to the Bank's upper management through a periodic information system that determines risk exposure.

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

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

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

- Identification: Tools have been developed to accurately identify the different risks associated with each of the Investment Fund Manager's fundamental processes. Each process was analyzed together with any related processes to formulate a risk portfolio for the entire company. As a first step, the risks included in that portfolio were grouped by type and by class.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

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

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

- identification of risk factors;
- mapping of the Brokerage Firm's operational risks;

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

Fair value of financial instruments

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

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

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

- appropriate segregation of duties, including the independent authorization of transactions;
- requirements for effective reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- communication and application of conduct guidelines or ethical standards;
- monitoring of risks using measurement tools;
- reporting of operational losses and proposed remedial actions;
- comprehensive planning for resuming activities, including plans to restore key operations and internal and external support to ensure services are not interrupted;
- personnel training; and
- development of risk mitigation activities, including security policies.

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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.

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 December 31, 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 (see note 16, Litigation). The Pension Fund Manager is a defendant in 4 lawsuits (1 in U.S. dollars (for which an unfavorable ruling was issued in the first instance), 1 in colones, and 2 for which the amount of the obligations cannot be estimated).

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).

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

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

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

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

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

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 December 31, 2014 and 2013, the Bank's risk rating is at a normal level since its capital adequacy ratio is above the required 10% ratio.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(44) Contingencies

As of December 31, 2014 and 2013, 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 | |
|-------------------------|-----------------|------|-----------------|------------------------|-----------------|
| | 2014 | 2013 | | 2014 | 2013 |
| Bank | 227 | 196 | First instance | ¢ 233,079,736,602 | 240,790,461,699 |
| | 14 | 10 | Second instance | 10,380,221,514 | 293,905,368 |
| | 6 | 6 | Appeal | 6,750,760,000 | 745,758,000 |
| | 247 | 212 | Subtotal | ¢ 250,210,718,116 | 241,830,125,067 |
| Pension Fund Manager | 3 | 0 | First instance | 265,110,324 | - |
| | 1 | 1 | Second instance | 10,666,200 | 9,900,200 |
| Investment Fund Manager | 0 | 1 | Second instance | ¢ 275,776,524 | 223,540 |
| | 251 | 214 | Total (note 20) | ¢ 250,486,494,640 | 241,840,248,807 |

As of December 31, 2014 and 2013, the legal actions filed against the Bank and its subsidiaries are booked in memoranda accounts under “Other contingencies - pending litigation and lawsuits”.

As of December 31, 2014 and 2013, the Bank is a claimant in ordinary, labor, and criminal lawsuits, which outcome is uncertain and are not booked in the accounting records, as follows:

| Number of cases | | Phase | Total estimated amount | |
|-----------------|------|-----------------|------------------------|---------------|
| 2014 | 2013 | | 2014 | 2013 |
| 51 | 55 | First instance | ¢ 4,612,380,295 | 5,314,227,782 |
| 1 | 1 | Second instance | 150,000,000 | 150,000,000 |
| 52 | 56 | Total | ¢ 4,762,380,295 | 5,464,227,782 |

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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.

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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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”.

(45) Statutory allocations made to the Development Financing Fund (FOFIDE)

The information included in this note is supplemental and based on unaudited figures.

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

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

SUGEF Directive 31-04, “*Regulations on the Financial Reporting of Financial Entities, Groups, and Conglomerates*”, requires that banks that manage FOFIDEs include a balance sheet and an income statement for such funds in the notes to their financial statements.

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of December 31, the unaudited financial information is as follows:

| Development Financing Fund | | |
|--|------------------|----------------|
| Balance Sheet | | |
| As of December 31, 2014 | | |
| <i>(With corresponding figures for 2013)</i> | | |
| <u>Assets</u> | 2014 | 2013 |
| Loan portfolio | ¢ 10,575,000,733 | 11,126,041,057 |
| Current | 9,490,358,171 | 10,153,726,594 |
| Past due | 915,838,844 | 764,464,239 |
| Legal collections | 322,223,541 | 364,436,631 |
| Accrued interest receivable | 92,483,722 | 76,072,980 |
| (Allowance for loan impairment) | (245,903,545) | (232,659,387) |
| Accounts receivable | 4,407,681 | 2,268,972 |
| Other assets | 5,061,925,191 | 1,921,851,377 |
| Total assets | ¢ 15,641,333,605 | 13,050,161,406 |
| <u>Liabilities</u> | | |
| Accounts payable and provisions | ¢ 18,888,646 | 17,625,487 |
| Other liabilities | 32,573,055 | 25,453,933 |
| Total liabilities | ¢ 51,461,701 | 43,079,420 |
| <u>Equity</u> | | |
| Equity of FOFIDE (note 19-a) | ¢ 14,548,173,826 | 12,243,803,201 |
| Income for the year | 1,041,698,078 | 763,278,785 |
| Total equity | ¢ 15,589,871,904 | 13,007,081,986 |
| Total liabilities and equity | ¢ 15,641,333,605 | 13,050,161,406 |
| Other debit memoranda accounts | ¢ 482,312,032 | 451,288,339 |

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Development Financing Fund

Income Statement

For the year ended December 31, 2014

(With corresponding figures for 2013)

| | 2014 | 2013 |
|---|-----------------|---------------|
| Finance income | ¢ 1,251,156,968 | 1,172,332,197 |
| Gross finance income | 1,251,156,968 | 1,172,332,197 |
| Income from recovery of assets and decrease in provisions | 97,413,912 | 22,483,583 |
| Expenses for allowance for impairment of assets | (135,245,007) | (277,547,767) |
| Net finance income | 1,213,325,873 | 917,268,013 |
| Other operating income | 97,546 | 166,267 |
| Other operating expenses | (17,652,397) | (22,190,408) |
| Gross operating income | 1,195,771,022 | 895,243,872 |
| Administrative expenses | (154,072,944) | (131,965,087) |
| Income for the year | ¢ 1,041,698,078 | 763,278,785 |

a. Loan portfolio

i. Loan portfolio by sector

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

| | 2014 | 2013 |
|---------------------------------------|------------------|----------------|
| Trade | ¢ 3,460,055,649 | 4,031,029,311 |
| Services | 2,911,587,425 | 3,000,432,443 |
| Manufacturing and quarrying | 571,447,969 | 674,969,752 |
| Agriculture and forestry | 1,337,742,393 | 1,512,266,257 |
| Livestock, hunting, and fishing | 1,276,683,965 | 1,311,571,219 |
| Transportation and telecommunications | 979,507,009 | 541,944,309 |
| Tourism | 191,396,146 | 210,414,173 |
| Total direct loans | 10,728,420,556 | 11,282,627,464 |
| Accrued interest receivable | 92,483,722 | 76,072,980 |
| Allowance for loan impairment | (245,903,545) | (232,659,387) |
| Total | ¢ 10,575,000,733 | 11,126,041,057 |

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

| <u>Currency</u> | <u>2014</u> | | <u>2013</u> | |
|-----------------|-----------------|----------------|-----------------|----------------|
| | <u>Rates</u> | <u>Average</u> | <u>Rates</u> | <u>Average</u> |
| Colones | 8.05% to 16.53% | 11.31% | 8.01% to 14.05% | 10.83% |

ii. Loan portfolio by arrears

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

| | <u>2014</u> | <u>2013</u> |
|-------------------------------|-------------------------|-----------------------|
| Current | ¢ 9,491,727,453 | 10,161,129,245 |
| 1 to 30 days | 269,624,377 | 221,586,871 |
| 31 to 60 days | 480,806,251 | 399,267,656 |
| 61 to 90 days | 167,628,466 | 156,957,697 |
| 91 to 120 days | 51,464,610 | 86,872,195 |
| 121 to 180 days | 85,846,089 | 108,086,323 |
| More than 180 days | 181,323,310 | 148,727,477 |
| Total | ¢ 10,728,420,556 | 11,282,627,464 |
| Accrued interest receivable | 92,483,722 | 76,072,980 |
| Allowance for loan impairment | (245,903,545) | (232,659,387) |
| Total | ¢ <u>10,575,000,733</u> | <u>11,126,041,057</u> |

iii. Loan portfolio by origin

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

| | <u>2014</u> | <u>2013</u> |
|-------------------------------|-------------------------|-----------------------|
| Loans originated by the Bank | ¢ 10,728,420,556 | 11,282,627,464 |
| Total direct loans | ¢ 10,728,420,556 | 11,282,627,464 |
| Accrued interest receivable | 92,483,722 | 76,072,980 |
| Allowance for loan impairment | (245,903,545) | (232,659,387) |
| Total | ¢ <u>10,575,000,733</u> | <u>11,126,041,057</u> |

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

iv. Past due loans

As of December 31, past due loans, including loans in accrual status (for which interest is recognized on a cash basis) and unearned interest on those loans, are as follows:

| | | 2014 | 2013 |
|--|---|-------------|-------------|
| Past due loans in accrual status: 126 loans (2013: 115 loans) | ¢ | 915,838,844 | 764,427,742 |
| Loans in legal collections: 60 loans, 3.00% of portfolio (2013: 57 loans, 3.23% of portfolio) | ¢ | 322,223,541 | 364,436,631 |
| Total unearned interest | ¢ | 3,686,992 | 5,454,995 |

In 2014, the Bank increased the “Finance income on non-accrual loans” account by ¢3,686,992 (2013: ¢5,454,995), as a result of the increase in loans receivable over 180 days past due in the loan portfolio generated by the statutory allocations to FOFIDE.

As of December 31, 2014, restructured loans amount to a total of ¢89,902,986 (2013: ¢80,827,163).

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

v. Accrued interest receivable on loan portfolio

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

| | | 2014 | 2013 |
|-------------------|---|------------|------------|
| Current | ¢ | 52,580,311 | 38,855,364 |
| Past due | | 13,786,824 | 10,489,838 |
| Legal collections | | 26,116,587 | 26,727,778 |
| | ¢ | 92,483,722 | 76,072,980 |

b. Risk management

Credit risk

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

| | Note | Direct | |
|--|------|-----------------------|-----------------------|
| | | 2014 | 2013 |
| Loan portfolio | | | |
| Principal | 45-a | ¢ 10,728,420,556 | 11,282,627,464 |
| Accounts and accrued interest receivable | | 92,483,722 | 76,072,980 |
| Carrying amount, gross | | 10,820,904,278 | 11,358,700,444 |
| Allowance for loan impairment (accounting records) | | (245,903,545) | (232,659,387) |
| Carrying amount, net | ¢ | <u>10,575,000,733</u> | <u>11,126,041,057</u> |
| Loan portfolio | | | |
| Total balances: | | | |
| A1 | ¢ | 8,697,226,342 | 9,728,925,067 |
| A2 | | 205,763,722 | 131,849,886 |
| B1 | | 679,492,660 | 453,786,224 |
| B2 | | 66,015,183 | 25,216,628 |
| C1 | | 257,399,931 | 216,038,428 |
| C2 | | 16,944,096 | 52,910,483 |
| D | | 88,471,875 | 246,183,368 |
| E | | 809,590,469 | 503,790,360 |
| | | 10,820,904,278 | 11,358,700,444 |
| Structural allowance (subledger – database) | | (257,650,167) | (228,772,689) |
| Carrying amount, net | ¢ | <u>10,563,254,111</u> | <u>11,129,927,755</u> |

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

| | Direct | |
|---|-------------------------|----------------------|
| | 2014 | 2013 |
| Individually assessed loans with allowance: | | |
| A1 | ¢ 8,697,226,342 | 5,146,964,110 |
| A2 | 205,763,722 | 78,163,570 |
| B1 | 679,492,660 | 220,324,644 |
| B2 | 66,015,183 | 13,725,873 |
| C1 | 257,399,931 | 125,899,382 |
| C2 | 16,944,096 | 47,726,567 |
| D | 88,471,875 | 221,588,739 |
| E | 809,590,469 | 396,110,724 |
| | <u>10,820,904,278</u> | <u>6,250,503,609</u> |
| Structural allowance (subledger – database) | (257,650,167) | (228,772,689) |
| Carrying amount, net | ¢ <u>10,563,254,111</u> | <u>6,021,730,920</u> |
| Past due loans without allowance: | | |
| A1 | ¢ - | 43,743,732 |
| B1 | - | 171,048,473 |
| B2 | - | 11,490,755 |
| C1 | - | 27,692,894 |
| C2 | - | 5,183,916 |
| D | - | 3,338,680 |
| E | - | 47,584,140 |
| Carrying amount | ¢ <u>-</u> | <u>310,082,590</u> |

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

| | | Direct | |
|--|--------|----------------|----------------|
| | | 2014 | 2013 |
| Aging of loan portfolio | | | |
| 1 – 30 days | ¢ | - | |
| 31 – 60 days | | - | 45,902,538 |
| 61 – 90 days | | - | 183,981,956 |
| 91 – 180 days | | - | 30,917,087 |
| More than 180 days | | - | 7,751,886 |
| Carrying amount | ¢ | - | 41,529,123 |
| Current loans without allowance: | | | |
| A1 | ¢ | - | 4,538,217,225 |
| A2 | | - | 53,686,316 |
| B1 | | - | 62,413,107 |
| C1 | | - | 62,446,152 |
| D | | - | 21,255,949 |
| E | | - | 60,095,496 |
| Carrying amount | ¢ | - | 4,798,114,245 |
| Carrying amount, gross | | 10,820,904,278 | 11,358,700,444 |
| Allowance for loan impairment (database) | | (257,650,167) | (228,772,689) |
| (Excess) insufficiency of allowance over structural allowance | | 11,746,622 | (3,886,698) |
| Carrying amount, net | 45-a ¢ | 10,575,000,733 | 11,126,041,057 |
| Restructured loans | 45-a ¢ | 89,902,986 | 80,827,163 |

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

| | | 2014 | |
|----|---|--------------------|----------------|
| | | Loans to customers | |
| | | Gross | Net |
| A1 | ¢ | 8,697,226,342 | 8,702,015,184 |
| A2 | | 205,763,722 | 205,599,111 |
| B1 | | 679,492,660 | 676,187,936 |
| B2 | | 66,015,183 | 64,559,074 |
| C1 | | 257,399,931 | 241,145,230 |
| C2 | | 16,944,096 | 11,840,107 |
| D | | 88,471,875 | 73,571,370 |
| E | | 809,590,469 | 600,082,721 |
| | ¢ | 10,820,904,278 | 10,575,000,733 |

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

| | 2013 | |
|----|-------------------------|-----------------------|
| | Loans to customers | |
| | Gross | Net |
| A1 | ¢ 9,728,925,067 | 9,710,081,074 |
| A2 | 131,849,886 | 130,886,409 |
| B1 | 453,786,224 | 448,704,089 |
| B2 | 25,216,628 | 24,462,949 |
| C1 | 216,038,428 | 200,228,913 |
| C2 | 52,910,483 | 47,422,199 |
| D | 246,183,368 | 202,983,932 |
| E | 503,790,360 | 361,271,492 |
| | ¢ <u>11,358,700,444</u> | <u>11,126,041,057</u> |

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 FOFIDE. Accordingly, no allowance is established.

| | 2014 | 2013 |
|--------------------|------------|-------------------|
| More than 180 days | ¢ <u>-</u> | <u>41,529,123</u> |

Restructured loans:

As of December 31, restructured loans are as follows:

| | 2014 | 2013 |
|--------------------|---------------------|-------------------|
| Restructured loans | ¢ <u>89,902,986</u> | <u>80,827,163</u> |

Risk ratings

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

| | 2014 | 2013 |
|--------------------------|-------------------------|-----------------------|
| Borrower classification: | | |
| Group 1 | ¢ 590,559,092 | 400,768,597 |
| Group 2 | 10,230,345,186 | 10,957,931,847 |
| | ¢ <u>10,820,904,278</u> | <u>11,358,700,444</u> |

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Borrower classification

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

| <u>Risk rating</u> | <u>Arrears</u> | | <u>2014</u> | <u>2013</u> |
|--------------------|-----------------------------|---|-----------------------|-----------------------|
| A1 | 30 days or less | ¢ | 8,697,226,342 | 9,728,925,067 |
| A2 | 60 days or less | | 205,763,722 | 131,849,886 |
| B1 | 60 days or less | | 679,492,660 | 453,786,224 |
| B2 | 60 days or less | | 66,015,183 | 25,216,628 |
| C1 | 90 days or less | | 257,399,931 | 216,038,428 |
| C2 | 90 days or less | | 16,944,096 | 52,910,483 |
| D | 120 days or less | | 88,471,875 | 246,183,368 |
| | More than 120 days or other | | | |
| E | factors | | 809,590,469 | 503,790,360 |
| | | ¢ | <u>10,820,904,278</u> | <u>11,358,700,444</u> |

Loan portfolio by sector

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

| <u>Sector</u> | | <u>2014</u> | <u>2013</u> |
|---------------------------------------|---|-----------------------|-----------------------|
| Agriculture and forestry | ¢ | 1,371,820,562 | 1,537,563,016 |
| Livestock, hunting, and fishing | | 1,299,828,328 | 1,328,504,617 |
| Manufacturing and quarrying | | 573,719,374 | 677,283,038 |
| Trade | | 3,476,585,915 | 4,053,706,528 |
| Transportation and telecommunications | | 985,155,305 | 543,056,321 |
| Services | | 2,921,118,286 | 3,006,481,037 |
| Tourism | | 192,676,508 | 212,105,887 |
| | ¢ | <u>10,820,904,278</u> | <u>11,358,700,444</u> |

Loan portfolio by geographic area

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

| | | <u>2014</u> | <u>2013</u> |
|-----------------|---|-----------------------|-----------------------|
| Central America | ¢ | <u>10,820,904,278</u> | <u>11,358,700,444</u> |

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Loan portfolio by type of guarantee

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

| Guarantee | 2014 | 2013 |
|---------------------|-----------------------|-----------------------|
| Back to back | 9,597,277 | 15,250,040 |
| Assignment of loans | 74,019,097 | 30,646,209 |
| Mortgage | 6,301,860,250 | 6,813,816,656 |
| Surety | 3,016,699,358 | 3,530,316,955 |
| Trust | 93,640,088 | 142,965,221 |
| Securities | 62,982,184 | 102,882,910 |
| Chattel mortgage | 1,198,893,905 | 721,553,882 |
| Other | 63,212,119 | 1,268,571 |
| | <u>10,820,904,278</u> | <u>11,358,700,444</u> |

Loan portfolio by individual borrower or economic interest group

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

| Loan portfolio concentration | 2014 | 2013 |
|------------------------------|-----------------------|-----------------------|
| ¢1 to ¢3,000,000 | 1,312,019,253 | 1,583,418,607 |
| ¢3,000,001 to ¢15,000,000 | 4,750,090,753 | 4,945,443,833 |
| ¢15,000,001 to ¢30,000,000 | 2,448,309,181 | 2,353,894,057 |
| ¢30,000,001 to ¢50,000,000 | 1,615,025,708 | 1,557,525,836 |
| ¢50,000,001 to ¢75,000,000 | 695,459,383 | 918,418,111 |
| | <u>10,820,904,278</u> | <u>11,358,700,444</u> |

(46) Statutory allocations to the Development Credit Fund (FCD)

The information included in this note is supplemental and based on unaudited figures.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

- i. Private banks must maintain in the Bank and Banco de Costa Rica a balance of at least seventeen percent (17%) of total deposits of 30 days or less, after deducting the corresponding minimum cash reserve, in both local and foreign currency, for loans to State-owned banks. State-owned banks will pay those private entities an interest rate equivalent to fifty percent (50%) of the base deposit rate for the aforementioned funds.
- ii. Private banks must open at least four agencies or branches distributed throughout the Chorotega, Central Pacific, Brunca, Atlantic Huetar, and Northern Huetar regions for purposes of providing basic banking services (i.e. deposit-taking and lending). Additionally, private banks must maintain a balance of at least ten percent (10%) of total deposits of 30 days or less, after deducting the corresponding minimum cash reserve, in both local and foreign currency, for loans to be used in development programs selected through an executive order. The loans will bear interest at a rate not to exceed the base deposit rate calculated by BCCR for placements in colones and at the 1-month LIBOR rate for placements in foreign currency.

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of December 31, the unaudited financial information is as follows:

Development Credit Fund
Balance Sheet
As of December 31, 2014
(With corresponding figures for 2013)

| <u>Assets</u> | 2014 | 2013 |
|--------------------------------------|-------------------|-----------------|
| Investments in financial instruments | ¢ 155,950,495,597 | 126,461,520,459 |
| Loan portfolio | 51,382,941 | - |
| Current | 51,326,758 | - |
| Accrued interest receivable | 56,183 | - |
| Accounts receivable | 1,698,791 | 3,355,094 |
| Other assets | 1,910,349,707 | 3,667,654,208 |
| Total assets | ¢ 157,913,927,036 | 130,132,529,761 |
| <u>Liabilities</u> | | |
| Obligations with entities | ¢ 156,295,635,921 | 129,381,229,651 |
| Accounts payable and provisions | 86,864,776 | 25,830,469 |
| Other liabilities | 279,123,159 | 168,302,629 |
| Total liabilities | ¢ 156,661,623,856 | 129,575,362,749 |
| <u>Equity</u> | | |
| Equity adjustments | ¢ 189,246,358 | 53,368,985 |
| Prior period retained earnings | 503,798,027 | - |
| Income for the year | 559,258,795 | 503,798,027 |
| Total equity | ¢ 1,252,303,180 | 557,167,012 |
| Total liabilities and equity | ¢ 157,913,927,036 | 130,132,529,761 |
| Other memoranda accounts | ¢ 1,673,242 | - |

Development Credit Fund
Income Statement
For the year ended December 31, 2014
(With corresponding figures for 2013)

| | 2014 | 2013 |
|--------------------------|------------------|-----------------|
| Finance income | ¢ 18,098,060,368 | 6,252,116,638 |
| Finance expenses | (14,734,734,310) | (3,746,812,382) |
| Net finance income | 3,363,326,058 | 2,505,304,256 |
| Other operating expenses | (2,804,067,263) | (2,001,506,229) |
| Income for the year | ¢ 559,258,795 | 503,798,027 |

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

a. Investments in financial instruments

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

| | 2014 | 2013 |
|--|-------------------|-----------------|
| Available for sale | ¢ 154,947,759,584 | 124,627,682,370 |
| Accrued interest receivable | 1,002,736,013 | 1,833,838,089 |
| | ¢ 155,950,495,597 | 126,461,520,459 |
| | 2014 | 2013 |
| <i>Available for sale:</i> | | |
| <u>Local issuers:</u> | | |
| Government of Costa Rica | ¢ 48,063,377,945 | 59,002,804,778 |
| BCCR | 1,197,374,054 | 13,053,548,797 |
| State-owned banks | 78,591,704,771 | 9,080,725,741 |
| | 127,852,456,770 | 81,137,079,316 |
| <u>Foreign issuers:</u> | | |
| Governments | 2,078,771,204 | 33,582,298,785 |
| Private issuers | 25,016,531,610 | 9,908,304,269 |
| Subtotal | 27,095,302,814 | 43,490,603,054 |
| Accrued interest receivable on investments | 1,002,736,013 | 1,833,838,089 |
| | ¢ 155,950,495,597 | 126,461,520,459 |

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

| Currency | 2014 | 2013 |
|--------------|-----------------|----------------|
| Colones | 0.38% to 9.66% | 0.00% to 9.20% |
| U.S. dollars | 1.63% to 10.58% | 0.00% to 6.55% |
| Euros | 8.15% | 3.75% |

As of December 31, 2014, valuation of available-for-sale investments gave rise to an unrealized gain, net of deferred tax, in the amount of ¢189,246,358 (2013: unrealized gain of ¢53,368,985), which is booked under “Equity adjustments for valuation of available-for-sale investments”.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

b. Loan portfolio

i. Loan portfolio by sector

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

| | 2014 | 2013 |
|---------------------------------|--------------|------|
| Agriculture and forestry | 1,326,758 | - |
| Livestock, hunting, and fishing | 50,000,000 | - |
| Total direct loans | 51,326,758 | - |
| Accrued interest receivable | 56,183 | - |
| Total | ¢ 51,382,941 | - |

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

| | 2014 | | 2013 | |
|-----------------|----------------|----------------|--------------|----------------|
| <u>Currency</u> | <u>Rates</u> | <u>Average</u> | <u>Rates</u> | <u>Average</u> |
| Colones | 8.01% to 8.12% | 8.11% | - | - |

ii. Loan portfolio by arrears

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

| | 2014 | 2013 |
|-----------------------------|--------------|------|
| Current | ¢ 51,326,758 | - |
| Total | ¢ 51,326,758 | - |
| Accrued interest receivable | 56,183 | - |
| Total | ¢ 51,382,941 | - |

iii. Loan portfolio by origin

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

| | 2014 | 2013 |
|------------------------------|--------------|------|
| Loans originated by the Bank | ¢ 51,326,758 | - |
| Total direct loans | ¢ 51,326,758 | - |
| Accrued interest receivable | 56,183 | - |
| Total | ¢ 51,382,941 | - |

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of December 31, 2014, restructured loans amount to a total of ¢40,016,644.

iv. Accrued interest receivable on loan portfolio

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

| | 2014 | 2013 |
|---------|----------|------|
| Current | ¢ 56,183 | - |
| | ¢ 56,183 | - |

c. Obligations with entities

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

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

d. Finance income

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

| | 2014 | 2013 |
|---|------------------|---------------|
| Accrued interest on investments in available-for-sale investment securities | ¢ 4,821,645,073 | 3,557,916,761 |
| Accrued interest on loan portfolio | 134,094 | - |
| Foreign exchange differences on other financial obligations | 3,534,968,453 | 1,292,190,702 |
| Foreign exchange differences on investments in financial instruments | 9,376,893,327 | 1,269,606,021 |
| Realized gain on available-for-sale financial instruments | 364,419,421 | 132,403,154 |
| | ¢ 18,098,060,368 | 6,252,116,638 |

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

e. Finance expenses

For the years ended December 31, finance expenses are as follows:

| | 2014 | 2013 |
|--|-------------------------|----------------------|
| Demand obligations with financial entities | ¢ 1,860,853,228 | 1,263,652,818 |
| Foreign exchange differences on other financial obligations | 9,316,092,742 | 1,291,818,656 |
| Foreign exchange differences on investments in financial instruments | 3,551,608,415 | 1,191,340,908 |
| Realized loss on available-for-sale financial instruments | 6,179,925 | - |
| | ¢ <u>14,734,734,310</u> | <u>3,746,812,382</u> |

f. Other operating expenses

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

| | 2014 | 2013 |
|--|------------------------|----------------------|
| Fees and commissions for brokerage services | ¢ 169,101,155 | 47,118,966 |
| Fees and commissions for custodial services of financial instruments | 59,253,190 | 31,932,126 |
| Income tax (8%) on interest on investments in financial instruments | 386,369,429 | 298,803,806 |
| Transfer to FINADE (1) | 2,189,343,489 | 1,623,651,331 |
| | ¢ <u>2,804,067,263</u> | <u>2,001,506,229</u> |

- (2) The transfer to FINADE corresponds to 85% of the net (base) earnings of the FCD. Base earnings are calculated by deducting monthly expenses incurred by the FCD and net foreign exchange differences from net earnings, as stipulated in article 35 of Law No. 8634 published in Official Gazette No. 87 dated May 7, 2008 and article 104 of Executive Order No. 34901-MEIC-MAG published in Official Gazette No. 22 dated December 1, 2008. For the year ended December 31, 2014, the amount transferred to FINADE is allocated as follows: 46.86%, equivalent to ¢1,025,979,205 (2013: 75.65%, equivalent to ¢1,228,359,357) to FOFIDE; 30.77%, equivalent to ¢673,592,602 (2013: 23.67%, equivalent to ¢384,351,811) to the Surety Fund; and 22.37%, equivalent to ¢489,771,682 (2013: 0.67%, equivalent to ¢10,940,163) to the Development Services Fund. These amounts are deposited in the respective checking accounts.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

g. Risk management

i. *Market and liquidity risk management*

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

Management of the FCD risk analysis is as follows:

Portfolio composition

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

Return

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

Price risk

Currently, the Bank's management uses the Risk Manager module of the software OFSA (Oracle Financial Services Application). This module is used to calculate indicators such as VaR, which determines the maximum expected loss of a portfolio under normal market conditions, at a specific holding period and confidence level, based on the risk appetite of the portfolio investor or manager. Other techniques include duration and modified duration, which determine the price sensitivity of a security as a result of a change in interest rates, in the former case, and changes in yield upon maturity, in the latter case. Finally, stochastic fair values determine the present value of a portfolio's future cash flows using a simulated rate structure, to determine the economic value of the portfolio.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

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

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

Interest rate risk

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

Currency risk

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

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

Liquidity risk

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

Balances of demand deposits and term certificates of deposit of the Financial-Accounting Information System (SIFCO) are used to analyze the duration indicator and determine the volatility of the balances within a specified period. That information also helps determine the VaR of liquidity, which measures the risk of unexpected withdrawals from accounts.

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

ii. Credit risk management

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

When the Bank measures a formalized loan, it assigns an origination score to five main portfolios: Housing, Development, Consumer, Credit Cards, and Loans without Guarantor. These tools, which are applied since 2006 and are recalibrated at least once a year, were validated by Experian in 2008 and more recently in 2012 by Equifax.

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

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

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

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

The use of the above analyses has led to sound credit risk management practices that, along with tight control over loan collection, have helped to substantially improve the level of arrears in the loan portfolio.

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

| | Note | Direct | |
|---|------|--------------|------|
| | | 2014 | 2013 |
| Loan portfolio | | | |
| Principal | 46-b | ¢ 51,326,758 | - |
| Accounts and accrued interest receivable | | 56,183 | - |
| Carrying amount, gross | | 51,382,941 | - |
| Allowance for loan impairment (accounting records) | | - | - |
| Carrying amount, net | ¢ | 51,382,941 | - |
| Loan portfolio | | | |
| Total balances: | | | |
| A1 | ¢ | 11,366,297 | - |
| C1 | | 40,016,644 | - |
| | | 51,382,941 | - |
| Structural allowance (subledger – database) | | (9,173,034) | - |
| Carrying amount, net | ¢ | 42,209,907 | - |
| Individually assessed loans with allowance: | | | |
| A1 | ¢ | 11,366,297 | - |
| C1 | | 40,016,644 | - |
| | | 51,382,941 | - |
| Structural allowance (subledger – database) | | (9,173,034) | - |
| Carrying amount, net | ¢ | 42,209,907 | - |
| Carrying amount, gross | | 51,382,941 | - |
| Allowance for loan impairment (database) | | (9,173,034) | - |
| (Excess) insufficiency of allowance over structural allowance | | 9,173,034 | - |
| Carrying amount, net | 46-b | ¢ 51,382,941 | - |
| Restructured loans | 46-b | ¢ 40,016,644 | - |

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Risk ratings

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

| | | 2014 | 2013 |
|--------------------------|---|------------|------|
| Borrower classification: | | | |
| Group 1 | ¢ | 51,382,941 | - |
| | ¢ | 51,382,941 | - |

Borrower classification

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

| <u>Risk rating</u> | <u>Arrears</u> | | 2014 | 2013 |
|--------------------|-----------------|---|------------|------|
| A1 | 30 days or less | ¢ | 11,366,297 | - |
| C1 | 90 days or less | | 40,016,644 | - |
| | | ¢ | 51,382,941 | - |

Loan portfolio by sector

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

| Sector | | 2014 | 2013 |
|---------------------------------|---|------------|------|
| Agriculture and forestry | ¢ | 1,332,941 | - |
| Livestock, hunting, and fishing | | 40,016,644 | - |
| | ¢ | 51,382,941 | - |

Loan portfolio by geographic area

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

| | | 2014 | 2013 |
|-----------------|---|------------|------|
| Central America | ¢ | 51,382,941 | - |

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Loan portfolio by type of guarantee

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

| Guarantee | 2014 | 2013 |
|---------------------|-------------------|----------|
| Assignment of loans | 5,000,000 | - |
| Mortgage | 16,382,941 | - |
| Surety | 30,000,000 | - |
| ¢ | <u>51,382,941</u> | <u>-</u> |

Loan portfolio by individual borrower or economic interest group

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

| Loan portfolio concentration | 2014 | 2013 |
|------------------------------|-------------------|----------|
| ¢1 to ¢3,000,000 | ¢ 1,332,941 | - |
| ¢3,000,001 to ¢15,000,000 | 20,050,000 | - |
| ¢15,000,001 to ¢30,000,000 | 30,000,000 | - |
| ¢ | <u>51,382,941</u> | <u>-</u> |

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

| | 2014 | 2013 |
|---|-------------------------|--------------------|
| <i>U.S. dollars</i> | | |
| <u>Assets:</u> | | |
| Investments in financial instruments | US\$ 184,522,957 | 156,104,614 |
| Total assets | <u>US\$ 184,522,957</u> | <u>156,104,614</u> |
| <u>Liabilities:</u> | | |
| Obligations with entities | US\$ 182,321,090 | 154,510,091 |
| Other liabilities | 523,320 | 339,998 |
| Total liabilities | <u>US\$ 182,844,410</u> | <u>154,850,089</u> |
| Excess of assets over liabilities in U.S. dollars | <u>US\$ 1,678,547</u> | <u>1,254,525</u> |

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

| | 2014 | 2013 |
|---|-------------|-----------|
| <i>Euros</i> | | |
| <u>Assets:</u> | | |
| Investments in financial instruments | € 3,220,396 | 3,112,118 |
| Other assets | 616,007 | 491,644 |
| Total assets | € 3,836,403 | 3,603,762 |
| <u>Liabilities:</u> | | |
| Obligations with entities | € 3,762,963 | 3,635,786 |
| Total liabilities | € 3,762,963 | 3,635,786 |
| (Deficit) of assets over liabilities in euros | € (73,440) | (32,024) |

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

| <u>Assets</u> | 2014 | 2013 |
|---|-------------------|-----------------|
| <i>Local currency:</i> | | |
| Financial instruments of BCCR – own resources | ¢ 1,197,374,054 | 13,053,548,797 |
| Financial instruments from the local non-financial public sector – own resources | 36,243,088,699 | 32,667,017,710 |
| Financial instruments from local financial entities – own resources | 17,508,460,000 | - |
| Accrued interest receivable associated to investments in financial instruments | 503,661,680 | 1,343,214,745 |
| Loan portfolio | 51,382,941 | - |
| Deferred tax | 1,698,791 | 3,355,094 |
| Balances with other departments | 1,510,572,773 | 3,332,047,861 |
| Total assets in local currency | 56,016,238,938 | 50,399,184,207 |
| <i>Foreign currency:</i> | | |
| Financial instruments from the local non-financial public sector – own resources | ¢ 11,820,289,229 | 26,335,787,068 |
| Financial instruments from local financial entities – own resources | 61,083,244,750 | 9,080,725,741 |
| Financial instruments from central banks and foreign public sector entities - own resources | 2,078,771,201 | 33,582,298,785 |
| Financial instruments from foreign financial entities - own resources | 25,016,531,650 | 9,908,304,269 |
| Accrued interest receivable associated to investments in financial instruments | 499,074,334 | 490,623,344 |
| Balances with other departments | 399,776,935 | 335,606,347 |
| Total assets in foreign currency | 100,897,688,098 | 79,733,345,554 |
| Total | ¢ 157,913,927,036 | 130,132,529,761 |

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

| | 2014 | 2013 |
|---|-------------------|-----------------|
| <i>Liabilities</i> | | |
| <i>Local currency:</i> | | |
| Obligations for management of FCD | ¢ 56,619,887,159 | 50,415,328,897 |
| Withheld taxes | 1,360 | - |
| Deferred tax | 86,863,416 | 25,830,469 |
| Deferred finance income | 31,165 | - |
| Total liabilities in local currency | 56,706,783,100 | 50,441,159,366 |
| <i>Foreign currency:</i> | | |
| Obligations for management of FCD | ¢ 99,675,748,623 | 78,965,900,754 |
| Interest payable on obligations with financial entities | 138 | - |
| Reciprocal accounts | 279,091,995 | 168,302,629 |
| Total liabilities in foreign currency | 99,954,840,756 | 79,134,203,383 |
| Total liabilities | ¢ 156,661,623,856 | 129,575,362,749 |

(43) 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.

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).

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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.

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".

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(44) 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.

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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(45) 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.

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:

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

a) IAS 1: Presentation of Financial Statements

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

SUGEF standards do not allow certain transactions, such as clearing house balances, gains or losses on the sale of financial instruments, 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.

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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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.

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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The Board has also allowed deferral of the net excess of loan fee and commission income minus expenses incurred for activities such as assessment of the borrower's financial position, evaluation and recognition of guarantees, sureties, or other collateral instruments, negotiation of the terms of the instrument, preparation and processing of documents, and settlement of the operation. This Standard does not allow deferral on a net basis of such income. Instead, it prescribes deferral of 100% of loan fee and commission income and permits the deferral of only certain incremental transaction costs, rather than all direct costs. Accordingly, when costs exceed income, loan fee and commission income 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).
- 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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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.

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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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.

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

The revised Standard became mandatory for 2010 financial statements with prospective application required. 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.

(Continued)

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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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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 noncontrolling interests as if acquisition accounting had been applied from that date.

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

v) IFRS 11: Joint Arrangements

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

w) IFRS 12: Disclosure of Interests in Other Entities

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- existing infrastructure to which the grantor gives the operator access for the purpose of the service arrangement.

This Interpretation became mandatory for annual periods beginning on or after July 1, 2009. 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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

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

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

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

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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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.

(46) 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.

(47) 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 1-d).