

**BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES**

Financial Information Required by the  
Superintendency General of Financial Entities

Consolidated Financial Statements

December 31, 2015

*(With corresponding figures for 2014)*

(With Independent Auditor's Report Thereon)



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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, 2015, 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 and fair presentation 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.



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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 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, 2015, 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 modifying 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 in accordance with the financial reporting provisions issued by CONASSIF and SUGEF.

KPMG

January 31, 2016

San José, Costa Rica  
Eric Alfaro V.  
Member No. 1547  
Policy No. 0116 FIG 7  
Expires 9/30/2016

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**BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEET**  
**AS OF DECEMBER 31, 2015**  
*(With corresponding figures for 2014)*  
(In colones)

	Note	2015	2014 Restated
<b>ASSETS</b>			
<b>Cash and due from banks</b>	<b>4</b>	<b>850,267,856,821</b>	<b>829,976,580,984</b>
Cash		79,938,812,261	69,196,626,393
Demand deposits in BCCR		640,340,750,042	576,311,012,910
Demand deposits in local financial entities		20,425,072,298	14,736,219,049
Demand deposits in foreign financial entities		103,283,890,249	163,881,119,963
Other cash and due from banks		6,279,291,698	5,851,602,669
Accounts and accrued interest receivable		40,273	-
<b>Investments in financial instruments</b>	<b>5</b>	<b>1,148,614,214,346</b>	<b>1,100,793,001,081</b>
Available-for-sale		1,098,274,577,490	1,052,451,509,868
Held-to-maturity		27,030,439,007	27,328,967,634
Derivative financial instruments		13,103,031,815	11,281,570,780
Accounts and accrued interest receivable		10,340,806,695	9,791,452,357
(Allowance for impairment of investments in financial instruments)		(134,640,661)	(60,499,558)
<b>Loan portfolio</b>	<b>6</b>	<b>3,663,687,932,586</b>	<b>3,303,451,574,458</b>
Current		3,490,768,356,493	3,142,775,035,799
Past due		124,446,457,751	116,679,181,039
Legal collections		86,287,327,716	72,120,002,831
Accounts and accrued interest receivable		25,154,673,605	21,715,928,888
(Allowance for loan impairment)		(62,968,882,979)	(49,838,574,099)
<b>Accounts and fees and commissions receivable</b>	<b>7</b>	<b>2,364,950,917</b>	<b>3,140,260,913</b>
Fees and commissions receivable		1,073,457,946	1,011,708,508
Accounts receivable for brokerage operations		34,120	9,121,769
Accounts receivable for transactions with related parties		180,506,172	27,589,166
Deferred tax and income tax receivable		3,462,398,022	4,291,459,910
Other receivables		3,567,482,304	3,159,168,189
Accrued interest receivable		1,990,138	2,572,781
(Allowance for impairment of accounts and fees and commissions receivable)		(5,920,917,785)	(5,361,359,410)
<b>Foreclosed assets</b>	<b>8</b>	<b>17,416,744,581</b>	<b>19,355,058,030</b>
Assets and securities acquired in lieu of payment		78,575,996,987	76,541,792,707
Other foreclosed assets		1,770,509	1,756,777
(Allowance for impairment of foreclosed assets and per legal requirements)		(61,161,022,915)	(57,188,491,454)
<b>Investments in other companies</b>	<b>9</b>	<b>53,559,078,256</b>	<b>49,855,779,811</b>
<b>Property and equipment, net</b>	<b>10</b>	<b>178,027,486,757</b>	<b>167,465,656,710</b>
<b>Other assets</b>	<b>11</b>	<b>27,049,017,597</b>	<b>51,682,157,293</b>
Deferred charges		12,659,880,978	21,658,093,393
Intangible assets		3,991,214,261	4,502,747,244
Other assets		10,397,922,358	25,521,316,656
<b>TOTAL ASSETS</b>		<b>5,940,987,281,861</b>	<b>5,525,720,069,280</b>

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

Continued...



**BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEET**  
**AS OF DECEMBER 31, 2015**  
*(With corresponding figures for 2014)*  
*(In colones)*

	Note	2015	2014 Restated
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
<b>Obligations with the public</b>	12	3,968,907,321,801	3,710,752,140,528
Deposits and other demand obligations		2,476,060,368,987	2,272,307,002,207
Deposits and other term obligations		1,435,677,785,115	1,388,059,529,970
Other obligations with the public		36,683,915,704	31,028,841,773
Charges payable		20,485,251,995	19,356,766,578
<b>Obligations with BCCR</b>	13	125,644,412	182,746,931
Term obligations		125,644,412	182,452,312
Charges payable		-	294,619
<b>Obligations with entities</b>	14	1,210,085,341,685	1,089,524,631,830
Demand obligations with entities		272,574,469,925	284,583,917,797
Term obligations with entities		930,461,049,359	798,409,817,482
Charges payable on obligations with entities		7,049,822,401	6,530,896,551
<b>Accounts payable and provisions</b>		110,217,886,177	124,662,565,558
Accounts payable for brokerage services		1,255,898,777	835,751,867
Deferred tax	15-c	15,312,711,171	14,167,519,270
Provisions	16	35,921,720,140	39,502,894,655
Other sundry accounts payable	17	57,727,556,089	70,156,399,766
<b>Other liabilities</b>	18	42,411,442,867	34,084,373,087
Deferred income		14,717,958,057	9,003,262,472
Allowance for stand-by credit losses		1,545,597,997	1,319,693,076
Other liabilities		26,147,886,813	23,761,417,539
<b>Subordinated obligations</b>	14	70,347,385,713	70,358,271,862
Subordinated obligations		69,152,200,000	69,330,300,000
Finance charges payable		1,195,185,713	1,027,971,862
<b>TOTAL LIABILITIES</b>		<b>5,402,095,022,655</b>	<b>5,029,564,729,796</b>
<b>EQUITY</b>			
<b>Share capital</b>		118,130,303,482	118,130,303,482
Paid-in capital	19-a	118,130,303,482	118,130,303,482
<b>Equity adjustments</b>		73,595,044,363	66,252,321,126
Surplus from revaluation of property and equipment	19-b	63,572,929,305	63,639,596,055
Adjustment for valuation of available-for-sale investments	19-c	3,303,224,869	(1,746,379,939)
Adjustment for valuation of restricted financial instruments	19-c	(435,415,249)	(2,041,047,936)
Surplus from revaluation of other assets		69,678,787	70,246,625
Adjustment for valuation of investments in other companies	1-d (iv), 19-d	7,084,626,651	6,329,906,321
<b>Equity reserves</b>	19-e	247,784,553,250	216,895,556,917
Prior period retained earnings		44,435,719,699	40,731,042,810
Income for the year		36,801,775,377	39,597,941,323
Equity of the Development Financing Fund	19-f	18,144,863,035	14,548,173,826
<b>TOTAL EQUITY</b>		<b>538,892,259,206</b>	<b>496,155,339,484</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>5,940,987,281,861</b>	<b>5,525,720,069,280</b>
<b>DEBIT MEMORANDA ACCOUNTS</b>			
<b>TRUST ASSETS (UNAUDITED)</b>	20	520,000,578,556	511,255,824,426
<b>TRUST LIABILITIES (UNAUDITED)</b>	21	986,889,695,199	905,709,567,459
<b>TRUST EQUITY (UNAUDITED)</b>		47,653,258,628	76,808,871,122
<b>TRUST MEMORANDA ACCOUNTS</b>		939,236,436,571	828,900,696,337
<b>OTHER DEBIT MEMORANDA ACCOUNTS</b>	22	20,926,149,777	14,427,215,779
Own debit memoranda accounts		18,797,308,347,367	18,344,060,940,216
Third-party debit memoranda accounts		6,989,146,202,238	7,557,679,197,394
Own debit memoranda accounts for custodial activities		2,111,396,136,345	2,128,036,259,000
Third-party debit memoranda accounts for custodial activities		393,349,566,832	334,980,739,704
		9,303,416,441,952	8,323,364,744,118

Bernardo Alfaro Araya  
Sub-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, 2015**  
*(With corresponding figures for 2014)*  
(In colones)

	Note	2015	2014 Restated
<b>Finance income</b>			
Cash and due from banks	26	310,669,785	276,288,997
Investments in financial instruments	26	48,467,337,437	41,528,409,245
Loan portfolio	27	331,560,895,769	304,492,853,084
Gain on foreign exchange differences and development units, net	42-c	-	345,358,530
Gain on available-for-sale financial instruments		2,530,600,569	1,949,413,539
Gain on derivative instruments, net	5-b	10,724,032,941	21,614,976,680
Other finance income	28	28,091,512,413	15,758,746,183
<b>Total finance income</b>		<u>421,685,048,914</u>	<u>385,966,046,258</u>
<b>Finance expense</b>			
Obligations with the public	29	110,568,002,089	104,092,272,395
Obligations with BCCR		556,658	1,302,337
Obligations with financial entities		46,533,462,276	37,418,809,270
Other sundry accounts payable		-	90,992
Subordinated, convertible, and preferred obligations		3,673,084,364	1,626,258,416
Loss on foreign exchange differences and development units, net	42-c	477,207,121	-
Loss on available-for-sale financial instruments		82,822,756	596,735,327
Other finance expense	14	27,087,497,352	32,412,368,057
<b>Total finance expense</b>		<u>188,422,632,616</u>	<u>176,147,836,794</u>
Allowance for impairment of assets	30	32,624,982,718	31,923,597,752
Recovery of assets and decrease in allowances	31	11,897,152,398	17,572,702,878
<b>FINANCE INCOME</b>		<u>212,534,585,978</u>	<u>195,467,314,590</u>
<b>Other operating income</b>			
Service fees and commissions	32	113,520,422,899	102,837,035,641
Foreclosed assets		2,281,309,882	7,501,408,492
Gain on investments in other foreign companies	1-a	4,410,917,651	5,225,407,598
Gain on investments in other local companies		4,394,619	4,850,997
Foreign currency exchange and arbitrage		23,814,149,458	24,806,347,189
Other operating income	33	16,322,688,800	20,582,300,156
<b>Total other operating income</b>		<u>160,353,883,309</u>	<u>160,957,350,073</u>

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, 2015**  
*(With corresponding figures for 2014)*  
*(In colones)*

		2015	2014 Restated
<b>Other operating expenses</b>			
Services fees and commissions		6,213,732,920	6,402,622,594
Foreclosed assets	34	20,719,730,283	26,732,070,255
Sundry assets		1,272,030,080	511,385,175
Provisions	35	25,370,961,057	19,263,041,044
Discounts on fees and commissions of voluntary pension funds		86,942,819	4,975,062
Foreign currency exchange and arbitrage		1,633,958	14,164,506
Other operating expenses	36	56,681,487,849	52,445,462,828
Amortization of direct deferred costs related to loans		7,749,520,906	2,541,395,912
<b>Total other operating expenses</b>		<b>118,096,039,872</b>	<b>107,915,117,376</b>
<b>GROSS OPERATING INCOME</b>		<b>254,792,429,415</b>	<b>248,509,547,287</b>
<b>Administrative expenses</b>			
Personnel expenses	37	133,599,050,987	122,366,625,077
Other administrative expenses	38	63,271,297,816	62,582,531,169
<b>Total administrative expenses</b>		<b>196,870,348,803</b>	<b>184,949,156,246</b>
<b>NET OPERATING INCOME BEFORE TAXES AND STATUTORY ALLOCATIONS</b>		<b>57,922,080,612</b>	<b>63,560,391,041</b>
Income tax	15-a	10,488,010,071	12,699,481,806
Deferred tax	15-a	82,458,436	155,867,869
Decrease in income tax	15-a	1,266,321,377	314,765,092
Decrease in prior period income tax	15-b	-	5,529,340
Deductible temporary differences	15-a	222,894,705	170,867,304
Statutory allocations	39	12,409,000,668	11,605,903,075
Decrease in statutory allocations	39	369,947,858	7,641,296
<b>INCOME FOR THE YEAR</b>		<b>36,801,775,377</b>	<b>39,597,941,323</b>
<b>OTHER COMPREHENSIVE INCOME, NET OF TAX</b>			
Surplus from revaluation of property		(1,093,409,868)	-
Adjustment for valuation of available-for-sale investments, net of income tax		5,049,604,808	(86,587,829)
Adjustment for valuation of restricted financial instruments, net of income tax		1,605,632,687	704,762,922
Realization of surplus from revaluation of other assets		(567,838)	-
Adjustment for valuation of investments in other companies		754,720,330	3,012,627,801
<b>OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX</b>		<b>6,315,980,119</b>	<b>3,630,802,894</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>43,117,755,496</b>	<b>43,228,744,217</b>

Bernardo Alfaro Araya  
Sub-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 CHANGES IN EQUITY  
FOR THE YEAR ENDED DECEMBER 31, 2015  
(With corresponding figures for 2014)  
(In colones)

Note	Share capital	Equity adjustments				Total equity adjustments	Equity reserves	Opening retained earnings	Equity of the Development Financing Fund	Total
		Surplus from revaluation of property and equipment	Adjustment for valuation of available-for-sale investments and restricted financial instruments	Surplus from revaluation of other assets	Adjustment for valuation of investments in other companies					
Balances at January 1, 2014 (previously reported)	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
Correction of errors from prior periods	-	-	-	-	-	-	-	(578,044,762)	-	(578,044,762)
Balances at January 1, 2014 (restated)	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	63,947,371,834	12,243,803,201	453,852,222,730
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 the Pension Fund Manager	-	-	-	-	-	-	-	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	-	-	-	-	-	-	19,986,330,936	(23,216,329,024)	2,304,370,625	(925,627,463)
Comprehensive income for the year:										
Income for the year	-	-	-	-	-	-	-	39,597,941,323	-	39,597,941,323
Adjustment for valuation of available-for-sale investments, net of income tax	5-a	-	(86,587,829)	-	-	(86,587,829)	-	-	-	(86,587,829)
Adjustment for valuation of restricted financial instruments, net of income tax	5-a	-	704,762,922	-	-	704,762,922	-	-	-	704,762,922
Adjustment for revaluation of investments in other companies	1-d (iv)	-	-	-	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	-	39,597,941,323	-	43,228,744,217
Balances at December 31, 2014 (restated)	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	80,328,984,133	14,548,173,826	496,155,339,484
Transactions with owners booked directly in equity:										
Legal reserves	-	-	-	-	-	-	28,851,029,773	(28,851,029,773)	-	-
Other statutory reserves	-	-	-	-	-	-	2,037,966,560	(2,037,966,560)	-	-
Statutory allocations - Mandatory pension funds, Employee Protection Law No. 7983	-	-	-	-	-	-	-	(380,835,774)	-	(380,835,774)
Equity of the Development Financing Fund	-	-	-	-	-	-	-	(3,596,689,209)	3,596,689,209	-
Total transactions with owners booked directly in equity	-	-	-	-	-	-	30,888,996,333	(34,866,521,316)	3,596,689,209	(380,835,774)
Comprehensive income for the year:										
Income for the year	-	-	-	-	-	-	-	36,801,775,377	-	36,801,775,377
Adjustment for valuation of available-for-sale investments, net of income tax	5-a	-	5,049,604,808	-	-	5,049,604,808	-	-	-	5,049,604,808
Adjustment for valuation of restricted financial instruments, net of income tax	5-a	-	1,605,632,687	-	-	1,605,632,687	-	-	-	1,605,632,687
Adjustment for valuation of investments in other companies	1-d (iv)	-	-	-	754,720,330	754,720,330	-	-	-	754,720,330
Surplus from revaluation of property	-	(66,666,750)	-	-	-	(66,666,750)	-	(1,026,743,118)	-	(1,093,409,868)
Surplus from revaluation of other assets	-	-	-	(567,838)	-	(567,838)	-	-	-	(567,838)
Total comprehensive income for the year	-	(66,666,750)	6,655,237,495	(567,838)	754,720,330	7,342,723,237	-	35,725,032,259	-	43,117,755,496
Balances at December 31, 2015	118,130,303,482	63,572,929,305	2,867,809,620	69,678,787	7,084,626,651	73,595,044,363	247,784,553,250	81,237,495,076	18,144,863,035	538,892,259,206

Bernardo Alfaro Araya  
Sub-General Manager

Gerardo Gómez Solís  
General Accountant

Ricardo Araya Jiménez  
General Auditor



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2015  
(With corresponding figures for 2014)  
(In colones)

	Note	2015	2014 Restated
<b>Net cash flows from operating activities</b>			
Income for the year		36,801,775,377	39,597,941,323
<b>Items not requiring cash</b>			
Gain on sale of idle property and equipment		(796)	(67,142)
(Gain) loss on foreign exchange and development units, net		(1,722,778,466)	31,817,516,794
Loss on allowance for loan impairment, net		31,164,530,269	26,110,986,457
Expense for allowance on impairment of investments, net		74,289,638	2,678,088
Loss on allowance for other receivables, net		1,203,529,773	3,544,363,095
Loss on allowance for foreclosed assets, net		4,055,846,460	1,180,579,165
Loss on sale of foreclosed assets		6,873,267,222	10,482,928,546
Expense for severance accrual, net of payments		22,026,658,314	27,701,053,363
Depreciation and amortization		15,066,372,750	14,408,293,477
Share in net profit of foreign associate		(4,410,917,651)	(5,225,407,598)
Statutory allocations, net		12,039,052,810	11,598,261,779
Deferred tax, net	15-a	(140,436,269)	(14,999,435)
Current tax expense, net	15-a	9,221,688,694	12,379,187,374
Finance income on loan portfolio and investments		(380,028,233,206)	(346,021,262,329)
Finance expense on term obligations with the public and financial entities		119,556,608,726	103,804,219,062
		(128,218,746,355)	(68,633,727,981)
<b>Net (increase) decrease in assets</b>			
Credits and cash advances		(416,325,479,840)	(247,794,026,635)
Foreclosed assets		17,022,219,748	(10,316,482,825)
Accrued interest receivable on other receivables		582,643	(964,697)
Other assets		20,570,137,001	(24,961,165,408)
		(506,951,286,803)	(351,706,367,546)
<b>Net increase (decrease) in liabilities</b>			
Demand and term obligations		309,013,013,406	240,852,557,499
Other accounts payable and provisions		(40,773,582,304)	(50,712,193,173)
Other liabilities		8,502,560,752	5,933,173,854
		(230,209,294,949)	(155,632,829,366)
Interest received on loan portfolio and investments		376,040,134,151	346,969,220,478
Income tax paid		(18,140,485,855)	(1,927,153,004)
Interest paid on term obligations with the public and financial entities		(117,909,492,078)	(103,951,180,297)
<b>Net cash from operating activities</b>		<b>9,780,861,269</b>	<b>85,458,057,811</b>
<b>Net cash flows from investing activities</b>			
Increase in financial instruments		(11,069,873,533,823)	(3,734,248,745,242)
Decrease in financial instruments		11,004,420,210,977	3,766,812,816,809
Acquisition of property and equipment		(26,284,278,968)	(15,949,406,089)
Sale of property and equipment		445,985,756	2,405,969,440
<b>Net cash (used in) from investing activities</b>		<b>(91,291,616,058)</b>	<b>19,020,634,918</b>
<b>Net cash flows from financing activities</b>			
Other new financial obligations		89,266,456,826	3,042,916,505
New subordinated obligations		-	69,330,300,000
Settlement of obligations		(11,757,999,044)	(78,492,814,886)
<b>Net cash from (used in) financing activities</b>		<b>77,508,457,782</b>	<b>(6,119,598,381)</b>
<b>Net (decrease) increase in cash and cash equivalents</b>		<b>(4,002,297,007)</b>	<b>98,359,094,348</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>1,005,007,009,161</b>	<b>906,647,914,813</b>
<b>Cash and cash equivalents at end of year</b>	4	<b>1,001,004,712,154</b>	<b>1,005,007,009,161</b>

Bernardo Alfaro Araya  
Sub-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, 2015

*(With corresponding figures for December 2014)*

(1) Summary of operations and significant accounting policies

(a) Operations

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

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

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

Currently, due to major innovations in information technology and telecommunications, and especially because of the competition in the national and international financial sectors, the Bank has become a universal bank that offers services in all sectors of the Costa Rican market. Those services include: personal, business, corporate, and institutional banking, stock trading, pension fund management, investment funds, insurance brokerage, international banking services, and electronic banking services. The Bank aims to improve the quality of life of the largest possible number of people by offering prime financial services that promote the sustainable creation of wealth.

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

As of December 31, 2015, Banco Nacional de Costa Rica and Subsidiaries (the Group) presents the following unaudited information: the Group has 183 offices (2014: 183 offices), 472 automated teller machines (2014: 465 automated teller machines), and, together with its subsidiaries, a total of 5,949 employees (2014: 5,896 employees). Employees are distributed as follows: Banco Nacional de Costa Rica - 5,502 employees (2014: 5,476 employees); BN Valores Puesto de Bolsa, S.A. - 76 employees (2014: 82 employees); BN Vital Operadora de Planes de Pensiones Complementarias, S.A. - 200 employees (2014: 182 employees); BN Sociedad Administradora de Fondos de Inversión, S.A. - 84 employees (2014: 83 employees); and BN Corredora de Seguros, S.A. - 87 employees (2014: 73 employees). The Bank's website is [www.bncr.fi.cr](http://www.bncr.fi.cr).

The following subsidiaries are wholly owned by the Bank:

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

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

BN Vital Operadora de Planes de Pensiones Complementarias, S.A. (the Pension Fund Manager) was organized as a corporation on December 31, 1998. In January 1993, the Pension Fund Manager acted as 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, Manuel María Icaza street 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:

2015					
	Brokerage Firm	Pension Fund Manager	Investment Fund Manager	Insurance Brokerage Firm	BICSA
Assets	¢ 70,876,225,662	9,966,575,154	6,259,049,765	1,649,008,319	482,821,702,119
Liabilities	¢ 52,559,467,325	3,181,699,333	874,451,762	379,340,657	429,313,247,163
Equity	¢ 18,316,758,337	6,784,875,821	5,384,598,003	1,269,667,662	53,508,454,956
Income for the year	¢ 2,597,981,538	938,518,217	1,438,073,280	763,959,084	4,410,917,651
Memoranda accounts	¢ 1,648,979,080,459	1,043,808,238,403	405,778,954,803	-	-
2014					
	Brokerage Firm	Pension Fund Manager	Investment Fund Manager	Insurance Brokerage Firm	BICSA
Assets	¢ 49,559,488,479	7,464,666,704	4,867,955,644	1,786,311,108	480,540,802,367
Liabilities	¢ 34,993,022,882	1,415,953,523	431,513,267	480,602,530	430,735,645,856
Equity	¢ 14,566,465,597	6,048,713,181	4,436,442,377	1,305,708,578	49,805,156,511
Income for the year	¢ 645,091,797	722,992,469	840,571,382	532,235,391	5,225,407,598
Memoranda accounts	¢ 1,478,369,010,204	873,929,232,266	328,856,939,312	-	-

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

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

Subsidiaries were consolidated based on the following accounting principles:

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

- 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, 2015 and 2014, 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 into colones at the foreign exchange rate ruling at the balance sheet date. 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 (¢), currency 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 regime. Under the new system, the Board of Directors of BCCR agreed to establish a rate floor and ceiling, which will be adjusted based on the country's financial and macroeconomic conditions. The adjustable band regime was in effect during all of 2014.

As of February 2, 2015, as part of the transition towards an inflation targeting monetary scheme that requires greater exchange rate flexibility, the Board of Directors of BCCR, in Article 5 of Session No. 5677-2015 of January 30, 2015, declared the migration from the adjustable band regime to a managed float regime. Under the managed float regime, the exchange rate is determined by the market, but BCCR still reserves the right to intervene in the foreign currency market to moderate significant fluctuations in the exchange rate and prevent deviations from the behavior of the variables that explain its medium- and long-term trends.

In 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, 2015, the exchange rate was established at ¢531.94 and ¢544.87 (2014: ¢533.31 and ¢545.53) to US\$1.00 for the purchase and sale of U.S. dollars, respectively.

As of December 31, 2015, the exchange rate for the purchase and sale of euros was established at ¢574.15 and ¢597.12 (2014: ¢638.12 and ¢672.28) to €1.00, respectively.

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

As of December 31, 2015, assets and liabilities denominated in U.S. dollars were valued at the exchange rate of ¢531.94 to US\$1.00 (2014: ¢533.31 to US\$1.00), which is the reference buy rate published by BCCR as of that date.

As of December 31, 2015, assets and liabilities denominated in euros were valued at the exchange rate of ¢581.68 to €1.00 (2014: ¢648.98 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, 2015, assets and liabilities denominated in DU were valued at the exchange rate of ¢854.75 to DU1.00 (2014: ¢864.19 to DU1.00). This exchange rate is based on the DU value tables published by SUGEVAL.

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

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

The financial statements of BICSA are prepared in U.S. dollars, which is the entity's functional currency. As of December 31, 2015 and 2014, the Bank holds a 49% ownership interest 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, 2015, a foreign exchange gain in the amount of ¢754,720,330 (2014: foreign exchange gain ¢3,012,627,801), is presented in equity for the translation of the financial statements of foreign operations. As of December 31, 2015, the adjustment for valuation of investments in other companies amounts to ¢7,084,626,651 (2014: ¢6,329,906,321).

(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.

(Continued)



## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

#### (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 held-for-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.

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.

As of December 31, 2015, the Group 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

#### Available-for-sale securities

Available-for-sale securities are financial assets that are not held for trading purposes or originated by the Group. 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 and hedge accounting

Derivative financial instruments are recognized initially at fair value. Subsequent to initial recognition, derivative financial instruments are stated at fair value using 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 Bank designates certain derivatives held for risk management as well as certain non-derivative financial instruments as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Bank formally documents the relationship between the hedging instruments and hedged items, including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Bank makes an assessment, both at inception of the hedge relationship and on an ongoing basis, of whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80–125%. The Bank makes an assessment for a cash flow hedge of a forecast transaction, of whether the forecast transaction is highly probable to occur and presents an exposure to variations in cash flows that could ultimately affect profit or loss.

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

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

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

#### Originated loans and other receivables

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

#### *(ii) Recognition*

The Group 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 of initiation of the loan or purchase.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(iii) *Measurement*

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

Subsequent to initial recognition, all 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. As of December 31, 2015 and 2014, the market price valuation methodology established by VALMER Costa Rica, S.A. is used. This methodology has been duly approved by SUGEVAL.

For securities issued by foreign entities and listed in open systems such as Bloomberg, the 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.

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.

All non-trading available-for-sale financial assets, liabilities, 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 finance expense using the effective interest method.

(Continued)



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(iv) *Fair value measurement principles*

Subsequent to initial recognition, 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 accumulated gain or loss recognized in equity is transferred to the income statement.

(vi) *Derecognition*

A financial asset is derecognized when the Group 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 Group sells the assets.

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

(vii) *Offsetting*

Financial assets and liabilities are offset and the net amount presented in the consolidated financial statements when the Group has a legal right to set off the amounts and it intends to settle them 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.

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

The recoverable amount of an asset is equivalent to the greater of its net selling price and its value in use. The net selling price is equivalent to the sale less the costs to sell. Value in use is the present value of future cash flows and disbursements expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

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

#### *(ix) Specific instruments*

##### Cash and cash equivalents

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

##### Demand deposits – overnight

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

##### Investments in financial instruments

Investments that the Group 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.

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

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

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

#### Loans and advances to banks and customers

Loans originated by the Bank are classified as loan portfolio.

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

#### Securities sold under repurchase agreements

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

#### Securities purchased under reverse repurchase agreements

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

#### (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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

(g) Allowance for loan impairment

The allowance for loan impairment is based on a periodic assessment of the collectibility of the loan portfolio (loans and accounts, fees and commissions receivable related to loans) 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, 2015 and 2014, increases in the allowance for loan impairment included in the accounting records in accordance with article 10 of IRNBS.

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

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

(Continued)

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

*ii. Leased assets*

Leases in terms of which the Group 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.

*iii. Subsequent expenditure*

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

iv. *Depreciation and amortization*

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

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

(k) Intangible assets

i. *Other intangible assets*

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

ii. *Subsequent expenditure*

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

iii. *Amortization*

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

(l) Lease operations

Lease receivables are presented net of unearned interest pending collection. Interest on finance leases is recognized as income over the term of the finance lease agreement using the effective interest method. The difference between lease payments receivable and the cost of the leased asset is recorded as unearned interest and amortized to income accounts over the term of the lease. As of December 31, 2015 and 2014, the Group has no finance leases.

(Continued)



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The Group's operating leases are mainly for vehicles and equipment.

(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 is 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 are prepared by the appraisers who made the appraisals and those reports are to be updated at least annually.

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

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

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.

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

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

(o) Impairment of non-financial assets

The carrying amount of non-financial assets 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.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or CGUs.

The recoverable amount of an asset or CGU 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 or CGU and from its disposal at the end of its useful life.

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

An impairment loss is recognized whenever the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognized in the income statement for assets or CGUs carried at cost and treated as a revaluation decrease for assets or CGUs carried at revalued amounts.

The Group's assets do not generate separate cash inflows and are used by more than one CGU. Group's assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGUs to which the Group's assets are allocated.

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 Group 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 Group in connection with the Employee Protection and Retirement Fund and the Trust 897 arbitration case.

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(q) Severance benefits

Costa Rican legislation requires the payment of severance benefits to employees in the event of retirement, invalidity, death, or dismissal without just cause, equivalent to 20 days' salary for each year of continuous service, up to a maximum of 8 years. In the specific case of the Bank, that limit is 17 years for employees with more than 25 years of service. The Bank follows the policy of booking a provision to cover future disbursements related therewith for employees with more than 20 years of service, in compliance with article 34 of the Collective Bargaining Agreement. As of December 31, 2015 and 2014, severance is included in the provisions account (see note 16), which meets the legal provisioning requirements in effect as of those dates.

The Employee Association of Banco Nacional de Costa Rica (ASEBANACIO) was created in 2012. Accordingly, the Bank currently follows the practice of making monthly transfers of severance benefits to the Employee Association, equivalent to 5.33% of member employees' monthly salaries, for management and custody. Those funds are paid out to employees upon termination of employment. Severance payments are expensed when the funds are transferred.

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

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

(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:

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

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

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

- the Group 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 Group during the period and has obtained the required minimum score in the assessed areas.

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## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

The incentive aims to promote effective achievement of institutional objectives and goals, which requires continuous efforts by the Group 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 Group that should not be recognized in profit or loss since it has not yet been accrued. Deferred income is recognized and credited to the corresponding income account as it accrues.

(u) Legal reserve

Pursuant to article 12 of IRNBS, the Bank appropriates 50% of each year's earnings after income taxes and statutory allocations to a legal reserve. Such appropriation is performed pursuant to the Chart of Accounts for Financial Entities, Groups, and Conglomerates. Accordingly, in the first and second halves of each year, income and expenses are offset and the sum of the results of each half year is transferred to opening retained earnings.

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, an impairment is recognized.

(Continued)



## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

Also, Panamanian banks must create a reserve under an equity account by appropriating funds first from retained earnings and second from income 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.

*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 International Financial Reporting Standards (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, 2015.

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:*

Agreement 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.

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## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

Starting December 31, 2013, Panamanian banks must calculate and maintain at all times, as a minimum, the specific provisions determined using the methodology provided for in the aforementioned agreement, 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 the Agreement.

(v) Revaluation surplus

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

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

(w) Income tax

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

*i. Current tax:*

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

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## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

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

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

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

#### *ii. Deferred tax:*

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. In accordance with this method, temporary differences are identified as either taxable temporary differences (which result in future taxable amounts) or deductible temporary differences (which result in future deductible amounts). A deferred tax liability represents a taxable temporary difference and a deferred tax asset represents a deductible temporary difference.

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

#### (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.

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

(y) Combination of financial statements of departments

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

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

Pursuant to the provisions of the Internal Regulations of the National Banking System (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 finance expense*

Finance income and finance expenses are recognized in the income statement as they accrue. Finance income and finance expenses 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.

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## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

#### *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 Group. Fee and commission income is recognized when the service is provided, i.e. on an accrual basis. When fees and commissions are deferred, they are recognized over the term of the service.

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

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

#### *iv. Operating lease expenses*

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

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

Under article 12 of IRNBS, the net earnings of commercial State-owned banks are allocated as follows: 50% to a legal reserve; 10% to increase the capital of the National Institute for Cooperative Development (INFOCOOP); and the remainder to increase the Bank's capital, pursuant to article 20 of Law No. 6074.

In conformity with 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.

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## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

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

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

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

For the Pension Fund Manager, article No. 49 of Law No. 7983 “Employee Protection Law” establishes that public capital pension operators must allocate 50% of their earnings to the affiliates of the Compulsory Retirement Savings Fund. Through articles No. 5 and No. 13 of the minutes of meetings No. 1128-2014 and No. 1129-2014, respectively, held on September 29, 2014, CONASSIF established the monthly recording of this allocation as earnings are generated during the period. The allocation amount must be adjusted at year-end based on the annual earnings reflected in the audited financial statements. The recognition of such allocation became effective as of January 1, 2015; therefore, financial statements for 2014 do not reflect this expense.

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

In accordance with article 32 of the Development Banking System Act No. 9274, 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, such resources will continue to be part of the equity of each of the public banks for the creation and equity strengthening of 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.

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## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

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

(dd) Development Credit Fund (FCD)

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

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

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

- a. Pursuant to article 6 of Law No. 8634, the Managing Banks may offer first-tier banking services to the beneficiaries of the Development Banking System.
- b. Pursuant to 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. Pursuant to 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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

paragraph j), article 12 of Law No. 8634 and the executive regulations thereto.

Article 33 of Law No. 9274 of the Development Banking System indicates that "the respective bank will be responsible for the management of the funds. The fund's movements and accounting records are kept separately and then consolidated with the bank's accounting. The generated earnings will be reinvested in the fund and cannot be accounted for as part of the earnings of the public banks. For this reason, the assets and liabilities of the Development Credit Fund will be part of the accounting records of the Bank. However, income and expenses of such fund will be transferred monthly to the National Trust Fund of the Development Banking System.

The Bank will receive only one commission established by the Governing Council of the Development Banking System of 10% (2014: 15%) of the yields obtained, after deducting the cost of the funds.

(2) Collateralized or restricted assets

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

Restricted asset	Cause of restriction	2015 Carrying amount	2014 Carrying amount
<i>Cash and due from banks:</i>			
Checking account – colones	Minimum cash reserve	¢ 415,470,981,358	374,788,268,448
Checking account – euros	Minimum cash reserve	4,874,288,911	5,167,723,861
Checking account – U.S. dollars	Minimum cash reserve	189,644,176,846	168,808,424,441
Checking account – colones	Liquidation and compensation risk management fund	1,057,218,469	239,089,673
		¢ 611,046,665,584	549,003,506,393
<i>Investments in financial instruments:</i>			
Investments in financial instruments	Guarantee for repurchase agreements (tri-party)	¢ 39,664,189,932	38,566,722,512
Investments in financial instruments	Liquidity market operations	16,106,434,695	-
Securities issued by BCCR and the Government	Investments securing repurchase agreements	463,461,676	335,132,100
External debt bonds	Guarantee for margin calls - term operations – Bank of America	-	3,732,194,049
External debt bonds	Guarantee for margin calls - term operations – Citi Swap	-	2,130,530,785
External debt bonds	Guarantee for margin calls - term operations – JP Morgan Swap	-	2,131,736,481
Monetary stabilization bonds	Citibank guarantee	29,866,916,093	15,009,933,300
Central Bank bond (global bonds)	Citibank guarantee	115,181,185,610	127,659,542,800
External debt bonds	Barclays guarantee	72,471,607,603	75,765,386,092
External debt bonds	Credit Suisse guarantee	66,482,575,651	70,493,844,179
		¢ 340,236,371,260	335,825,022,298
<i>Other assets:</i>			
Other assets (note 11)	Guarantee deposits	¢ 509,289,396	334,553,479

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of December 31, 2015 and 2014, 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, 2015, the Brokerage Firm has restricted assets in the amount of ¢56,827,843,096 (2014: ¢38,805,812,185), 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:

		2015	2014
<u>Assets:</u>			
Checking accounts in foreign financial entities (note 4)	¢	10,601,795,993	7,799,157,076
Accounts receivable (note 7)		-	1,444,411
Investments in other companies (note 9)		53,508,454,956	49,805,156,511
	¢	<u>64,110,250,949</u>	<u>57,605,757,998</u>
<u>Liabilities:</u>			
Demand obligations with entities	¢	25,933,333	463,489,825
	¢	<u>25,933,333</u>	<u>463,489,825</u>
<u>Income:</u>			
Finance		-	617,486,403
Operating		313,720	-
Gain on investments in other foreign companies		4,410,917,651	5,225,407,598
	¢	<u>4,411,231,371</u>	<u>5,847,744,998</u>

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

		2015	2014
Short-term benefits	¢	1,821,731,849	2,012,799,746
Long-term benefits		236,825,140	261,663,966
Per Diem for Board of Directors		149,609,686	138,528,618
	¢	<u>2,208,166,675</u>	<u>2,412,992,330</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(4) Cash and cash equivalents

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

	2015	2014
Cash and due from Banks	¢ 850,267,856,821	829,976,580,984
Investments with maturities of less than two months	150,736,855,333	175,030,428,177
	¢ 1,001,004,712,154	1,005,007,009,161

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

	2015	2014
<i>Local currency:</i>		
Cash	¢ 39,941,795,481	39,070,745,022
Cash in transit	19,920,450,000	15,112,028,982
BCCR (1)	430,144,490,237	393,336,216,822
Checking accounts and demand deposits	20,334,002,101	14,735,796,667
Outstanding checks and other	3,973,366,581	4,080,795,014
Margin calls for tri-party repurchase agreements	678,054,981	-
<i>Foreign currency:</i>		
Cash	18,728,552,746	13,413,193,044
Cash in transit	1,348,014,034	1,600,659,345
BCCR (1)	210,196,259,805	182,974,796,088
Checking accounts and demand deposits	91,070,197	422,382
Foreign correspondent banks	82,042,623,264	151,045,102,799
Other demand deposits in foreign financial entities	58,446,548	53,607,475
Checking accounts and demand deposits in related parties (note 3)	10,601,795,993	7,799,157,076
Overnight deposits in foreign financial entities	10,581,024,444	4,983,252,613
Outstanding checks and other	1,248,706,648	1,531,717,982
Margin calls for tri-party repurchase agreements	6,112,231	
Guarantee fund of National Stock Exchange	373,051,257	239,089,673
Accrued interest receivable	40,273	-
	¢ 850,267,856,821	829,976,580,984

- (1) Checking accounts and demand deposits in BCCR include the balances of the minimum cash reserves required for each year (see note 2).

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(5) Investments in financial instruments and derivative financial instruments

(a) Investments in financial instruments

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

	2015	2014
<i>Available for sale:</i>		
<u>Local issuers:</u>		
Government of Costa Rica	¢ 496,645,983,004	415,388,939,679
BCCR	197,502,805,066	203,635,312,251
State-owned banks	180,186,806,909	95,892,324,485
Private banks	5,222,907,661	25,390,077,595
Private issuers	5,119,104,420	4,611,733,631
	<u>884,677,607,060</u>	<u>744,918,387,641</u>
<u>Foreign issuers:</u>		
Governments	34,585,082,997	86,334,217,941
Private issuers	71,604,777,235	72,306,895,820
Private banks	107,407,110,198	148,892,008,466
	<u>213,596,970,430</u>	<u>307,533,122,227</u>
	<u>1,098,274,577,490</u>	<u>1,052,451,509,868</u>
<i>Held to maturity:</i>		
Government of Costa Rica	27,030,439,007	27,328,967,634
	<u>27,030,439,007</u>	<u>27,328,967,634</u>
<i>Derivative financial instruments:</i>		
Interest rate futures - Hedges (note 5-b)	12,835,717,440	10,619,377,926
FX futures - Other than hedges (note 5-b)	267,314,375	662,192,854
	<u>13,103,031,815</u>	<u>11,281,570,780</u>
<i>Allowance for impairment:</i>		
Allowance for impairment of investments	(57,672,935)	(57,821,470)
Allowance for impairment of derivative instruments other than hedges	(76,967,726)	(2,678,088)
	<u>(134,640,661)</u>	<u>(60,499,558)</u>
Accrued interest receivable	10,340,806,695	9,791,452,357
	<u>¢ 1,148,614,214,346</u>	<u>1,100,793,001,081</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

		2015	2014
Opening balance	¢	60,499,558	53,668,984
Allowance expense (note 30)		128,016,660	4,216,707
Decrease in allowance charged to profit or loss (note 31)		(53,727,022)	(1,538,619)
Foreign exchange differences		(148,535)	4,152,486
Closing balance	¢	<u>134,640,661</u>	<u>60,499,558</u>

As of December 31, 2015, the allowance for impairment of investments in non-derivative financial instruments amounts to ¢57,672,935 (2014: ¢57,821,470) and is booked for investments in Z Bonds related to the Mortgage Securitization Trust (impairment of 26% for both years).

As of December 31, 2015, the allowance for impairment of derivative instruments other than hedges amounts to ¢76,967,726 (2014: ¢2,678,088) and is booked for FX futures other than hedges in accordance with SUGEF Directive 09-08.

(Continued)



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

	2015	2014
<i>Available-for-sale:</i>		
Securities issued by BCCR	¢ 86,498,225,148	117,955,741,724
Securities issued by local non-financial public sector	340,732,188,259	247,636,568,125
Securities issued by local financial entities	180,134,579,260	124,891,881,361
Securities issued by foreign financial entities	3,224,157,216	18,862,014,392
Financial instruments issued by foreign financial entities	38,087,100,169	68,275,605,974
Other securities issued abroad	33,331,531,136	33,906,883,848
Liquidity market operations – own resources	70,610,640,000	99,666,550,000
Other available-for-sale financial instruments	5,419,785,042	5,431,242,146
Financial instruments restricted for margin calls on term operations (note 2)	-	7,994,461,315
Financial instruments for tri-party repurchase agreements (note 2)	39,664,189,932	38,566,722,512
Financial instruments restricted for credit operations (note 2)	284,002,284,957	288,928,706,371
Financial instruments restricted for liquidity market operations (note 2)	16,106,434,695	-
Other financial instruments (note 2)	463,461,676	335,132,100
	<u>1,098,274,577,490</u>	<u>1,052,451,509,868</u>
<i>Held-to-maturity:</i>		
Securities issued by local non-financial public sector	27,030,439,007	27,328,967,634
	<u>27,030,439,007</u>	<u>27,328,967,634</u>
<i>Derivative financial instruments:</i>		
Interest rate futures - Hedges (note 5-b)	12,835,717,440	10,619,377,926
FX futures - Other than hedges (note 5-b)	267,314,375	662,192,854
	<u>13,103,031,815</u>	<u>11,281,570,780</u>
<i>Allowance for impairment</i>		
Allowance for impairment of investments	(57,672,935)	(57,821,470)
Allowance for impairment of derivative instruments other than hedges	(76,967,726)	(2,678,088)
	<u>(134,640,661)</u>	<u>(60,499,558)</u>
Accrued interest receivable	10,340,806,695	9,791,452,357
¢	<u><u>1,148,614,214,346</u></u>	<u><u>1,100,793,001,081</u></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>2015</u>	<u>2014</u>
Colones	1.25% to 11.04%	4.25% to 11.04%
U.S. dollars	0.25% to 7.63%	0.25% to 7.63%
Euros	0.18 % to 4.75%	0.25% to 4.25%
DU	0.67% to 0.74%	0.67% to 0.74%

As of December 31, 2015, valuation of available-for-sale investments and restricted financial instruments gave rise to a net unrealized gain, net of deferred tax, in the amount of ¢6,655,237,495 (2014: net unrealized gain of ¢618,175,093). Accordingly, as of December 31, 2015, the cumulative balance of equity adjustments arising from valuation of these investments is a net unrealized gain of ¢2,867,809,620 (2014: net unrealized loss of ¢3,787,427,875).

(b) Derivative financial instruments

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

As of December 31, 2015 and 2014, 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.

As of December 31, 2015, total notional amounts of US\$750 million, equivalent to ¢398,955,000,000 (2014: ¢399,982,500,000), are booked under "Other debit memoranda accounts".

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of December 31, 2015, the Bank booked an increase in the fair value of these hedges in the amount of ¢12,835,717,440, equivalent to US\$24,130,009(see note 5-a).

Issuing bank	2015		Purpose
	Notional amount	Valuation	
Citibank	US\$ 100,000,000	US\$ 4,725,793	Swaps to hedge 10-year issues
JP Morgan	200,000,000	9,451,587	
Bank of America	200,000,000	9,451,587	
Subtotal	500,000,000	23,628,967	
Citibank	100,000,000	200,417	Swaps to hedge 5-year issues
JP Morgan	150,000,000	300,625	
Subtotal	250,000,000	501,042	
Total	US\$ 750,000,000	US\$ 24,130,009	
Amount in colones	¢ 398,955,000,000	¢ 12,835,717,440	

As of December 31, 2015, there were no decreases in the fair value of these hedges.

As of December 31, 2014, the Bank booked an increase in the fair value of these hedges in the amount of ¢10,619,377,926, equivalent to US\$19,912,205 (see note 5-a).

Issuing bank	2014		Purpose
	Notional amount	Valuation	
Citibank	US\$ 100,000,000	US\$ 3,982,441	Swaps to hedge 10-year issues
JP Morgan	200,000,000	7,964,882	
Bank of America	200,000,000	7,964,882	
Total	500,000,000	19,912,205	
Amount in colones	¢ 266,655,000,000	¢ 10,619,377,926	

As of December 31, 2014, the Bank booked a decrease in the fair value of these hedges in the amount of ¢206,726,657, equivalent to US\$387,631, under “Other sundry accounts payable” (see note 17).

Issuing bank	2014		Purpose
	Notional amount	Valuation	
Citibank	US\$ 100,000,000	(155,052)	Swaps to hedge 5-year issues
JP Morgan	150,000,000	(232,579)	
Total	US\$ 250,000,000	US\$ (387,631)	
Amount in colones	¢ 133,327,500,000	¢ (206,726,657)	

(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

For purposes of valuing 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, the effectiveness of the valuation of derivative financial instruments is as follows:

	Effective rate	
	2015	2014
5-year issue	107.44%	97.50%
10-year issue	100.48%	112.41%

A valuation was performed as of December 31, 2015 and 2014 in order to calculate the change in the fair value of the primary and derivative instruments based on the following inputs:

- A 5- or 10-year LIBOR rate at the issue of the bond;
- Discount rates from Bloomberg;
- Zero rates corresponding to the swap curve as of December 31, 2015 and 2014;
- Only a portion of the bond cash flows is hedged (corresponding to the 5- and 10-year LIBOR rate in effect at the issue of the bond) rather than the total interest rate;
- Accrued and earned interest were segregated from the instruments to obtain variations in clean prices;
- Forward rate to calculate variable interest.

### ✓ Derivatives for trading purposes:

#### Currency forwards:

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

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

As of December 31, total notional amounts of US\$21,900,000, equivalent to ₡11,649,486,000 (2014: 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

As of December 31, 2015, the Bank booked an increase in the fair value of these forwards in the amount of ¢267,314,375 (2014: ¢662,192,854), under an asset account (see note 5-a) and a decrease in the fair value of ¢17,779,910 as of December 31, 2014 under “Other sundry accounts payable” (see note 17).

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

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

		2015	2014
Gain on derivative financial instruments	¢	35,212,694,463	33,852,436,868
Loss on derivative financial instruments		(24,488,661,522)	(12,237,460,188)
Gain (loss), net	¢	<u>10,724,032,941</u>	<u>21,614,976,680</u>

(6) Loan portfolio

(a) Loan portfolio by sector

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

		2015	2014
Trade	¢	376,806,025,997	346,050,158,255
Services		796,162,829,760	664,830,572,542
Financial services		125,197,166,308	109,161,104,520
Mining		740,793,348	408,526,735
Manufacturing and quarrying		154,988,964,935	157,211,033,158
Construction		88,630,791,109	72,841,393,278
Agriculture and forestry		109,941,332,285	107,959,101,016
Livestock, hunting, and fishing		64,738,300,126	60,329,212,920
Electricity, water, sanitation, and other related sectors		347,407,634,466	269,517,208,860
Transportation and telecommunications		26,464,717,118	20,347,758,445
Housing		1,108,935,164,745	1,054,252,479,390
Personal or consumer loans		364,732,599,797	347,528,047,842
Tourism		136,755,821,966	121,137,622,708
Total direct loans		<u>3,701,502,141,960</u>	<u>3,331,574,219,669</u>
Accrued interest receivable		25,154,673,605	21,715,928,888
Allowance for loan impairment		(62,968,882,979)	(49,838,574,099)
Total loan portfolio	¢	<u>3,663,687,932,586</u>	<u>3,303,451,574,458</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:

Currency	2015		2014	
	Rates	Average (1)	Rates	Average (1)
Colones	5.95% to 34.92%	14.32%	6.25% to 34.92%	15.20%
U.S. dollars	3.00% to 27.96%	8.38%	3.25% to 27.96%	8.35%
DU	3.85% to 11.00%	6.50%	3.85% to 10.00%	6.39%

(1) is weighted average by outstanding value of the loan portfolio at December 31, 2015 and 2014.

Sale of portfolio

In 2015, the Bank did not perform portfolio sales. During 2014 the Bank partially assigned certain formalized loans to entities. The portfolio was sold at par; accordingly, no gains or losses were generated.

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

As of December 31, 2014, the sales prices of the sold portfolio are as follows:

<u>Purchaser</u>	<u>Sales Price</u>
Banco BICSA Panamá	US\$ 33,500,000
Asociación Solidarista de Empleados del BNCR	19,500,000
Bancrédito (BCAC)	15,000,000
Banco Davivienda	27,000,000
Global Bank de Panamá	19,550,000
Total	US\$ <u>114,550,000</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(b) Loan portfolio by arrears

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

	2015	2014
Current	¢ 3,491,758,501,550	3,143,210,637,508
1 to 30 days	54,239,972,503	56,467,793,117
31 to 60 days	51,342,045,126	42,853,384,472
61 to 90 days	18,171,340,010	17,939,113,286
91 to 120 days	10,014,328,343	11,214,144,396
121 to 180 days	13,749,242,525	11,470,895,350
More than 180 days	62,226,711,903	48,418,251,540
Total direct loans	3,701,502,141,960	3,331,574,219,669
Accrued interest receivable	25,154,673,605	21,715,928,888
Allowance for loan impairment	(62,968,882,979)	(49,838,574,099)
Total loan portfolio	¢ 3,663,687,932,586	3,303,451,574,458

(c) Loan portfolio by origin

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

	2015	2014
Loans originated by the Bank	¢ 3,701,441,568,101	3,331,508,652,889
Loans purchased by the Bank	60,573,859	65,566,780
Total direct loans	3,701,502,141,960	3,331,574,219,669
Accrued interest receivable	25,154,673,605	21,715,928,888
Allowance for loan impairment	(62,968,882,979)	(49,838,574,099)
Total loan portfolio	¢ 3,663,687,932,586	3,303,451,574,458

As of December 31, 2015 and 2014, loans purchased by the Bank were purchased from BICSA.

(d) Past due loans

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

	2015	2014
Past due loans in accrual status: 20,442 loans (2014: 17,843 loans)	¢ 148,279,853,379	115,703,988,334
Loans in legal collection: 6,590 loans, 2.33% of portfolio (2014: 6,025 loans, 2.16% of portfolio)	¢ 86,287,327,716	72,120,002,831
Total unearned interest in 2015 and 2014	¢ 2,037,606,104	424,946,962

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

During the years ended December 31, 2015 and 2014, the Bank recorded in suspense accounts related unearned interest to recovery of accounts receivable with arrears over 180 days, the amount of ¢2,037,606,104 (increases) and ¢424,946,962 (increases), respectively.

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

(e) Accrued interest receivable on loan portfolio

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

	2015	2014
Current	¢ 14,386,339,789	13,020,543,628
Past due	2,457,638,279	2,328,423,142
In legal collection	8,310,695,537	6,366,962,118
	<u>¢ 25,154,673,605</u>	<u>21,715,928,888</u>

(f) Allowance for loan impairment

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

	2015	2014
Opening balance	¢ 49,838,574,099	45,646,182,874
Expense for the year (note 30)	30,936,117,232	26,164,806,164
Settlements	(17,763,386,035)	(21,708,233,163)
Decrease in allowance charged to profit or loss (note 31)	-	(1,200,000,000)
Foreign exchange differences	(42,422,317)	935,818,224
Closing balance	<u>¢ 62,968,882,979</u>	<u>49,838,574,099</u>

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

(Continued)



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(7) Other receivables

As of December 31, other receivables are as follows:

	2015	2014
Fees and commissions	¢ 1,073,457,946	1,011,708,508
Stock exchange transactions	34,120	9,121,769
Transactions with related parties (note 3)	-	1,444,411
Transactions with related parties (officers and employees)	180,506,172	26,144,755
Deferred tax (note 15-c)	832,024,366	1,667,869,346
Income tax	2,630,373,656	2,623,590,564
Other sundry accounts	3,567,482,304	3,159,168,189
Accrued interest receivable on other sundry accounts receivable	1,990,138	2,572,781
Allowance for impairment of other accounts receivable	(5,920,917,785)	(5,361,359,410)
	¢ <u>2,364,950,917</u>	<u>3,140,260,913</u>

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

	2015	2014
Opening balance	¢ 5,361,359,410	2,303,226,624
Allowance expense (note 30)	1,332,435,789	4,558,394,588
Decrease in allowance charged to profit or loss (note 31)	(128,906,016)	(1,014,031,493)
Items settled against allowance	(642,663,621)	(495,113,902)
Foreign exchange differences	(1,307,778)	8,883,593
Closing balance	¢ <u>5,920,917,785</u>	<u>5,361,359,410</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(8) Foreclosed assets

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

	2015	2014
Assets acquired in lieu of payment	¢ 78,575,996,987	76,541,792,707
Idle property and equipment	1,770,509	1,756,777
Allowance for impairment	(61,161,022,915)	(57,188,491,454)
	¢ <u>17,416,744,581</u>	<u>19,355,058,030</u>

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

	2015	2014
Opening balance	¢ 57,188,491,454	56,007,912,290
Allowance expense (note 34)	4,847,672,218	6,842,937,337
Liquidation of foreclosed assets	(83,315,000)	-
Decrease in allowance charged to profit or loss	(791,825,757)	(5,662,358,173)
Closing balance	¢ <u>61,161,022,915</u>	<u>57,188,491,454</u>

(9) Investments in other companies

Investments in other companies are as follows:

	2015	2014
Other financial and non-financial companies	¢ 50,623,300	50,623,300
Banco Internacional de Costa Rica, S.A. and Subsidiary (BICSA)	53,508,454,956	49,805,156,511
	¢ <u>53,559,078,256</u>	<u>49,855,779,811</u>

The Bank holds a 49% ownership interest in BICSA, which is represented in 2015 and 2014 by 6,506,563 ordinary shares of US\$10 par value each.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

As of December 31, the Group's investments in other companies are as follows:

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(10) Property and equipment

As of December 31, 2015, property and equipment is as follows:

	Land	Buildings	Furniture and equipment	Computer hardware	Vehicles	Total
<i>Cost:</i>						
Opening balance	¢ 43,172,317,837	110,297,273,275	54,512,881,977	53,524,427,013	453,581,087	261,960,481,189
Additions	-	15,381,426,392	5,700,436,805	5,239,146,948	-	26,321,010,145
Revaluation of assets	3,518,297,616	(5,692,905,154)	-	-	-	(2,174,607,538)
Disposals	-	-	(1,168,746,773)	(755,807,411)	(2,593,675)	(1,927,147,859)
Others	(76,525,727)	(201,595,542)	4,009,822	(65,653,224)	60,920	(339,703,751)
Closing balance	46,614,089,726	119,784,198,971	59,048,581,831	57,942,113,326	451,048,332	283,840,032,186
<i>Accumulated depreciation:</i>						
Opening balance	-	26,840,836,640	27,066,836,852	40,296,173,459	290,977,528	94,494,824,479
Depreciation expense on historical cost	-	1,132,988,745	4,798,710,357	4,953,096,361	32,761,018	10,917,556,481
Depreciation expense on revaluation	-	1,506,603,638	-	-	-	1,506,603,638
Disposals	-	-	(784,998,542)	(693,841,758)	(2,322,599)	(1,481,162,899)
Others	-	224,400,190	90,754,264	59,539,002	30,277	374,723,733
Closing balance	-	29,704,829,213	31,171,302,931	44,614,967,063	321,446,223	105,812,545,430
Net closing balance	¢ 46,614,089,726	90,079,369,758	27,877,278,900	13,327,146,264	129,602,109	178,027,486,757

As of December 31, 2015, appraisals were made of the Group's land and buildings by independent appraisers. The effect on the accounts is detailed above.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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
Disposals		-	-	(3,035,477,512)	(3,612,495,106)	(1,222,260)	(6,649,194,878)
Others		-	(1,939,628,547)	68,637,083	(98,411,102)	19,600	(1,969,382,962)
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	245,537,132	90,915,071,020
Depreciation expense on historical cost		-	1,586,922,291	4,368,717,814	4,583,882,623	46,643,056	10,586,165,784
Depreciation expense on revaluation		-	1,462,442,151	-	-	-	1,462,442,151
Disposals		-	-	(2,604,310,413)	(3,598,280,966)	(1,222,260)	(6,203,813,639)
Others		-	(2,434,802,679)	145,392,976	24,558,471	19,600	(2,265,040,837)
Closing balance		-	26,840,836,640	27,066,836,852	40,296,173,459	290,977,528	94,494,824,479
Net closing balance	¢	43,172,317,837	83,456,436,635	27,446,045,125	13,228,253,554	162,603,559	167,465,656,710

(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:

	2015	2014
<i>Deferred charges:</i>		
Leasehold improvements	¢ 1,207,934,825	831,999,093
Cost of issue of financial instruments (3)	1,175,391,199	1,401,680,466
Cost of subordinated debt project	546,893,248	615,917,148
Deferred direct costs related to loans	6,080,470,185	13,834,802,293
Other deferred charges	3,649,191,521	4,973,694,393
Subtotal	12,659,880,978	21,658,093,393
<i>Intangible assets:</i>		
Software (2)	3,988,941,169	4,500,259,966
Other intangible assets (2)	2,273,092	2,487,278
Subtotal	3,991,214,261	4,502,747,244
<i>Other assets:</i>		
Prepaid interest and fees and commissions	217,253,376	218,164,300
Estimated tax	21,086,292	393,627,806
Prepaid insurance policy	255,446,560	274,222,485
Other prepaid expenses	384,854,631	728,793,671
Stationery, office supplies, and other materials	391,707,623	377,118,432
Leased assets	102,151,718	149,956,917
Library and artwork	341,297,151	342,335,900
Construction work-in-progress	2,823,622,889	17,031,899,617
Software under development	289,048,089	254,109,573
Rights in welfare and trade associations	600,000	600,000
Other sundry assets	2,580,658,839	1,784,494,330
Operations pending settlement	2,100,268,728	3,179,252,421
Other operations pending application	380,637,065	452,187,725
Guarantee deposits (1)	347,688,068	255,640,680
Legal and administrative deposits (1)	161,601,328	78,912,799
Subtotal	10,397,922,358	25,521,316,656
Total	¢ 27,049,017,597	51,682,157,293

(1) As of December 31, 2014, guarantee deposits amount to ¢509,289,396 (2014: ¢334,553,479) (see note 2).

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(2) As of December 31, 2015, intangible assets, net are as follows:

		Software	Other intangible assets	Total
<i>Cost:</i>				
Opening balance	¢	19,066,822,045	96,516,837	19,163,338,882
Additions		1,664,403,003	8,776,518	1,673,179,521
Disposals		(169,055,790)	-	(169,055,790)
Others		(26,960,688)	(8,990,704)	(35,951,392)
Closing balance		20,535,208,570	96,302,651	20,631,511,221
<i>Accumulated amortization:</i>				
Opening balance		14,566,562,079	94,029,559	14,660,591,638
Expense for the year		2,141,179,018	8,990,704	2,150,169,722
Disposals		(99,492,813)	(8,990,704)	(108,483,517)
Others		(61,980,883)	-	(61,980,883)
Closing balance		16,546,267,401	94,029,559	16,640,296,960
Net closing balance	¢	3,988,941,169	2,273,092	3,991,214,261

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
Disposals		(265,209,329)	-	(265,209,329)
Others		(99,974,194)	(9,949,112)	(109,923,306)
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
Disposals		(243,437,183)	-	(243,437,183)
Others		-	(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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- (3) As of December 31, 2015, costs related to the issue of financial instruments are as follows:

	5-year issue	10-year issue	Total
Commission - structuring banks ¢	265,970,000	265,970,000	531,940,000
Commission - Moody's Investors Service	132,985,000	132,985,000	265,970,000
Commission - Société de la Bourse de Luxembourg, S.A.	6,500,839	6,500,839	13,001,678
RR Donelley	5,823,147	5,823,126	11,646,273
BNY Mellon	2,102,759	2,102,759	4,205,518
Moody's - issuer rating	17,607,214	17,607,214	35,214,428
Fitch Ratings	132,985,000	132,985,000	265,970,000
Milbank	78,280,290	78,280,290	156,560,580
Shearman & Sterling	78,381,891	78,381,891	156,763,782
External audit	101,068,600	101,068,600	202,137,200
Subtotal	821,704,740	821,704,719	1,643,409,459
Deferral	(331,073,839)	(136,944,421)	(468,018,260)
Total ¢	490,630,901	684,760,298	1,175,391,199

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	11,676,268
BNY Mellon	2,108,174	2,108,174	4,216,348
Moody's - issuer rating	17,652,561	17,652,561	35,305,122
Fitch Ratings	133,327,500	133,327,500	266,655,000
Milbank	78,481,900	78,481,900	156,963,800
Shearman & Sterling	78,583,762	78,583,762	157,167,524
External audit	101,328,900	101,328,900	202,657,800
Subtotal	823,821,024	823,821,002	1,647,642,026
Deferral	(174,321,409)	(71,640,151)	(245,961,560)
Total ¢	649,499,615	752,180,851	1,401,680,466

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:

	2015	2014
<i>Demand obligations:</i>		
Checking accounts	¢ 1,286,985,762,872	1,198,704,476,197
Certified checks	95,816,002	103,521,169
Savings deposits	1,149,490,351,138	1,015,801,186,963
Matured term deposits	21,175,066,864	19,745,314,768
Other demand deposits	6,039,745,640	24,057,553,654
Drafts and transfers	208,837,724	198,809,563
Cashier's checks	4,722,486,424	6,126,485,979
Advance collections from customers for credit cards	7,322,184,118	7,450,712,822
Obligations for trust funds	20,118,205	118,941,092
Subtotal	<u>2,476,060,368,987</u>	<u>2,272,307,002,207</u>
<i>Term obligations:</i>		
Deposits from the public	1,351,925,567,103	1,308,840,107,479
Other term deposits	83,752,218,012	79,219,422,491
Subtotal	<u>1,435,677,785,115</u>	<u>1,388,059,529,970</u>
<i>Other obligations with the public:</i>		
Obligations for tri-party repurchase agreements	36,683,915,704	31,028,841,773
Subtotal	<u>36,683,915,704</u>	<u>31,028,841,773</u>
Charges payable for obligations with the public	20,485,251,995	19,356,766,578
Total	<u>¢ 3,968,907,321,801</u>	<u>3,710,752,140,528</u>

As of December 31, 2015, deposits in checking accounts denominated in colones bear interest at a maximum rate of 1.50% per annum (2014: 2% per annum) on balances and at a minimum rate of 0.00% per annum (2014: 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 (2014: 0.05% per annum) on balances and at a minimum rate of 0.00% per annum (2014: 0.01% per annum) on balances greater than or equal to US\$1,000.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

<u>Currency</u>	<u>2015</u>	<u>2014</u>
Colones	1.15% to 7.60%	3.52% to 7.05%
U.S. dollars	0.10% to 5.00%	0.50% to 2.15%
Euros	0.01% to 0.05%	0.02% to 0.10%

The Bank has term certificates of deposit that are restricted to secure certain loan operations. As of December 31, 2015, those term certificates of deposit amount to ¢30,173,842,271 (2014: ¢23,805,901,801). 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:

	<u>2015</u>	<u>2014</u>
<i>Obligations with the public:</i>		
Demand	1,846,797	1,777,763
Term	65,282	64,441

(13) Obligations with BCCR

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

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

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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:

	2015	2014
<i>Demand:</i>		
Checking accounts with local financial entities	¢ 135,826,173,704	123,921,208,197
Savings deposits from local financial entities	40,013,665	38,289,746
FCD fund management	133,455,307,294	156,295,635,782
Outstanding checks	2,681,849,500	3,421,821,488
Checking accounts and obligations with related parties	25,933,333	463,489,825
Other demand obligations with financial entities	545,192,429	443,472,759
Subtotal	<u>272,574,469,925</u>	<u>284,583,917,797</u>
<i>Term:</i>		
Term deposits from local financial entities	46,549,514,521	6,135,267,119
Notes issued to foreign financial entities (3)	539,553,389,165	537,734,760,627
Funds from liquidity market	12,825,000,000	2,500,000,000
Loans from local financial entities	3,303,090,254	1,375,000,000
Loans from foreign financial entities (1)(2)	328,230,055,419	250,664,789,736
Subtotal	<u>930,461,049,359</u>	<u>798,409,817,482</u>
Charges payable for other demand and term obligations with financial entities –foreign currency	45,675,752	4,375,166
Charges payable for other demand and term obligations with financial entities –local currency	322,092,919	73,523,264
Charges payable for loans with foreign financial entities (1)	1,738,990,390	1,501,293,430
Charges payable for loans with local financial entities	11,536,232	7,476,562
Charges payable for term deposits from foreign financial entities (3)	4,931,527,108	4,944,228,129
Subtotal	<u>7,049,822,401</u>	<u>6,530,896,551</u>
Total	<u>¢ 1,210,085,341,685</u>	<u>1,089,524,631,830</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	
	2015	2014	2015	2014	2015	2014
CABEI	1.09% to 6.90%	4.55% to 8.00%	2016 to 2021	2015 to 2021	¢ 15,589,747,903	21,430,327,428
Barclays	2.03% to 3.15%	6.20% to 6.65%	2023 to 2029	2023 to 2029	66,839,055,216	67,011,197,761
Citibank	2.32% to 3.15%	2.99%	2016	2016 to 2017	127,469,324,529	106,946,722,562
Commerce, N.A. Miami	2.48%	-	2016	-	10,712,628,929	-
Credit Suisse Bank	3.75%	3.58%	2017	2017	56,693,536,210	56,777,835,415
Deutsche Bank Ag New York	4.54% to 4.55%	-	2016	-	8,788,913,600	-
Wells Fargo Bank	3.32% to 6.65%	-	2016	-	28,229,138,633	-
JPMorgan Chase Bank National	4.63% to 6.20%	-	2016	-	8,005,846,918	-
KFW-KREDINTANSTALT FUER WIEDERAUF	3.32% to 6.20%	-	2023	-	7,640,853,871	-
					¢ 329,969,045,809	252,166,083,166

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

Loans due to foreign financial entities bear interest at rates ranging between 1.09% and 6.90% per annum (2014: between 2.99% 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 ¢537,695,741,595 in 2015 (2014: ¢529,051,519,650) 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 1st, 2018

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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 1st, 2023

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

2015			
	5-year issue	10-year issue	Total
Issue	¢ 265,291,954,796	272,403,786,799	537,695,741,595
Adjustment to fair value of item hedged measured at cost of international issues	(1,308,900,128)	2,038,284,564	729,384,436
Amortization of discount in traded amount of issues	716,915,358	411,347,776	1,128,263,134
Subtotal	264,699,970,026	274,853,419,139	539,553,389,165
Charges payable	2,161,006,250	2,770,520,858	4,931,527,108
Total	¢ 266,860,976,276	277,623,939,997	544,484,916,273

  

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

A valuation was performed as of December 31, 2015 and 2014 in order to calculate the change in the fair value of the primary instrument based on the following inputs:

- A 5- or 10-year LIBOR rate at the issue of the bond;
- Discount rates from Bloomberg;
- Zero rates corresponding to the swap curve as of December 31, 2015 and 2014;

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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.

For the year ended December 31, 2015, the Bank booked an increase in the fair value of these issues in the amount of ¢23,860,842,948 under “Other finance income” (2014: ¢11,354,254,000) (see note 28). For the year ended December 31, 2015, the Bank booked a decrease in the fair value of these issues in the amount of ¢26,560,630,673 under “Other finance expense”. The balance of this account amounts to a total of ¢27,087,497,352 (2014: ¢32,412,368,057).

Maturities of loans due to entities

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

	2015		
	Local	Foreign	Total
Less than 1 year	-	183,472,534,284	183,472,534,284
Between 1 and 2 years	879,757,812	56,693,536,210	57,573,294,022
Between 3 and 5 years	125,644,412	4,794,632,376	4,920,276,788
More than 5 years	2,434,868,674	85,008,342,939	87,443,211,613
¢	<u>3,440,270,898</u>	<u>329,969,045,809</u>	<u>333,409,316,707</u>
	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>

As of December 31, 2015 and 2014, loans due to local entities correspond to obligations with Banco Crédito Agrícola de Cartago and BCCR.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(b) Subordinated obligations

As of December 31, 2015, the Bank's subordinated obligations are as follows:

Entity	Annual interest rate	Term	Maturity		2015	2014
IDB	6-month LIBOR + 4.50% in the first 5 years and 6-month LIBOR + 5.00% thereafter	10 years	05/27/2024	US\$	100,000,000	100,000,000
CABEI	6-month LIBOR + 5.25% in the first 5 years and 6-month LIBOR + 5.75% thereafter	15 years	10/23/2029		30,000,000	30,000,000
Total				US\$	130,000,000	130,000,000
Total in colones				¢	69,152,200,000	69,330,300,000
Finance charges payable					1,195,185,713	1,027,971,862
				¢	70,347,385,713	70,358,271,862

For the year ended December 31, 2015, the Bank presents no instances of noncompliance with payments of principal or interest.

As of December 31, 2015, interest payable on subordinated liabilities amount to US\$2,246,843, equivalent to ¢1,195,185,713 (2014: US\$1,927,532 equivalent to ¢1,027,971,862)

In accordance with IRNBS No. 1644, the debt of State-owned commercial banks will be secured with guarantees issued by the Government and all its divisions and institutions. Government guarantees provided for in the aforementioned regulations 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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(15) Income tax

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

a) Current tax

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

	2015	2014
<i>Current tax:</i>		
Current tax expense	¢ 10,488,010,071	12,699,481,806
Decrease in income tax for the year	(1,266,321,377)	(314,765,092)
Decrease in prior period income tax	-	(5,529,340)
Total current tax expense, net	9,221,688,694	12,379,187,374
<i>Deferred tax:</i>		
Deferred tax expense	82,458,436	155,867,869
Deferred tax income	(222,894,705)	(170,867,304)
Total deferred tax income, net	(140,436,269)	(14,999,435)
Total income tax expense, net	¢ 9,081,252,425	12,364,187,939

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

	2015	2014
Income before income tax	¢ 57,922,080,612	63,560,391,041
Plus (less):		
Non-deductible expenses	42,593,502,195	32,351,850,820
Deductible expenses	(66,183,133,607)	(48,075,927,385)
Non-taxable income	(3,593,486,889)	(6,631,283,573)
Tax base	¢ 30,738,962,311	41,282,389,047
Tax rate	30%	30%
Subtotal income tax expense	¢ 9,221,688,694	12,384,716,714
Decrease in prior period income tax	-	(5,529,340)
Deferred tax expense	82,458,436	155,867,869
Deferred tax income	(222,894,705)	(170,867,304)
Total income tax expense, net	¢ 9,081,252,425	12,364,187,939

(Continued)



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

b) Decrease in prior period income tax

	2015	2014
Decrease in Pension Fund Manager's prior period income tax	-	1,743,205
Decrease in Insurance Brokerage Firm's prior period income tax	-	3,785,135
	¢ <u>-</u>	<u>5,529,340</u>

c) Deferred tax

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

	2015	2014
Unrealized losses	503,251,464	1,484,152,904
Tax base of furniture and equipment	1,127	-
Legal provisions	328,771,775	183,716,442
Subtotal	¢ <u>832,024,366</u>	<u>1,667,869,346</u>

As of December 31, 2015, movement in temporary differences that give rise to deferred tax assets is as follows:

	December 31, 2014	Included in income statement	Included in equity	December 31, 2015
Unrealized losses	1,484,152,904	-	(980,901,440)	503,251,464
Legal provisions	¢ <u>183,716,442</u>	<u>145,056,460</u>	-	328,772,902
	¢ <u>1,667,869,346</u>	<u>145,056,460</u>	<u>(980,901,440)</u>	<u>832,024,366</u>

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	¢ <u>168,717,007</u>	<u>14,999,435</u>	-	183,716,442
	¢ <u>2,178,648,250</u>	<u>14,999,435</u>	<u>(525,778,339)</u>	<u>1,667,869,346</u>

(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:

		2015	2014
Revaluation of assets	¢	11,524,732,937	13,283,636,328
Unrealized gains		3,787,978,234	883,882,942
	¢	<u>15,312,711,171</u>	<u>14,167,519,270</u>

As of December 31, 2015, movement in temporary differences that give rise to deferred tax liabilities is as follows:

	December 31, 2014	Included in income statement	Included in equity	December 31, 2015
Revaluation of assets	¢ 13,283,636,328	-	(1,758,903,391)	11,524,732,937
Unrealized gains	883,882,942	4,789,080	2,899,306,212	3,787,978,234
	¢ <u>14,167,519,270</u>	<u>4,789,080</u>	<u>1,140,402,821</u>	<u>15,312,711,171</u>

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

	December 31, 2013	Included in income statement	Included in equity	December 31, 2014
Revaluation of assets	¢ 13,605,138,374	-	(321,502,046)	13,283,636,328
Unrealized gains	671,583,288	-	212,299,654	883,882,942
	¢ <u>14,276,721,662</u>	<u>-</u>	<u>(109,202,392)</u>	<u>14,167,519,270</u>

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

Tax returns filed by the Group for the years ended December 31, 2011, 2012, 2013, 2014 and the tax return that will be filed for the year ended December 31, 2015, are open to review by Tax Authorities.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(16) Provisions

As of December 31, provisions are as follows:

		2015	2014
Severance benefits	¢	19,351,170,766	28,436,142,592
Litigation		4,759,970,548	2,680,918,923
Other		11,810,578,826	8,385,833,140
	¢	<u>35,921,720,140</u>	<u>39,502,894,655</u>

Movement in provisions is as follows:

		Severance benefits	Litigation	Other	Total
Balance at December 31, 2013	¢	32,453,960,945	9,468,849,446	8,200,794,771	50,123,605,162
Provisioned		9,942,742,999	1,333,646,570	7,986,651,475	19,263,041,044
Used		(13,959,071,684)	(387,507,370)	(7,127,857,931)	(21,474,436,985)
Decrease on provisions against profit		(1,489,668)	(7,734,069,723)	(673,755,175)	(8,409,314,566)
Balance at December 31, 2014	¢	28,436,142,592	2,680,918,923	8,385,833,140	39,502,894,655
Provisioned		8,479,879,789	2,775,512,681	14,115,568,588	25,370,961,058
Used		(13,998,174,006)	(540,345,355)	(6,429,604,978)	(20,968,124,339)
Decrease on provisions against profit		(3,566,677,609)	(156,115,701)	(4,261,217,924)	(7,984,011,234)
Balance at December 31, 2015	¢	<u>19,351,170,766</u>	<u>4,759,970,548</u>	<u>11,810,578,826</u>	<u>35,921,720,140</u>

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

		2015	2014
Ordinary suits	¢	3,922,523,187	1,998,040,666
Ordinary suits against subsidiaries		421,304,428	265,110,324
Phishing		416,142,933	417,767,933
	¢	<u>4,759,970,548</u>	<u>2,680,918,923</u>

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

As of December 31, 2015 and 2014, the Group is a defendant in litigation and management considers that an outflow of economic benefits will be required to settle the corresponding obligations. The Bank has estimated future outflows and made the following provisions:

- Ordinary suits filed against the Bank have been estimated at ¢62,174,427,307 (2014: ¢65,961,788,888) and US\$324,983,715 equivalent to ¢172,842,447,901 (2014: US\$341,991,608 equivalent to ¢184,248,929,228). Management of the Bank has provisioned ¢3,922,523,187 (2014: ¢1,998,040,666) 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 ¢398,430,775 (2014: ¢427,042,800). 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 ¢1,486,333,665 (2014: ¢2,703,131,086). 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 ¢421,304,428 (2014: ¢265,110,324).
  - The provision recognized by the Pension Fund Manager amounts to ¢288,110,324 (2014: ¢265,110,324).
  - The provision booked by the Investment Fund Manager amounts to ¢133,194,104.
  - The Brokerage Firm and Insurance Brokerage Firm have not booked provisions for pending litigation in 2015 or 2014.
- As of December 31, 2015, the Bank faces 514 administrative actions related to Internet fraud (phishing) for a total of ¢416,142,933 (2014: 514 administrative actions for a total of ¢417,767,933). The Bank has provisioned 100% of that amount.

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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:

	2015	2014
Professional fees	¢ 1,604,376	3,220,299
Creditors - goods and services	3,111,297,196	2,729,365,999
Current tax	1,910,214,591	10,829,011,751
Employer contributions (1)	8,375,642,825	9,152,489,769
Court-ordered withholdings	3,105,351,390	2,601,809,304
Tax withholdings	2,721,503,637	839,701,237
Employee withholdings	570,210,272	543,289,264
Other third-party withholdings	16,570,398	24,442,456
Compensation	6,753,067,878	6,962,434,513
Dividends	-	1,151,259
Statutory allocations	12,097,287,024	11,601,170,413
Clearing house operations	513,780,850	4,414,157,187
Accrued vacation	6,575,901,665	6,322,729,792
Accrued statutory Christmas bonus	1,446,425,804	1,633,351,748
Contributions to superintendencies	7,323,169	9,071,297
Foreclosed assets	117,483,268	502,916,892
Various creditors - Local currency (2)	6,713,672,996	7,222,492,680
Various creditors - Foreign currency	3,690,218,750	4,539,087,339
Interest rate futures - Hedges (note 5-b)	-	206,726,657
FX futures - Other than hedges (note 5-b)	-	17,779,910
	¢ <u>57,727,556,089</u>	<u>70,156,399,766</u>

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

(2) As of December 31, 2015, the “Creditors – goods and services” item includes ¢2436.35 million (2014: ¢956.3 million) for the operations of the Bank’s Electronic Means of Payment Division (Visa). The remaining amount corresponds to normal operations of other divisions.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(18) Other liabilities

As of December 31, other liabilities are as follows:

	2015	2014
<i>Deferred income:</i>		
Deferred finance income	¢ 14,699,323,266	8,985,345,777
Deferred fees and commissions for trust management	16,916,474	17,605,208
Other	1,718,317	311,487
Subtotal	<u>14,717,958,057</u>	<u>9,003,262,472</u>
Allowance for stand-by credit losses (1)	<u>1,545,597,997</u>	<u>1,319,693,076</u>
<i>Operations pending application:</i>		
Operations pending settlement	20,341,189,654	16,684,027,434
Other	5,806,697,159	7,077,390,105
Subtotal	<u>26,147,886,813</u>	<u>23,761,417,539</u>
Total	<u>¢ 42,411,442,867</u>	<u>34,084,373,087</u>

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

	2015	2014
Opening balance	¢ 1,319,693,076	138,964,729
Allowance expense charged to profit or loss (note 30)	228,413,037	1,196,180,293
Adjustment for foreign exchange differences	(2,508,116)	34,548,054
Decrease in allowance charged to profit or loss (note 31)	-	(50,000,000)
Closing balance	<u>¢ 1,545,597,997</u>	<u>1,319,693,076</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(19) Equity

(a) Share capital

The Group's share capital is as follows:

		2015	2014
Capital under Law No. 1644	¢	90,511,345,645	90,511,345,645
Bank capitalization bonds		27,618,957,837	27,618,957,837
	¢	<u>118,130,303,482</u>	<u>118,130,303,482</u>

On December 23, 2008, the Executive Branch of the Costa Rican Government authorized a capital contribution funded under Law No. 8703 "Amendment to Law No. 8627 on the Ordinary and Extraordinary Budget of the Republic for Tax Year 2008." Such law grants funds to capitalize three State-owned banks, including 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, 2015 and based on the exchange rate as of that date, the balance of those investments is ¢27,030,439,007 (2014: ¢27,328,967,634) (see note 5-a).

(b) Revaluation surplus

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

As of December 31, 2015, revaluation surplus amounts ¢63,572,929,305 (2014: ¢63,639,596,055).

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

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

As of December 31, 2015 and 2014, the adjustment for valuation of available-for-sale investments and restricted financial instruments amounts to ¢2,867,809,620 (unrealized gain) and ¢3,787,427,875, respectively.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(d) Adjustment for valuation of investments in other companies

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

As of December 31, 2015, the adjustment for valuation of investments in foreign associates by the equity method amounts to ¢7,084,626,651 (2014: ¢6,329,906,321). These investments correspond to the Bank's 49% ownership interest in BICSA and Subsidiary.

(e) Equity reserves

As of December 31, equity reserves are as follows:

	2015	2014
Legal reserve	¢ 237,909,153,277	209,058,123,505
Statutory reserve for foreclosed assets	110,915,646	85,097,647
Excess of statutory reserve for loans	4,456,681,706	2,574,576,547
Statutory dynamic provision	5,307,802,621	5,177,759,218
	¢ 247,784,553,250	216,895,556,917

(f) Equity of the Development Financing Fund

As of December 31, 2015, the allocation of the Bank's earnings to increasing the capital of the Development Financing Fund (FOFIDE) amounts to ¢18,144,863,035 (2014: ¢14,548,173,826).

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(20) Commitments and contingencies

The Group 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:

		2015	2014
Performance bonds	¢	29,834,393,474	37,617,018,016
Bid bonds		2,347,050,585	2,054,648,682
Other guarantees		3,759,924,499	2,423,528,942
Letters of credit		13,289,869,206	7,103,231,794
Credits pending disbursement		325,733,653	340,507,165
Subtotal		49,556,971,417	49,538,934,599
Pre-approved lines of credit		221,702,170,194	195,705,059,566
Other contingencies not related to credits		636,737,855	251,337,221
Other contingencies - Pending litigation and lawsuits (note 43)		236,455,213,089	250,486,494,640
Subtotal		458,794,121,138	446,442,891,428
FX futures - Other than hedges (note 5-b)		11,649,486,000	15,273,998,400
Total	¢	520,000,578,556	511,255,824,426

Letters of credit, guarantees, and sureties granted expose the Group to credit loss in the event of noncompliance by the customer. The Group'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 Group to credit risk since fees and commissions and losses are recognized in the consolidated balance sheet until the commitments are fulfilled or expire.

The Group 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:

	2015	2014
<i>Contingencies without prior deposit:</i>		
Letters of credit	¢ 11,003,257,130	5,928,406,427
Guarantees and sureties granted	33,128,498,114	37,928,171,005
Subtotal	44,131,755,244	43,856,577,432
<i>Contingencies with prior deposit:</i>		
Letters of credit	2,286,612,076	1,174,825,367
Guarantees and sureties granted	2,812,870,444	4,167,024,634
Subtotal	5,099,482,520	5,341,850,001
Credits pending disbursement	325,733,653	340,507,166
Total	¢ 49,556,971,417	49,538,934,599

(21) Trust assets (unaudited)

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, 2015, trust capital is invested in the following assets (unaudited):

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	¢ 148,894,085	4,389,161	1,480,868	5,439,696	-	-	8,524	-	53,194	-	160,265,528
Investment securities and term deposits	173,308,850,241	3,318,357,098	632,840,950	666,494,365,872	1,308,640,716	-	1,910,201	-	427,474,888	-	845,492,439,966
Loan portfolio	2,579,120,499	-	1,101,433,290	-	-	-	-	-	-	-	3,680,553,789
Accounts and accrued interest receivable	6,543,291,846	4,497,133	1,890,341,950	23,285,645	5,233	-	-	27,607,335	-	-	8,489,029,143
Foreclosed assets	33,272,382	-	2,667,915	-	-	-	-	-	-	-	35,940,297
Investments in other companies	1,209,954,431	-	-	-	2,332,000	2,396,000	-	-	-	851,104,000	2,065,786,431
Property and equipment	971,990,872	52,812,621,086	-	69,174,908,361	-	-	-	1,544,041,161	-	-	124,503,561,480
Other assets	636,702,993	-	22,428,776	1,795,655,250	1,739,949	-	-	-	5,591,597	-	2,462,118,565
Total	¢ 185,432,077,349	56,139,864,478	3,651,193,749	737,493,654,824	1,312,717,899	2,396,000	1,918,725	1,571,648,496	433,119,679	851,104,000	986,889,695,199

As of December 31, 2014, trust capital is invested in the following assets (unaudited):

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

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## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

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

a) Housing mortgage

These trusts are exclusively dedicated to managing housing loan portfolios.

b) Cash or property management

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

c) Securitization

These trusts are used to obtain funds from 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:

	2015	2014
Pension Fund Manager's own investments in custody – Face value of principal (unaudited) ¢	5,514,300,000	5,266,646,500
Pension Fund Manager's own investments in custody – Coupons (unaudited)	2,105,230,400	1,087,545,639
Pension Fund Manager's own investments in custody – Number of shares (unaudited)	23	23
Guarantees received in the Bank's custody	5,296,364,555,175	6,084,299,505,329
Unused, authorized lines of credit	786,119,426,615	599,371,531,413
Write-offs	183,476,153,188	172,006,315,708
Finance income on non-accrual loans	8,751,605,238	6,713,999,134
Supporting documentation received in the Bank's custody	1,027	805
Nondeductible expenses	37,865,472,682	26,453,870,224
Nontaxable income	65,404,708,081	47,100,847,967
Other memoranda accounts	603,544,749,809	615,378,934,652
Subtotal	6,989,146,202,238	7,557,679,197,394
Third-party debit memoranda accounts (a) (unaudited)	2,111,396,136,345	2,128,036,259,000
Own debit memoranda accounts for custodial activities	393,349,566,832	334,980,739,704
Third-party debit memoranda accounts for custodial activities (unaudited)	9,303,416,441,952	8,323,364,744,118
Subtotal	11,808,162,145,129	10,786,381,742,822
Total ¢	18,797,308,347,367	18,344,060,940,216

(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:

	2015	2014
Bank	¢ 15,700,203,531,691	15,664,502,469,840
Brokerage Firm (unaudited) (note 23)	1,648,754,705,405	1,477,037,409,123
Investment Fund Manager (unaudited) (note 24)	405,847,015,646	328,856,939,312
Pension Fund Manager (unaudited) (note 25)	1,042,503,094,625	873,664,121,941
	¢ 18,797,308,347,367	18,344,060,940,216

As of December 31, banking mandates are as follows:

	2015	2014
Management of banking mandates	¢ 670,786,800,640	923,639,233,682
Assets in custody on behalf of third parties	392,901	392,901
“TUDES” securities received in custody from affiliates under article 75 of Law No. 7531	1,322,191,226	1,562,338,191
Pension funds (unaudited) (note 25)	1,033,507,796,447	865,697,880,399
Investment funds (unaudited) (note 24)	405,778,955,131	328,813,841,121
Portfolio management (unaudited) (note 23-a)	-	8,322,572,706
	¢ 2,111,396,136,345	2,128,036,259,000

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

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

	2015	2014
<i>Own</i>		
Trading securities in custody (note 23-a)	¢ 7,695,679,364	6,681,712,680
Trading securities pledged as guarantees	39,341,879,040	33,256,888,141
Repurchase agreements pending settlement (note 23-b)	36,945,853,237	31,189,134,614
Other own memoranda accounts	5,333,240,511	5,355,120,990
	89,316,652,152	76,482,856,425
<i>Third-party</i>		
Trading securities in custody (note 23-a)	1,330,297,258,561	1,244,766,607,116
Trading securities received as guarantees	59,453,764,830	40,209,483,249
Trading securities pledged as guarantees	63,469,761,750	41,706,918,513
Repurchase agreements pending settlement (note 23-b)	104,962,162,434	64,704,227,557
Cash and accounts receivable	1,255,105,678	844,743,557
Portfolio management	-	8,322,572,706
	1,559,438,053,253	1,400,554,552,698
	¢ 1,648,754,705,405	1,477,037,409,123

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

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

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

Location	Type of custody		2015	2014
<i>Own custodial activities</i>				
Local	At face value - available	¢	7,578,250,000	6,583,194,332
Local	At purchase value of shares - available		21,561,315	21,561,315
Local	At purchase value of investments - available		62,244,209	65,186,036
Local	At face value - pledged		31,000,000	11,300,000
Local	Amount of physical coupons - pledged		2,623,840	470,997
			<u>7,695,679,364</u>	<u>6,681,712,680</u>
<i>Custodial activities on behalf of third parties</i>				
Local	At face value - available		952,231,676,518	829,022,280,461
Local	Amount of physical coupons - available		355,404	22,066,757
Local	At purchase value of shares - available		45,043,488,590	48,606,586,539
Local	At purchase value of investments - available		330,511,879,761	364,734,052,326
Local	At face value - pledged		2,436,549,260	2,295,551,170
Local	At purchase value of shares - pledged		57,225,237	60,091,270
Local	At purchase value of investments - pledged		16,083,791	25,978,593
			<u>1,330,297,258,561</u>	<u>1,244,766,607,116</u>
		¢	<u>1,337,992,937,925</u>	<u>1,251,448,319,796</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:

2015								
	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	31,068,077,505	11,049,697	5,877,775,731	36,945,853,237	-	-	-	-
Third parties	34,243,005,111	34,734,569	18,476,706,595	52,719,711,701	34,864,495,116	32,669,015	17,377,955,617	52,242,450,733
Total	<u>65,311,082,616</u>	<u>45,784,266</u>	<u>24,354,482,326</u>	<u>89,665,564,938</u>	<u>34,864,495,116</u>	<u>32,669,015</u>	<u>17,377,955,617</u>	<u>52,242,450,733</u>

  

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>

- 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:

2015				
	Term buyer		Term seller	
	Colones	U.S. dollars	Colones	U.S. dollars
<i>Own</i>				
1 to 30 days	¢ -	1,983,585	-	-
31 to 60 days	18,737,334,524	6,598,931	-	-
61 to 90 days	12,330,742,981	2,467,181	-	-
	<u>31,068,077,505</u>	<u>11,049,697</u>	<u>-</u>	<u>-</u>
<i>Third parties</i>				
1 to 30 days	74,119,548	-	468,956,795	199,423
31 to 60 days	13,088,245,729	11,855,895	11,416,671,346	9,582,387
61 to 90 days	20,470,178,227	20,851,486	22,368,405,368	21,250,142
More than 91 days	610,461,607	2,027,188	610,461,607	1,637,063
	<u>34,243,005,111</u>	<u>34,734,569</u>	<u>34,864,495,116</u>	<u>32,669,015</u>
¢	<u>65,311,082,616</u>	<u>45,784,266</u>	<u>34,864,495,116</u>	<u>32,669,015</u>

(Continued)



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

		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>

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, 2015 and 2014, the Brokerage Firm has no margin calls that require disclosure.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(24) Investment fund management agreements (unaudited)

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

		2015		
Fund		Net value	Shares	Value per share
<i>Funds in colones:</i>				
Super Fondo - colones	¢	95,527,406,736	25,827,607,722	3.698654857
Fon Depósito - colones		89,486,248,296	65,175,718,727	1.372999793
Creci Fondo - colones		2,771,764,478	613,572,428	4.517420199
Redi Fondo - colones		14,049,964,980	4,370,391,832	3.214806708
Diner Fondo - colones		55,041,660,562	21,929,230,321	2.509967735
Subtotal - colones	¢	<u>256,877,045,052</u>	<u>117,916,521,030</u>	
<i>Funds in U.S. dollars:</i>				
Super Fondo - U.S. dollars	US\$	26,615,129	18,669,372	1.4256039
Creci Fondo - U.S. dollars		1,710,254	1,036,659	1.649773192
Redi Fondo - U.S. dollars		12,234,833	8,779,034	1.393642271
Diner Fondo - U.S. dollars		97,005,658	77,272,991	1.255363055
Fon Depósito - U.S. dollars		62,303,615	58,634,833	1.06257
Super Fondo Plus - U.S. dollars		79,656,453	77,668,317	1.025597775
Fondo Hipotecario - U.S. dollars (mortgage fund)		<u>396,438</u>	<u>393,555</u>	446.9417249
Subtotal - U.S. dollars	US\$	<u>279,922,380</u>	<u>242,454,761</u>	
Subtotal - U.S. dollars, expressed in colones	¢	<u>148,901,910,079</u>	<u>128,971,385,566</u>	
Total assets of managed funds (note 22- a)	¢	<u>405,778,955,131</u>	<u>246,887,906,596</u>	
<i>Guarantees:</i>				
Performance bonds	¢	66,085,210	-	
Outstanding checks		<u>1,975,304</u>	-	
Total memoranda accounts (note 22-a)	¢	<u>405,847,015,646</u>	-	

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Fund	2014		
	Net value	Shares	Value per share
<i>Funds in colones:</i>			
Super 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
Creci Fondo - colones	1,233,375,924	297,909,288	4.140105642
Redi 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>			
Super Fondo - U.S. dollars	US\$ 34,027,174	24,154,235	1.408745677
Creci Fondo - U.S. dollars	1,377,410	858,029	1.605317796
Redi 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
Super 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		

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 returns 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 SuperFondo - 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 CreciFondo - 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 RediFondo 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 DinerFondo - 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 FonDepósito - Colones No Diversificado (non-diversified - colones): This is an open-end (floating number of outstanding shares) money market fund with a fixed income portfolio. Returns on the investment portfolio are not distributed until the customer requests partial or full redemption of shares.

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## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

- BN SuperFondo - 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 CreciFondo - 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 RediFondo 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 DinerFondo - 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 FonDepósito - 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 (FHIPO) - 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.

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## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

- BN SuperFondo Dólares Plus No Diversificado - Dólares (non-diversified - U.S. dollars): This fund is aimed at conservative investors looking for short-term investments. It allows obtaining reimbursement of the shares one business day and up to a maximum of three business days from the date of receipt of the withdrawal request. Since it is a short-term fund, it allows the investor to manage resources to address its present or future liquidity needs. The goal of the fund is to offer an investment mechanism that seeks to obtain higher returns than other investment alternatives under similar liquidity, term, and risk parameters, taking advantage of the short-term part of the yield curve in the composition of its portfolio.
- BN Inmobiliario CR-2 - Dólares (real estate development – U.S. dollars): This is a long-term, closed-end fund, in U.S. dollars, which has the goal of investing in real estate for its exploitation through leasing and sale. It is aimed at investors interested in diversifying their investments portfolio by including real estate property located in national territory and mainly occupied by public institutions. As of December 31, 2015 and 2014, this fund does not have operations.
- Fondo de Inversión de Desarrollo Inmobiliario BN-1 - Dólares (real estate development - U.S. dollars): This fund invests in the construction of buildings to be occupied by entities of the Banco Nacional Conglomerate (BNCR Conglomerate). Once the works are completed, the buildings will be sold to an entity of the BNCR Conglomerate or a real estate fund managed by BN Fondos, and investors thus realize their potential gains. If the buildings are sold to a real estate fund, such fund will lease the buildings to an entity of the BNCR Conglomerate. As of December 31, 2015 and 2014, this fund does not have operations.
- Fondo de Inversión de Desarrollo Inmobiliario de Infraestructura Pública - 1 - Dólares (real estate development - U.S. dollars): This fund will invest in the construction of buildings to be occupied by the Maximum Deconcentration Organizations and other entities of BCCR. Once the works are completed, the buildings will be leased with a purchase option to BCCR or sold to BCCR or to a real estate fund managed by BN Fondos, and investors thus realize their potential gains. If the buildings are sold to a real estate fund, such fund will lease the buildings to BCCR. As of December 31, 2015 and 2014, this fund does not have operations.

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## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

As of December 31, 2014, the Investment Fund Manager registered with SUGEVAL the following funds, which closed operations during 2015:

- 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.
- BN Inmobiliario CR-1 - Dólares (real estate development - U.S. dollars): This is a long-term, closed-end fund, in U.S. dollars, which has the goal of investing in real estate for its exploitation through leasing and sale. It is aimed at investors interested in diversifying their investments portfolio by including real estate property located in national territory and mainly occupied by public institutions. This fund is aimed at investors who wish to participate in a real estate portfolio and are thus willing to assume the risks inherent to the real estate market in return for the generation of periodic returns and the possibility of materializing capital gains generated from the sale of the fund's real estate property. As of December 31, 2014, this fund did not have operations.
- Fondo de Inversión BN Industria y Servicios no Diversificado - Dólares (industry and services non-diversified - U.S. dollars): This is a long-term, closed-end fund, in U.S. dollars, which has the goal of investing in real estate for its exploitation through leasing and sale. It is aimed at investors interested in diversifying their investments portfolio by including real estate property located in national territory, destined for the industrial sector or services sector inside or outside a free zone regime. As of December 31, 2014, this fund did not have operations.
- Fondo de Inversión BN Vivienda -1- Dólares (housing- U.S. dollars): This fund has the goal of investing in housing units for lease to individuals or legal entities through a purchase option agreement. It is aimed at investors interested in diversifying their investments portfolio by including real estate property located in national territory. This fund is created as a mechanism to be able to offer lessors the "lease with a purchase option". During the term of the "lease" and until the purchase option is exercised, the lessor must create periodic savings to accumulate a premium that it will later apply to the purchase of the property. As of December 31, 2014, this fund did not have operations.

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# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

- Fondo de Inversión de Titularización Hipotecaria (FHIPO) - Colones (mortgage securitization - colones): This fund is aimed at investors who wish to participate in a mortgage fund. The investment is made by purchasing shares in a closed-end fund, which grants ownership rights on the fund's equity. In this fund, the investor does not obtain fixed returns, but participates in the profit or loss generated by such equity. On a monthly basis, all of the profit generated by the fund is distributed. As of December 31, 2014, this fund did not have operations.
- Fondo de Inversión de Titularización Hipotecaria (FHIPO) - Dólares - 2 (mortgage securitization - U.S. dollars): This fund is aimed at investors who wish to participate in a mortgage fund. The investment is made by purchasing shares in a closed-end fund, which grants ownership rights on the fund's equity. In this fund, the investor does not obtain fixed returns, but participates in the profit or loss generated by such equity. On a monthly basis, all of the profit generated by the fund is distributed. As of December 31, 2014, this fund did not have operations.

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

### (25) Pension fund management agreements (unaudited)

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

		2015	2014
Mandatory Pension Fund (ROP)	¢	816,353,588,973	680,868,875,375
Mandatory Retirement Savings Account (FCL)		119,886,665,878	102,835,527,218
Pension Fund in Colones A (FPC A)		48,481,400,312	40,548,274,428
Pension Fund in Colones B (FPC B)		10,354,592,860	7,408,818,639
Notary Fund (NOT)		22,064,680,954	19,160,066,343
Pension Fund in U.S. dollars A (FPD A) (a)		9,961,476,990	8,605,709,558
Pension Fund in U.S. dollars B (FPD B) (b)		6,405,390,480	6,270,608,838
Total assets of managed funds (note 22-a)		1,033,507,796,447	865,697,880,399
Securities and assets in own custody		7,619,530,422	6,354,192,162
Bid and performance bonds – colones		12,910,137	9,908,664
Bid and performance bonds – U.S. dollars (c)		40,666,393	39,802,525
Securities in DU		1,322,191,226	1,562,338,191
Total memoranda accounts (note 22-a)	¢	<u>1,042,503,094,625</u>	<u>873,664,121,941</u>

(Continued)



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- (a) As of December 31, 2015, this fund amounts to US\$18,726,693 (2014: US\$16,136,411).
- (b) As of December 31, 2015, this fund amounts to US\$12,041,566 (2014: US\$11,757,906).
- (c) As of December 31, 2015, this fund amounts to US\$76,449 (2014: US\$74,633).
- (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:

	2015	2014
<i>Cash and due from banks:</i>		
Deposits in BCCR	¢ 26,234,789	38,959,542
Checking accounts and demand deposits in local entities	66,463,089	31,194,466
Checking accounts and demand deposits in foreign entities	217,971,907	206,134,989
	<u>310,669,785</u>	<u>276,288,997</u>
<i>Financial instruments:</i>		
Investments in available-for-sale securities	39,460,533,173	31,979,333,959
Investments in committed deposits and securities	9,006,804,264	9,549,075,286
Subtotal	<u>48,467,337,437</u>	<u>41,528,409,245</u>
Total	¢ <u><u>48,778,007,222</u></u>	<u><u>41,804,698,242</u></u>

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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 portfolios as follows:

	2015	2014
<i>Current loans:</i>		
Checking account overdrafts	¢ 87,028,132	87,270,200
Loans granted with funds from BCCR	1,395,745,717	1,731,667,201
Loans granted with other funds	264,625,978,009	238,342,578,523
Credit cards	19,697,806,993	18,810,360,626
Factoring	675,574	-
Issued letters of credit	398,676	289,544
Other loans	4,268,496	3,422,364
Subtotal	<u>285,811,901,597</u>	<u>258,975,588,458</u>
<i>Past due loans and loans in legal collection:</i>		
Checking account overdrafts	4,016,284	8,003,532
Loans granted with funds from BCCR	303,785,105	282,861,654
Loans granted with other funds	42,727,840,496	42,224,160,118
Credit cards	2,712,515,053	2,999,303,515
Other	837,234	2,935,807
Subtotal	<u>45,748,994,172</u>	<u>45,517,264,626</u>
Total	¢ <u><u>331,560,895,769</u></u>	<u><u>304,492,853,084</u></u>

(28) Other finance income

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

	2015	2014
Fees and commissions on letters of credit	¢ 60,400,734	66,386,792
Fees and commissions on guarantees granted	606,350,629	654,009,876
Fees and commissions on lines of credit	192,118,274	95,940,130
Gain on fair value hedge item measured at cost (note 14-a)	23,860,842,948	11,354,254,000
Other sundry finance income	3,371,799,828	3,588,155,385
	¢ <u><u>28,091,512,413</u></u>	<u><u>15,758,746,183</u></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:

	2015	2014
Demand deposits	¢ 33,331,685,727	33,503,310,343
Term deposits	75,075,942,604	68,572,087,039
Tri-party repurchase agreements and securities lending	2,159,692,845	2,016,875,013
Other term obligations with the public	680,913	-
	<u>¢ 110,568,002,089</u>	<u>104,092,272,395</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:

	2015	2014
Allowance for loan losses impairment (note 6)	¢ 28,082,167,240	25,946,790,270
General and counter-cyclical allowance for loan portfolio (note 6)	2,853,949,992	218,015,894
Allowance for impairment of other accounts receivable (note 7)	1,332,435,789	4,558,394,588
Allowance for stand-by credit losses (note 18)	159,000,008	1,125,231,628
General and counter-cyclical allowance for stand-by credit losses (note 18)	69,413,029	70,948,665
Allowance for impairment of derivative financial instruments (note 5-a)	128,016,660	4,216,707
	<u>¢ 32,624,982,718</u>	<u>31,923,597,752</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:

	2015	2014
Recovery of loan write-offs	¢ 11,713,714,441	15,294,525,461
Recovery of receivables write-offs	804,919	12,607,305
Decrease in allowance for loan impairment (note 6)	-	1,200,000,000
Decrease in allowance for impairment of other accounts receivable (note 7)	128,906,016	1,014,031,493
Decrease in allowance for stand-by credit losses (note 18)	-	50,000,000
Decrease in allowance for impairment of investments in financial instruments (note 5-a)	53,727,022	1,538,619
	¢ <u>11,897,152,398</u>	<u>17,572,702,878</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:

	2015	2014
Drafts and transfers	¢ 7,247,970,223	6,950,090,882
Certified checks	5,089,311	5,700,727
Trusts	790,240,900	862,352,334
Custodial services	1,323,469,679	1,084,569,223
Banking mandates	150,143	340,133
Collections	37,821,135	47,398,658
Credit cards	42,415,701,900	36,293,715,985
Management services	3,544,766,376	3,573,672,292
Management of investment funds	4,803,203,181	3,939,787,047
Management of pension funds	8,280,594,731	6,748,035,498
Insurance underwriting	3,754,725,357	3,129,525,671
Brokerage operations (third parties in local market)	2,653,282,468	1,672,904,844
Brokerage operations (third parties in other markets)	88,203,665	59,088,528
Individual portfolio management	1,317,172	5,964,610
Operations with related parties	313,720	-
Other	38,573,572,937	38,463,889,208
	¢ <u>113,520,422,899</u>	<u>102,837,035,641</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:

	2015	2014
Leasing of assets	¢ 52,307,153	29,226,340
Recovery of expenses	3,501,318,599	4,629,504,490
Net valuation of other assets (note 42-c)	354,466,349	723,354,051
Other income from accounts receivable	2,166,417	3,287,719
Sundry operating income	4,428,419,048	6,787,612,990
Decrease in provisions	7,984,011,234	8,409,314,566
	¢ <u>16,322,688,800</u>	<u>20,582,300,156</u>

(34) Expenses for foreclosed assets

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

	2015	2014
Loss on sale of property and other assets acquired in lieu of payment	¢ 333,525,533	7,429,509,342
Loss on sale of assets awarded in judicial auctions	6,539,741,687	3,053,419,204
Management of assets acquired in lieu of payment	-	980,821
Management of assets awarded in judicial auctions	8,885,686,053	8,650,596,828
Loss on allowance for impairment of foreclosed assets and per legal requirements (note 8)	496,664,532	286,316,674
Loss on impairment of foreclosed assets (note 8)	4,351,007,686	6,556,620,663
Other expenses for foreclosed assets	113,104,792	754,626,723
	¢ <u>20,719,730,283</u>	<u>26,732,070,255</u>

(35) Expenses for provisions

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

	2015	2014
Severance benefits	¢ 8,479,879,789	9,942,743,000
Pending litigation	2,775,512,682	1,333,646,569
Other provisions	14,115,568,586	7,986,651,475
	¢ <u>25,370,961,057</u>	<u>19,263,041,044</u>

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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:

	2015	2014
Penalties for noncompliance with regulatory provisions	¢ 221,619,849	1,090,677,814
Net valuation of other liabilities (note 1-d-iii)	348,421,059	1,210,441,092
Withholding tax on foreign remittances	939,737,756	-
Withholding tax (8%) on interest on investments in financial instruments	3,260,948,650	3,011,336,676
Property tax	154,450,874	153,818,785
Licenses	672,113,645	697,271,464
Other local taxes	291,207,182	840,476,407
Losses due to fraud, phishing, misappropriation of assets or theft	58,487,584	-
Transfers to FINADE	3,141,546,478	2,189,343,489
Sundry operating expenses	47,592,954,772	43,252,097,101
	¢ <u>56,681,487,849</u>	<u>52,445,462,828</u>

(37) Personnel expenses

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

	2015	2014
Salaries and bonuses, permanent staff	¢ 65,034,325,251	50,999,497,187
Salaries and bonuses, contractors	1,882,616,968	2,085,676,256
Compensation for directors and statutory examiners	193,634,086	179,072,568
Overtime	955,584,598	974,155,594
Travel expenses	782,275,413	931,411,892
Statutory Christmas bonus	7,421,986,545	7,365,410,754
Vacation	8,263,787,507	6,014,230,955
Other compensation	4,804,712,823	7,814,934,670
Severance benefits	4,365,204,250	4,545,321,151
Employer social security taxes	27,940,795,825	29,898,580,625
Refreshments	527,494,884	589,186,131
Uniforms	294,242,002	25,478,808
Training	997,711,264	1,002,536,893
Employee insurance	268,497,014	285,407,250
Back-to-school bonus	6,672,280,449	6,086,945,461
Mandatory retirement savings account	2,687,100,023	2,905,269,550
Other personnel expenses	506,802,085	663,509,332
	¢ <u>133,599,050,987</u>	<u>122,366,625,077</u>

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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:

	2015	2014
Outsourcing	¢ 14,117,284,596	13,593,751,662
Transportation and communications	4,248,011,649	4,661,744,033
Infrastructure	32,154,930,453	32,103,311,766
Overhead	12,751,071,118	12,223,723,708
	¢ 63,271,297,816	62,582,531,169

(39) Statutory allocations

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

	2015	2014
CONAPE (5%)	¢ 2,844,261,407	3,134,239,581
CNE (3%)	1,815,414,718	1,911,791,960
INFOCOOP (10%)	4,399,474,172	4,619,267,048
Public capital pension operators	938,518,216	-
RIVM (2015: 7% and 2014: 5%)	2,411,332,155	1,940,604,486
	¢ 12,409,000,668	11,605,903,075

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

	2015	2014
CONAPE (5%)	¢ 100,043,827	1,695,392
CNE (3%)	77,752,300	3,676,719
INFOCOOP (10%)	57,431,174	2,269,185
RIVM (2015: 7% and 2014: 5%)	77,542,314	-
FIDAGRO	57,178,243	-
	¢ 369,947,858	7,641,296

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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 are compared in the following table:

		2015	
		Carrying amount	Fair value
<i>Financial assets:</i>			
Cash and due from banks	¢	850,267,856,821	850,267,856,821
Investments in financial instruments		1,148,614,214,346	1,146,919,191,733
Loan portfolio		3,726,656,815,565	3,388,195,210,079
	¢	<u>5,725,538,886,732</u>	<u>5,385,382,258,633</u>
<i>Financial liabilities:</i>			
Demand deposits from the public and financial entities	¢	2,756,846,464,436	2,756,846,464,436
Other demand obligations with the public		12,273,626,471	12,273,626,471
Term deposits from the public and financial entities		2,436,611,864,599	2,418,516,153,107
Obligations for tri-party repurchase agreements		36,683,915,704	36,683,915,704
	¢	<u>5,242,415,871,210</u>	<u>5,224,320,159,719</u>
		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	1,099,079,460,804
Loan portfolio		3,353,290,148,557	2,774,887,560,409
	¢	<u>5,284,059,730,622</u>	<u>4,703,943,602,197</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>

(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 and held-to-maturity investments in financial instruments are based on quoted market prices.

- (c) Loan portfolio

The fair value of loans is calculated by discounting future cash flows expected for principal and interest. Future expected cash flows for loans are discounted at the interest rates offered for similar loans to new borrowers as of December 31, 2015 and 2014.

- (d) Term deposits

The fair value of term deposits is calculated by discounting cash flows at the interest rates offered for term deposits with similar maturities as of December 31, 2015 and 2014.

- (e) Obligations with entities

The fair value of obligations with entities is calculated by discounting cash flows at the interest rates in effect as of December 31, 2015 and 2014.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

As of December 31, 2015 and 2014, the following table analyzes financial instruments measured at fair value by the level in the fair value hierarchy:

		2015			
		Level 1	Level 2	Level 3	Total
Available-for-sale	¢	<u>888,698,710,735</u>	<u>203,981,431,640</u>	<u>5,594,435,115</u>	<u>1,098,274,577,490</u>
		2014			
		Level 1	Level 2	Level 3	Total
Available-for-sale	¢	<u>898,963,053,601</u>	<u>147,882,385,928</u>	<u>5,606,070,339</u>	<u>1,052,451,509,868</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).

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

		December 31,	
		2015	2014
Opening balance	¢	5,606,070,339	6,569,436,062
Valuation		270,992	(18,036,528)
Sales		-	(1,279,477,098)
Exchange rate differences		(11,906,216)	334,147,902
Closing balance	¢	<u>5,594,435,115</u>	<u>5,606,070,339</u>

(41) 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.

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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:

	As of December 31, 2015							
	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations	Consolidated
<b>ASSETS</b>								
Cash and due from banks	€ 845,089,095,233	3,175,991,206	212,008,351	2,269,934,288	1,199,965,786	851,946,994,864	1,679,138,043	850,267,856,821
Investments in financial instruments	1,071,837,259,198	66,968,063,321	5,234,692,030	6,184,556,878	-	1,150,224,571,427	1,610,357,081	1,148,614,214,346
Loan portfolio, net	3,663,687,932,586	-	-	-	-	3,663,687,932,586	-	3,663,687,932,586
Accounts and fees and commissions receivable, net	1,005,600,006	83,003,676	105,957,638	966,836,530	222,139,982	2,383,537,832	18,586,915	2,364,950,917
Fees and commissions	103,040,206	29,714,935	30,246,296	765,051,913	159,085,211	1,087,138,561	13,680,615	1,073,457,946
Brokerage services	-	34,120	-	-	-	34,120	-	34,120
Transactions with related parties	179,094,344	566,321	3,436,330	1,891,534	423,943	185,412,472	4,906,300	180,506,172
Deferred tax and income tax	3,081,707,872	46,456,547	71,800,650	199,802,125	62,630,828	3,462,398,022	-	3,462,398,022
Other	3,502,176,241	6,231,753	474,362	58,599,948	-	3,567,482,304	-	3,567,482,304
Accrued interest	1,990,138	-	-	-	-	1,990,138	-	1,990,138
Allowance for impairment of accounts and fees and commissions	(5,862,408,795)	-	-	(58,508,990)	-	(5,920,917,785)	-	(5,920,917,785)
Foreclosed assets, net	17,416,744,581	-	-	-	-	17,416,744,581	-	17,416,744,581
Investments in other companies	85,284,978,077	30,000,000	-	-	-	85,314,978,077	31,755,899,821	53,559,078,256
Property and equipment, net	176,855,805,996	451,458,025	259,558,130	410,936,333	49,728,273	178,027,486,757	-	178,027,486,757
Other assets	26,122,989,138	167,709,444	446,833,610	134,311,128	177,174,277	27,049,017,597	-	27,049,017,597
<b>TOTAL ASSETS</b>	€ 5,887,300,404,815	70,876,225,672	6,259,049,759	9,966,575,157	1,649,008,318	5,976,051,263,721	35,063,981,860	5,940,987,281,861
<b>LIABILITIES AND EQUITY</b>								
<b>LIABILITIES</b>								
Obligations with the public	€ 3,933,670,589,846	36,847,089,036	-	-	-	3,970,517,678,882	1,610,357,081	3,968,907,321,801
Obligations with BCCR	125,644,412	-	-	-	-	125,644,412	-	125,644,412
Obligations with entities	1,198,911,894,975	12,852,584,757	-	-	-	1,211,764,479,732	1,679,138,047	1,210,085,341,685
Demand	274,253,607,972	-	-	-	-	274,253,607,972	1,679,138,047	272,574,469,925
Term	917,636,049,359	12,825,000,000	-	-	-	930,461,049,359	-	930,461,049,359
Finance charges payable	7,022,237,644	27,584,757	-	-	-	7,049,822,401	-	7,049,822,401
Accounts payable and provisions	102,941,187,797	2,859,793,543	874,451,757	3,181,699,337	379,340,657	110,236,473,091	18,586,914	110,217,886,177
Other liabilities	42,411,442,867	-	-	-	-	42,411,442,867	-	42,411,442,867
Subordinated obligations	70,347,385,713	-	-	-	-	70,347,385,713	-	70,347,385,713
<b>TOTAL LIABILITIES</b>	€ 5,348,408,145,610	52,559,467,336	874,451,757	3,181,699,337	379,340,657	5,405,403,104,697	3,308,082,042	5,402,095,022,655

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Notes to Consolidated Financial Statements

As of December 31, 2015

	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	3,000,000,000	4,028,607,789	369,700,000	132,128,611,271	13,998,307,789	118,130,303,482
Non-capitalized capital contributions	-	-	-	966,317,220	-	966,317,220	966,317,220	-
Equity adjustments	73,595,044,363	974,302,757	95,349,569	208,279,974	-	74,872,976,663	1,277,932,300	73,595,044,363
Capital reserves	247,784,553,250	1,140,842,882	371,903,664	300,000,000	73,940,000	249,671,239,796	1,886,686,546	247,784,553,250
Prior period retained earnings	44,435,719,699	7,003,631,160	479,271,490	343,152,621	62,068,578	52,323,843,548	7,888,123,849	44,435,719,699
Income for the year	36,801,775,376	2,597,981,537	1,438,073,279	938,518,216	763,959,083	42,540,307,491	5,738,532,114	36,801,775,377
FOFIDE	18,144,863,035	-	-	-	-	18,144,863,035	-	18,144,863,035
TOTAL EQUITY	¢ 538,892,259,205	18,316,758,336	5,384,598,002	6,784,875,820	1,269,667,661	570,648,159,024	31,755,899,818	538,892,259,206
TOTAL LIABILITIES AND EQUITY	¢ 5,887,300,404,815	70,876,225,672	6,259,049,759	9,966,575,157	1,649,008,318	5,976,051,263,721	35,063,981,860	5,940,987,281,861
Debit memoranda accounts	¢ 518,562,240,674	133,194,104	-	1,305,143,778	-	520,000,578,556	-	520,000,578,556
Trust assets	¢ 986,665,957,160	223,738,039	-	-	-	986,889,695,199	-	986,889,695,199
Trust liabilities	¢ 47,652,828,395	430,233	-	-	-	47,653,258,628	-	47,653,258,628
Trust equity	¢ 939,013,128,765	223,307,806	-	-	-	939,236,436,571	-	939,236,436,571
Other debit memoranda accounts	¢ 15,700,203,531,691	1,648,754,705,406	405,847,015,645	1,042,503,094,625	-	18,797,308,347,367	-	18,797,308,347,367

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

For the year ended December 31, 2015

	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations	Consolidated
Finance income	414,732,619,433	5,928,947,301	400,911,603	666,134,314	40,378,137	421,768,990,788	83,941,874	421,685,048,914
Finance expense	185,961,248,878	2,480,070,563	46,305,854	14,719,800	4,229,395	188,506,574,490	83,941,874	188,422,632,616
Allowance expense	32,624,982,718	-	-	-	-	32,624,982,718	-	32,624,982,718
Income from recovery of assets	11,897,152,398	-	-	-	-	11,897,152,398	-	11,897,152,398
FINANCE INCOME	208,043,540,235	3,448,876,738	354,605,749	651,414,514	36,148,742	212,534,585,978	-	212,534,585,978
Other operating income	147,127,419,540	3,893,811,733	4,948,875,336	8,388,829,283	2,857,890,242	167,216,826,134	6,862,942,825	160,353,883,309
Other operating expenses	116,094,995,547	725,688,369	674,862,638	1,485,568,571	117,049,817	119,098,164,942	1,002,125,070	118,096,039,872
GROSS OPERATING INCOME	239,075,964,228	6,617,000,102	4,628,618,447	7,554,675,226	2,776,989,167	260,653,247,170	5,860,817,755	254,792,429,415
Personnel expenses	123,782,027,967	2,860,871,277	1,977,305,675	3,548,147,448	1,430,698,620	133,599,050,987	-	133,599,050,987
Other administrative expenses	60,409,584,674	859,411,301	656,371,711	1,246,749,717	221,466,052	63,393,583,455	122,285,639	63,271,297,816
Total administrative expenses	184,191,612,641	3,720,282,578	2,633,677,386	4,794,897,165	1,652,164,672	196,992,634,442	122,285,639	196,870,348,803
NET OPERATING INCOME BEFORE STATUTORY ALLOCATIONS AND TAXES	54,884,351,587	2,896,717,524	1,994,941,061	2,759,778,061	1,124,824,495	63,660,612,728	5,738,532,116	57,922,080,612
Income tax	8,494,098,131	251,792,691	568,820,204	895,136,253	360,621,228	10,570,468,507	-	10,570,468,507
Decrease in income tax	1,248,768,679	39,958,231	71,800,651	95,187,969	33,500,552	1,489,216,082	-	1,489,216,082
Statutory allocations	11,207,194,617	86,901,526	59,848,232	1,021,311,557	33,744,736	12,409,000,668	-	12,409,000,668
Decrease in statutory allocations	364,947,858	-	-	-	-	369,947,858	-	369,947,858
INCOME FOR THE YEAR	36,801,775,376	86,901,526	59,848,232	938,518,220	763,959,083	42,540,307,493	5,738,532,116	36,801,775,377

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

		As of December 31, 2014 (restated)							
		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		76,183,109,543	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	¢	5,490,412,102,087	49,559,488,485	4,867,955,639	7,464,666,705	1,786,311,110	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		286,570,716,557	-	-	-	-	286,570,716,557	1,986,798,760	284,583,917,797
Term		795,909,817,482	2,500,000,000	-	-	-	798,409,817,482	-	798,409,817,482
Finance charges payable		6,523,773,633	7,122,918	-	-	-	6,530,896,551	-	6,530,896,551
Accounts payable and provisions		120,990,943,909	1,358,316,606	431,513,264	1,413,044,903	480,602,531	124,677,329,834	14,764,276	124,662,565,558
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	¢	4,994,256,762,603	34,993,022,888	431,513,264	1,413,044,903	480,602,531	5,031,577,854,810	2,013,125,014	5,029,564,729,796

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of December 31, 2014 (restated)

	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations	Consolidated
<b>EQUITY</b>								
Share capital	¢ 118,130,303,482	6,600,000,000	1,500,000,000	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	218,556,743,200	1,661,186,283	216,895,556,917
Prior period retained earnings	40,731,042,810	6,488,438,441	1,810,603,768	22,461,721	353,530,710	49,984,122,212	9,253,079,402	40,731,042,810
Income for the year	39,597,941,323	645,091,796	840,571,384	725,901,089	532,235,391	42,377,511,435	2,779,570,112	39,597,941,323
FOFIDE	14,548,173,826	-	-	-	-	14,548,173,826	-	14,548,173,826
<b>TOTAL EQUITY</b>	¢ 496,155,339,484	14,566,465,597	4,436,442,375	6,051,621,802	1,305,708,579	523,129,393,051	26,974,053,567	496,155,339,484
<b>TOTAL LIABILITIES AND EQUITY</b>	¢ 5,490,412,102,087	49,559,488,485	4,867,955,639	7,464,666,705	1,786,311,110	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

For the year ended December 31, 2014 (restated)

	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations	Consolidated
Finance income	¢ 381,241,297,651	3,926,995,881	332,557,274	462,158,086	30,598,332	385,993,607,224	27,560,966	385,966,046,258
Finance expense	174,078,278,063	2,046,120,530	50,999,167	-	-	176,175,397,760	27,560,966	176,147,836,794
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
<b>FINANCE INCOME</b>	192,812,124,714	1,880,875,351	281,558,107	462,158,086	30,598,332	195,467,314,590	-	195,467,314,590
Other operating income	149,003,496,756	2,683,213,221	3,950,619,255	6,772,300,096	2,329,949,776	164,739,579,104	3,782,229,031	160,957,350,073
Other operating expenses	106,224,869,538	500,667,109	580,629,198	1,341,112,338	151,042,688	108,798,320,871	883,203,495	107,915,117,376
<b>GROSS OPERATING INCOME</b>	235,590,751,932	4,063,421,463	3,651,548,164	5,893,345,844	2,209,505,420	251,408,572,823	2,899,025,536	248,509,547,287
Personnel expenses	113,258,446,407	2,501,928,454	1,877,208,787	3,481,557,976	1,247,483,453	122,366,625,077	-	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	185,068,611,670	119,455,424	184,949,156,246
<b>NET OPERATING INCOME BEFORE STATUTORY ALLOCATIONS AND TAXES</b>	62,684,791,619	665,043,099	1,150,470,898	1,065,337,004	774,318,533	66,339,961,153	2,779,570,112	63,560,391,041
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	11,491,410,897	19,951,293	34,514,126	36,819,034	23,207,725	11,605,903,075	-	11,605,903,075
Decrease in statutory allocations	3,964,577	-	-	3,676,719	-	7,641,296	-	7,641,296
<b>INCOME FOR THE YEAR</b>	¢ 39,636,620,395	645,091,806	840,571,374	722,264,728	532,963,132	42,377,511,435	2,779,570,112	39,597,941,323

(Continued)



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(42) Risk management

The Group 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 Group 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 Group manages the above risks as follows:

a) Credit risk

i. *Banco Nacional de Costa Rica*

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

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

The Bank has established the following credit risk management procedures:

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	
		2015	2014		2015	2014
Loan portfolio						
Principal	6-a	¢ 3,701,502,141,960	3,331,574,219,669	20	271,259,141,611	245,243,994,165
Accounts and accrued interest receivable		<u>25,154,673,605</u>	<u>21,715,928,888</u>		<u>-</u>	<u>-</u>
Carrying amount, gross		3,726,656,815,565	3,353,290,148,557		271,259,141,611	245,243,994,165
(Allowance for loan impairment)		<u>(62,968,882,979)</u>	<u>(49,838,574,099)</u>		<u>(1,545,597,997)</u>	<u>(1,319,693,076)</u>
	¢					
Carrying amount, net		<u>3,663,687,932,586</u>	<u>3,303,451,574,458</u>		<u>269,713,543,614</u>	<u>243,924,301,089</u>
Loan portfolio						
Total balances:						
A1	¢	3,048,708,961,115	2,635,882,550,621		262,042,586,492	235,908,076,162
A2		34,559,206,956	31,016,636,031		436,696,136	369,307,028
B1		285,932,296,978	331,137,184,935		2,210,869,884	4,092,087,569
B2		12,249,809,312	12,231,350,139		33,798,825	111,939,538
C1		90,256,753,384	82,120,885,538		3,989,227,505	2,638,515,447
C2		4,580,449,251	6,964,352,287		22,720,687	14,380,718
D		84,311,863,977	107,267,820,444		773,102,417	759,735,195
E		<u>166,057,474,592</u>	<u>146,669,368,562</u>		<u>1,750,139,665</u>	<u>1,349,952,508</u>
		3,726,656,815,565	3,353,290,148,557		271,259,141,611	245,243,994,165
Structural allowance (minimum required allowance)		<u>(61,485,826,978)</u>	<u>(47,843,823,004)</u>		<u>(1,293,205,640)</u>	<u>(958,597,232)</u>
Value of portfolio net of the minimum required allowance	¢	<u>3,665,170,988,587</u>	<u>3,305,446,325,553</u>		<u>269,965,935,971</u>	<u>244,285,396,933</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

		Direct		Stand-by	
		2015	2014	2015	2014
Individually assessed loans with allowance:					
A1	¢	3,048,708,961,115	2,635,882,550,621	257,013,873,399	230,676,152,592
A2		34,559,206,956	31,016,636,031	424,449,716	361,965,378
B1		285,932,296,978	331,137,184,935	2,187,022,116	3,993,781,504
B2		12,249,809,312	12,231,350,139	33,423,825	111,939,538
C1		90,256,753,384	82,120,885,538	3,974,913,505	2,638,515,447
C2		4,580,449,251	6,964,352,287	22,720,687	14,380,718
D		84,311,863,977	107,267,820,444	773,102,417	755,956,173
E		166,057,474,592	146,669,368,562	1,730,153,420	1,349,452,788
		<u>3,726,656,815,565</u>	<u>3,353,290,148,557</u>	<u>266,159,659,085</u>	<u>239,902,144,139</u>
Structural allowance (subledger – database)		<u>(61,485,826,978)</u>	<u>(47,843,823,004)</u>	<u>(1,293,205,640)</u>	<u>(958,597,232)</u>
Carrying amount, net	¢	<u>3,665,170,988,587</u>	<u>3,305,446,325,553</u>	<u>264,866,453,445</u>	<u>238,943,546,907</u>
Current loans without allowance:					
A1	¢	-	-	5,028,713,093	5,231,923,569
A2		-	-	12,246,420	7,341,650
B1		-	-	23,847,768	98,306,065
B2		-	-	375,000	-
C1		-	-	14,314,000	-
C2		-	-	-	-
D		-	-	-	3,779,022
E		-	-	19,986,245	499,720
Carrying amount	¢	<u>-</u>	<u>-</u>	<u>5,099,482,526</u>	<u>5,341,850,026</u>
Carrying amount, gross		3,726,656,815,565	3,353,290,148,557	271,259,141,611	245,243,994,165
(Allowance for loan impairment)		(61,485,826,978)	(47,843,823,004)	(1,293,205,640)	(958,597,232)
(Excess) insufficiency of allowance over structural allowance		<u>(1,483,056,001)</u>	<u>(1,994,751,095)</u>	<u>(252,392,357)</u>	<u>(361,095,844)</u>
Carrying amount, net	6-a ¢	<u>3,663,687,932,586</u>	<u>3,303,451,574,458</u>	<u>269,713,543,614</u>	<u>243,924,301,089</u>
Restructured loans	¢	<u>24,902,897,819</u>	<u>26,654,096,704</u>	<u>4,020,204</u>	<u>7,033,221</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of December 31, 2015, no information is available for past due and current loans without allowance because an allowance has been established for the whole loan portfolio pursuant to CONASSIF Directive No. 1058/07 dated August 21, 2013, which became effective on January 1, 2014.

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

		2015	
		Loans to customers	
		Gross	Net
A1	¢	3,048,708,961,115	3,041,128,350,459
A2		34,559,206,956	34,490,057,990
B1		285,932,296,978	284,716,298,170
B2		12,249,809,312	12,151,397,996
C1		90,256,753,384	87,355,203,370
C2		4,580,449,251	4,339,948,543
D		84,311,863,977	78,856,093,224
E		166,057,474,592	120,650,582,834
	¢	<u>3,726,656,815,565</u>	<u>3,663,687,932,586</u>

  

		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>

As shown above, as of December 31, 2015, the gross portfolio amounts to ¢3,726 billion. Of that amount, 90.74% is classified in risk ratings “A + B” and 9.26% in risk ratings “C+ D+ E” (2014: ¢3,353 billion, of which 89.77% is classified in risk ratings “A + B” and 10.23% 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.

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	
		2015	2014	2015	2014
Restructured loans	¢	<u>24,902,897,819</u>	<u>26,654,096,704</u>	<u>4,020,204</u>	<u>7,033,221</u>

Loan charge-off policy:

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

Risk ratings

The loan portfolio by borrower classification is as follows:

Borrower classification		Direct		Stand-by	
		2015	2014	2015	2014
Group 1	¢	2,214,688,539,514	1,877,182,676,257	54,140,753,444	52,615,109,977
Group 2		<u>1,511,968,276,051</u>	<u>1,476,107,472,300</u>	<u>217,118,388,167</u>	<u>192,628,884,188</u>
	¢	<u>3,726,656,815,565</u>	<u>3,353,290,148,557</u>	<u>271,259,141,611</u>	<u>245,243,994,165</u>

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

Borrower classification

*Analysis of creditworthiness*

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

- 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.

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

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

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

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

#### *Analysis of historical payment behavior*

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

(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	
		2015	2014	2015	2014
A1	30 days or less	¢ 3,048,708,961,115	2,635,882,550,621	262,042,586,492	235,908,076,162
A2	60 days or less	34,559,206,956	31,016,636,031	436,696,136	369,307,028
B1	60 days or less	285,932,296,978	331,137,184,935	2,210,869,884	4,092,087,569
B2	60 days or less	12,249,809,312	12,231,350,139	33,798,825	111,939,538
C1	90 days or less	90,256,753,384	82,120,885,538	3,989,227,505	2,638,515,447
C2	90 days or less	4,580,449,251	6,964,352,287	22,720,687	14,380,718
D	120 days or less	84,311,863,977	107,267,820,444	773,102,417	759,735,195
E	More than 120 days or				
	other factors	166,057,474,592	146,669,368,562	1,750,139,665	1,349,952,508
		¢ <u>3,726,656,815,565</u>	<u>3,353,290,148,557</u>	<u>271,259,141,611</u>	<u>245,243,994,165</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

Starting January 1, 2014, for purposes of borrower classification, pursuant to SUGEF Directive 1-05, borrowers in Group 1 and Group 2 are classified 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
E	120 days or less	Level 3	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 0.02%, 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 as 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

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 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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

		2015		
		Allowance booked	Structural allowance	Excess (insufficiency) of allowance
Direct	¢	62,968,882,979	(61,485,826,978)	1,483,056,001
Stand-by		1,545,597,997	(1,293,205,640)	252,392,357
	¢	<u>64,514,480,976</u>	<u>(62,779,032,618)</u>	<u>1,735,448,358</u>
		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
	¢	<u>51,158,267,175</u>	<u>(48,802,420,236)</u>	<u>2,355,846,939</u>

As of December 31, 2015, the excess above the minimum allowance required by the current regulations in the amount of ¢1,735,448,358 (2014: ¢2,355,846,939) corresponds to an excess of ¢102,424,581 (2014: ¢1,296,492,530) in accordance with CONASSIF Directive 1058/07 (gradual general allowance) and an excess of ¢1,633,023,777 (2014: ¢1,059,354,409) in the specific allowance, which represents 2.60% of the minimum allowance required (2014: 2.17%)

As of December 31, 2015, the balance of the Bank's allowance for loan impairment (direct and stand-by), accrued interest receivable, and other receivables amounts to ¢70,376,889,771 (2014: ¢56,519,626,585).

Credit equivalent

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

- bid bonds and export letters of credit without prior deposit: 0.05
- other sureties and guarantees without prior deposit: 0.25
- 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, 2015, the carrying amount of the allowance for impairment of foreclosed assets and per legal requirements amounts to ¢61,161,022,915 (2014: ¢57,188,491,454).

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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	
		2015	2014	2015	2014
Trade	¢	378,585,450,748	347,810,115,210	41,267,478	78,610,006
Services		798,910,680,575	667,098,619,477	49,264,750,760	49,236,960,752
Financial services		125,793,878,183	109,584,306,917	-	-
Mining		742,837,628	410,960,192	-	-
Manufacturing and quarrying		155,749,107,392	157,746,613,567	1,515,480	1,207,078
Construction		88,991,301,100	73,188,865,755	-	-
Agriculture and forestry		111,353,629,330	109,184,998,499	14,395,399	13,357,679
Livestock, hunting, and fishing		65,572,600,886	61,070,301,075	-	3,013,017
Electricity, water, sanitation, and other related sectors		349,000,829,890	270,714,594,381	-	-
Transportation and telecommunications		26,519,994,640	20,381,040,260	-	-
Housing		1,118,413,210,816	1,062,948,312,266	12,979,933	11,454,118
Personal or consumer		368,915,877,629	351,050,567,454	221,702,170,209	195,705,059,563
Tourism		138,107,416,748	122,100,853,504	222,062,352	194,331,952
	¢	<u>3,726,656,815,565</u>	<u>3,353,290,148,557</u>	<u>271,259,141,611</u>	<u>245,243,994,165</u>

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

		Direct		Stand-by	
		2015	2014	2015	2014
Central America	¢	<u>3,726,656,815,565</u>	<u>3,353,290,148,557</u>	<u>271,259,141,611</u>	<u>245,243,994,165</u>

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

Guarantee		Direct		Stand-by	
		2015	2014	2015	2014
Investments	¢	11,105,340,994	8,349,482,793	6,476,263	18,600,000
Mortgage bond		9,841,189,843	10,491,930,530	-	-
Assignment of loans		410,178,773,376	338,007,471,020	212,776	-
Mortgage		1,628,313,969,658	1,571,558,153,121	285,123,547	488,137,360
Surety		699,814,858,417	605,188,481,637	25,708,571	88,600,623
Trust		331,158,834,472	244,750,948,840	131,286,925	105,152,706
Securities		1,150,398,488	1,239,767,595	-	-
Chattel mortgage		151,287,007,196	130,472,720,262	-	-
Other		483,806,443,121	443,231,192,759	270,810,333,529	244,543,503,476
	¢	<u>3,726,656,815,565</u>	<u>3,353,290,148,557</u>	<u>271,259,141,611</u>	<u>245,243,994,165</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, 2015, 48.35% of the loan portfolio is secured by collateral guarantees (2014: 46.87%).

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	
	2015	2014	2015	2014
¢1 to ¢3,000,000	¢ 143,195,596,256	149,673,830,951	97,207,597,704	87,874,875,196
¢3,000,001 to ¢15,000,000	516,137,815,750	508,684,374,019	122,211,207,934	104,957,336,551
¢15,000,001 to ¢30,000,000	420,581,497,898	406,013,413,084	5,793,293,538	5,266,273,117
¢30,000,001 to ¢50,000,000	412,880,381,524	380,362,613,447	2,005,968,541	2,029,536,702
¢50,000,001 to ¢75,000,000	289,067,398,184	260,382,514,361	2,492,987,969	1,731,246,236
¢75,000,001 to ¢100,000,000	128,592,157,261	114,479,592,322	1,392,744,988	1,121,603,176
¢100,000,001 to ¢200,000,000	212,280,642,131	200,308,176,988	4,830,697,765	4,274,404,998
More than ¢200,000,000	1,603,921,326,561	1,333,385,633,385	35,324,643,172	37,988,718,189
	¢ <u>3,726,656,815,565</u>	<u>3,353,290,148,557</u>	<u>271,259,141,611</u>	<u>245,243,994,165</u>

As of December 31, 2015 and 2014, the portion of the loan portfolio (direct and stand-by loans) corresponding to economic interest groups amounts to ¢233,538,554,153 and ¢235,469,707,428, respectively.

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

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## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

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

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

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

The 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 of the December 2015 close, the increase in arrears more than 90 days for loan operations both in colones and in U.S. dollars affected the behavior of the consolidated VaR, which increased by 0.05 pp (percentage points) in relation to the estimation for the previous month.

However, by currency, the VaR in U.S. dollars is not affected by the foregoing, given that it decreases due to a decrease in arrears.

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## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

Several activities show a decrease in the monthly VaR results due to the recovery of loans in legal collection, loans more than 90 days past due, or both. This is the case for Livestock, Industry, Commerce, and Transportation. The drop in Consumer is due to the decrease in the balance of loans 45-150 days past due.

Mining, Energy, and Financial Services are strongly influenced by the concentration of such portfolios, which causes the monthly and year-on-year variations. Additionally, Industry and Commerce are the only sectors with a monthly growth in VaR, in response to the impairment of loans over 90 days past due and in legal collection, respectively.

ii. *BN Sociedad Administradora de Fondos de Inversión, S.A.*

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.

iii. BN Valores Puesto de Bolsa, S.A.

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.

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## 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 Macaulay'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 2015, the accounting records showed investments in colones, investments in instruments issued by local issuers in U.S. dollars (\$CR), and investments in instruments issued by foreign issuers in U.S. dollars (\$USA). The Brokerage Firm holds no investments in DU. By currency, the majority (92%) 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 (70%), BCCR (20.60%), Banco Popular y de Desarrollo Comunal (3.31%), BNCR (2.44%), MUCAP (1.8%), BCR (1.21%), and BCAC (0.30%). These issuers represent 96.3% of the consolidated portfolio. The portfolio in U.S. dollars represents 8.08%, comprised of investments in instruments issued by the Government of Costa Rica (7.17%), Banco de San Jose (0.82%) and other issuers (0.09%).

#### *iv. BN Vital Operadora de Planes de Pensiones Complementarias, S.A.*

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, 2015, the net assets managed by the Pension Fund Manager amount to ¢1,033,507 million, growing year-on-year by ¢167,809 million. This implies a growth with respect to the portfolio managed as of December 2014 (¢865,697 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 78.99% and shows a year-on-year growth of ¢135,484 million and a growth rate of 16.60% with respect to December 2014.

As of December 31, 2015 and 2014, the Pension Fund Manager portfolio of own funds is represented by available-for-sale investments for ¢5,114 million and ¢5,623 million, respectively. The portfolio was actively managed, performing sales for more than ¢2 billion with capital gains, which decreased volatility and risk of losses to the portfolio in the last quarter of the year.

In December 2015, the VaR of credit in absolute terms was located at ¢28 million, 0.46% in relative terms (2014: ¢28 million, 0.52% in relative terms).

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

v. BN Corredora de Seguros, S.A.

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, 2015 and 2014, exposure to credit risk is represented by the carrying amounts of cash and due from banks and available-for-sale investments. Cash and due from banks correspond to checking account deposits with a State-owned bank. As of December 31, 2014, investments in financial instruments correspond to the non-diversified investment fund in colones “Fondo de Inversión BN FonDepósito Colones, No Diversificado”, which is secured by term certificates of deposit from BNCR.

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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of December 31, 2015, 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	¢	-	84,847,669,143	-	-	-	-	-	84,847,669,143
Minimum cash reserve in BCCR		-	274,033,343,763	23,241,036,224	26,138,188,851	16,956,621,334	47,384,005,071	31,965,585,591	430,144,490,237
Investments		-	-	74,780,781,007	2,460,830,866	35,142,223,205	60,371,335,811	149,226,532,339	616,258,404,771
Loan portfolio		121,010,298,395	-	34,607,182,818	33,919,539,160	46,480,461,433	70,677,230,865	91,351,268,980	2,273,151,346,712
Total recovery of assets	¢	121,010,298,395	358,881,012,906	132,629,000,049	62,518,558,877	98,579,305,972	178,432,571,747	272,543,386,910	3,404,401,910,863
Obligations with the public	¢	-	1,707,420,703,907	208,632,155,288	124,976,785,296	135,834,864,955	293,812,975,854	233,179,351,373	2,769,540,905,337
Obligations with BCCR		-	-	-	-	-	-	-	125,644,412
Obligations with financial entities		-	79,001,888,270	21,154,000,000	2,081,708,305	7,688,645,650	5,348,756,008	6,337,970,548	123,955,629,673
Charges payable		-	7,467,782,785	4,451,785,421	2,993,949,887	887,129,986	2,070,935,071	473,851,605	18,457,908,325
Total maturity of liabilities	¢	-	1,793,890,374,962	234,237,940,709	130,052,443,488	144,410,640,591	301,232,666,933	239,991,173,526	2,912,080,087,747
Difference	¢	121,010,298,395	(1,435,009,362,056)	(101,608,940,660)	(67,533,884,611)	(45,831,334,619)	(122,800,095,186)	32,552,213,384	492,321,823,116

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, 2015, 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	¢	-	125,020,991,095	-	-	-	-	-	125,079,437,636
Minimum cash reserve in BCCR		-	141,684,508,703	15,116,277,868	11,369,586,642	8,655,025,343	18,758,326,054	14,612,535,195	210,196,259,805
Investments		-	-	19,740,300,379	53,754,943,081	33,487,124,664	92,792,697,342	95,311,027,269	532,490,450,236
Loan portfolio		69,913,079,478	-	33,148,793,106	28,131,620,234	34,491,850,134	73,018,867,465	59,215,375,061	1,453,505,468,853
Total recovery of assets	¢	69,913,079,478	266,705,499,798	68,005,371,353	93,256,149,957	76,634,000,141	184,569,890,861	169,138,937,525	2,321,271,616,530
Obligations with the public	¢	-	768,639,665,080	82,032,697,057	55,810,869,026	40,443,356,703	151,578,721,847	68,124,180,758	1,178,881,164,469
Obligations with financial entities		-	195,251,719,702	13,835,759,400	47,368,193,120	281,928,200	53,204,638,800	85,032,470,790	1,079,079,889,611
Charges payable		-	772,852,890	643,340,981	1,597,674,987	162,671,485	5,649,097,034	229,986,489	9,077,166,071
Total maturity of liabilities	¢	-	964,664,237,672	96,511,797,438	104,776,737,133	40,887,956,388	210,432,457,681	153,386,638,037	2,267,038,220,151
Difference	¢	69,913,079,478	(697,958,737,874)	(28,506,426,085)	(11,520,587,176)	35,746,043,753	(25,862,566,820)	15,752,299,488	54,233,396,379

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

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## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

i. Banco Nacional de Costa Rica

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, the Board of Directors.

ii. BN Sociedad Administradora de Fondos de Inversión, S.A.

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

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

iii. BN Valores Puesto de Bolsa, S.A.

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

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

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

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## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

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

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

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

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

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

iv. *BN Vital Operadora de Planes de Pensiones Complementarias, S.A.*

The 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 three days after the calculation. Accordingly, the entity could sell financial assets or invest surpluses that will not be used in the short term, if necessary.

(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

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

Fund	All movements		Withdrawals> Contributions		Extreme values		Cash/Equity	
	2015	2014	2015	2014	2015	2014	2015	2014
ROP	0.55%	0.58%	0.29%	0.30%	0.77%	0.78%	4.39%	1.20%
FCL	0.86%	0.95%	1.97%	2.11%	14.77%	15.90%	4.04%	2.30%
NOT	0.09%	0.09%	0.17%	0.18%	0.31%	0.32%	1.45%	1.20%
FPC A	0.74%	0.77%	1.19%	1.20%	2.89%	2.96%	3.22%	2.30%
FPC B	0.49%	0.49%	1.32%	1.32%	2.09%	2.21%	5.19%	2.80%
FPD A	1.32%	1.35%	2.98%	3.00%	7.34%	7.43%	3.90%	4.00%
FPD B	0.73%	0.76%	1.21%	1.22%	3.18%	3.27%	2.36%	2.70%

According to the results, for the scenario that considers all movements, the VaR of funds at a 99% confidence level with two standard deviations would not exceed 1%, except for FPD A which VaR at 99%, eliminating two standard deviations, would reach 1.32%. 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 address extreme situations. However, as indicated above, the most extreme scenario is the transfer of the FCL to the ROP, which represents a VaR of 14.77% as of December 2015. The FPD A is in second place with a VaR of 7.34%.

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## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

v. BN Corredora de Seguros, S.A.

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.

c) Market risks

i. Banco Nacional de Costa Rica

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

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

ii. BN Sociedad Administradora de Fondos de Inversión, S.A.

For the Investment Fund Manager, market risk is the risk of potential losses in the fair value of its financial instrument portfolio 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 the corresponding risk limits.

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

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

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

The Investment Fund Manager uses the above methods and calculations to analyze 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:

	2015	2014
VaR (99% confidence level)	0.61%	0.29%

#### 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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

iii. BN Valores Puesto de Bolsa, S.A.

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

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

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

Price risk exposure:

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

iv. BN Vital Operadora de Planes de Pensiones Complementarias, S.A.

The Pension Fund Manager manages market risk for each of its funds by applying a VaR model pursuant to Section 41 of IFRS 7. That model is based on the Monte Carlo approach whereby the Pension Fund Manager runs random interest rate simulations in a specialized system and quantifies stochastic fair values that are compared with prices on the day the simulation is run. The difference in those values is the VaR, which is the potential loss in the fair value of a portfolio over a 10-day holding period with a confidence level of 99%.

As of December 31, 2015, the assets managed by the Pension Fund Manager amount to a total of ¢1,033,507 million (2014: ¢865,697 million). That amount is distributed in the following funds: ROP, FCL, FPC A, FPC B, FPD A, FPD B, NOT, and OPC. ROP represents 78.99% 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.

v. BN Corredora de Seguros, S.A.

For the Brokerage Firm, market risk is the risk of changes in market prices, such as foreign exchange rates and interest rates. The objective of market risk management is to manage and control market risk exposures within acceptable parameters.

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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of December 31, 2015, the interest rate terms for the Bank's assets and liabilities are matched as follows (differences between the maturity of assets and liabilities):

		1 to 30 days	31 to 90 days	91 to 180 Days	181 to 360 days	361 to 720 days	More than 720 days	Total
<i>Local currency (LC)</i>								
Investments	¢	74,768,946,312	37,501,495,619	60,182,497,358	149,122,339,295	204,942,231,351	63,022,395,597	589,539,905,532
Loan portfolio		135,506,916,585	69,869,929,556	62,606,259,974	89,692,735,397	150,283,531,905	1,655,369,379,499	2,163,328,752,916
Total recovery of rate-sensitive assets LC (A)	¢	210,275,862,897	107,371,425,175	122,788,757,332	238,815,074,692	355,225,763,256	1,718,391,775,096	2,752,868,658,448
Obligations with the public	¢	222,439,989,518	273,615,598,974	300,225,214,035	240,092,040,537	53,010,821,774	16,289,339,414	1,105,673,004,252
Obligations with BCCR		12,825,000,000	-	-	-	-	125,644,412	12,950,644,412
Obligations with financial entities LC	¢	370,039,905	102,613,896	156,043,789	364,895,417	423,855,441	2,205,396,083	3,622,844,531
Total maturity of rate-sensitive liabilities LC (B)	¢	235,635,029,423	273,718,212,870	300,381,257,824	240,456,935,954	53,434,677,215	18,620,379,909	1,122,246,493,195
LC difference, recovery of assets less maturity of liabilities (A - B)	¢	(25,359,166,526)	(166,346,787,695)	(177,592,500,492)	(1,641,861,262)	301,791,086,041	1,699,771,395,187	1,630,622,165,253
<i>Foreign currency (FC)</i>								
Investments	¢	19,740,300,521	87,242,068,377	92,225,516,243	94,455,608,599	158,069,879,506	67,896,090,308	519,629,463,554
Loan portfolio		48,841,361,336	56,828,500,583	67,283,006,911	55,764,875,866	102,879,392,955	1,073,598,364,010	1,405,195,501,661
Total recovery of rate-sensitive assets FC (C)	¢	68,581,661,857	144,070,568,960	159,508,523,154	150,220,484,465	260,949,272,461	1,141,494,454,318	1,924,824,965,215
Obligations with the public	¢	91,343,238,740	104,762,106,893	156,830,886,487	68,586,421,743	11,520,047,193	540,441,220,251	973,483,921,307
Obligations with entities		7,150,686,379	40,660,646,693	57,186,130,952	84,068,270,170	60,298,083,770	80,650,903,596	330,014,721,560
Total maturity of rate-sensitive liabilities FC (D)	¢	98,493,925,119	145,422,753,586	214,017,017,439	152,654,691,913	71,818,130,963	621,092,123,847	1,303,498,642,867
FC difference, recovery of assets less maturity of liabilities (C - D)	¢	(29,912,263,262)	(1,352,184,626)	(54,508,494,285)	(2,434,207,448)	189,131,141,498	520,402,330,471	621,326,322,348
Total recovery of rate-sensitive assets 1/ (A + C)	¢	278,857,524,754	251,441,994,135	282,297,280,486	389,035,559,157	616,175,035,717	2,859,886,229,414	4,677,693,623,663
Total recovery of rate-sensitive liabilities 2/ (B + D)	¢	334,128,954,542	419,140,966,456	514,398,275,263	393,111,627,867	125,252,808,178	639,712,503,756	2,425,745,136,062
LC + FC difference, recovery of assets less maturity of liabilities (item 1 – item 2)	¢	(55,271,429,788)	(167,698,972,321)	(232,100,994,777)	(4,076,068,710)	490,922,227,539	2,220,173,725,658	2,251,948,487,601

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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 maturity of assets and liabilities):

		1 to 30 Days	31 to 90 days	91 to 180 days	181 to 360 days	361 to 720 days	More than 720 days	Total
<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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

i. Banco Nacional de Costa Rica

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.

As of December 31, 2015, the interest rate risk indicator in local and foreign currency closed considerably below SUGEF's regulatory maximum limit of 5%, at 1.86% (2014: 1.17%) and 0.76% (2014: 0.07%), respectively.

*Fair value hedges*

Fair value hedges are recognized as follows:

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

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

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

ii. BN Sociedad Administradora de Fondos de Inversión, S.A.

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.

iii. BN Vital Operadora de Planes de Pensiones Complementarias, S.A.

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 that have prevailed in the past two years.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The consolidated VaR of the Pension Fund Manager's own funds remained stable in 2015, at an average of 1.63% (2014: 1.32%).

The volatility observed mid-year caused a considerable increase in VaR levels. However, sales were made, materializing capital gains in the portfolio and decreasing the probability of losses due to movements in interest rates.

iv. BN Corredora de Seguros, S.A.

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

Currency risk

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

Starting May 2009, the Bank's Asset and Liability Committee decided to take a neutral foreign currency position with the purpose of protecting the Bank from any changes in the exchange rate, which has been ratified annually by the Bank's Corporate Risk Committee. 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 2015, that indicator was quantified at 0.22%, which is slightly above the 0.18% calculated for December 2014 and considerably below the regulatory maximum limit of 5%.

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	
		2015	2014
Assets:			
Cash and due from banks	US\$	605,963,861	664,298,987
Investments in financial instruments		958,924,445	1,069,195,816
Loan portfolio		2,695,383,624	2,356,742,015
Accounts and accrued interest receivable		492,766	570,425
Investments in other companies		100,591,147	93,388,754
Other assets		6,545,257	5,983,299
Total assets	US\$	4,367,901,100	4,190,179,296
Liabilities:			
Obligations with the public	US\$	2,160,299,383	2,182,324,953
Obligations with entities		2,039,772,336	1,838,659,376
Accounts payable and provisions		10,763,149	11,140,467
Other liabilities		22,798,131	26,602,531
Subordinated obligations		132,246,843	131,927,532
Total liabilities	US\$	4,365,879,842	4,190,654,859
(Deficit) excess of assets over liabilities in U.S. dollars	US\$	2,021,258	(475,563)

		Euros	
		2015	2014
Assets:			
Cash and due from banks	€	22,244,673	14,428,342
Investments in financial instruments		38,410,309	43,180,185
Accounts and accrued interest receivable		-	20
Other assets		-	20
Total assets	€	60,654,982	57,608,567
Liabilities:			
Obligations with the public	€	55,172,059	50,525,715
Obligations with entities		1,305,849	7,057,943
Accounts payable and provisions		7,032	39,803
Other liabilities		526,666	101,829
Total liabilities	€	57,011,606	57,725,290
(Deficit) excess of assets over liabilities in euros	€	3,643,376	(116,723)

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

		DU	
		2015	2014
Assets:			
Investments in financial instruments	DU	34,749,595	39,220,808
Loan portfolio		31,730,883	41,956,600
Total assets	DU	66,480,478	81,177,408
Liabilities:			
Accounts payable and provisions	DU	893,511	1,046,672
Other liabilities		6,686	8,708
Total liabilities	DU	900,197	1,055,380
Excess of assets over liabilities in DU	DU	65,580,281	80,122,028

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.

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

	2015	2014
Foreign exchange gain	¢ 109,692,081,513	318,988,606,890
Foreign exchange loss	(110,169,288,634)	(318,643,248,360)
Net (loss) gain	¢ (477,207,121)	345,358,530

Additionally, the valuation of other assets and other liabilities for 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:

	2015	2014
Gain on net valuation of other assets	¢ 354,466,348	723,354,051
Loss on net valuation of other liabilities (note 36)	(348,421,059)	(1,210,441,092)
Net gain (loss)	¢ 6,045,289	(487,087,041)

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

i. Banco Nacional de Costa Rica

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.

ii. BN Corredora de Seguros, S.A.

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

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

iii. BN Sociedad Administradora de Fondos de Inversión, S.A.

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.

iv. BN Valores Puesto de Bolsa, S.A.

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.

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

v. BN Vital Operadora de Pensiones Complementarias, S.A.

As of December 31, 2015, 0.73% 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 (unaudited)

i. Banco Nacional de Costa Rica

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. In addition, the existing methodologies incorporate the criteria and best practices regarding the taxonomy and classification of operational risks established as recommendations and best practices by the Basel Committee.

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:

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Furthermore, the Bank has defined operating policies related to the implementation of new products, services, and operations and to fraud management.

One of the Bank's fundamental operational risk management principles is transparency, defined as the identification, documentation, and reporting of risk events in order to allow the Bank to adequately measure risk events and carry out any necessary corrective, preventive, and mitigation measures in a timely manner, including insurance where this is effective.

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



Upper management has defined operational risk limits that specifically measure the performance of risk management and total operating losses. These measurements are performed and reported to the upper levels on a monthly basis. Risk management also entails a qualitative assessment through the calculation of indicators and specific risk models, which reflect behaviors and trends on a periodic basis that are used as inputs for decision-making.

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

ii. BN Sociedad Administradora de Fondos de Inversiones, S.A.

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 operational risk activities, which are weighted with other risk categories to determine a global rating for institutional risk.

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

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

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

(Continued)



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

iii. BN Sociedad Administradora de Fondos de Inversiones, S.A.

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Fair value of financial instruments

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

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

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

iv. BN Corredora de Seguros, S.A.

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.

v. BN Vital Operadora de Planes de Pensiones Complementarias, S.A.

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.

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

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

- appropriate segregation of duties, including the independent authorization of transactions;
- requirements for effective reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- communication and application of conduct guidelines or ethical standards;
- monitoring of risks using measurement tools;
- reporting of operational losses and proposed remedial actions;
- comprehensive planning for resuming activities, including plans to restore key operations and internal and external support to ensure services are not interrupted;
- personnel training; 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 pension legislation and regulations. The Pension Fund Manager is provided with legal advice and agreements authorized by SUPEN.

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

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

As of December 31, 2015 the Bank's General Risk Division presented the results of the calculation of the VaR of legal actions for the Pension Fund Manager, which indicate that there are two lawsuits to be provisioned with a probability of loss exceeding 50% (virtually certain or probable scenarios) for ¢435 million.

Capital management

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

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

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

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

The Group'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 Group has complied with capital requirements and no significant changes were made to its capital management.

As of December 31, 2015 and 2014, the Group's risk rating is at a normal level since its capital adequacy ratio is above the required 10% ratio.

As of December 31, the regulatory capital is as follows:

	As of December 31,	
	2015	2014
Tier 1 Regulatory Capital		
Paid-in capital	118,130,303,482	118,130,303,482
Legal reserves	247,796,675,302	216,895,556,917
Total Tier 1 Regulatory Capital	365,926,978,784	335,025,860,399
Total Tier 2 Regulatory Capital	224,043,621,534	225,586,315,809
Deductions	(85,528,904,438)	(77,033,129,632)
Total Regulatory Capital	504,441,695,879	475,741,613,164

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(43) Contingencies

As of December 31, 2015 and 2014, the Bank, Pension Fund Manager, and Investment Fund Manager are defendants in ordinary, labor, and criminal lawsuits. The legal actions filed are as follows:

	Number of cases		Phase	Total estimated amount	
	2015	2014		2015	2014
Bank	212	227	First instance	¢ 202,930,479,423	233,079,736,602
	22	14	Second instance	26,997,348,570	10,380,221,514
	3	6	Appeal	5,089,047,215	6,750,760,000
	237	247	Subtotal	235,016,875,208	250,210,718,116
Pension Fund Manager	3	3	First instance	1,305,143,777	265,110,324
	0	1	Second instance	-	10,666,200
	3	4	Subtotal	1,305,143,777	275,776,524
Investment Fund Manager	1	-	First instance	133,194,104	-
	1	-	Subtotal	133,194,104	-
	238	251	Total (note 20)	¢ 236,455,213,089	250,486,494,640

As of December 31, 2015 and 2014, the legal actions filed against the Group are booked in memoranda accounts under “Other contingencies - pending litigation and lawsuits”.

As of December 31, 2015 and 2014, the Group is a claimant in ordinary, labor, and criminal lawsuits, which outcome is uncertain and are not booked in the accounting records, as follows:

Number of cases		Phase	Total estimated amount	
2015	2014		2015	2014
134	51	First instance	¢ 707,292,303,441	4,612,380,295
1	1	Second instance	375,839,600	150,000,000
135	52	Total	¢ 707,668,143,041	4,762,380,295

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(44) Significant events

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

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

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

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

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

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

b) Dividends paid to the Bank

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

Under article No. 2 of meeting No. 12,007 held on July 13, 2015, the Board of Directors agreed to authorize the distribution of dividends from retained earnings in the amount of ¢800 million.

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. 3 of meeting No. 11,989 held on May 25, 2015, the Board of Directors agreed to authorize the distribution of dividends from retained earnings in the amount of ¢600 million.

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 billion.

- *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 billion.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

Under article No. 3 of meeting No. 11,996 held on June 15, 2015, the Board of Directors agreed to authorize the distribution of dividends from retained earnings in accordance with Official letter SGRF-212-2015 in the amount of ¢21 million.

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.

c) 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.

(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.

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

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:

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) 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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

c) 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.

d) 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.

e) IAS 18: Revenue

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

f) 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.

g) 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. With the amendments to IFRS effective as of 2014, in the preparation of separate financial statements investments in subsidiaries and associates can be measured at cost according to IFRS 9, or using the equity method described in IAS 28. However, the Board has not adopted the amendments to IAS 27.

In the case of financial groups, the holding company must consolidate the financial statements of all of the domestic 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 modifications 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.

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Notes to Consolidated Financial Statements

h) 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.

i) Revised IAS 32: Financial Instruments - Presentation

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

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

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

k) 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.

l) IAS 38: Intangible Assets

The commercial banks listed in article 1 of IRNBS (Law No. 1644) may present organization and installation expenses as an asset in the balance sheet. However, those expenses must be fully amortized 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.

m) 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 impairment be determined based on that classification. It also allows excess allowances to be booked. This Standard requires that the allowance for loan impairment 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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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 or held to maturity.
- The “fair value option” was established to designate any financial instrument to be measured at fair value through profit or loss, provided a series of requirements are met (e.g. the instrument has been measured at fair value since the original acquisition date).
- The category of loans and receivables was expanded to include purchased loans and receivables that are not quoted in an active market.

Regular purchases and sales of securities are to be recognized using settlement date accounting only.

Depending on the type of entity, financial assets are to be classified as follows:

*a) Pooled portfolios*

Investments in pooled investment funds, pension and mandatory retirement saving funds, similar trusts, and Demand Cash Management Accounts (OPABs) are to be classified as available for sale.

*b) Own investments of regulated entities*

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

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

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

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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.

n) IAS 40: Investment Property

This Standard allows entities to choose between the fair value model and the cost model to measure their investment property. The 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.

o) Revised IFRS 3: Business Combinations

This Standard establishes that the combination of entities or business under common control can be performed at cost or at fair value. The Board only permits booking of these transactions measuring the assets and liabilities at fair value.

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

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.

q) 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.

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Notes to Consolidated Financial Statements

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.

r) IFRS 10: Consolidated Financial Statements

This Standard provides a revised control definition and application guidance therefor. This Standard supersedes IAS 27 (2008) and SIC 12, “*Consolidation - Special Purpose Entities*”, and is applicable to all investees.

Early application is permitted. Entities that apply this Standard early must disclose that fact and simultaneously apply IFRS 11, IFRS 12, IAS 27 (as amended in 2011), and IAS 28 (as amended in 2011).

An entity is not required to make adjustments to the accounting for its involvement with an investee when entities that were previously consolidated or unconsolidated in accordance with IAS 27 (2008), SIC 12, and this Standard continue to be consolidated or continue not to be consolidated.

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

s) IFRS 11: Joint Arrangements

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

t) IFRS 12: Disclosure of Interests in Other Entities

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

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Notes to Consolidated Financial Statements

u) IFRS 13: Fair Value Measurement

This Standard 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.

v) IFRS 14: Regulatory Deferral Accounts

This Standard was approved by Board in January 2014. It specifies the accounting policies for regulatory deferral account balances arising from a rate regulation. It is effective for annual periods beginning on or after January 1, 2016. Early application is permitted. This Standard has not been adopted by the Board.

w) IFRS 15: Revenue from Contracts with Customers

This Standard was approved by IASB in May 2014. It provides a global framework for the recognition of revenue from contracts with customers and establishes the principles to report useful information to users of financial statement about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. This Standard replaces IAS 11, IAS 18, IFRS 13, IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31. It is effective for annual periods beginning on or after January 1, 2017. Early application is permitted. This Standard has not been adopted by the Board.

x) 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. The Board permits the reversal of allowances.

y) IFRIC 21: Levies

This Interpretation addresses the accounting of liabilities related to the payment of levies imposed by governments. It is effective for annual periods beginning on or after January 1, 2014. Early application is permitted. This Interpretation has not been adopted by the Board.

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(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) 2014 figures

Certain 2014 figures have been reclassified for purposes of comparison with the 2015 figures, as explained below:

- Pursuant to article 8 of the minutes of meeting No. 1171-2015 held on June 1, 2015, CONASSIF informed through Notice C.N.S. 1171-08 dated June 2, 2015 of the agreement reached to amend the example statement of comprehensive income included in SUGEf Directive 31-04 "Regulations on the Financial Reporting of Financial Entities, Groups, and Conglomerates," requiring the following amendments:

For the year ended December 31, 2015, foreign exchange gains and losses are presented on a net basis in the finance income section under "Gain on foreign exchange differences, net". In the 2014 audited financial statements, foreign exchange gains and losses were presented in the finance income and finance expenses sections and amounted to ¢317,756,425,419 and ¢317,489,596,405, respectively.

- For the year ended December 31, 2015, the Bank changed the way in which it records the account "Loss on allowance for impairment of foreclosed assets and per legal requirements", arising from the comparison of the allowance requirement and the carrying amount of the account. During 2015, the allowance requirement is determined globally over the total assets, while during 2014 it was determined on an asset by asset basis. For the year ended December 31, 2014 the decrease in the allowance for impairment of foreclosed assets and per legal requirements and the loss on allowance for impairment of foreclosed assets and per legal requirements amount to ¢22,240,715,224 and ¢23,134,977,715, respectively.

(48) Restatement of financial statements

The Group's consolidated financial statements as of and for the year ended December 31, 2014 were restated as a result of the restatement of the consolidated financial statements for the period then ended of the subsidiary BN Vital Operadora de Planes de Pensiones Complementarias, S.A. (the Pension Fund Manager).

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# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

As per management's assessment of SUPEN requirements through SP-1341-2015 dated December 4, 2015, the Pension Fund Manager decided to reimburse the funds corresponding to each of the affiliates affected by the differences in the calculation of the withholding on voluntary pension plans withdrawals due to the return of tax incentives to the Ministry of Finance.

Since December 2011, the Pension Fund Manager's management began a study to identify which requests for early withdrawal of voluntary pension plans processed between 2007 and 2011 showed differences in the calculation of the withheld amount. This type of differences on withholdings applied to affiliates ceased as of 2012 due to the improvements made in corresponding IT application.

As a result of the study performed, the total amount to be reimbursed to affiliates was determined, corresponding to withholdings made in excess and foregone interest as of the date of withdrawal:

Reimbursement	Yield	Total
¢417,411,063	¢263,025,384	¢680,436,447

The accounting correction of the error in prior periods resulted in a decrease in investments in other companies amounting to ¢616,723,835 (principal to be reimbursed plus yield). The consolidated financial statements as of December 31, 2014 were restated to include the net effect of the correction of the error corresponding to the reimbursement of the tax incentives to affiliates plus the recognition of interest until December 31, 2014, as follows:

Consolidated Financial Statement	Account	Balance as of January 1, 2015, previously reported	Effect of the correction	Restated balance as of January 1, 2015
Consolidated Balance Sheet	Other sundry accounts payable	¢ 69,542,584,552	613,815,214	70,156,399,766
Consolidated Balance Sheet	Prior period retained earnings	¢ 41,309,087,572	(578,044,762)	40,731,042,810
Consolidated Statement of comprehensive income	Other operating expenses	¢ 52,406,786,756	38,679,072	52,445,462,828
Consolidated Statement of comprehensive income	Statutory allocations	¢ 11,604,847,118	1,055,957	11,605,903,075
Consolidated Statement of comprehensive income	Decrease in statutory allocations	¢ 3,676,719	3,964,577	7,641,296