BANCO NACIONAL DE COSTA RICA

Financial Information Required by the
Superintendency General of Financial Entities

Unconsolidated Financial Statements

December 31, 2013
(With corresponding figures for 2012)

(With Independent Auditor's Report Thereon)

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

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Independent Auditors' Report

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

We have audited the accompanying unconsolidated financial statements of Banco Nacional de Costa Rica (the Bank), which comprise the balance sheet as of December 31, 2013, and the statements of 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 unconsolidated 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 Unconsolidated Financial Statements

Management is responsible for the preparation and fair presentation of these unconsolidated financial statements in accordance with the financial reporting provisions of the accounting regulations issued by CONASSIF and SUGEF, and for such internal control as management determines is necessary to enable the preparation of unconsolidated 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 unconsolidated 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 unconsolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the unconsolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the unconsolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the unconsolidated 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 unconsolidated financial statements.

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

KPMG

Opinion

In our opinion, the accompanying unconsolidated financial statements present fairly, in all material respects, the unconsolidated financial position of the Bank as of December 31, 2013, and its unconsolidated financial performance and cash flows for the year then ended in accordance with the financial reporting provisions of the accounting regulations issued by CONASSIF and SUGEF.

Basis of Accounting

Without qualifying our opinion, we draw attention to note 1-b to the unconsolidated financial statements, which describes the basis of accounting. The unconsolidated financial statements have been prepared by management in accordance with the accounting regulations issued by CONASSIF and SUGEF. The Bank issues consolidated financial statements as its main statements. The unconsolidated financial statements, which present the investment in its subsidiaries by the equity method, have been prepared as a requirement of SUGEF. The Bank's unconsolidated financial statements should be read in conjunction with its consolidated financial statements. As a result, the financial statements may not be suitable for another purpose.

Other matter

Without qualifying our opinion, we draw attention to note 48 to the unconsolidated financial statements, which indicates that the unconsolidated financial statements as of December 31 and January 1, 2012 were restated as a result of the restatement of the financial statements for such period of the subsidiary BN Vital Operadora de Planes de Pensiones Complementarias, S.A., which is wholly owned by the Bank. In 2010, management of the subsidiary performed an assessment to determine the completeness, accuracy, and existence of the "Income tax receivable" account of managed funds. The assessment was substantially completed in 2013 and included the analysis, review, and restructuring of the income tax receivable subledger of each pension fund. As a result of the restructuring, the financial statements of the subsidiary as of December 31 and January 1, 2012 were restated to include the liability generated from the recognition to pension funds of returns not earned by affiliates from 2010 to 2013. The obligation with the pension funds was settled in December 2013. As a result of the above, the Bank's unconsolidated financial statements as of December 31 and January 1, 2012 were also restated in order to recognize the effect of the aforementioned adjustments to the value of the investment in that subsidiary and the effect on the gain on the investment in that subsidiary.

KPMG

January 31, 2014

San José, Costa Rica
Eric Alfaro V.
Member No. 1547
Policy No. 0116 FIG 7
Expires 9/30/2014

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BANCO NACIONAL DE COSTA RICA
UNCONSOLIDATED BALANCE SHEET
AS OF DECEMBER 31, 2013
(With corresponding figures for 2012)
(In colones)

	Note	2013	2012 (Restated)
ASSETS			
Cash and due from banks	**4**	**846,171,086,226**	**653,495,466,279**
Cash		62,612,245,167	63,427,587,672
Demand deposits in BCCR		527,159,738,401	477,018,303,407
Demand deposits in local financial entities		14,641,609,790	13,471,041,276
Demand deposits in foreign financial entities		237,312,085,571	74,100,830,800
Other cash and due from banks		4,444,708,239	25,476,725,458
Accounts and accrued interest receivable		699,058	977,666
Investments in financial instruments	**5**	**931,449,118,555**	**559,211,079,472**
Available for sale		893,950,578,428	519,451,238,322
Held to maturity		25,823,991,217	33,217,634,552
Gap in positions in derivative financial instruments		-	33,405,000
Accounts and accrued interest receivable		11,728,217,894	7,118,110,071
(Allowance for impairment of financial instruments)		(53,668,984)	(609,308,473)
Loan portfolio	**6**	**2,986,573,318,876**	**2,537,738,493,426**
Current		2,799,657,018,936	2,377,716,505,351
Past due		139,042,678,627	115,806,687,152
Legal collections		73,965,839,402	67,207,256,142
Accounts and accrued interest receivable		19,553,964,785	19,313,846,390
(Allowance for loan impairment)	**6-f**	(45,646,182,874)	(42,305,801,609)
Accounts and fees and commissions receivable	**7**	**2,352,125,374**	**2,489,827,354**
Fees and commissions receivable		105,861,792	113,013,819
Accounts receivable for operations with related parties		29,583,734	64,610,271
Deferred tax and income tax receivable		2,065,557,346	3,425,589,303
Other receivables		2,452,741,042	1,829,574,257
Accrued interest receivable		1,608,084	1,513,659
(Allowance for impairment of accounts and fees and commissions receivable)		(2,303,226,624)	(2,944,473,955)
Foreclosed assets	**8**	**20,702,082,917**	**29,835,827,426**
Assets and securities acquired in lieu of payment		76,708,238,430	72,444,726,177
Other foreclosed assets		1,756,777	1,756,777
(Allowance for impairment of foreclosed assets and per legal requirements)		(56,007,912,290)	(42,610,655,528)
Investments in other companies	**9**	**72,323,350,980**	**63,813,626,912**
Property and equipment, net	**10**	**164,829,338,029**	**143,694,028,439**
Other assets	**11**	**30,928,594,678**	**19,128,364,248**
Deferred charges		8,978,335,212	1,553,324,194
Intangible assets		2,650,685,910	3,162,088,838
Other assets		19,299,573,556	14,412,951,216
TOTAL ASSETS		**5,055,329,015,635**	**4,009,406,713,556**

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

Continued...

BANCO NACIONAL DE COSTA RICA
UNCONSOLIDATED BALANCE SHEET
AS OF DECEMBER 31, 2013
(With corresponding figures for 2012)
(In colones)

LIABILITIES AND EQUITY	Note	2013	2012 (Restated)
LIABILITIES			
Obligations with the public	12	**3,394,017,094,333**	**3,155,648,182,262**
Deposits and other demand obligations		2,099,331,437,041	1,917,290,973,782
Deposits and other term obligations		1,275,447,391,754	1,216,812,886,669
Charges payable		19,238,265,538	21,544,321,811
Obligations with BCCR	13	**29,911,289,724**	**226,631,604**
Term obligations		29,904,277,636	226,102,042
Charges payable		7,012,088	529,562
Obligations with entities	14	**1,027,946,177,790**	**263,064,421,252**
Demand obligations		192,457,097,130	26,499,621,384
Term obligations		828,804,423,760	234,647,208,911
Charges payable - Financial and non-financial entities		6,684,656,900	1,917,590,957
Accounts payable and provisions		**120,520,062,480**	**119,107,644,768**
Deferred tax	15-c	14,174,484,751	12,388,840,463
Provisions	16	48,955,117,923	58,056,512,158
Other sundry accounts payable	17	57,390,459,806	48,662,292,147
Other liabilities	18	**28,504,123,816**	**52,272,950,861**
Deferred income		2,458,330,689	2,584,349,737
Allowance for stand-by credit losses		138,964,729	346,388,473
Other liabilities		25,906,828,398	49,342,212,651
TOTAL LIABILITIES		**4,600,898,748,143**	**3,590,319,830,747**
EQUITY			
Share capital		**118,130,303,482**	**118,130,303,482**
Paid-up capital	19-a	118,130,303,482	118,130,303,482
Equity adjustments		**62,621,518,232**	**52,135,768,428**
Surplus from revaluation of property and equipment	19-b	63,639,596,055	49,124,271,353
Adjustment for valuation of available-for-sale investments	19-c	(1,659,792,110)	467,723,432
Adjustment for valuation of restricted financial instruments	19-c	(2,745,810,858)	(2,327,329,161)
Surplus from revaluation of other assets		70,246,625	70,246,625
Adjustment for valuation of investments in other companies	19-d	3,317,278,520	4,800,856,179
Equity reserves	1-t	**196,909,225,981**	**170,958,556,380**
Prior period retained earnings		**39,383,506,918**	**25,654,396,039**
Income for the year		**25,141,909,678**	**43,457,750,120**
Equity of the Development Financing Fund	45	**12,243,803,201**	**8,750,108,360**
TOTAL EQUITY		**454,430,267,492**	**419,086,882,809**
TOTAL LIABILITIES AND EQUITY		**5,055,329,015,635**	**4,009,406,713,556**
DEBIT MEMORANDA ACCOUNTS	20	**439,765,081,943**	**419,764,708,647**
TRUST ASSETS	21	**907,975,474,740**	**872,009,212,183**
TRUST LIABILITIES		**65,814,216,435**	**86,957,095,940**
TRUST EQUITY		**842,161,258,305**	**785,052,116,243**
TRUST MEMORANDA ACCOUNTS		**3,573,614,623**	**42,116,336,831**
OTHER DEBIT MEMORANDA ACCOUNTS	22	**13,605,648,253,300**	**10,866,493,543,583**
Own debit memoranda accounts		6,539,605,723,260	4,738,381,210,827
Third-party debit memoranda accounts		648,018,532,541	670,817,736,354
Own debit memoranda accounts for custodial activities		250,541,115,793	131,532,340,128
Third-party debit memoranda accounts for custodial activities		6,167,482,881,706	5,325,762,256,274

Fernando Naranjo Villalobos
General Manager

Gerardo Gómez Solís
General Accountant

Ricardo Araya Jiménez
General Auditor

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

BANCO NACIONAL DE COSTA RICA
UNCONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2013
(With corresponding figures for 2012)
(In colones)

	Note	2013	2012 (Restated)
Finance income			
Cash and due from banks	23	303,424,037	155,339,775
Investments in financial instruments	23	46,338,244,766	26,675,301,592
Loan portfolio	24	274,158,445,294	282,205,190,749
Gain on foreign exchange and development units, net	1-c	2,958,265,700	5,900,763,528
Gain on available-for-sale financial instruments		15,295,453,265	955,831,592
Gain on derivative financial instruments	5-b	314,659,002	216,012,943
Other finance income	25	15,022,662,097	3,484,080,188
Total finance income		**354,391,154,161**	**319,592,520,367**
Finance expenses			
Obligations with the public	26	126,177,493,110	115,080,637,012
Obligations with BCCR		1,736,494	2,374,166
Obligations with financial entities		18,435,353,209	8,523,491,369
Loss on available-for-sale financial instruments		267,228,828	103,206,454
Loss on derivative financial instruments	5-b	11,666,706,399	194,862,988
Other finance expenses		219,227,424	972,120,342
Total finance expenses		**156,767,745,464**	**124,876,692,331**
Allowance for impairment of assets	27	38,269,776,491	45,104,291,787
Recovery of assets and decrease in allowances	28	15,747,593,621	15,724,179,612
GROSS FINANCE INCOME		**175,101,225,827**	**165,335,715,861**
Other operating income			
Service fees and commissions	29	76,214,342,885	74,108,094,456
Foreclosed assets		16,604,463,853	16,520,440,387
Gain on investments in other foreign companies		4,290,638,809	3,943,326,902
Gain on investments in SUGEVAL-regulated entities		3,669,299,251	1,453,794,762
Gain on investments in SUPEN-regulated entities		1,916,246,228	310,675,385
Gain on investments in SUGESE-regulated entities		403,570,139	231,640,323
Foreign currency exchange and arbitrage		20,668,492,275	18,740,888,426
Other income - Related parties		319,545,521	396,273,317
Other operating income	30	7,362,575,270	7,231,101,860
Total other operating income		**131,449,174,231**	**122,936,235,818**

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

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BANCO NACIONAL DE COSTA RICA
UNCONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2013
(With corresponding figures for 2012)
(In colones)

		2013	2012 (Restated)
Other operating expenses			
Services fees and commissions		5,326,177,056	3,785,153,946
Foreclosed assets	31	44,553,512,618	29,708,180,304
Sundry assets		250,410,685	162,159,667
Provisions	32	20,663,847,329	19,272,971,355
Foreign currency exchange and arbitrage		777,784	2,095,536
Other expenses - Related parties		48,327,975	44,775,000
Other operating expenses	33	41,730,048,329	36,786,193,685
Total other operating expenses		**112,573,101,776**	**89,761,529,493**
GROSS OPERATING INCOME		**193,977,298,282**	**198,510,422,186**
Administrative expenses			
Personnel expenses	34	113,561,568,988	105,995,581,548
Other administrative expenses	35	56,117,934,246	50,322,186,143
Total administrative expenses		**169,679,503,234**	**156,317,767,691**
NET OPERATING INCOME BEFORE TAXES AND STATUTORY ALLOCATIONS		**24,297,795,048**	**42,192,654,495**
Income tax	15-a	-	4,764,870,773
Decrease in income tax	15-a	-	2,135,986,651
Decrease in prior-period income tax	15-b	6,524,041,757	12,079,694,617
Statutory allocations	36	7,357,577,009	9,194,273,246
Decrease in statutory allocations	36	1,677,649,882	1,008,558,375
INCOME FOR THE YEAR		**25,141,909,678**	**43,457,750,120**

Fernando Naranjo Villalobos
General Manager

Gerardo Gómez Solís
General Accountant

Ricardo Araya Jiménez
General Auditor

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BANCO NACIONAL DE COSTA RICA
UNCONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2013
(With corresponding figures for 2012)
(In colones)

			Equity adjustments								
	Note	Share capital	Surplus from revaluation of property and equipment	Adjustment for valuation of available-for-sale investments and restricted financial instruments	Surplus from revaluation of other assets	Adjustment for valuation of investments in other companies	Total equity adjustments	Equity reserves	Opening retained earnings	Equity of the Development Financing Fund	Total
Balances at January 1, 2012 (previously reported)		**67,384,406,074**	**49,062,776,722**	**(2,126,131,456)**	**70,246,625**	**4,748,546,228**	**51,755,438,119**	**155,654,530,107**	**95,539,932,438**	**6,594,382,272**	**376,928,689,010**
Correction of prior-period misstatements	48	-	-	-	-	-	-	-	(1,474,573,682)	-	(1,474,573,682)
Balances at January 1, 2012 (restated)		**67,384,406,074**	**49,062,776,722**	**(2,126,131,456)**	**70,246,625**	**4,748,546,228**	**51,755,438,119**	**155,654,530,107**	**94,065,358,756**	**6,594,382,272**	**375,454,115,328**
Capitalization of retained earnings for capital increases		50,745,897,408	-	-	-	-	-	-	(50,745,897,408)	-	-
Adjustment for valuation of available-for-sale investments, net of deferred tax		-	-	2,593,854,888	-	-	2,593,854,888	-	-	-	2,593,854,888
Adjustment for valuation of restricted financial instruments, net of deferred tax		-	-	(2,327,329,161)	-	-	(2,327,329,161)	-	-	-	(2,327,329,161)
Income for the year		-	-	-	-	-	-	-	43,457,750,120	-	43,457,750,120
Legal reserve and other statutory reserves		-	-	-	-	-	-	15,304,026,273	(15,304,026,273)	-	-
Adjustment for revaluation of investments in other companies		-	-	-	-	52,309,951	52,309,951	-	-	-	52,309,951
Adjustment for changes in equity of BN Vital		-	-	-	-	-	-	-	27,680,866	-	27,680,866
Statutory allocations - Mandatory pension funds, Employee Protection Law No. 7983		-	-	-	-	-	-	-	(232,993,814)	-	(232,993,814)
Adjustment to deferred tax from surplus from revaluation of property and equipment		-	61,494,631	-	-	-	61,494,631	-	-	-	61,494,631
Equity of the Development Financing Fund		-	-	-	-	-	-	-	(2,155,726,088)	2,155,726,088	-
Balances at December 31, 2012 (restated)	19	**118,130,303,482**	**49,124,271,353**	**(1,859,605,729)**	**70,246,625**	**4,800,856,179**	**52,135,768,428**	**170,958,556,380**	**69,112,146,159**	**8,750,108,360**	**419,086,882,809**
Adjustment for valuation of available-for-sale investments, net of deferred tax		-	-	199,813,619	-	-	199,813,619	-	-	-	199,813,619
Adjustment for valuation of restricted financial instruments, net of deferred tax		-	-	(2,745,810,858)	-	-	(2,745,810,858)	-	-	-	(2,745,810,858)
Income for the year		-	-	-	-	-	-	-	25,141,909,678	-	25,141,909,678
Legal reserve and other statutory reserves		-	-	-	-	-	-	25,950,669,601	(25,950,669,601)	-	-
Adjustment for revaluation of investments in other companies		-	-	-	-	(1,483,577,659)	(1,483,577,659)	-	-	-	(1,483,577,659)
Adjustment for changes in equity of BN Vital		-	-	-	-	-	-	-	7,427,050	-	7,427,050
Statutory allocations - Mandatory pension funds, Employee Protection Law No. 7983		-	-	-	-	-	-	-	(291,701,849)	-	(291,701,849)
Surplus from revaluation of property and equipment, net of deferred tax		-	14,515,324,702	-	-	-	14,515,324,702	-	-	-	14,515,324,702
Equity of the Development Financing Fund		-	-	-	-	-	-	-	(3,493,694,841)	3,493,694,841	-
Balances at December 31, 2013	19	**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**

Fernando Naranjo Villalobos
General Manager

Gerardo Gómez Solís
General Accountant

Ricardo Araya Jiménez
General Auditor

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

BANCO NACIONAL DE COSTA RICA
UNCONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2013
(With corresponding figures for 2012)
(In colones)

	Note	2013	2012 (Restated)
Cash flows from operating activities			
Income for the year		25,141,909,678	43,457,750,120
Items not requiring cash			
Gain on sale of idle property and equipment		(2,883)	(12,227,907)
Gain on foreign exchange and development units, net		(7,096,831,360)	(7,449,121,667)
Loss on allowance for loan impairment		23,338,820,866	27,876,535,081
Income from reversal of allowance for impairment of investments		(545,537,362)	(8,420,719)
Loss on allowances for foreclosed assets and other receivables		29,076,559,743	24,742,375,660
Expense for severance accrual, net of payments		16,637,074,489	810,516,884
Depreciation and amortization		13,584,306,683	11,796,684,273
Share in net profit of subsidiaries		(5,989,115,618)	(1,996,110,470)
Share in net profit of foreign associate		(4,290,638,809)	(3,943,326,902)
Statutory allocations		7,357,577,009	9,194,273,246
Deferred tax		(329,821,571)	(329,821,571)
Current tax expense	15 -a	-	4,764,870,773
Finance income on loan portfolio and investments		(320,496,690,060)	(308,880,492,341)
Finance expense on term obligations with the public and financial entities		106,822,452,549	89,914,077,573
		(116,789,936,646)	**(110,062,437,967)**
Net (increase) decrease in assets			
Credits and cash advances		(481,177,766,319)	(278,076,925,088)
Foreclosed assets		(20,213,914,832)	(38,734,143,838)
Accrued interest receivable on other receivables		(94,425)	905,513
Other assets		(14,056,607,833)	(11,184,063,664)
Net increase (decrease) in liabilities			
Demand and term obligations		943,500,106,737	288,582,011,377
Other accounts payable and provisions		(18,407,782,047)	(5,756,647,075)
Other liabilities		(23,530,536,130)	32,757,591,228
		269,323,468,505	**(122,473,709,514)**
Interest received on loan portfolio and investments		315,646,463,842	305,903,544,355
Income tax paid		(3,836,943,798)	(5,248,530,579)
Interest paid on term obligations with the public and financial entities		(104,354,960,353)	(80,083,651,143)
Net cash from operating activities		**476,778,028,196**	**98,097,653,119**
Net cash flows from investing activities			
Increase in financial instruments (except trading)		(3,433,390,130,182)	(9,633,498,213,623)
Decrease in financial instruments (except trading)		3,035,498,384,854	9,600,178,472,931
Acquisition of property and equipment		(17,848,428,711)	(17,161,181,357)
Sale of property and equipment		250,342,335	152,549,855
Cash investments in other companies		2,177,901	677,164,407
Net cash used in from investing activities		**(415,487,653,803)**	**(49,651,207,787)**
Net cash flows from financing activities			
Other new financial obligations		202,125,387,900	134,716,732,293
Settlement of obligations		(98,909,242,876)	(59,896,049,054)
Net cash from financing activities		**103,216,145,024**	**74,820,683,239**
Net increase in cash and cash equivalents		**164,506,519,417**	**123,267,128,571**
Cash and cash equivalents at beginning of year		**739,359,659,032**	**616,092,530,461**
Cash and cash equivalents at end of year	4	**903,866,178,449**	**739,359,659,032**

Fernando Naranjo Villalobos
General Manager

Gerardo Gómez Solís
General Accountant

Ricardo Araya Jiménez
General Auditor

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

(1) Summary of operations and significant accounting policies

(a) Operations

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

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

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

Currently, due to major innovations in information technology and telecommunications, and especially because of the competition in the national and international financial sectors, the Bank has become a universal bank that offers services in all sectors of the Costa Rican market. Those services include: personal, business, corporate, and institutional banking, stock trading, pension fund management, investment funds, insurance brokerage, international banking services, and electronic banking services. The Bank aims to provide universal, standardized, and high-quality banking services that are secure and reliable.

As of December 31, 2013, the Bank has 185 offices (2012: 171), 462 automated teller machines (2012: 461), and a total of 5,504 employees (2012: 5,362). The Bank's website is www.bncr.fi.cr.

(Continued)

The following subsidiaries are wholly owned by the Bank:

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

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

BN Vital Operadora de Planes de Pensiones Complementarias, S.A. (the Pension Fund Manager) has been operating since January 1993 and was subordinate to the Bank until December 31, 1998. Its main activity is offering supplemental old-age and death benefit plans and promoting medium- and long-term planning and savings. Its activities are governed by Law No. 7523 of the Private Supplemental Pension Fund System and the amendments thereto, the Employee Protection Law (Law No. 7983), and the Regulations on Opening and Operating Regulated Entities and Operating Pension, Compulsory, and Voluntary Retirement Savings Funds as prescribed in the Employee Protection Law, Regulations on Regulated-Entity Investments, and the directives issued by the Pensions Superintendency (SUPEN).

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 March 2010.

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

Banco Internacional de Costa Rica, S.A. and subsidiary (BICSA) was organized under the laws of the Republic of Panama in 1976. It operates under a general license granted by the Superintendency of Banks of Panama to engage in banking operations in Panama or abroad. BICSA's registered office is located in Panama City, Republic of Panama, Calle Manuel María Icaza No. 25. BICSA has a branch in Miami, Florida, United States of America. The Bank holds a 49% ownership interest in BICSA. Banco de Costa Rica owns the remaining 51% of shares.

In 2011, the Bank held 50% ownership interest in BAN Procesa - TI, S.A., while Banco de Costa Rica owned the remaining 50% of shares. In 2012, General Management dismissed the project and transferred its 50% ownership interest to Banco de Costa Rica without payment, as agreed at Board of Directors Meeting No. 11805 held on December 4, 2012 (see note 42).

(b) Basis of preparation

- Statement of compliance

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

- Basis of measurement applied to assets and liabilities

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

(c) Foreign currency

i. Foreign currency transactions

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

ii. Monetary unit and foreign exchange regulations

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

On October 17, 2006, the Central Bank of Costa Rica (BCCR) revised the country's foreign exchange system, replacing mini-devaluations with an adjustable band. Under the new system, the Central Bank's board agreed to establish a rate floor and ceiling, which will be adjusted based on the country's financial and macroeconomic conditions. In accordance with the Chart of Accounts, assets and liabilities denominated in foreign currency should be expressed in colones using the reference buy rate published by BCCR. As of December 31, 2013, the exchange rate was established at ¢495.01 and ¢507.80 (2012: ¢502.07 and ¢514.32) to US$1.00 for the purchase and sale of U.S. dollars, respectively.

As of December 31, 2013, the exchange rate for the purchase and sale of euros was established at ¢669.49 and ¢704.58 (2012: ¢650.07 and ¢679.92) to €1.00, respectively.

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

As of December 31, 2013, assets and liabilities denominated in U.S. dollars were valued at the exchange rate of ¢495.01 to US$1.00 (2012: ¢502.07 to US$1.00), which is the reference buy rate published by BCCR for December 31, 2013.

As of December 31, 2013, assets and liabilities denominated in euros were valued at the exchange rate of ¢682.62 to €1.00 (2012: ¢663.28 to €1.00). This exchange rate was calculated by multiplying the international exchange rate published by Reuters by the reference buy rate for U.S. dollars published by BCCR on the last business day in December 2013.

As of December 31, 2013, assets and liabilities denominated in DU were valued at the exchange rate of ¢816.60 to DU1.00 (2012: ¢787.80 to DU1.00). This exchange rate is based on the DU value tables published by SUGEVAL.

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Valuation in colones of monetary assets and liabilities in foreign currency during the year ended December 31, 2013 gave rise to foreign exchange losses and gains of ¢74,959,993,017 and ¢77,918,258,717, respectively, for a net gain of ¢2,958,265,700 (2012: losses and gains of ¢89,885,963,709 and ¢95,786,727,237, respectively, for a net gain of ¢5,900,763,528). Additionally, valuation of other liabilities and other assets gave rise to losses and gains, respectively, which are booked in "Other operating expenses" and "Other operating income", respectively. During the year ended December 31, 2013, valuation of other assets gave rise to gains of ¢411,554,122 (2012: gains of ¢244,738,959) (see note 30) and valuation of other liabilities gave rise to losses of ¢181,805,685 (2012: losses of ¢705,370,097) (see note 33).

(d) 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, obligations with the public, financial obligations, and accounts payable.

i. Classification

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

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

- Own investments in open investment funds are to be classified as trading financial assets.

- Own investments in closed investment funds are to be classified as available for sale.

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

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

As of December 31, 2013, the Bank no longer classifies financial instruments as held to maturity, except for the securities denominated in DU received from the Central Government to capitalize the Bank. Those securities were authorized by the Executive Branch of the Costa Rican Government as a capital contribution and are funded under Law No. 8703 “Amendment to Law No. 8627 on the Ordinary and Extraordinary Budget of the Republic for Tax Year 2008.”

Trading securities

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

Available-for-sale securities

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

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

Derivative financial instruments

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

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.

(Continued)

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

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

Originated loans and other receivables

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

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

ii. Recognition

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

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

iii. Measurement

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

Subsequent to initial recognition, all trading and available-for-sale investments and derivative instruments are measured at fair value, except that any investment or instrument that does not have a quoted market price in an active market and which fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses. Starting September 2008, fair values are determined using a market price valuation method established by Proveedor Integral de Precios Centroamérica, S.A. (PIPCA). This method has been duly approved by SUGEVAL.

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

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

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

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

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

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

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

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

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

iv. Fair value measurement principles

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

v. *Gains and losses on subsequent measurement*

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

vi. *Derecognition*

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

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

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 unconsolidated financial statements when the Bank has a legal right to set off the recognized amounts and intends to settle on a net basis.

viii. *Impairment of financial assets*

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

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

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

ix. Specific instruments

Cash and cash equivalents

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

Demand deposits – overnight

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

Investments in financial instruments

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

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

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

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

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

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

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

Loans and advances to banks and customers

Loans originated by the Bank are classified as loan portfolio.

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

Securities sold under repurchase agreements

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

Securities purchased under reverse repurchase agreements

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

(Continued)

(e) Loan portfolio

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

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

(f) Allowance for loan impairment

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

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

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

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

As of December 31, 2013 and 2012, increases in the allowance for loan impairment are included in the accounting records in accordance with article 10 of IRNBS.

As of December 31, 2013 and 2012, the allowance for stand-by credit losses is presented in the liability section of the balance sheet, in the “Other liabilities” account, and amounts to ¢138,964,729 and ¢346,388,473, respectively (see note 18).

(g) 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 client 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.

(h) 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.

(i) Property and equipment

i. Own assets

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

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

For the year ended December 31, 2013, 33 appraisals were made of the Bank’s land and 33 of the Bank’s buildings by independent appraisers (2012: no appraisals). The net effect derived therefrom in the amount of ¢14,515,324,702, net of deferred tax, was recognized in the “Surplus from revaluation of property and equipment” account.

ii. Leased assets

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

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

iii. Subsequent expenditure

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

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:

Type of asset	Estimated useful life
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

(j) Intangible assets

i. Other intangible assets

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

(Continued)

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.

(k) Lease operations

Finance 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, 2013 and 2012, the Bank has no finance leases.

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

(l) Foreclosed assets

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

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

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

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

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

For foreclosed assets acquired or produced prior to May 2010, the Bank's management follows the policy of booking an allowance equivalent to 100% of the value of foreclosed assets that have not been sold or leased within two years from the date of their acquisition or production.

(m) Investments in other companies

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

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

(Continued)

As of December 31, 2013 and 2012, the Bank has no total or partial interest or influence over the management of other companies in accordance with article 73 of IRNBS and article 146 of the Internal Regulations of the Central Bank of Costa Rica.

(n) Impairment of non-financial assets

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

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

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

(o) Provisions

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

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

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

(Continued)

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 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.

(p) 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, 2013, a total of ¢32,411,625,359 (2012: ¢37,899,350,996) is booked in the "Provisions" account for severance benefits. That amount is sufficient to cover the provisions required by current legislation as of those dates (see note 16). The Employee Association of Banco Nacional de Costa Rica (ASEBANACIO) was created in 2012. Accordingly, the Bank currently follows the practice of making monthly transfers of severance benefits to the Employee Association, equivalent to 5.33% of member employees' monthly salaries, for management and custody. Those funds are paid out to employees upon termination of employment. Severance payments are expensed when the funds are transferred.

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

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

(q) Employee benefits

Employee Protection and Retirement Fund

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

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

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

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

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

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

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

(Continued)

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

- the Bank reports profits in its audited financial statements for the corresponding period, and

- the employee eligible for the SEDI incentive has worked for at least 6 months for the Bank during the period and has obtained the required minimum score in the assessed areas.

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

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

(r) Accounts payable and other liabilities

Accounts payable and other liabilities are carried at cost.

(s) Deferred income

Deferred income corresponds to income received in advance by the Bank 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.

(t) Legal reserve

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

As of December 31, 2013, the legal reserve amounts to ¢196,909,225,981 (2012: ¢170,958,556,380).

(u) 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.

(v) Income tax

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

i. Current tax:

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

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

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

As of December 31, 2013, the Bank booked no current tax liability since the AD-HOC methodology determined a negative tax base. As of December 31, 2012, the Bank booked no current tax liability since estimated income taxes exceeded tax payable (see note 15).

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.

(w) Combination of financial statements of departments

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

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

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

(x) 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 unconsolidated 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.

(Continued)

(y) Recognition of income and expenses

i. *Finance income and expense*

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

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

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

ii. *Fee and commission income*

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

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

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.

(z) 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), the National Development Trust (FINADE), and the National Commission for Educational Loans (CONAPE) are presented as expenses in the income statement. Pursuant to paragraph a) of article 20 of Law No. 6041 "Law to Create the National Commission for Educational Loans (CONAPE)", the Bank is required to make statutory allocations equivalent to 5% of earnings before taxes and statutory allocations to CONAPE.

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

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

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

(Continued)

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

(aa) Development Financing Fund (FOFIDE)

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

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.

(bb) Development Credit Fund (FCD)

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

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

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

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

b. Under article 35 of Law No. 8634, the Managing Banks may offer second-tier banking services to FCD funds for financial entities other than private banks, provided that the purposes and obligations established in Law No. 8634 are met and such entities are duly authorized by the Governing Board.

c. Under article 35 of Law No. 8634, the Managing Banks may channel FCD funds through placements to: associations, cooperatives, foundations, non-governmental organizations, producer organizations, or other formal entities, provided that they perform loan operations through development financing programs that meet the objectives established in Law No. 8634 and are duly authorized by the Governing Board.

d. The term of the agreement is five years, renewable for equal and successive periods, unless a written order by the Governing Board provides otherwise and is notified at least three months in advance. If a lack of capacity and competence is by the Managing Banks is proven, this agreement may be terminated under paragraph j), article 12 of Law No. 8634 and the executive regulations thereto.

(2) Collateralized or restricted assets

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

		Carrying amount		
Restricted asset		2013	2012	Cause of restriction
Cash and due from banks	¢	512,939,448,276	471,786,221,485	Minimum cash reserve
Investments in financial instruments	¢	6,422,745,082	-	Guarantee for margin calls - term operations
Investments in financial instruments	¢	244,735,960,400	125,087,549,504	Guarantee for obligations with foreign financial entities
Investments in financial instruments	¢	72,045,767,120	-	Interbank Electronic Payment System (SINPE) guarantee
Other assets (note 11)	¢	227,561,623	197,538,854	Guarantee deposits

As of December 31, 2013 and 2012, 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, 2013, the Bank must maintain a minimum cash reserve of ¢512,939,448,276 (2012: ¢471,786,221,485).

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

Restricted asset	Cause of restriction		2013 Carrying amount	2012 Carrying amount
Checking account – colones	Minimum cash reserve	¢	347,894,567,731	310,134,467,006
Checking account – euros	Minimum cash reserve	€	8,323,774	8,848,750
Checking account – U.S. dollars	Minimum cash reserve	US$	321,938,761	310,280,550
External debt bond	Guarantee for margin calls - term operations – Bank of America	¢	3,459,941,933	-
External debt bond	Guarantee for margin calls - term operations – Citi Swap	¢	987,317,244	-
External debt bond	Guarantee for margin calls - term operations – JP Morgan Swap	¢	1,975,485,905	-
Monetary stabilization bond	Citibank guarantee	¢	50,891,800,000	-
External debt bond	Credit Suisse guarantee - Foreign bonds	¢	43,246,320,000	73,044,048,557
External debt bond	Barclays guarantee	¢	44,625,998,979	-
Central Bank bond (global bond)	Barclays guarantee	¢	37,826,255,990	52,043,500,947
External debt bond	Credit Suisse guarantee	¢	68,145,585,431	-
Monetary stabilization bond	Interbank Electronic Payment System (SINPE) guarantee	¢	55,880,015,006	-
Central Bank bond (global bond)	Interbank Electronic Payment System (SINPE) guarantee	¢	16,165,752,114	-
Other assets	Guarantee deposit	¢	227,561,623	197,538,854

(Continued)

(3) Balances and transactions with related parties

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

		2013	2012
Assets:			
Checking accounts and demand deposits	¢	2,697,887,241	20,721,850,194
Investments in financial instruments and accrued interest receivable		24,750,500,000	-
Other fees and commissions receivable (note 7)		553,249	41,485,247
	¢	27,448,940,490	20,763,335,441
Liabilities:			
Demand deposits	¢	2,240,797,725	1,517,407,944
Term deposits and accrued interest payable		588,049,474	3,803,811,880
Accounts payable		24,695,377	-
	¢	2,853,542,576	5,321,219,824
Income:			
Finance	¢	159,238,854	12,079,247
Operating		476,050,064	514,674,417
	¢	635,288,918	526,753,664
Expenses:			
Finance	¢	314,507,142	993,492,314
Operating		73,218,778	60,092,226
	¢	387,725,920	1,053,584,540

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

		2013	2012
Short-term benefits	¢	1,010,779,829	979,502,930
Other compensation		371,235,834	184,429,479
	¢	1,382,015,663	1,163,932,409

(4) Cash and due from banks

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

		2013	2012
Cash and due from banks	¢	846,171,086,226	653,495,466,279
Investments with maturities of less than two months		57,695,092,223	85,864,192,753
Cash and due from banks and cash equivalents	¢	903,866,178,449	739,359,659,032

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

		2013	2012
Local currency:			
Cash	¢	36,191,171,739	41,653,161,446
Cash in transit		12,063,605,000	8,090,539,000
Minimum cash reserve		357,794,845,844	314,940,180,259
Checking accounts and demand deposits in State-owned commercial banks and banks created under special laws		14,612,991,807	13,458,815,882
Outstanding checks and other		3,520,255,899	16,311,047,603
Foreign currency:			
Cash		12,791,185,308	12,680,654,985
Cash in transit		1,566,283,120	1,003,232,241
Minimum cash reserve		169,364,892,557	162,078,123,148
Checking accounts and demand deposits in State-owned commercial banks and banks created under special laws		28,617,983	12,225,394
Foreign correspondent banks		100,523,093,694	25,145,449,206
Checking accounts and demand deposits in related parties		2,697,887,241	20,721,850,195
Overnight deposits in foreign financial entities		134,091,104,636	28,233,531,399
Outstanding checks and other		924,452,340	9,165,677,855
Accrued interest receivable		699,058	977,666
	¢	846,171,086,226	653,495,466,279

Minimum cash reserve

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

Currency		2013	2012
Local currency	¢	347,894,567,731	310,134,467,006
Foreign currency		165,044,880,545	161,651,754,479
	¢	512,939,448,276	471,786,221,485

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

As of December 31, 2013 and 2012, deposits in BCCR amount to ¢527,159,738,401 and ¢477,018,303,407, respectively.

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

(5) Investments in financial instruments and derivative financial instruments

(a) Investments in financial instruments

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

		2013	2012
Available for sale	¢	893,950,578,428	519,451,238,322
Held to maturity		25,823,991,217	33,217,634,552
FX futures - Other than hedges (1)		-	33,405,000
Accrued interest receivable		11,728,217,894	7,118,110,071
Allowance for impairment of investments		(53,668,984)	(609,141,448)
Allowance for impairment of derivative instruments other than hedges		-	(167,025)
	¢	931,449,118,555	559,211,079,472

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		2013	2012
Available for sale:			
Local issuers:			
Government of Costa Rica	¢	374,144,722,998	220,012,296,764
BCCR		249,956,091,638	43,350,492,962
State-owned banks		25,279,105,737	60,988,932,333
Private banks		7,480,457,116	9,984,148,302
Private issuers		6,366,121,437	26,904,993,407
		663,226,498,926	361,240,863,768
Foreign issuers:			
Governments		118,160,726,219	53,710,681,111
Private issuers		14,694,527,871	12,789,926,028
Private banks		97,868,825,412	91,709,767,415
		230,724,079,502	158,210,374,554
		893,950,578,428	519,451,238,322
Held to maturity:			
Local issuers		25,823,991,217	33,217,634,552
		25,823,991,217	33,217,634,552
FX futures - Other than hedges		-	33,405,000
Accrued interest receivable		11,728,217,894	7,118,110,071
Allowance for impairment of investments		(53,668,984)	(609,141,448)
Allowance for impairment of derivative instruments other than hedges		-	(167,025)
	¢	931,449,118,555	559,211,079,472

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

		2013	2012
Opening balance	¢	(609,308,473)	(621,737,159)
Allowance expense (note 27)		(1,036)	(167,025)
Decrease in allowance against income (note 28)		545,538,398	8,587,744
Foreign exchange differences		10,102,127	4,007,967
Closing balance	¢	(53,668,984)	(609,308,473)

As of December 31, 2013, the allowance for impairment of investments in non-derivative financial instruments amounts to ¢53,668,984 (2012: ¢609,308,473) and is booked for investments in Z Bonds related to the Mortgage Securitization Trust (impairment of 26%). Additionally, as of December 31, 2012, such allowance was booked for investments in ARSs (impairment of 6.82%).

(Continued)

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As of December 31, 2012, the allowance for impairment of derivative instruments other than hedges amounts to ¢167,025. This allowance is booked for a forward contract with Barclays Bank PLC London, which was assigned a risk rating of A1, requiring an allowance of 0.5% in accordance with the risk categories established in SUGEF Directive 1-05.

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

		2013	2012
Available for sale:			
Securities issued by BCCR	¢	143,184,276,539	43,350,492,452
Securities issued by local non-financial public sector		276,146,372,477	219,218,442,215
Securities issued by local financial entities		32,759,562,841	70,973,080,755
Securities issued by local non-financial private sector		54,259,246,621	399,060,916
Financial instruments issued by foreign financial entities		31,770,700,837	33,517,619,075
Financial instruments issued by foreign non-financial private sector – own resources		1,513,532,661	-
Financial instruments issued by foreign related parties		24,746,292,415	-
Repurchase and tri-party repurchase agreements – term seller position		-	12,899,036,317
Liquidity market operations – own resources		-	7,514,490,000
Other available-for-sale financial instruments		6,366,121,437	6,491,467,089
Financial instruments restricted for margin calls on term operations		6,422,745,082	-
Financial instruments restricted for credit operations		244,735,960,398	125,087,549,503
Financial instruments restricted for liquidity operations		72,045,767,120	-
		893,950,578,428	519,451,238,322
Held to maturity:			
Securities issued by local non-financial public sector		25,823,991,217	33,217,634,552
		25,823,991,217	33,217,634,552
Derivative financial instruments:			
FX futures - Other than hedges (1)		-	33,405,000
		-	33,405,000
Accrued interest receivable		11,728,217,894	7,118,110,071
Allowance for impairment of investments		(53,668,984)	(609,141,448)
Allowance for impairment of derivative instruments other than hedges		-	(167,025)
	¢	931,449,118,555	559,211,079,472

(Continued)

As of December 31, 2013, returns on investments in financial instruments range between 5% and 11.04% per annum in colones (2012: between 5% and 12.91% per annum), between 0.25% and 6.9% per annum in U.S. dollars (2012: between 0.25% and 8.05% per annum), between 0.25% and 7.5% per annum in euros (2012: between 0.25% and 5% per annum), and between 0.67% and 0.74% per annum in DU (2012: between 0.25% and 4.5% per annum).

As of December 31, 2013, valuation of available-for-sale investments and restricted financial instruments gave rise to an unrealized loss, net of deferred tax, in the amount of ¢2,545,997,239 (2012: unrealized gain of ¢266,525,727). Accordingly, as of December 31, 2013, the cumulative balance of equity adjustments arising from valuation of these investments is an unrealized loss of ¢4,405,602,968 (2012: unrealized loss of ¢1,859,605,729).

(1) In 2012, the Bank acquired a forward contract for investment purposes. As of December 31, 2012, the fair value of such contract amounts to ¢33,405,000 (see note 5-b).

(b) Derivative financial instruments

In notice J.D. 5566/06/02 dated October 29, 2012, SUGEF authorized the Bank to trade derivative financial instruments (see note 41-c).

As of December 31, 2013 and 2012, the Bank holds the following types of derivative financial instruments:

✓ *Derivatives as risk hedging instruments:*

Interest rate swaps:

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

Interest rate swaps are as follows:

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

As of December 31, 2013, total notional amounts of US$750 million, equivalent to ¢371,257,500,000, are booked under “Other debit memoranda accounts” (see note 22).

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

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

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

(Continued)

Gains and losses on valuation of derivative financial instruments are booked under asset and liability accounts, respectively. As of December 31, 2013, the Bank booked a decrease in the fair value of these hedges in the amount of US$20,209,761, equivalent to ¢10,004,033,392 under "Other sundry accounts payable" (see note 17).

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

As of December 31, 2012, this instrument is booked under other debit memoranda accounts for a notional amount of US$8,888,888, equivalent to ¢4,462,844,450 (see note 22).

As of December 31, 2012, the Bank booked a decrease in the fair value of this hedge in the amount of US$4,494, equivalent to ¢2,256,689, under other sundry accounts payable (see note 17).

✓ *Derivatives as investment instruments:*

Forward contract:

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

As of December 31, 2013, no notional amount is booked for this instrument because it matured on June 4, 2013. As of December 31, 2012, this instrument was booked under contingent memoranda accounts for a notional amount of US$6,000,000, equivalent to ¢3,012,420,000 (see note 20). This financial instrument was a guarantee (Non-Deliverable Forward (NDF)) and the agreed forward exchange rate was ¢513.50.

As of December 31, 2013, the Bank booked no increase or decrease in the fair value of this forward because the instrument was settled. As of December 31, 2012, the Bank booked an increase in the fair value of the instrument in the amount of ¢33,405,000 under "Financial instruments" (see note 5-a).

For the year ended December 31, the effect on profit or loss of derivative financial instruments is as follows:

		2013	2012
Gain on derivative financial instruments	¢	314,659,002	216,012,943
Loss on derivative financial instruments		(11,666,706,399)	(194,862,988)
Net (loss) gain	¢	(11,352,047,397)	21,149,955

(6) Loan portfolio

(a) Loan portfolio by sector

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

		2013	2012
Trade	¢	363,459,705,506	358,279,240,064
Services		584,577,782,384	522,354,170,326
Financial services		120,368,072,434	45,838,244,764
Mining		45,996,475	54,440,820
Manufacturing and quarrying		138,519,857,709	121,400,089,815
Construction		72,646,004,843	60,669,338,618
Agriculture and forestry		94,717,967,679	86,854,216,818
Livestock, hunting, and fishing		60,676,546,083	62,348,420,086
Electricity, water, sanitation, and other related sectors		190,788,599,603	100,542,484,954
Transportation and telecommunications		25,914,019,966	23,240,759,384
Housing		956,259,656,589	862,659,694,900
Personal or consumer loans		294,861,259,519	213,775,143,188
Tourism		109,830,068,175	102,714,204,908
Total direct loans		3,012,665,536,965	2,560,730,448,645
Accrued interest receivable		19,553,964,785	19,313,846,390
Allowance for loan impairment		(45,646,182,874)	(42,305,801,609)
Total loan portfolio	¢	2,986,573,318,876	2,537,738,493,426

(Continued)

As of December 31, 2013, interest rates range between 6.25% and 34% per annum (average rate of 13.81% per annum) for loans in colones (2012: between 7.25% and 37.50% per annum, average rate of 17.34% per annum); between 3.57% and 25.92% per annum (average rate of 8.08% per annum) for loans in U.S. dollars (2012: between 2.57% and 26.88% per annum, average rate of 7.99% per annum); and between 3.85% and 10% per annum (average rate of 6.33% per annum) for loans in DU (2012: between 3.85% and 10% per annum, average rate of 6.35% per annum).

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

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

As of December 31, 2013, the balance of the securitized portfolio is US$6,977,247, which is equivalent to ¢3,453,806,835 (2012: US$7,277,041, equivalent to ¢3,653,583,784).

(b) Loan portfolio by arrears

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

		2013	2012
Current	¢	2,800,540,470,762	2,378,354,596,934
1 to 30 days		67,718,710,377	49,687,296,284
31 to 60 days		51,842,956,058	45,766,535,026
61 to 90 days		19,901,210,891	22,331,400,972
91 to 120 days		11,359,244,688	8,916,162,241
121 to 180 days		11,174,903,939	11,695,565,807
More than 180 days		50,128,040,250	43,978,891,381
Total direct loans		3,012,665,536,965	2,560,730,448,645
Accrued interest receivable		19,553,964,785	19,313,846,390
Allowance for loan impairment		(45,646,182,874)	(42,305,801,609)
Total loan portfolio	¢	2,986,573,318,876	2,537,738,493,426

(Continued)

(c) Loan portfolio by origin

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

		2013	2012
Loans originated by the Bank	¢	3,012,544,546,829	2,560,503,125,645
Loans purchased by the Bank		120,990,136	227,323,000
Total direct loans		3,012,665,536,965	2,560,730,448,645
Accrued interest receivable		19,553,964,785	19,313,846,390
Allowance for loan impairment		(45,646,182,874)	(42,305,801,609)
Total loan portfolio	¢	2,986,573,318,876	2,537,738,493,426

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

(d) Past due loans

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

		2013	2012
Past due loans in accrual status: 18,875 loans (2012: 17,476 loans)	¢	138,735,758,526	115,693,913,264
Loans in legal collections: 4,984 loans, 2.46% of portfolio (2012: 3,765 loans, 2.62% of portfolio)	¢	73,965,839,402	67,207,256,142
Total unearned interest in 2013 and 2012	¢	1,082,349,202	830,113,120

During the years ended December 31, 2013 and 2012, the Bank increased and decreased the "Finance income on non-accrual loans" account by ¢1,082,349,202 and ¢830,113,120, respectively, as a result of the recovery of loans receivable over 180 days past due.

As of December 31, 2013, restructured loans amount to a total of ¢22,943,856,728 (2012: ¢45,577,791,057).

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

(Continued)

(e) Accrued interest receivable on loan portfolio

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

		2013	2012
Current	¢	10,441,683,885	10,233,307,537
Past due		2,530,929,634	2,497,998,964
In legal collections		6,581,351,266	6,582,539,889
	¢	19,553,964,785	19,313,846,390

(f) Allowance for loan impairment

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

		2013	2012
Opening balance	¢	42,305,801,609	40,146,106,606
Expense for the year (note 27)		36,912,921,429	42,840,107,587
Settlements		(33,393,373,813)	(40,566,766,819)
Decrease in allowance against income (note 28)		(60,689,015)	(92,509,973)
Foreign exchange differences		(118,477,336)	(21,135,792)
Closing balance	¢	45,646,182,874	42,305,801,609

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

(7) Other receivables

As of December 31, other receivables are as follows:

		2013	2012
Fees and commissions	¢	105,861,792	113,013,819
Transactions with related parties (note 3)		553,249	41,485,247
Transactions with related parties (employees and related branches)		29,030,485	23,125,024
Deferred tax (note 15-c)		1,943,597,323	1,320,235,038
Income tax receivable		121,960,023	2,105,354,265
Other sundry accounts receivable		2,452,741,042	1,829,574,257
Accrued interest receivable on other sundry accounts receivable		1,608,084	1,513,659
Allowance for impairment of other accounts and fees and commissions receivable		(2,303,226,624)	(2,944,473,955)
	¢	2,352,125,374	2,489,827,354

(Continued)

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

		2013	2012
Opening balance	¢	2,944,473,955	1,681,611,816
Allowance expense (note 27)		1,356,827,241	2,264,017,175
Decrease in allowance against income (note 28)		(1,627,926,839)	(751,852,337)
Items settled against allowance		(367,527,573)	(247,651,079)
Foreign exchange differences		(2,620,160)	(1,651,620)
Closing balance	¢	2,303,226,624	2,944,473,955

(8) Foreclosed assets

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

		2013	2012
Assets acquired in lieu of payment	¢	76,708,238,430	72,444,726,177
Idle property and equipment		1,756,777	1,756,777
Allowance for impairment and per legal requirements		(56,007,912,290)	(42,610,655,528)
	¢	20,702,082,917	29,835,827,426

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

		2013	2012
Opening balance	¢	42,610,655,528	34,986,696,273
Allowance expense (note 31)		29,347,659,340	23,230,210,822
Sale of foreclosed assets		-	(3,242,500)
Decrease in allowance against income		(15,950,402,578)	(15,603,009,067)
Closing balance	¢	56,007,912,290	42,610,655,528

(9) Investments in other companies

As of December 31, investments in other companies are as follows:

		2013	2012
Other local companies	¢	31,016,350,358	22,475,316,918
Other foreign companies		41,307,000,622	38,338,309,994
	¢	72,323,350,980	63,813,626,912

The Bank holds a 49% stake in BICSA, which is represented in 2013 by 6,159,251 ordinary shares (2012: 5,525,142 ordinary shares) of US$10 par value each.

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

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

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

		2013	2012
Interclear Central de Valores, S.A.	¢	15,000,000	15,000,000
Depósito Libre Comercial de Golfito (Golfito Duty Free Shopping Center) per article 24 of Law No. 7131		5,200,000	5,200,000
Other financial entities		423,300	423,300
	¢	20,623,300	20,623,300

As of December 31, 2013 and 2012, the Bank has booked an investment in Interclear Central de Valores, S.A. for ¢15,000,000 to operate as a custodian of electronic securities.

As of December 31, 2013 and 2012, the Bank holds investments in other non-financial entities, the most significant of which is the investment in the Golfito Duty Free Shopping Center for ¢5,200,000. The remaining ¢423,300 of the balance of investments in other non-financial entities booked as of those dates corresponds to investments in various cooperatives.

(Continued)

(10) Property and equipment

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

		Land	Buildings	Furniture and equipment	Computer hardware	Vehicles	Total
Cost:							
Opening balance	¢	32,814,840,012	98,625,536,741	46,195,529,911	45,505,219,416	428,342,524	223,569,468,604
Additions		153,486,107	4,364,688,984	6,249,112,404	5,655,707,679	-	16,422,995,174
Revaluation of assets		9,510,130,321	7,150,277,687	-	-	-	16,660,408,008
Retirements		-	-	(963,299,618)	(1,727,681,707)	-	(2,690,981,325)
Adjustments		-	(639,162,661)	(5,425,096)	(68,123,079)	-	(712,710,836)
Reclassifications		-	-	(22,971,344)	22,971,344	-	-
Closing balance		42,478,456,440	109,501,340,751	51,452,946,257	49,388,093,653	428,342,524	253,249,179,625
Accumulated depreciation:							
Opening balance		-	23,747,238,470	21,334,422,520	34,602,564,350	191,214,825	79,875,440,165
Depreciation expense on historical cost		-	1,299,285,824	4,078,102,162	4,379,075,455	41,890,347	9,798,353,788
Depreciation expense on revaluation		-	1,179,750,583	-	-	-	1,179,750,583
Retirements		-	-	(763,921,143)	(1,676,720,730)	-	(2,440,641,873)
Adjustments		-	-	(5,451,297)	12,390,230	-	6,938,933
Reclassifications		-	-	(1,069,069)	1,069,069	-	-
Closing balance		-	26,226,274,877	24,642,083,173	37,318,378,374	233,105,172	88,419,841,596
Net closing balance	¢	42,478,456,440	83,275,065,874	26,810,863,084	12,069,715,279	195,237,352	164,829,338,029

(Continued)

BANCO NACIONAL DE COSTA RICA

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As of December 31, 2012, property and equipment is as follows:

		Land	Buildings	Furniture and equipment	Computer hardware	Vehicles	Total
Cost:							
Opening balance	¢	32,814,840,012	95,078,477,199	39,554,429,488	41,153,025,351	472,480,889	209,073,252,939
Additions		-	3,547,059,542	7,183,774,731	6,513,214,924	-	17,244,049,197
Retirements		-	-	(550,711,180)	(2,145,440,521)	(44,138,365)	(2,740,290,066)
Adjustments		-	-	(12,992,188)	5,448,722	-	(7,543,466)
Reclassifications		-	-	21,029,060	(21,029,060)	-	-
Closing balance		32,814,840,012	98,625,536,741	46,195,529,911	45,505,219,416	428,342,524	223,569,468,604
Accumulated depreciation:							
Opening balance		-	21,469,165,459	18,323,250,433	32,572,011,144	188,991,267	72,553,418,303
Depreciation expense on historical cost		-	1,096,596,424	3,455,782,921	4,139,418,504	34,885,800	8,726,683,649
Depreciation expense on revaluation		-	1,181,476,587	-	-	-	1,181,476,587
Retirements		-	-	(446,509,855)	(2,120,866,771)	(32,591,491)	(2,599,968,117)
Adjustments		-	-	(1,007,694)	14,908,188	(70,751)	13,829,743
Reclassifications		-	-	2,906,715	(2,906,715)	-	-
Closing balance		-	23,747,238,470	21,334,422,520	34,602,564,350	191,214,825	79,875,440,165
Net closing balance	¢	32,814,840,012	74,878,298,271	24,861,107,391	10,902,655,066	237,127,699	143,694,028,439

(Continued)

(11) Other assets

As of December 31, other assets are as follows:

		2013	2012
Deferred charges:			
Leasehold improvements		1,173,516,815	1,450,497,083
Cost if issue of financial instruments (3)		1,497,331,306	-
Cost of subordinated debt project		922,154	-
Other deferred charges		6,306,564,937	102,827,111
Subtotal		8,978,335,212	1,553,324,194
Intangible assets:			
Software (2)		2,650,685,910	3,162,088,838
Subtotal		2,650,685,910	3,162,088,838
Other assets:			
Prepaid interest and fees and commissions		321,530,718	229,312,143
Estimated tax		1,507,111,356	-
Prepaid insurance policy		172,458,831	185,460,670
Other prepaid expenses		772,433,655	-
Stationery, office supplies, and other materials		171,690,838	244,718,487
Leased assets		151,192,594	152,411,756
Library and artwork		336,738,251	278,518,800
Construction work-in-progress		9,503,968,175	5,885,231,059
Rights in welfare and trade associations		350,000	350,000
Other sundry assets		999,765,010	1,158,444,777
Operations pending settlement		4,764,073,413	5,865,126,173
Other operations pending application		370,699,092	215,838,497
Guarantee deposits (1)		181,507,319	151,484,550
Legal and administrative deposits (1)		46,054,304	46,054,304
Subtotal		19,299,573,556	14,412,951,216
Total	¢	30,928,594,678	19,128,364,248

(1) As of December 31, 2013, guarantee deposits amount to ¢227,561,623 (2012: ¢197,538,854) (see note 2).

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

		Software	Other intangible assets	Total
Cost:				
Opening balance	¢	13,948,835,505	94,029,559	14,042,865,064
Additions		1,388,162,828	-	1,388,162,828
Retirements		(434,280)	-	(434,280)
Adjustments		623,006	-	623,006
Closing balance		15,337,187,059	94,029,559	15,431,216,618
Accumulated amortization:				
Opening balance		10,786,746,667	94,029,559	10,880,776,226
Expense for the year		1,895,720,272	-	1,895,720,272
Retirements		(434,280)	-	(434,280)
Adjustments		4,468,490	-	4,468,490
Closing balance		12,686,501,149	94,029,559	12,780,530,708
Net closing balance	¢	2,650,685,910	-	2,650,685,910

As of December 31, 2012, intangible assets, net are as follows:

		Software	Other intangible assets	Total
Cost:				
Opening balance	¢	10,536,862,677	94,029,559	10,630,892,236
Additions		3,416,697,877	-	3,416,697,877
Adjustments		(4,725,049)	-	(4,725,049)
Closing balance		13,948,835,505	94,029,559	14,042,865,064
Accumulated amortization:				
Opening balance		9,689,769,982	94,029,559	9,783,799,541
Expense for the year		1,101,445,016	-	1,101,445,016
Adjustments		(4,468,331)	-	(4,468,331)
Closing balance		10,786,746,667	94,029,559	10,880,776,226
Net closing balance	¢	3,162,088,838	-	3,162,088,838

(Continued)

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

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

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

(12) Obligations with the public

(a) By cumulative amount

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

		2013	2012
Demand obligations:			
Checking accounts	¢	1,103,852,248,659	1,042,776,194,356
Certified checks		123,192,416	135,614,995
Savings deposits		934,435,231,917	812,859,549,705
Matured term deposits		23,752,056,570	27,481,361,959
Other demand deposits		26,860,438,817	24,358,635,036
Drafts and transfers		224,837,748	519,701,651
Cashier's checks		4,106,080,883	3,564,301,539
Advance collections from customers for credit cards		5,902,144,599	5,556,512,879
Obligations for trust funds		75,205,432	39,101,662
Subtotal		2,099,331,437,041	1,917,290,973,782
Term obligations:			
Deposits from the public		1,223,683,448,848	1,168,199,707,032
Other term deposits		51,763,942,906	48,613,179,637
Subtotal		1,275,447,391,754	1,216,812,886,669
Charges payable for obligations with the public		19,238,265,538	21,544,321,811
Total	¢	3,394,017,094,333	3,155,648,182,262

(Continued)

As of December 31, 2013 and 2012, deposits in checking accounts in colones bear interest at a maximum rate of 2.00% per annum on balances and at a minimum rate of 0.25% per annum on balances greater than or equal to ¢500,001. Deposits in checking accounts in U.S. dollars bear interest at a maximum rate of 0.05% per annum on balances and at a minimum rate of 0.01% per annum on balances greater than or equal to US$1,000.

Term obligations correspond to term certificates of deposit in colones, U.S. dollars, and euros. As of December 31, 2013, certificates in colones bear interest at rates ranging between 3% and 6.50% per annum (2012: between 5% and 9.20% per annum); certificates in U.S. dollars bear interest at rates ranging between 0.25% and 1.80% per annum (2012: between 0.95% and 2.50% per annum); and certificates in euros bear interest at rates ranging between 0.06% and 0.39% per annum (2012: between 0.10% and 0.60% per annum).

The Bank has term certificates of deposit that are restricted to secure certain loan operations. As of December 31, 2013, those term certificates of deposit amount to ¢16,343,727,980 (2012: ¢11,694,931,873). 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:

	2013	
	Demand	Term
Obligations with the public	1,719,980	64,050

	2012	
	Demand	Term
Obligations with the public	1,666,522	65,497

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

		2013	2012
Obligations with the public:			
Deposits from the public	¢	3,394,017,094,333	3,155,648,182,262
Subtotal		3,394,017,094,333	3,155,648,182,262
Obligations with State-owned entities:			
Deposits from State-owned entities		29,911,289,724	226,631,604
Subtotal		29,911,289,724	226,631,604
Obligations with financial entities:			
Deposits from other banks		74,943,923,523	35,558,859,414
Deposits from other local entities		41,209,686,330	2,733,077,518
Deposits from management of funds		129,381,229,651	-
Deposits from other foreign entities		775,726,681,386	222,854,893,363
Charges due to other entities		6,684,656,900	1,917,590,957
Subtotal		1,027,946,177,790	263,064,421,252
Total	¢	4,451,874,561,847	3,418,939,235,118

(13) Obligations with BCCR

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

		2013	2012
Financing for loans using internal funds	¢	29,702,889,402	3,072,459
Financing for loans using external funds		201,388,234	223,029,583
Interest payable on obligations		7,012,088	529,562
	¢	29,911,289,724	226,631,604

(14) Obligations with entities

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

		2013	2012
Demand:			
Checking accounts of local financial entities	¢	57,789,494,163	21,637,628,362
Savings deposits from local financial entities		39,298,498	19,250,667
FCD fund management		129,381,229,651	-
Outstanding checks		2,571,590,762	2,967,256,894
Other demand obligations with financial entities		2,675,484,056	1,875,485,461
Subtotal		192,457,097,130	26,499,621,384
Term:			
Term deposits from local financial entities		12,302,742,374	9,417,315,548
Term deposits from foreign financial entities (3)		479,333,818,592	-
Loans from local financial entities		1,875,000,000	2,375,000,000
Loans from foreign financial entities (1)(2)		296,392,862,794	222,854,893,363
Liquidity market obligations		38,900,000,000	-
Subtotal		828,804,423,760	234,647,208,911
Charges payable for other demand and term obligations with financial entities –foreign currency		6,987,650	-
Charges payable for other demand and term obligations with financial entities –local currency		116,390,933	-
Charges payable for loans with foreign financial entities (1)		1,951,687,515	1,903,786,270
Charges payable for loans with local financial entities		20,435,590	13,804,687
Charges payable for term deposits from foreign financial entities (3)		4,589,155,212	-
Subtotal		6,684,656,900	1,917,590,957
Total	¢	1,027,946,177,790	263,064,421,252

(Continued)

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Notes to Unconsolidated Financial Statements

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

Entity	Annual interest rate		Maturity			Balance	
	2013	2012	2013	2012		2013	2012
CABEI	4.55% to 8%	2.5283% to 8%	2015 to 2021	2013 to 2016	¢	25,233,861,203	12,346,120,952
Barclays	6.20% to 6.65%	6.20% to 6.65%	2023 to 2029	2023 to 2029		62,198,745,577	63,085,842,974
Bank of New York	1.68%	1.7784%	2014	2013		4,974,419,016	3,542,962,992
China Development Bank	-	2.9519%	-	2013		-	4,464,444,370
Banco Latinoamericano Exportaciones, S.A. (Bladex - Panama)	-	3.7899%	-	2013		-	4,799,290,462
Commerce, N.A. Miami	2.80%	2.5185%	2014	2013		10,054,895,641	16,748,676,694
Banco Comercio Exterior	-	2.2703%	-	2013		-	2,009,039,900
Deutsche Bank AG New York	1.69%	-	2014	-		12,443,943,981	-
Bank of America	-	2.2200%	-	2013		-	7,102,233,688
Standard Chartered Bank	2.37%	2.6284%	2014	2013		31,382,931,086	4,572,735,272
Credit Suisse Bank	3.97%	3.9707%	2017	2017		52,790,109,579	53,537,205,394
Citibank	3.01% to 3.02%	2.6197%	2016 to 2017	2013		99,265,644,226	17,603,980,512
Wells Fargo Bank	-	2.1744 to 3.1669%	-	2013 to 2014		-	34,946,146,423
					¢	298,344,550,309	224,758,679,633

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

Loans due to foreign financial entities bear interest at rates ranging between 1.68% and 8% per annum (2012: between 1.7784% 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 ¢491,057,345,150) and the following characteristics:

(Continued)

a. 5-year issue:

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

b. 10-year issue:

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

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

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

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

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

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

As of December 31, 2013, the Bank booked an increase in the fair value of these issues in the amount of ¢11,800,569,983 under an income account (see note 25).

Maturities of loans due to entities

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

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

		2012		
		Local	Foreign	Total
Less than 1 year	¢	-	83,075,935,840	83,075,935,840
Between 1 and 2 years		-	20,266,533,968	20,266,533,968
Between 3 and 5 years		2,486,718,141	58,330,366,871	60,817,085,012
More than 5 years		128,718,150	63,085,842,954	63,214,561,104
	¢	2,615,436,291	224,758,679,633	227,374,115,924

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

(15) Income tax

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

a) Current period income tax

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

		2013	2012
Current	¢	-	4,764,870,773
Decrease in current tax		-	(2,135,986,651)
	¢	-	2,628,884,122

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

		2013	2012
Expected income tax on accounting income	¢	7,289,338,514	12,909,960,960
Plus (less):			
Nondeductible expenses		9,355,195,337	1,436,846,960
Deductible expenses		(2,043,461,315)	(2,734,927,537)
Nontaxable income		(17,111,304,791)	(9,271,579,587)
Taxable income		277,096,108	288,583,325
Tax loss from excess deductible expenses over taxable income		2,233,136,147	-
Subtotal – Income tax	¢	-	2,628,884,121
Less:			
Estimated income taxes		-	(2,628,884,121)
Total income tax payable	¢	-	-

b) Prior period income tax

		2013	2012
Decrease in prior period income tax	¢	6,524,041,757	12,079,694,617

(1) For the year ended December 31, 2013 and 2012, the decrease in income tax in the amount of ¢6,524,041,757 and ¢8,651,975,102, respectively, corresponds to the reversal of the income tax provision for the 2007 and 2008 tax years, respectively, established due to a difference in the calculation methodologies applied by the Bank and the Tax Administration. The statute of limitations for such provision expired in 2012 and 2013, respectively.

(Continued)

(2) For the year ended December 31, 2012, a decrease in income tax was booked resulting from the amended income tax returns for the tax years running from 2009 through 2011. That decrease gave rise to a tax credit of ¢3,414,727,600.

(3) In 2012, a decrease in income tax was booked in the amount of ¢12,991,915 as a result of the income tax expense booked in 2011 arising from the realization of the surplus from the revaluation of the buildings of the Alajuela and Santa Elena de Monteverde branches, which were sold in 2004 and 2008, respectively. The statute of limitations for those tax years had expired; accordingly, booking such expense in 2011 was not applicable.

c) Deferred tax

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

		2013	2012
Unrealized losses	¢	1,943,597,323	1,320,235,038
	¢	1,943,597,323	1,320,235,038

Movement in temporary differences that give rise to deferred tax assets during 2013 is as follows:

		December 31, 2012	Included in income statement	Included in equity	December 31, 2013
Unrealized losses	¢	1,320,235,038	-	623,362,285	1,943,597,323
	¢	1,320,235,038	-	623,362,285	1,943,597,323

Movement in temporary differences that give rise to deferred tax assets during 2012 is as follows:

		December 31, 2011	Included in income statement	Included in equity	December 31, 2012
Unrealized losses	¢	744,779,859	-	575,455,179	1,320,235,038
	¢	744,779,859	-	575,455,179	1,320,235,038

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

		2013	2012
Revaluation of assets	¢	13,605,138,375	10,807,479,575
Unrealized gains		569,346,376	1,581,360,888
	¢	14,174,484,751	12,388,840,463

Movement in temporary differences that give rise to deferred tax liabilities during 2013 is as follows:

		December 31, 2012	Included in income statement	Included in equity	December 31, 2013
Revaluation of assets	¢	10,807,479,575	-	2,797,658,800	13,605,138,375
Unrealized gains		1,581,360,888	4,587,663,429	(5,599,677,941)	569,346,376
	¢	12,388,840,463	4,587,663,429	(2,802,019,141)	14,174,484,751

Movement in temporary differences that give rise to deferred tax liabilities during 2012 is as follows:

		December 31, 2011	Included in income statement	Included in equity	December 31, 2012
Revaluation of assets	¢	10,868,974,206	-	(61,494,631)	10,807,479,575
Unrealized gains		763,980,067	329,821,571	487,559,250	1,581,360,888
	¢	11,632,954,273	329,821,571	426,064,619	12,388,840,463

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

Tax returns filed by the Bank for the years ended December 31, 2009, 2010, 2011, 2012 and the tax return that will be filed for the year ended December 31, 2013 are open to review by Tax Authorities.

(16) Provisions

As of December 31, provisions are as follows:

		2013	2012
Severance benefits	¢	32,441,625,359	37,899,350,996
Litigation		9,464,453,978	4,799,675,703
Income tax		-	6,524,041,757
Other		7,049,038,586	8,833,443,702
	¢	48,955,117,923	58,056,512,158

Movement in provisions is as follows:

		Severance benefits	Litigation	Income tax	Other	Total
Balance at December 31, 2011	¢	37,965,103,880	3,540,391,005	15,176,016,859	11,058,725,000	67,740,236,744
Provisioned		77,824,881,740	1,715,592,289	-	18,140,720,299	97,681,194,328
Used		(75,662,245,474)	(447,454,630)	-	(20,313,766,288)	(96,423,466,392)
Decrease in provisions against profit or loss		(2,228,389,150)	(8,852,961)	(8,651,975,102)	(52,235,309)	(10,941,452,522)
Balance at December 31, 2012		37,899,350,996	4,799,675,703	6,524,041,757	8,833,443,702	58,056,512,158
Provisioned		35,587,939,185	7,919,005,683	-	10,849,879,713	54,356,824,581
Used		(40,617,661,391)	(2,454,227,408)	-	(12,555,580,355)	(55,627,469,154)
Decrease in provisions against profit or loss		(428,003,431)	(800,000,000)	(6,524,041,757)	(78,704,474)	(7,830,749,662)
Balance at December 31, 2013	¢	32,441,625,359	9,464,453,978	-	7,049,038,586	48,955,117,923

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

		2013	2012
Ordinary suits	¢	9,050,683,978	3,005,675,703
Phishing		413,770,000	1,794,000,000
	¢	9,464,453,978	4,799,675,703

As of December 31, 2013 and 2012, the Bank is a defendant in litigation and management considers it probable that an outflow of economic benefits will be required to settle the corresponding obligations. The Bank has estimated future disbursements and made the following provisions:

- Ordinary suits filed against the Bank have been estimated at ¢65,462,382,872 (2012: ¢57,541,956,952) and US$352,326,678 (2012: US$337,136,140). Management of the Bank has provisioned ¢9,050,683,978 (2012: ¢3,005,675,703) 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 ¢13,528,507 (2012: ¢25,583,310). The amount provisioned by the Bank in connection therewith is included in the provision for ordinary suits.

- Labor suits by nature are difficult to estimate. However, they have been estimated at ¢2,681,824,395 (2012: ¢2,292,191,876). The amount provisioned by the Bank in connection therewith is included in the provision for ordinary suits.

- As of December 31, 2013, the Bank faces 514 administrative actions related to Internet fraud (phishing) for a total of ¢413,770,000 (2012: ¢1,794,000,000). The Bank has provisioned 100% of that amount.

- As of December 31, 2012, the Bank’s income tax provision amounts to ¢6,524,041,757 and corresponds to the income tax liability calculated for the 2008 tax year in accordance with the Income Tax Law and Regulations thereto. This provision has been authorized by SUGEF under article 10 of IRNBS (Law No. 1644). As of December 31, 2013, no provisions have been established therefor.

(17) Other sundry accounts payable

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

		2013	2012
Professional fees	¢	13,011,051	43,305,533
Creditors - goods and services		3,943,453,846	4,573,503,298
Employer contributions (1)		7,325,026,597	7,398,494,599
Court-ordered withholdings		2,342,561,123	1,947,024,157
Tax withholdings		776,311,992	837,094,598
Employee withholdings		470,818,142	423,679,400
Other third-party withholdings		25,234,712	25,941,269
Compensation		6,550,305,483	5,674,420,045
Statutory allocations (4)		5,679,927,127	8,232,328,830
Obligations for loans with related parties		24,695,377	-
Clearing house operations		229,959,113	462,246,872
Accrued vacation		5,782,482,049	5,343,115,722
Accrued statutory Christmas bonus		1,364,091,320	1,453,439,181
Foreclosed assets		625,131,888	598,324,891
Various creditors - local currency (2)		7,447,404,132	7,058,854,404
Various creditors - foreign currency		4,786,012,462	4,588,262,659
Derivative financial instruments - Position gap (3)		10,004,033,392	2,256,689
	¢	57,390,459,806	48,662,292,147

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

(2) As of December 31, 2013 and 2012, the “Creditors - goods and services” line item includes ¢819.1 million and ¢620.8 million, respectively, for the operations of the Bank’s Electronic Means of Payment Division (Visa). The remaining amount corresponds to normal operations of other divisions.

(3) As of December 31, 2013, the Bank booked a decrease in the value of the interest rate hedge in the amount of US$20,209,760, equivalent to ¢10,004,033,392 (2012: US$4,494, equivalent to ¢2,256,689 (see note 5-b).

(Continued)

(4) In 2012, the effect of the amended income tax returns for the tax years running from 2009 through 2011 gave rise to a tax credit in the amount of ¢46,613,959, which had an impact on the statutory allocations related to CONAPE, FINADE, and the National Emergency Fund.

(18) Other liabilities

As of December 31, other liabilities are as follows:

		2013	2012
Deferred income:			
Deferred finance income	¢	2,444,042,568	2,572,010,037
Deferred fees and commissions for trust management		13,976,993	12,329,925
Other		311,128	9,775
Subtotal		2,458,330,689	2,584,349,737
Allowance for stand-by credit losses (1)		138,964,729	346,388,473
Operations pending application:			
Operations pending settlement		22,238,412,623	42,169,939,194
Other		3,668,415,775	7,172,273,457
Subtotal		25,906,828,398	49,342,212,651
Total	¢	28,504,123,816	52,272,950,861

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

		2013	2012
Opening balance	¢	346,388,473	346,406,550
Allowance expense charged to profit or loss (note 27)		26,785	-
Adjustment for foreign exchange differences		(38,896)	(18,077)
Decrease in allowance against income (note 28)		(207,411,633)	-
Closing balance	¢	138,964,729	346,388,473

(19) Equity

(a) Share capital

The Bank's share capital is as follows:

		2013	2012
Capital under Law No. 1644	¢	90,511,345,645	90,511,345,645
Bank capitalization bonds (note 39)		27,618,957,837	27,618,957,837
	¢	118,130,303,482	118,130,303,482

On December 23, 2008, the Executive Branch of the Costa Rican Government authorized a capital contribution funded under Law No. 8703 "Amendment to Law No. 8627 on the Ordinary and Extraordinary Budget of the Republic for Tax Year 2008". Such law grants funds to capitalize three State-owned banks, including Banco Nacional de Costa Rica, in order to stimulate productive sectors, particularly small and medium-sized enterprises. For such purposes, the Bank received four securities for a total of US$50,000,000 (¢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, 2013 and based on the exchange rate as of that date, the balance of those investments is ¢25,823,991,217 (2012: ¢33,217,634,552) (see note 5-a).

As of December 31, 2013, the Bank has appropriated ¢12,243,803,201 (2012: ¢8,750,108,360) from its earnings to form the equity of its FOFIDE.

(b) Revaluation surplus

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

As of December 31, 2013 and 2012, revaluation surplus amounts to ¢63,639,596,055 and ¢49,124,271,353, respectively.

(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, 2013 and 2012, the adjustment for valuation of available-for-sale investments and restricted financial instruments amounts to ¢4,405,602,968 (unrealized loss) and ¢1,859,605,729 (unrealized loss), respectively.

(d) Adjustment for valuation of investments in other companies

As of December 31, 2013 and 2012, the adjustment for valuation of investments in foreign associates by the equity method amounts to ¢3,317,278,520 and ¢4,800,856,179, respectively. These investments correspond to the Bank's 49% ownership interest in BICSA and subsidiary.

(20) Commitments and contingencies

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

		2013	2012
Performance bonds	¢	34,210,268,379	24,410,075,270
Bid bonds		3,014,257,962	2,398,027,794
Other guarantees		372,911,236	531,797,111
Letters of credit		10,127,000,305	42,363,267,015
Credits pending disbursement		339,897,778	386,401,649
Subtotal		48,064,335,660	70,089,568,839
Pre-approved lines of credit		149,666,830,500	120,445,094,381
Other contingencies – pending litigation and lawsuits (note 40)		241,830,125,067	226,003,793,311
Other contingencies not related to credits		203,790,716	213,832,116
Subtotal		391,700,746,283	346,662,719,808
Forward contracts (1)		-	3,012,420,000
Total	¢	439,765,081,943	419,764,708,647

(1) As of December 31, 2012, contingent accounts include a forward contract (future purchase) in U.S. dollars for a notional amount of US$6,000,000, equivalent to ¢3,012,420,000 (see note 5-b).

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

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

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

As of December 31, off-balance sheet financial instruments with risk (no prior deposit) and without risk (prior deposit) are as follows:

		2013	2012
Contingencies without prior deposit:			
Letters of credit	¢	8,479,767,595	23,870,923,616
Guarantees and sureties granted		35,337,614,651	24,674,372,977
Subtotal		43,817,382,246	48,545,296,593
Contingencies with prior deposit:			
Letters of credit		1,647,232,710	18,492,343,399
Guarantees and sureties granted		2,259,822,926	2,665,527,198
Subtotal		3,907,055,636	21,157,870,597
Credits pending disbursement		339,897,778	386,401,649
Subtotal		339,897,778	386,401,649
Total	¢	48,064,335,660	70,089,568,839

(21) Trust assets

The Bank provides trust services whereby it manages assets at the direction of the customer. The Bank receives a fee for providing those services. The underlying assets, liabilities, and equity are not recognized in the Bank's unconsolidated 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)

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

Nature of trust		Guaranty and cash management	Cash or property management	Securitization	Portfolio management	Guaranty	Testamentary	Custody of stock with testamentary clause	Custody and management of stock	Pre-sales management	Guaranty and custody of stock	Management, custody, and guaranty	Total
Trust assets													
Cash and due from banks	¢	-	260,210,808	1,345,910,277	2,572,796	48,608,796	757,624	7,326	-	18	-	-	1,658,067,645
Investment securities and term deposits		39,615,828	142,709,661,084	2,200,973,498	771,891,227	592,251,296,017	1,386,330,089	-	1,564,418	475,471,490	-	9,418,763	739,846,222,414
Loan portfolio		-	1,764,418,418	448,258,970	1,920,163,243	54,161,375	-	-	-	-	-	-	4,187,002,006
Accounts and accrued interest receivable		-	8,935,002,162	228,286,595	2,602,130,104	1,596,404	711,035	-	-	367,956	-	-	11,768,094,256
Foreclosed assets		-	245,464,954	-	-	-	-	-	-	-	-	-	245,464,954
Investments in other companies		-	733,990,738	-	-	-	2,430,000	2,304,000	-	-	792,016,000	-	1,530,740,738
Property and equipment		1,544,041,161	2,870,655,985	74,751,295,183	14,878,121	66,411,689,097	-	-	-	-	-	-	145,592,559,547
Other assets		109,698	141,445,827	2,369,828	10,211,928	2,992,638,795	542,748	-	-	4,356	-	-	3,147,323,180
Total	¢	1,583,766,687	157,660,849,976	78,977,094,351	5,321,847,419	661,759,990,484	1,390,771,496	2,311,326	1,564,418	475,843,820	792,016,000	9,418,763	907,975,474,740

As of December 31, 2012, trust capital is invested in the following assets:

Nature of trust		Guaranty and cash management	Cash or property management	Securitization	Portfolio management	Guaranty	Testamentary	Custody of stock with testamentary clause	Custody and management of stock	Pre-sales management	Guaranty and custody of stock	Management, custody, and guaranty	Total
Trust assets													
Cash and due from banks	¢	-	164,262,708	9,337,457	9,230,977	316,309,306	108,801	7,431	-	105	204,373	1,255,175	500,716,333
Investment securities and term deposits		55,227,700	129,538,206,450	16,161,178,709	923,243,643	549,169,694,805	397,036,917	-	1,222,482	16,777,227	352,664	23,071,603	696,286,012,200
Loan portfolio		-	874,140,958	731,345,703	1,837,694,611	66,085,975	50,345	-	-	-	-	-	3,509,317,592
Accounts and accrued interest receivable		-	7,131,313,338	40,470,863	2,875,759,274	2,815,758	-	-	-	-	-	-	10,050,359,233
Foreclosed assets			-	-	937,808	31,527,626	-	-	-	-	-	-	32,465,434
Investments in other companies		-	51,634,159	-	-	1,757,245,000	2,436,000	2,304,000	-	-	1,807,452,000	-	3,621,071,159
Property and equipment		1,544,041,161	3,908,305,778	80,337,274,810	157,289,183	68,294,844,335	-	-	-	-	-	-	154,241,755,267
Other assets		109,698	85,897,575	215,006,647	15,693,110	3,450,113,840	694,095	-	-	-	-	-	3,767,514,965
Total	¢	1,599,378,559	141,753,760,966	97,494,614,189	5,819,848,606	623,088,636,645	400,326,158	2,311,431	1,222,482	16,777,332	1,808,009,037	24,326,778	872,009,212,183

(Continued)

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 lliquid 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)

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:

		2013	2012
Guarantees received in the Bank's custody	¢	5,200,607,350,044	3,991,475,386,664
Unused, authorized lines of credit		500,818,978,300	314,977,836,545
Write-offs		161,028,091,538	138,334,090,316
Finance income on non-accrual loans		6,289,052,172	5,206,702,970
Supporting documentation received in the Bank's custody		619	443
Nondeductible expenses		26,431,554,423	4,789,489,868
Nontaxable income		57,037,682,635	30,905,265,291
Other memoranda accounts		587,393,013,529	252,692,438,730
Subtotal		6,539,605,723,260	4,738,381,210,827
Third-party debit memoranda accounts (1)		648,018,532,541	670,817,736,354
Own debit memoranda accounts for custodial activities		250,541,115,793	131,532,340,128
Third-party debit memoranda accounts for custodial activities		6,167,482,881,706	5,325,762,256,274
Total	¢	13,605,648,253,300	10,866,493,543,583

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

(Continued)

As of December 31, banking mandates are as follows:

		2013	2012
Management of banking mandates	¢	648,016,172,575	670,815,376,388
Assets in custody on behalf of third parties		2,359,966	2,359,966
	¢	648,018,532,541	670,817,736,354

As of December 31, 2013, memoranda accounts also include an interest rate hedge ("operations at notional amounts subject to an interest rate swap") in U.S. dollars for a notional amount of US$750,000,000, equivalent to ¢371,257,500,000 (2012: US$8,888,888, equivalent to ¢4,462,844,450) (see note 5-b).

(23) Finance income on cash and due from banks and financial instruments

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

		2013	2012
Cash and due from banks:			
Checking accounts and demand deposits in local entities	¢	-	15,556,029
Checking accounts and demand deposits in foreign entities		303,424,037	139,783,746
		303,424,037	155,339,775
Financial instruments:			
Investments in trading securities		45,463,782	70,449,864
Investments in available-for-sale securities		43,508,187,838	26,088,298,030
Committed instruments		2,784,593,146	516,553,698
		46,338,244,766	26,675,301,592
	¢	46,641,668,803	26,830,641,367

(Continued)

(24) Finance income on loan portfolio

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

		2013	2012
Current loans:			
Checking account overdrafts	¢	106,324,747	148,417,859
Loans granted with funds from BCCR		1,960,734,780	2,470,869,839
Loans granted with other funds		212,619,014,457	214,767,036,185
Credit cards		15,084,636,372	14,118,562,074
Factoring		143,964,000	-
Issued letters of credit		168,158	701,258
Other loans		7,467,434	19,102,756
Subtotal		229,922,309,948	231,524,689,971
Past due loans and loans in legal collections:			
Checking account overdrafts		6,165,339	1,981,314
Loans granted with funds from BCCR		428,489,003	731,120,901
Loans granted with other funds		41,662,515,244	47,884,710,649
Credit cards		2,131,343,275	2,058,939,218
Guarantees granted		2,050,000	-
Other		5,572,485	3,748,696
Subtotal		44,236,135,346	50,680,500,778
Total	¢	274,158,445,294	282,205,190,749

(25) Other finance income

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

		2013	2012
Fees and commissions on letters of credit	¢	63,318,515	60,029,037
Fees and commissions on guarantees granted		444,170,159	505,368,625
Fees and commissions on lines of credit		132,758,626	204,176,092
Gain from adjustment to fair value of hedged item measured at cost of international issues		11,780,565,450	-
Other sundry finance income		2,601,849,347	2,714,506,434
	¢	15,022,662,097	3,484,080,188

(26) Expenses for obligations with the public

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

		2013	2012
Demand deposits	¢	36,214,913,335	33,692,424,975
Term deposits		89,961,709,474	81,385,006,096
Other term obligations with the public		870,301	3,205,941
	¢	126,177,493,110	115,080,637,012

(27) Expenses for allowances for impairment of assets

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

		2013	2012
Allowance for loan impairment (note 6-f)	¢	36,912,921,429	42,840,107,587
Allowance for impairment of other accounts receivable (note 7)		1,356,827,241	2,264,017,175
Allowance for stand-by credit losses (note 18)		26,785	-
Allowance for impairment of derivative instruments (note 5-a)		1,036	167,025
	¢	38,269,776,491	45,104,291,787

(28) 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:

		2013	2012
Recovery of loan write-offs	¢	13,304,743,632	14,865,181,022
Recovery of receivable write-offs		1,284,104	6,048,536
Decrease in allowance for loan impairment (note 6-f)		60,689,015	92,509,973
Decrease in allowance for impairment of other accounts receivable (note 7)		1,627,926,839	751,852,337
Decrease in allowance for stand-by credit losses (note 18)		207,411,633	-
Decrease in allowance for impairment of investments in financial instruments (note 5-a)		545,538,398	8,587,744
	¢	15,747,593,621	15,724,179,612

(Continued)

(29) Operating income from service fees and commissions

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

		2013	2012
Drafts and transfers	¢	6,602,426,692	6,332,920,258
Certified checks		8,143,052	22,097,093
Trusts		902,690,273	871,816,656
Custodial services		796,713,571	595,965,319
Banking mandates		421,842	607,763
Collections		38,414,447	43,446,380
Credit cards		31,116,552,233	28,391,639,060
Management services		2,522,347,175	2,212,402,920
Insurance underwriting		593,091,656	484,332,393
Transactions with related parties		156,488,054	118,401,099
Other		33,477,053,890	35,034,465,515
	¢	76,214,342,885	74,108,094,456

(30) Other operating income

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

		2013	2012
Leasing of assets	¢	11,700,579	4,254,756
Recovery of expenses		1,107,455,704	1,489,047,916
Net valuation of other assets (note 1-c-iii)		411,554,122	244,738,959
Other income from accounts receivable		1,729,892	11,073,351
Sundry operating income		4,523,427,068	3,192,509,458
Decrease in provisions		1,306,707,905	2,289,477,420
	¢	7,362,575,270	7,231,101,860

(Continued)

(31) Expenses for foreclosed assets

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

		2013	2012
Property and other assets acquired in lieu of payment	¢	8,265,519,296	3,188,047,867
Management of assets acquired in lieu of payment		16,782,794	12,551,307
Management of assets awarded in judicial auctions		6,307,694,806	2,979,863,626
Loss for impairment of foreclosed assets (note 8)		339,801,514	149,102,291
Loss on allowance for impairment and per legal requirements (note 8)		29,007,857,826	23,081,108,531
Other expenses for foreclosed assets		615,856,382	297,506,682
	¢	44,553,512,618	29,708,180,304

(32) Expenses for provisions

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

		2013	2012
Severance benefits	¢	8,776,410,328	9,361,319,971
Pending litigation		5,825,642,012	1,684,368,633
Other provisions		6,061,794,989	8,227,282,751
	¢	20,663,847,329	19,272,971,355

(Continued)

(33) Other operating expenses

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

		2013	2012
Donations	¢	-	188
Penalties for noncompliance with regulatory provisions		3,331,117	-
Net valuation of other liabilities (note 1-c-iii)		181,805,685	705,370,097
Income tax (8%) on interest on investments in financial instruments		3,215,787,611	1,519,043,544
Property tax		135,008,198	101,396,672
Licenses		867,566,011	563,230,288
Losses due to natural disasters		-	1,420,283
Transfers to FINADE		1,623,651,331	-
Sundry operating expenses		35,702,898,376	33,895,732,613
	¢	41,730,048,329	36,786,193,685

(34) Personnel expenses

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

		2013	2012
Salaries and bonuses, permanent staff	¢	52,095,576,549	48,344,651,607
Salaries and bonuses, contractors		2,037,215,179	1,168,352,450
Compensation for directors and statutory examiners		112,508,305	99,522,357
Overtime		1,411,455,552	1,031,153,886
Travel expenses		1,209,344,079	924,963,105
Statutory Christmas bonus		6,338,862,682	5,966,520,149
Vacation		5,596,398,533	5,132,447,933
Other compensation		6,735,076,923	5,935,681,650
Employer social security taxes		27,213,682,749	27,916,535,950
Refreshments		698,871,609	578,179,652
Uniforms		119,860,450	17,902,250
Training		1,183,680,170	1,038,196,677
Employee insurance		167,960,699	172,645,864
Back-to-school bonus		6,009,578,324	5,427,269,885
Mandatory retirement savings account		2,283,056,505	2,165,286,772
Other personnel expenses		348,440,680	76,271,361
	¢	113,561,568,988	105,995,581,548

(Continued)

(35) Other administrative expenses

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

		2013	2012
Outsourcing	¢	10,258,827,787	9,811,583,211
Transportation and communications		4,030,696,111	3,718,346,348
Infrastructure		27,620,159,377	25,305,473,244
Overhead		14,208,250,971	11,486,783,340
	¢	56,117,934,246	50,322,186,143

(36) Statutory allocations

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

		2013	2012
CONAPE (5%) (2012: 2%)	¢	1,574,746,459	999,860,690
CNE (3%) (2012: 3%)		793,808,242	1,449,027,383
FINADE (0%) (2012: 3%)		-	1,499,791,036
INFOCOOP (10%) (2012: 10%)		3,565,957,199	5,245,594,137
RIVM (5%) (2012: 0%)		1,423,065,109	-
	¢	7,357,577,009	9,194,273,246

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

		2013	2012
CONAPE (5%) (2012: 2%)	¢	359,856,707	150,850,116
CNE (3%) (2012: 3%)		243,806,997	243,131,062
FINADE (0%) (2012: 3%)		-	226,275,175
INFOCOOP (10%) (2012: 10%)		660,262,618	388,302,022
RIVM (5%) (2012: 0%)		413,723,560	-
	¢	1,677,649,882	1,008,558,375

(37) Fair value of financial instruments

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

		2013	
		Carrying amount	Fair value
Financial assets:			
Cash and due from banks	¢	846,171,086,226	846,171,086,226
Investments in financial instruments		931,449,118,555	931,449,118,555
Loan portfolio		3,032,219,501,750	2,841,620,830,828
	¢	4,809,839,706,531	4,619,241,035,609
Financial liabilities:			
Demand deposits from the public and financial entities	¢	2,300,718,531,047	2,300,718,531,047
Other demand obligations with the public		10,308,268,662	10,308,268,662
Term deposits from the public and financial entities		2,134,156,093,150	1,663,189,292,401
	¢	4,445,182,892,859	3,974,216,092,110

		2012	
		Carrying amount	Fair value
Financial assets:			
Cash and due from banks	¢	653,495,466,279	653,495,466,279
Investments in financial instruments		559,211,079,472	559,211,079,472
Loan portfolio		2,580,044,295,035	2,358,428,613,902
	¢	3,792,750,840,786	3,571,135,159,653
Financial liabilities:			
Demand deposits from the public and financial entities	¢	1,955,655,299,247	1,955,655,299,247
Other demand obligations with the public		9,679,617,732	9,679,617,732
Term deposits from the public and financial entities		1,451,686,197,622	1,570,314,077,558
	¢	3,417,021,114,600	3,535,648,994,536

(Continued)

Fair value estimates

The following assumptions were used by management to estimate the fair value of each class of financial instruments, both on and off the balance sheet:

a. Cash and due from banks, accrued interest receivable, other receivables, demand deposits from the public, accrued interest payable, and other liabilities

   The carrying amounts approximate fair value because of the short-term nature of these instruments.

b. Investments in financial instruments

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

c. Loan portfolio

   The fair value of loans is calculated by discounting future cash flows expected for principal and interest. Loan payments are assumed to be made on the contractually agreed payment dates. Future expected cash flows for loans are discounted at the interest rates offered for similar loans to new borrowers as of December 31, 2013 and 2012.

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, 2013 and 2012.

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, 2013 and 2012.

(Continued)

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.

(38) Vehicle operating leases

Lessee

As of December 31, non-cancellable vehicle operating leases are payable as follows:

		2013	2012
Less than 1 year	¢	-	231,606,011
	¢	-	231,606,011

As of December 31, 2013, the vehicle lease agreements expired and the extension requests are under review and pending signing. Also, the new tender documents are in the process of being reviewed by an analyst.

(39) Risk management

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

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

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

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

The Bank manages the above risks as follows:

a) *Credit risk*

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

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

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 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.

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Notes to Unconsolidated Financial Statements

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

			Direct			Contingencies	
	Note		2013	2012	Note	2013	2012
Loan portfolio							
Principal	6-a	¢	3,012,665,536,965	2,560,730,448,645	20	48,064,335,660	70,089,568,839
Accounts and accrued interest receivable			19,553,964,785	19,313,846,390		-	-
Carrying amount, gross			3,032,219,501,750	2,580,044,295,035		48,064,335,660	70,089,568,839
Allowance for loan impairment (accounting records)			(45,646,182,874)	(42,305,801,609)		(138,964,729)	(346,388,473)
Carrying amount, net		¢	2,986,573,318,876	2,537,738,493,426		47,925,370,931	69,743,180,366
Loan portfolio							
Total balances:							
A1		¢	2,314,561,103,955	1,942,458,437,245		45,613,102,292	63,819,090,462
A2			24,955,547,900	20,999,967,361		12,947,143	30,249,868
B1			316,642,539,452	279,869,058,170		1,300,797,686	5,254,259,088
B2			16,665,105,415	14,431,783,029		-	5,657,723
C1			78,710,075,711	67,037,246,842		652,666,500	36,486,735
C2			6,366,304,109	6,127,610,944		-	-
D			136,569,114,117	122,338,482,618		456,289,368	892,192,767
E			137,749,711,091	126,781,708,826		28,532,671	51,632,196
			3,032,219,501,750	2,580,044,295,035		48,064,335,660	70,089,568,839
Structural allowance (subledger – database)			(45,696,634,354)	(42,561,861,146)		(87,599,208)	(89,321,566)
Carrying amount, net		¢	2,986,522,867,396	2,537,482,433,889		47,976,736,452	70,000,247,273

(Continued)

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Notes to Unconsolidated Financial Statements

		Direct		Contingencies	
		2013	2012	2013	2012
Individually assessed loans with allowance:					
A1	¢	925,808,421,979	719,158,901,112	41,294,099,509	44,471,018,502
A2		6,923,183,779	5,362,777,270	6,147,135	16,033,120
B1		45,669,050,847	54,605,949,211	1,135,187,538	2,504,581,098
B2		2,740,467,772	1,741,118,293	-	-
C1		12,287,207,609	8,297,283,306	644,265,991	21,148,849
C2		1,521,618,732	2,167,495,449	-	-
D		54,299,053,975	44,807,010,990	74,411,059	237,470,965
E		105,035,807,101	97,874,078,658	18,620,204	16,020,204
		1,154,284,811,794	934,014,614,289	43,172,731,436	47,266,272,738
Structural allowance (subledger – database)		(45,696,634,354)	(42,561,861,146)	(87,599,208)	(89,321,567)
Carrying amount, net	¢	1,108,588,177,440	891,452,753,143	43,085,132,228	47,176,951,171
Past due loans without allowance:					
A1	¢	20,618,129,825	16,703,264,823	-	-
A2		2,565,762,358	1,866,966,249	-	4,841,634
B1		25,160,298,731	19,594,021,307	-	5,657,723
B2		4,499,552,041	4,403,440,313	-	-
C1		11,931,012,683	10,708,859,386	3,013,017	-
C2		2,781,171,258	1,996,756,619	-	-
D		14,452,902,775	17,620,331,505	-	-
E		20,602,214,411	15,084,461,715	-	-
Carrying amount	¢	102,611,044,082	87,978,101,917	3,013,017	10,499,357

(Continued)

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Notes to Unconsolidated Financial Statements

			Direct		Contingencies	
			2013	2012	2013	2012
Aging of loan portfolio						
1 – 30 days		¢	43,710,942,765	30,677,086,833	-	-
31 – 60 days			30,623,794,582	30,762,696,831	3,013,017	10,499,357
61 – 90 days			11,347,302,171	15,072,133,605	-	-
91 – 180 days			5,546,918,157	3,902,987,506	-	-
More than 180 days			11,382,086,407	7,563,197,142	-	-
Carrying amount		¢	102,611,044,082	87,978,101,917	3,013,017	10,499,357
Current loans without allowance:						
A1		¢	1,368,134,552,151	1,206,596,271,311	4,319,002,783	19,348,071,960
A2			15,466,601,763	13,770,223,842	6,800,008	14,216,748
B1			245,813,189,874	205,669,087,652	165,610,148	2,744,836,355
B2			9,425,085,602	8,287,224,423	-	-
C1			54,491,855,419	48,031,104,150	5,387,492	15,337,886
C2			2,063,514,119	1,963,358,875	-	-
D			67,817,157,367	59,911,140,123	381,878,309	654,721,802
E			12,111,689,579	13,823,168,453	9,912,467	35,611,993
Carrying amount		¢	1,775,323,645,874	1,558,051,578,830	4,888,591,207	22,812,796,744
Carrying amount, gross			3,032,219,501,750	2,580,044,295,035	48,064,335,660	70,089,568,839
Allowance for loan impairment (database)			(45,696,634,354)	(42,561,861,146)	(87,599,208)	(89,321,566)
(Excess) insufficiency of allowance over structural allowance			50,451,480	256,059,537	(51,365,521)	(257,066,907)
Carrying amount, net	6-a	¢	2,986,573,318,876	2,537,738,493,426	47,925,370,931	69,743,180,366
Restructured loans	6-d	¢	22,943,856,728	45,577,791,057	7,033,221	4,020,204

(Continued)

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

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

		2012	
		Loans to customers	
		Gross	Net
A1	¢	1,942,458,437,245	1,940,105,338,896
A2		20,999,967,361	20,944,644,758
B1		279,869,058,170	278,755,135,427
B2		14,431,783,029	14,359,858,445
C1		67,037,246,842	65,840,672,513
C2		6,127,610,944	5,613,698,677
D		122,338,482,618	115,787,551,108
E		126,781,708,826	96,331,593,602
	¢	2,580,044,295,035	2,537,738,493,426

As shown above, as of December 31, 2013, the gross portfolio amounts to ¢3,032 billion. Of that amount, 88.15% is classified in risk ratings “A and B” and 11.85% in risk ratings “C, D, or E” (2012: ¢2,580 billion, of which 87.51% is classified in risk ratings “A and B” and 12.49% in risk ratings “C, D, or E”).

Individually assessed loans with allowance:

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

(Continued)

Past due loans without allowance:

		Direct		Stand-by	
		2013	2012	2013	2012
More than 180 days	¢	11,382,086,407	7,563,197,142	-	-

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

Restructured loans:

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

a. Extended loan: Loan operation in which at least one full or partial payment of principal or interest due under the current contractual terms has been postponed.

b. Modified loan: Loan operation in which at least one of the current contractual repayment terms has been modified, excluding extensions, additional payments not included in the loan repayment schedule, additional payments to reduce the amount of installments, and a change in the currency used while respecting the original loan maturity date.

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

As of December 31, restructured loans are as follows:

		Direct		Stand-by	
		2013	2012	2013	2012
Restructured loans	¢	22,943,856,728	45,577,791,057	7,033,221	4,020,204

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:

		Direct		Stand-by	
Borrower classification		2013	2012	2013	2012
Group 1	¢	1,655,886,557,247	1,361,487,539,095	39,212,897,080	62,998,173,189
Group 2		1,376,332,944,503	1,218,556,755,940	8,851,438,580	7,091,395,650
	¢	3,032,219,501,750	2,580,044,295,035	48,064,335,660	70,089,568,839

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

Borrower classification

Analysis of creditworthiness

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

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

(Continued)

b. *Experience in the line of business and quality of management*: Analysis of the capacity of management to lead the business with appropriate controls and adequate support from the owners.

c. *Business environment*: Analysis of the main sector variables that affect the borrower's creditworthiness.

d. *Vulnerability to changes in interest rates and foreign exchange rates*: Analysis of the borrower's ability to confront unexpected adverse changes in interest rates and foreign exchange rates.

e. *Other factors:* Analysis of other factors that affect the borrower's creditworthiness. In the case of legal entities, considerations include, but are not limited to, environmental issues, technological aspects, operating licenses and permits, representation of products or foreign offices, relationship with significant customers and suppliers, sales agreements, legal risks, and country risk (the latter for foreign-domiciled borrowers). In the case of individuals, the following borrower characteristics may be taken into consideration: marital status, age, level of education, profession, gender, etc.

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

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

Analysis of historical payment behavior

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

The Bank must classify historical payment behavior into one of three levels: level 1 - good historical payment behavior; level 2 - acceptable historical payment behavior; and level 3 - poor historical payment behavior.

Risk rating	Arrears	Direct 2013	Direct 2012	Stand-by 2013	Stand-by 2012
A1	30 days or less	¢ 2,314,561,103,955	1,942,458,437,245	45,613,102,292	63,819,090,462
A2	60 days or less	24,955,547,900	20,999,967,361	12,947,143	30,249,868
B1	60 days or less	316,642,539,452	279,869,058,170	1,300,797,686	5,254,259,088
B2	60 days or less	16,665,105,415	14,431,783,029	-	5,657,723
C1	90 days or less	78,710,075,711	67,037,246,842	652,666,500	36,486,735
C2	90 days or less	6,366,304,109	6,127,610,944	-	-
D	120 days or less	136,569,114,117	122,338,482,618	456,289,368	892,192,767
E	More than 120 days or other factors	137,749,711,091	126,781,708,826	28,532,671	51,632,196
		¢ 3,032,219,501,750	2,580,044,295,035	48,064,335,660	70,089,568,839

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

Borrower classification

For purposes of borrower classification, pursuant to SUGEF Directive 1-05, borrowers in Group 1 are to be classified based on arrears, historical payment behavior, and creditworthiness; whereas, pursuant to the Bank's internal policies and based on the credit web, borrowers in Group 2 are to be classified based on arrears and historical payment behavior.

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

Likewise, borrowers with at least one loan operation purchased from a financial intermediary domiciled in Costa Rica and regulated by SUGEF must be classified for at least one month in the rating of higher risk between the rating assigned by the selling bank and the rating assigned by the buying bank at the time of the purchase.

Structural allowance

The structural allowance is equivalent to the total outstanding balance of each loan operation less the adjusted weighted value of the corresponding guarantee, multiplying the resulting amount by the allowance percentage corresponding to the risk rating of the borrower or co-borrower with the lowest risk rating. If the result of this calculation is negative or zero, the allowance is zero. If the total outstanding balance includes a stand-by principal balance, the credit equivalent indicated below should be used.

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

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

Allowance percentages based on borrower risk rating are as follows:

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

(Continued)

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

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

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

Pursuant to the provisions of SUGEF Directive 1-05, as of December 31, 2013, the Bank must maintain a structural allowance in the amount of ¢45,784,233,562 (¢45,696,634,354 and ¢87,599,208) for direct and stand-by credits, respectively). As of that date, the allowance booked by the Bank amounts to ¢45,785,147,603 (¢45,646,182,874 and ¢138,964,729 for direct and stand-by credits, respectively). Consequently, the allowance booked by the Bank exceeds the minimum allowance required by current regulations by ¢914,041 (0.00200%).

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

As of December 31, 2013, the balance of the Bank's allowance for loan impairment (direct and stand-by), accrued interest receivable, and other receivables amounts to ¢48,088,374,227 (2012: ¢45,596,664,037).

(Continued)

Credit equivalent

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

a. Bid bonds and export letters of credit without prior deposit: 0.05;

b. Other sureties and guarantees without prior deposit: 0.25; and

c. Pre-approved lines of credit: 0.50.

Allowance for other assets

Allowances should be established for the following assets:

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

Arrears	Allowance percentage
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, 2013, the carrying amount of the allowance for impairment of foreclosed assets and per legal requirements amounts to ¢56,007,912,290 (2012: ¢42,610,655,528).

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

		Direct		Stand-by	
Sector		2013	2012	2013	2012
Trade	¢	365,363,400,851	360,456,810,712	72,257,983	112,085,775
Services		586,402,902,430	524,264,237,683	47,770,648,543	69,812,107,121
Financial services		120,718,796,876	46,007,494,070	-	-
Mining		45,996,475	54,440,820	-	-
Manufacturing and quarrying		138,911,753,161	121,843,988,276	2,856,858	30,472,501
Construction		73,277,612,934	61,186,670,250	-	-
Agriculture and forestry		95,736,864,852	87,781,181,849	11,941,405	11,355,787
Livestock, hunting, and fishing		61,407,703,363	63,269,156,517	3,013,017	2,000,000
Electricity, water, sanitation, and other related sectors		191,300,915,455	100,787,453,276	-	-
Transportation and telecommunications		25,947,755,371	23,280,010,098	-	-
Housing		965,078,909,868	871,781,502,218	11,171,728	11,142,776
Personal or consumer loans		297,356,567,675	215,882,274,453	-	-
Tourism		110,670,322,439	103,449,074,813	192,446,126	110,404,879
	¢	3,032,219,501,750	2,580,044,295,035	48,064,335,660	70,089,568,839

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

		Direct		Stand-by	
		2013	2012	2013	2012
Central America	¢	3,032,219,501,750	2,580,044,295,035	48,064,335,660	70,089,568,839

(Continued)

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

Guarantee		Direct 2013	Direct 2012	Stand-by 2013	Stand-by 2012
Back to back	¢	10,033,185,466	11,291,135,459	24,750,500	308,145,655
Mortgage bond		12,357,755,747	3,341,941,200	-	-
Assignment of loans		305,840,291,027	234,314,778,212	-	-
Mortgage		1,474,219,074,670	1,370,930,990,048	144,488,065	250,549,956
Surety		569,051,089,792	536,260,889,592	78,264,292	156,216,691
Trust		219,812,852,312	152,572,764,277	448,136,402	1,321,248,880
Securities		1,775,822,139	2,400,970,071	-	355,000
Chattel mortgage		92,626,498,600	50,125,469,947	139,413,047	-
Other		346,502,931,997	218,805,356,229	47,229,283,354	68,053,052,657
	¢	3,032,219,501,750	2,580,044,295,035	48,064,335,660	70,089,568,839

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, 2013, 48.62% of the loan portfolio is secured by collateral guarantees (2012: 53.13%).

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

Loan portfolio concentration		Direct 2013	Direct 2012	Stand-by 2013	Stand-by 2012
¢1 to ¢3,000,000	¢	145,804,265,448	133,150,216,951	1,094,139,021	1,046,293,252
¢3,000,001 to ¢15,000,000		484,298,070,159	435,910,350,671	2,626,226,366	3,145,987,754
¢15,000,001 to ¢30,000,000		385,048,104,483	350,514,761,125	2,041,016,645	2,324,207,383
¢30,000,001 to ¢50,000,000		349,812,623,592	296,552,295,172	1,648,000,940	2,221,610,652
¢50,000,001 to ¢75,000,000		218,860,225,025	187,450,507,779	488,071,319	1,940,955,170
¢75,000,001 to ¢100,000,000		104,934,778,037	97,630,702,999	639,663,667	1,509,938,696
¢100,000,001 to ¢200,000,000		182,523,206,041	177,724,395,166	4,785,998,842	5,076,352,806
More than ¢200,000,000		1,160,938,228,965	901,111,065,172	34,741,218,860	52,824,223,126
	¢	3,032,219,501,750	2,580,044,295,035	48,064,335,660	70,089,568,839

(Continued)

As of December 31, 2013 and 2012, the portion of the loan portfolio (direct and stand-by loans) corresponding to economic interest groups amounts to ¢285,154,516,323 and ¢179,993,828,698, respectively.

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

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

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

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

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

At the 2013 year-end, the VaR of the loan portfolio locates at 1.65% and presents a decrease of 0.15 pp with respect to the same period in the prior year as a result of the decrease in legal collections and arrears of more than 90 days in the portfolio in U.S. dollars.

Accordingly, only the VaR of the portfolio in foreign currency shows a decrease between December 2012 and December 2013 (0.49 pp, locating at 1.92%). In contrast, the VaR in colones and DU increased by 0.02 pp and 0.36 pp, respectively, locating at 1.65% and 2.97%, respectively.

The performance of the VaR of sectors such as Agriculture, Livestock, Industry, Housing, and Consumer is determined by a recovery in the delinquency indicator (legal collections or arrears of more than 90 days). These sectors show decreases ranging between 0.05 pp and 0.66 pp. Similarly, the VaR of Energy, Financial Services, and Transportation decreased by 2.55 pp, 2.24 pp, and 0.28 pp, respectively, as a result of the concentration affecting such portfolios.

The sectors highly represented in the Bank's loan portfolio show an increased VaR with respect to December 2012, i.e. Trade (0.13 pp), Services (0.09 pp), Tourism (0.87 pp), and Construction (0.06 pp). For all cases, one of the delinquency indicators shows deterioration.

b) *Liquidity risk*

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

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

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

		Days								
		Past due	Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	More than 365	Total
Cash and due from banks	¢	-	66,388,024,445	-	-	-	-	-	-	66,388,024,445
Minimum cash reserve in BCCR		-	357,794,845,844	-	-	-	-	-	-	357,794,845,844
Investments		-	-	35,769,287,513	3,312,945,818	28,058,602,213	41,764,150,113	75,954,549,059	364,173,143,926	549,032,678,642
Loan portfolio		109,639,468,492	1,557,968,767	27,636,500,269	31,046,613,856	36,997,549,582	58,087,887,402	65,031,917,319	1,536,627,316,692	1,866,625,222,379
Total recovery of assets	¢	109,639,468,492	425,740,839,056	63,405,787,782	34,359,559,674	65,056,151,795	99,852,037,515	140,986,466,378	1,900,800,460,618	2,839,840,771,310
Obligations with the public	¢	-	1,399,726,413,223	248,359,490,878	98,195,607,054	114,970,049,234	262,729,601,614	122,038,320,173	50,573,140,806	2,296,592,622,982
Obligations with BCCR		-	-	29,700,000,000	-	-	-	-	204,277,636	29,904,277,636
Obligations with financial entities		-	90,224,476,059	42,889,078,133	1,672,583,460	609,417,172	1,734,412,018	660,880,742	2,804,200,000	140,595,047,584
Charges payable		-	6,133,554,626	6,950,622,444	1,308,768,251	910,686,376	1,076,458,142	218,812,972	93,562,572	16,692,465,383
Total maturity of liabilities	¢	-	1,496,084,443,908	327,899,191,455	101,176,958,765	116,490,152,782	265,540,471,774	122,918,013,887	53,675,181,014	2,483,784,413,585
Difference	¢	109,639,468,492	(1,070,343,604,852)	(264,493,403,673)	(66,817,399,091)	(51,434,000,987)	(165,688,434,259)	18,068,452,491	1,847,125,279,604	356,056,357,725

(Continued)

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

		Days								
		Past due	Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	More than 365	Total
Cash and due from banks	¢	-	252,623,323,380	-	-	-	-	-	-	252,623,323,380
Minimum cash reserve in BCCR		-	169,364,892,557	-	-	-	-	-	-	169,364,892,557
Investments		-	-	1,596,922,790	17,015,936,104	17,726,215,706	41,529,469,594	115,912,469,926	188,689,094,777	382,470,108,897
Loan portfolio		42,782,289,644	11,686,597,287	21,458,542,423	20,676,054,058	23,693,655,945	55,066,189,765	39,652,054,090	950,578,896,159	1,165,594,279,371
Total recovery of assets	¢	42,782,289,644	433,674,813,224	23,055,465,213	37,691,990,162	41,419,871,651	96,595,659,359	155,564,524,016	1,139,267,990,936	1,970,052,604,205
Obligations with the public	¢	-	699,605,023,819	88,648,109,983	70,012,624,095	37,449,015,471	137,896,168,708	37,397,939,113	17,181,358,016	1,088,190,239,205
Obligations with financial entities		-	102,232,621,071	73,111,586	63,628,650	29,458,699,304	231,364,308	31,291,547,003	717,315,501,384	880,666,473,306
Charges payable		-	843,926,746	660,394,300	1,573,230,225	513,081,715	5,282,141,176	337,590,049	27,104,932	9,237,469,143
Total maturity of liabilities	¢	-	802,681,571,636	89,381,615,869	71,649,482,970	67,420,796,490	143,409,674,192	69,027,076,165	734,523,964,332	1,978,094,181,654
Difference	¢	42,782,289,644	(369,006,758,412)	(66,326,150,656)	(33,957,492,808)	(26,000,924,839)	(46,814,014,833)	86,537,447,851	404,744,026,604	(8,041,577,449)

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

As of December 31, 2012, the terms of the Bank's assets and liabilities denominated in local currency are matched as follows:

		Days								
		Past due	Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	More than 365	Total
Cash and due from banks	¢	-	79,513,563,929	-	-	-	-	-	-	79,513,563,929
Minimum cash reserve in BCCR		-	314,940,180,259	-	-	-	-	-	-	314,940,180,259
Investments		-	-	35,351,173,861	15,397,724,586	10,563,063,106	34,237,371,931	41,610,129,543	181,619,090,548	318,778,553,575
Loan portfolio		99,685,422,381	1,811,703,986	35,460,437,798	28,057,754,180	19,103,732,829	61,953,645,749	61,628,933,679	1,459,835,017,765	1,767,536,648,367
Total recovery of assets	¢	99,685,422,381	396,265,448,174	70,811,611,659	43,455,478,766	29,666,795,935	96,191,017,680	103,239,063,222	1,641,454,108,313	2,480,768,946,130
Obligations with the public	¢	-	1,268,828,451,257	197,913,210,220	110,173,120,326	80,926,472,773	210,806,919,929	180,398,550,301	47,724,825,661	2,096,771,550,467
Obligations with BCCR		-	-	-	-	-	-	-	226,102,042	226,102,042
Obligations with financial entities		-	22,660,249,203	602,302,296	815,666,997	829,474,041	3,955,553,251	386,856,311	3,357,850,000	32,607,952,099
Charges payable		-	6,627,740,385	6,238,149,303	2,352,759,735	1,254,716,506	1,746,794,086	704,987,200	58,982,920	18,984,130,135
Total maturity of liabilities	¢	-	1,298,116,440,845	204,753,661,819	113,341,547,058	83,010,663,320	216,509,267,266	181,490,393,812	51,367,760,623	2,148,589,734,743
Difference	¢	99,685,422,381	(901,850,992,671)	(133,942,050,160)	(69,886,068,292)	(53,343,867,385)	(120,318,249,586)	(78,251,330,590)	1,590,086,347,690	332,179,211,387

(Continued)

As of December 31, 2012, the terms of the Bank's assets and liabilities denominated in foreign currency, expressed in local currency, are matched as follows:

		Days								
		Past due	Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	More than 365	Total
Cash and due from banks	¢	-	96,963,598,943	-	-	-	-	-	-	96,963,598,943
Minimum cash reserve in BCCR		-	162,078,123,148	-	-	-	-	-	-	162,078,123,148
Investments		-	-	18,781,511,249	16,333,783,057	844,990,603	20,573,992,804	20,697,523,345	163,810,033,312	241,041,834,370
Loan portfolio		41,254,168,158	3,663,323,348	12,272,068,847	11,145,098,938	11,971,817,241	54,456,486,481	34,945,884,539	642,798,799,116	812,507,646,668
Total recovery of assets	¢	41,254,168,158	262,705,045,439	31,053,580,096	27,478,881,995	12,816,807,844	75,030,479,285	55,643,407,884	806,608,832,428	1,312,591,203,129
Obligations with the public	¢	-	648,462,522,525	110,765,644,747	62,895,751,317	63,389,208,202	99,841,491,481	43,490,732,692	8,486,959,020	1,037,332,309,984
Obligations with financial entities		-	3,839,372,182	28,716,751,668	7,531,050,000	84,346,916	32,339,027,481	15,708,322,230	140,320,007,719	228,538,878,196
Charges payable		-	850,179,163	962,182,884	1,149,460,819	468,957,160	856,685,311	161,800,889	29,045,969	4,478,312,195
Total maturity of liabilities	¢	-	653,152,073,870	140,444,579,299	71,576,262,136	63,942,512,278	133,037,204,273	59,360,855,811	148,836,012,708	1,270,349,500,375
Difference	¢	41,254,168,158	(390,447,028,431)	(109,390,999,203)	(44,097,380,141)	(51,125,704,434)	(58,006,724,988)	(3,717,447,927)	657,772,819,720	42,241,702,754

(Continued)

c) *Market risks*

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

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

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

As of December 31, 2013, investments in Z Bonds related to the Mortgage Securitization Trust in the amount of ¢206,419,170, equivalent to US$417,000 (2012: ¢209,363,190, equivalent to US$417,000) were valued at 74% of their face value (impairment of 26%). As of December 31, 2012, investments in ARSs in the amount of ¢8,033,120,000, equivalent to US$16,000,000, were valued at 93.18% of their face value (impairment of 6.82%).

Interest rate risk

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

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

At the December 2013 close, the interest rate risk indicator in local and foreign currency closed considerably below SUGEF's regulatory maximum limit of 5%, at 0.67% (2012: 0.45%) and 0.06% (2012: 0.3%), respectively.

Fair value hedge

Fair value hedges are recognized as follows:

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

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

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

In 2011, the Bank formalized an interest rate hedge in U.S. dollars with CitiBank NY called "Operations at notional amounts subject to an interest rate swap" maturing on December 19, 2013. This hedge was acquired in order to exchange the variable interest rate for a fixed interest rate on the liability with the China Development Bank in the amount of US$22,222,222. Accordingly, the interest rate will be fixed in the event of an increase in the floating rate and a fixed-rate financing program will be implemented, guaranteeing the financial margin. The notional amount of this derivative instrument is amortized half-yearly through payments of US$4,444,444. As of December 31, 2013, the Bank booked under "Other sundry accounts payable" a decrease in the fair value of this hedge in the amount of US$20,209,760, equivalent to ¢10,004,033,392 (2012: US$4,495, equivalent to ¢2,256,689).

(Continued)

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

		Days							
		Demand	1 to 30	31 to 90	91 to 180	181 to 360	361 to 720	More than 720	Total
Local currency (LC)									
Investments	¢	-	31,752,039,620	26,969,835,094	49,013,721,873	77,117,018,902	188,371,457,882	149,984,613,581	523,208,686,952
Loan portfolio		-	1,570,076,556,319	106,607,125,325	10,364,128,367	4,316,622,457	8,468,719,934	57,556,122,600	1,757,389,275,002
Total recovery of rate-sensitive assets LC (A)	¢	-	1,601,828,595,939	133,576,960,419	59,377,850,240	81,433,641,359	196,840,177,816	207,540,736,181	2,280,597,961,954
Obligations with the public	¢	-	259,306,857,109	217,666,700,662	265,472,835,986	122,568,343,843	31,779,011,562	21,371,798,872	918,165,548,034
Obligations with BCCR		-	29,707,042,680	10,836,000	61,364	11,023,784	22,372,769	159,953,124	29,911,289,721
Obligations with financial entities	¢	-	39,078,275,938	84,388,363	128,477,659	308,838,294	560,257,009	751,589,260	40,911,826,523
Total maturity of rate-sensitive liabilities LC (B)	¢	-	328,092,175,727	217,761,925,025	265,601,375,009	122,888,205,921	32,361,641,340	22,283,341,256	988,988,664,278
LC difference, recovery of assets less maturity of liabilities (A - B)	¢	-	1,273,736,420,212	(84,184,964,606)	(206,223,524,769)	(41,454,564,562)	164,478,536,476	185,257,394,925	1,291,609,297,676
Foreign currency (FC)									
Investments	¢	-	1,365,813,398	34,169,129,987	41,554,049,442	116,657,204,602	68,781,773,170	119,942,137,759	382,470,108,358
Loan portfolio		-	979,223,094,211	32,088,021,889	20,490,269,969	3,397,496,229	6,565,552,091	80,657,489,489	1,122,421,923,878
Total recovery of rate-sensitive assets FC (C)	¢	-	980,588,907,609	66,257,151,876	62,044,319,411	120,054,700,831	75,347,325,261	200,599,627,248	1,504,892,032,236
Obligations with the public	¢	-	89,509,557,345	110,392,022,167	144,207,791,129	37,824,001,478	3,365,925,247	484,466,951,916	869,766,249,282
Obligations with entities		-	2,081,454,307	28,432,663,249	1,351,389,631	33,942,091,279	5,704,278,010	226,839,559,783	298,351,436,259
Total maturity of rate-sensitive liabilities FC (D)	¢	-	91,591,011,652	138,824,685,416	145,559,180,760	71,766,092,757	9,070,203,257	711,306,511,699	1,168,117,685,541
FC difference, recovery of assets less maturity of liabilities (C - D)	¢	-	888,997,895,957	(72,567,533,540)	(83,514,861,349)	48,288,608,074	66,277,122,004	(510,706,884,451)	336,774,346,695
Total recovery of rate-sensitive assets 1/ (A + C)	¢	-	2,582,417,503,548	199,834,112,295	121,422,169,651	201,488,342,190	272,187,503,077	408,140,363,429	3,785,489,994,190
Total maturity of rate-sensitive liabilities 2/ (B + D)	¢	-	419,683,187,379	356,586,610,441	411,160,555,769	194,654,298,678	41,431,844,597	733,589,852,955	2,157,106,349,819
LC + FC difference, recovery of assets less maturity of liabilities (item 1 – item 2)	¢	-	2,162,734,316,169	(156,752,498,146)	(289,738,386,118)	6,834,043,512	230,755,658,480	(325,449,489,526)	1,628,383,644,371

(Continued)

As of December 31, 2012, the interest rate terms for the Bank's assets and liabilities are matched as follows (differences between the recovery of assets and the maturity of liabilities):

		Days							
		Demand	1 to 30	31 to 90	91 to 180	181 to 360	361 to 720	More than 720	Total
Local currency (LC)									
Investments	¢	-	35,351,174,490	25,960,787,690	34,203,966,813	33,305,720,905	40,208,756,382	116,497,107,744	285,527,514,024
Loan portfolio		-	1,498,615,319,163	80,905,456,388	15,330,601,893	7,650,808,139	7,572,859,576	58,338,811,393	1,668,413,856,552
Total recovery of rate-sensitive assets LC (A)	¢	-	1,533,966,493,653	106,866,244,078	49,534,568,706	40,956,529,044	47,781,615,958	174,835,919,137	1,953,941,370,576
Obligations with the public	¢	-	205,512,803,641	196,358,682,095	216,314,656,060	181,279,260,192	14,080,005,939	36,208,980,832	849,754,388,759
Obligations with BCCR		-	560,005	10,835,924	61,062	11,024,517	22,374,267	181,775,827	226,631,602
Obligations with financial entities		-	55,177,190	84,549,070	128,853,968	310,378,679	565,251,611	1,244,594,170	2,388,804,688
Total maturity of rate-sensitive liabilities LC (B)	¢	-	205,568,540,836	196,454,067,089	216,443,571,090	181,600,663,388	14,667,631,817	37,635,350,829	852,369,825,049
LC difference, recovery of assets less maturity of liabilities (A - B)	¢	-	1,328,397,952,817	(89,587,823,011)	(166,909,002,384)	(140,644,134,344)	33,113,984,141	137,200,568,308	1,101,571,545,527
Foreign currency (FC)									
Investments	¢	-	18,781,511,613	17,178,774,300	20,573,991,778	20,697,523,451	32,523,218,896	131,286,814,357	241,041,834,395
Loan portfolio		-	674,436,470,149	46,553,363,227	2,398,169,046	6,559,073,874	3,394,043,402	37,791,296,721	771,132,416,419
Total recovery of rate-sensitive assets FC (C)	¢	-	693,217,981,762	63,732,137,527	22,972,160,824	27,256,597,325	35,917,262,298	169,078,111,078	1,012,174,250,814
Obligations with the public	¢	-	112,769,334,764	127,473,371,462	100,406,780,818	43,974,584,485	4,570,435,797	4,133,829,808	393,328,337,134
Obligations with entities		-	29,631,497,030	18,065,254,574	34,736,733,513	24,280,420,053	22,652,565,280	95,392,209,183	224,758,679,633
Total maturity of rate-sensitive liabilities FC (D)	¢	-	142,400,831,794	145,538,626,036	135,143,514,331	68,255,004,538	27,223,001,077	99,526,038,991	618,087,016,767
FC difference, recovery of assets less maturity of liabilities (C - D)	¢	-	550,817,149,968	(81,806,488,509)	(112,171,353,507)	(40,998,407,213)	8,694,261,221	69,552,072,087	394,087,234,047
Total recovery of rate-sensitive assets 1/ (A + C)	¢	-	2,227,184,475,415	170,598,381,605	72,506,729,530	68,213,126,369	83,698,878,256	343,914,030,215	2,966,115,621,390
Total maturity of rate-sensitive liabilities 2/ (B + D)	¢	-	347,969,372,630	341,992,693,125	351,587,085,421	249,855,667,926	41,890,632,894	137,161,389,820	1,470,456,841,816
LC + FC difference, recovery of assets less maturity of liabilities (item 1 – item 2)	¢	-	1,879,215,102,785	(171,394,311,520)	(279,080,355,891)	(181,642,541,557)	41,808,245,362	206,752,640,395	1,495,658,779,574

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

(Continued)

Currency risk

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

In October 2006, BCCR introduced an adjustable band foreign exchange system. For several months thereafter, the exchange rate remained consistently at the floor of that band. However, when the band experienced significant adjustments starting May 2009, the Bank's Asset and Liability Committee (which has been replaced by the Bank's Corporate Risk Committee) decided to take a neutral foreign currency position with the purpose of protecting the Bank from any changes in the exchange rate. The Bank's foreign currency position is monitored daily by the Market Risk Division. Additionally, the Bank calculates the SUGEF currency risk indicator on a monthly basis. As of December 2013, that indicator was quantified at 0.10%, which is below the 0.69% calculated for December 2012 and considerably below the regulatory maximum limit of 5%.

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

Investments in Europe

- The Bank's Market Risk Division analyzes and follows-up on the investment portfolio on an ongoing basis through the Comprehensive Risk Assessment Report, which is submitted to the Corporate Risk Committee and the Board of Directors.

- For the portfolios denominated in international dollars and euros, the Bank periodically analyzes the portfolio's balance performance by currency, composition by issuer, term and yield, VaR, stress scenarios related to shifts in yield curves (sovereign yield curve in the euro area, sovereign yield curve in the U.S., and yield curve for the 6-month LIBOR rate), and accrued market valuation.

Investments in euros - Europe

- The investment portfolio denominated in euros amounts to €39 million as of December 2013 and represents 3% of the total portfolio, which is in line with the strategy for investment diversification and portfolio currency matching. This portfolio has remained relatively stable during the past year, ranging between €37 million and €40 million. The main changes therein relate to the elimination of securities from France and Germany and the acquisition of securities issued in Peru, Belgium, and Holland.

- Most issuers comprising this portfolio are sovereign issuers with very high credit ratings.

- This portfolio shows the lowest VaR; however, in December 2013, it showed an upward trend in duration. Accordingly, VaR of fair value increased from 0.26% in December 2012 to 0.29% in December 2013. Duration locates at 1.46.

- The entire portfolio bears interest at a fixed rate. Of the total portfolio, 46% matures between 1 and 2 years, while 8% matures in more than 3 years.

- As a result of the monitoring performed by the Market Risk Division regarding the economic situation in Europe, the strategy used to manage the portfolio is based on increased liquidity and reduced exposure of the most volatile instruments.

Investments in dollars - Europe

- The portfolio denominated in international dollars includes a component of European instruments. Of the total balance of $382 million as of December 2013, 33% ($126 million) is invested in Europe. However, excluding the note issued by Barclays with underlying bonds issued by the Government of Costa Rica, the share in the portfolio decreases to 19%. In the last quarter of the year, instruments denominated in dollars, especially U.S. dollars (treasury and corporate) increased significantly and diluted the share of the component of European investments.

- In this case, the portfolio concentrates in instruments issued by sovereign issuers that are considered to have very high credit ratings, including Germany, Holland, Sweden, European Investment Bank (EIB), Bank of England, and Barclays.

- The share of the Barclays note decreased to 14% in the last quarter.

(Continued)

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

		U.S. dollars	
		2013	2012
Assets:			
Cash and due from banks	US$	825,195,990	496,282,878
Investments in financial instruments		715,249,726	426,658,047
Loan portfolio		2,329,421,798	1,596,784,818
Accounts and accrued interest receivable		345,421	288,826
Investments in other companies		83,446,800	76,356,149
Other assets		5,613,323	1,248,500
Total assets	US$	3,959,273,058	2,597,619,218
Liabilities:			
Obligations with the public	US$	2,110,868,895	1,994,928,411
Obligations with entities		1,782,680,076	457,307,528
Accounts payable and provisions		30,887,813	10,542,664
Other liabilities		27,140,426	39,755,167
Total liabilities	US$	3,951,577,210	2,502,533,770
Excess of assets over liabilities in U.S. dollars	US$	7,695,848	95,085,448

		Euros	
		2013	2012
Assets:			
Cash and due from banks	€	19,788,387	14,885,082
Investments in financial instruments		41,546,795	39,531,551
Accounts and accrued interest receivable		-	3,284
Investments in other companies		-	882,418
Total assets	€	61,335,182	55,302,335
Liabilities:			
Obligations with the public	€	52,700,818	57,759,727
Obligations with entities		6,987,547	1,269,862
Accounts payable and provisions		57,938	164,534
Other liabilities		-	199,950
Total liabilities	€	59,746,303	59,394,073
Excess (deficit) of assets over liabilities in euros	€	1,588,879	(4,091,738)

(Continued)

		DU	
		2013	2012
Assets:			
Investments in financial instruments	DU	39,089,427	49,230,437
Loan portfolio		52,948,335	65,487,039
Total assets	DU	92,037,762	114,717,476
Liabilities:			
Accounts payable and provisions		1,137,285	1,178,547
Other liabilities		9,770	10,956
Total liabilities	DU	1,147,055	1,189,503
Excess of assets over liabilities in DU	DU	90,890,707	113,527,973

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

As of December 31, 2013 and 2012, the financial statements show a net foreign exchange gain of ¢2,958,265,700 and ¢5,900,763,528, respectively.

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

d) <u>Operational risk</u>

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

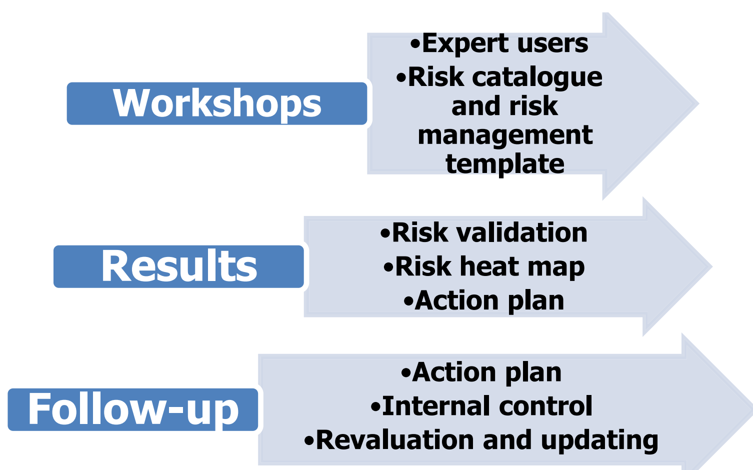
The policy adopted by the Bank stipulates that all of the Bank’s employees are inherently responsible for managing operational risk. The Bank’s employees are also required at all times to comply with the policies, regulations, procedures, and controls applicable to their positions and to ensure that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

That policy is implemented through a management framework that includes the following:

- definition of operational risk and best practices;
- objectives of the operational risk function;
- the Bank's principles for operational risk management;
- roles and relationships; and
- specific framework for legal risk management.

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

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



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

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

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.

Capital management

Regulatory capital

The Bank's capital must always comply with the capital adequacy indicators established by SUGEF, which require that banks maintain a Capital Adequacy Ratio (CAR) of at least 10%. That ratio is calculated by dividing the Bank's base capital by total risk-weighted exposures.

Management periodically monitors these requirements and reports to the Board of Directors on compliance. As of December 31, 2013 and 2012, the Bank is above the minimum level required by applicable regulations.

As of December 31, the Bank’s Tier I and Tier II capital (regulatory capital) is as follows:

		2013	2012
Tier I capital:			
Ordinary paid-up capital	¢	118,130,303,482	118,130,303,482
Legal reserve		196,909,225,981	170,958,556,380
		315,039,529,463	289,088,859,862
Tier II capital:			
Adjustment for revaluation of property and equipment		47,729,697,041	36,843,203,515
Adjustment for valuation of available-for-sale investments		(1,659,792,110)	-
Adjustment for valuation of restricted financial instruments		(2,745,810,858)	(2,327,329,161)
Adjustment for valuation of investments in other companies		3,317,278,520	4,800,856,179
Prior period retained earnings		39,383,506,918	25,654,396,039
Income for the year		25,141,909,678	43,457,750,120
Equity of FOFIDE		12,243,803,201	8,750,108,360
		123,410,592,390	117,178,985,052
Less: Deductions		(72,323,350,980)	(63,813,626,912)
Total regulatory capital	¢	366,126,770,873	342,454,218,002

The Bank’s capital, including the capital of its statutorily-created departments, may be increased by law or by capitalization of earnings. In the latter case, the capitalization must be approved by the Board of Directors of BCCR based on an opinion issued by SUGEF.

Financial entities regulated by SUGEF may increase their capital by amending their articles of incorporation and paying such increases in full. Such entities may also decrease their capital, provided that it remains above the minimum required by law.

In accordance with article 135 of the Internal Regulations of the Central Bank of Costa Rica, CONASSIF will establish limits for credit operations, whether direct or stand-by, that financial entities regulated by SUGEF may enter into with individuals or legal entities under the modalities offered by regulated entities.

(Continued)

The maximum limit will be equivalent to twenty percent (20%) of the entity's subscribed and paid-up capital and its non-redeemable capital reserves. Regulated entities may internally define their own limits, provided that such limits adhere to the above parameters and do not exceed the maximum limits established by CONASSIF.

IAS 1 was amended as of January 1, 2007 in order to comply with the disclosure of objectives, policies, and procedures for managing capital and of quantitative information. The Bank and its subsidiaries adhere to SUGEF's Chart of Accounts, articles 10, 11, and 12 of IRNBS, Decision AGB 8-86 "Regulations for Authorizing the Organization, Opening, and Operation of Private Banks", and SUGEF Circular Letter 043-2005.

The Bank's own contributions to share capital and amounts capitalized from other equity accounts are recognized in share capital (account No. 310) in accordance with article 11 of IRNBS. Debits and credits applied against that account must be generated by operations that comply with all legal requirements for modifying the entity's capital and that have been approved by BCCR or CONASSIF, as appropriate.

Article 11 of the aforementioned regulations establishes that banks must use the calendar year as their financial year and that gains and losses at the close of the last business day of each half of the year must be liquidated. Such liquidations must be reported to SUGEF.

The main purpose of capital management is to maintain an appropriate CAR that is above the current minimum level of 10% established in SUGEF Directive 3-06 "Regulations on Capital Adequacy of Financial Entities".

Internally, as a prudential measure to protect capital, the General Board of Directors adopted a policy establishing a floor of 10.50%, which exceeds the regulation's requirements by 50 basis points. At the administrative level, in 2007 the floor and ceiling were set at 11.50% and 13.50%, respectively, to assess the actions of those with direct responsibility for monitoring the performance of the Bank's CAR for purposes of efficient capital management.

As part of the Bank's approach to capital management, the Bank's CAR is monitored monthly and reported to the General Board of Directors in a detailed financial report that covers all main items of interest: balance sheet, profit or loss for the period, CAMELS indicators, budget execution, and capital adequacy.

(Continued)

In 2008, the Bank's CAR was above the minimum level required by applicable regulations, which indicates that capital levels were above the minimum required by laws and regulations.

Moreover, in applying Law No. 8627 published in the Official Gazette on December 23, 2008, effective immediately, the Government of Costa Rica capitalized State-owned banks. As part of that capitalization, the Bank received Central Bank bonds in DU for a total of DU42,165,060, equivalent to ¢27,618,957,837, which was credited against the "Paid-up capital" account (account No. 311) (see note 19).

As of December 31, 2013 and 2012, the Bank's CAR is above the minimum level required by applicable regulations, which indicates that capital levels are above the minimum required by laws and regulations.

(40) Contingencies

As of December 31, 2013, the Bank is a defendant and a claimant, respectively, in 212 and 56 ordinary, labor, and criminal lawsuits (2012: 246 and 67, respectively) estimated at ¢241,830,125,067 and ¢5,464,227,782 (2012: ¢226,003,793,311 and ¢15,175,443,113, respectively), as follows:

Number of cases				Total estimated amount	
2013	2012	Phase		2013	2012
196	218	First instance	¢	240,790,461,699	224,791,115,683
10	19	Second instance		293,905,368	513,791,628
6	9	Appeal		745,758,000	698,886,000
212	246	Total (note 20)	¢	241,830,125,067	226,003,793,311

As of December 31, 2013 and 2012, the legal actions filed against the Bank are booked in memoranda accounts under "Other contingencies - pending litigation and lawsuits".

As of December 31, 2013 and 2012, the Bank is a claimant in ordinary, labor, and criminal lawsuits, which outcome is uncertain and are not booked in the accounting records, as follows:

Number of cases				Total estimated amount	
2013	2012	Phase		2013	2012
55	63	First instance	¢	5,314,227,782	11,376,620,786
1	2	Second instance		150,000,000	151,248,388
-	2	Appeal		-	3,647,573,939
56	67	Total	¢	5,464,227,782	15,175,443,113

Disclosure of legal action filed against SUGEF

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

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

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

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

(Continued)

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

(41) Significant events

a) Amended income tax returns for the tax years running from 2009 through 2011

The Bank holds a 49% share in BICSA's profits, which should be accounted for in the legal books by the equity method pursuant to article 7 of the Income Tax Law and article 11 of the Regulations thereto, and booked as nontaxable income in the income tax returns to be filed with the Ministry of Finance.

Previously, such income was not considered to be nontaxable; accordingly, in order to recognize the economic impact thereof in the tax returns filed, the Bank amended the 2009, 2010, and 2011 tax returns to present nontaxable income in the amounts of ¢4,835,171,519, ¢5,542,905,780, and ¢870,878,238, respectively.

Such amendments gave rise to tax credits in 2009, 2010, and 2011 in favor of the Bank for ¢960,810,685, ¢1,182,849,728, and ¢1,271,067,187, respectively.

At the December 2012 close, the Bank applied estimated income taxes in the amount of ¢937,412,961 corresponding to the second and third quarters against such tax credits. The remaining balance of ¢1,539,901,677 in favor of the Bank is accounted for under accounts receivable. This process was duly authorized by the Ministry of Finance.

b) Employee Association of Banco Nacional de Costa Rica (ASEBANACIO)

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

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

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

c) Derivative financial instruments

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

(42) Other significant events

a- Disability, Old Age and Death Benefit System

Official Gazette No. 103 dated May 29, 2012 reads as follows:

Article 1- State-owned public companies shall make gradual contributions with the purpose of strengthening financing for the Disability, Old Age, and Death System of CCSS and to provide universal CCSS coverage to impoverished non-salaried workers, in accordance with article 78 of Law No. 7983 “Employee Protection Law”, as follows:

- 5% starting in 2013,
- 7% starting in 2015, and
- 15% starting in 2017.

b- *Increase in capitalization of the Bank*

Pursuant to agreement No. 10 of meeting No. 11772 held on June 19, 2012, the Board of Directors agreed to increase the Bank's share capital in the amount of ¢51,098,366,541 million.

Such increase was authorized in SUGEF private letter ruling C.N.S 992/09/08 dated December 18, 2012 in the amount of ¢50,745,897,408 million.

c- *Dividends paid to the Bank*

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

Pursuant to agreement No. 4 of meeting No. 11767 held on May 8, 2012, the Board of Directors agreed to distribute dividends amounting to ¢179 million, which is equivalent to 75% of the profits at the 2011 year-end.

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

Pursuant to agreement No. 2 of meeting No. 11784 held on August 14, 2012, the Board of Directors agreed to distribute dividends amounting to ¢500 million, pursuant to an agreement thereof recorded in article 13 of meeting 219/10-2012 of July 16, 2012.

d- *Transfer of 50% of BAN Procesa – TI, S.A.*

In meeting No. 11805 held on December 4, 2012, the Bank's Board of Directors, through an unanimous roll call vote, agreed to transfer the whole ownership interest held in BAN Procesa – TI, S.A. (equivalent to 50% of the entity's shares) to Banco de Costa Rica without payment, since the capital contribution made to organize the entity was reversed in the accounting records, in accordance with clause 9 of the Articles of Incorporation.

(43) 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.

(Continued)

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

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

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

a) IAS 1: Presentation of Financial Statements

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

SUGEF Standards do not allow certain transactions, such as clearing house balances, gains or losses on the sale of financial instruments, income taxes, etc. to be presented on a net basis. Given their nature, IFRSs require those balances to be presented net to prevent assets and liabilities or profit or loss from being overstated.

Interest receivable and payable is presented in the main asset or liability account rather than as other assets or other liabilities.

b) Revised IAS 1: Presentation of Financial Statements

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

c) IAS 7: Statement of Cash Flows

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

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

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

e) IAS 12: Income Taxes

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

f) IAS 16: Property, Plant and Equipment

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

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

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

(Continued)

g) IAS 18: Revenue

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

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

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

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

i) IAS 27: Consolidated and Separate Financial Statements

The Board requires that the financial statements of a parent be presented separately, measuring its investments by the equity method. Under this Standard, a parent is required to present consolidated financial statements. A parent need not present consolidated financial statements when the ultimate or any intermediate parent of the parent produces consolidated financial statements available for public use, provided certain other requirements are also met. However, in this case, this Standard requires that investments be accounted for at cost.

(Continued)

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

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

j) <u>IAS 28: Investments in Associates</u>

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

k) <u>Revised IAS 32: Financial Instruments - Presentation</u>

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

l) <u>Amendments to IAS 32: Financial Instruments - Presentation and IAS 1: Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation</u>

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

m) <u>IAS 37: Provisions, Contingent Liabilities and Contingent Assets</u>

SUGEF prescribes recognition of a provision for possible losses on contingent assets. This type of provision is prohibited under this Standard.

(Continued)

n) IAS 38: Intangible Assets

The commercial banks listed in article 1 of IRNBS (Law No. 1644) may present organization and installation expenses as an asset in the balance sheet. However, those expenses must be fully amortized on the straight-line method over a maximum of five years. This is not in accordance with IAS 38.

o) IAS 39: Financial Instruments: Recognition and Measurement

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

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

- The option of classifying loans and receivables as available for sale was established.

- Securities quoted in an active market may be classified as available for sale, held for trading, or held to maturity.

- The "fair value option" was established to designate any financial instrument to be measured at fair value through profit or loss, provided a series of requirements are met (e.g. the instrument has been measured at fair value since the original acquisition date).

- The category of loans and receivables was expanded to include purchased loans and receivables that are not quoted in an active market.

(Continued)

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

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

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

i) Pooled portfolios

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

ii) Own investments of regulated entities

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

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

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

Banks regulated by SUGEF may not classify investments in financial instruments as held to maturity.

The above classifications do not necessarily adhere to IAS 39.

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

p) IAS 40: Investment Property

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

q) Revised IFRS 3: Business Combinations

The revised Standard (2008) incorporates the following changes:

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

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

(Continued)

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

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

s) Amendments to IFRS 7: Financial Instruments: Disclosures

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

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

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

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

(Continued)

t) IFRS 9: Financial Instruments

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

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

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

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

u) IFRS 10: Consolidated Financial Statements

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

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.

(Continued)

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

1) determine the date when the investor obtained control of that investee on the basis of the requirements of this Standard.

2) measure the assets, liabilities and noncontrolling interests as if acquisition accounting had been applied from that date.

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

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

v) IFRS 11: Joint Arrangements

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

w) IFRS 12: Disclosure of Interests in Other Entities

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

x) IFRS 13: Fair Value Measurement

This Standard was issued in May 2011 and clarifies the definition of fair value, establishes a single procedure for measuring fair value, and defines the measurements and applications required or permitted in IFRSs. This Standard is effective for annual periods beginning on or after January 1, 2013. Early application is permitted. This Standard has not been adopted by the Board.

(Continued)

y) IFRIC 10: Interim Financial Reporting and Impairment

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

z) IFRIC 12: Service Concession Arrangements

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

- infrastructure that the operator constructs or acquires from a third party for the purpose of the service arrangement; and

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

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

aa) IFRIC 13: Customer Loyalty Programs

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

(Continued)

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

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

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

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

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

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

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

a) the nature of the asset to be distributed;

b) the carrying amount of the asset to be distributed as of the end of the reporting period; and

c) whether fair values are determined, in whole or in part, directly by reference to published price quotations in an active market or are estimated using a valuation technique, and the method used to determine fair value and, when a valuation technique is used, the assumptions applied.

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

ee) IFRIC 18: Transfers of Assets from Customers

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

ff) IFRIC 19: Extinguishing Financial Liabilities with Equity Instruments

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

(44) 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.

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

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

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

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

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

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

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

As of December 31, those financial statements are as follows:

Development Financing Fund
Balance Sheet
As of December 31, 2013
(With corresponding figures for 2012)

Assets		2013	2012
Loan portfolio	¢	11,126,041,057	9,557,558,927
Current		10,153,726,594	8,940,405,687
Past due		764,464,239	448,621,504
Legal collections		364,436,631	229,359,078
Accrued interest receivable		76,072,980	60,669,588
(Allowance for loan impairment)		(232,659,387)	(121,496,930)
Accounts receivable		2,268,972	-
Other assets		1,921,851,377	135,501,004
Total assets	¢	13,050,161,406	9,693,059,931
Liabilities			
Accounts payable and provisions	¢	17,625,487	16,943,967
Other liabilities		25,453,933	27,379,723
Total liabilities	¢	43,079,420	44,323,690
Equity			
Equity of FOFIDE (note 19-a)	¢	12,243,803,201	8,750,108,360
Income for the year		763,278,785	898,627,881
Total equity	¢	13,007,081,986	9,648,736,241
Total liabilities and equity	¢	13,050,161,406	9,693,059,931
Other debit memoranda accounts	¢	451,288,339	218,682,983

Development Financing Fund
Income Statement
For the year ended December 31, 2013
(With corresponding figures for 2012)

		2013	2012
Finance income	¢	1,172,332,197	1,117,998,237
Gross finance income		1,172,332,197	1,117,998,237
Income from recovery of assets and decrease in provisions		22,483,583	1,258,334
Expenses for allowance for impairment of assets		(277,547,767)	(114,827,936)
Net finance income		917,268,013	1,004,428,635
Other operating income		166,267	574,587
Other operating expenses		(22,190,408)	(13,373,910)
Gross operating income		895,243,872	991,629,312
Administrative expenses		(131,965,087)	(93,001,431)
Income for the year	¢	763,278,785	898,627,881

a. Loan portfolio

i. Loan portfolio by sector

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

		2013	2012
Trade	¢	4,031,029,311	3,824,348,773
Services		3,000,432,443	2,699,208,292
Manufacturing and quarrying		674,969,752	551,107,027
Agriculture and forestry		1,512,266,257	1,053,296,246
Livestock, hunting, and fishing		1,311,571,219	975,747,899
Transportation and telecommunications		541,944,309	319,624,401
Tourism		210,414,173	195,053,631
Total direct loans		11,282,627,464	9,618,386,269
Accrued interest receivable		76,072,980	60,669,588
Allowance for loan impairment		(232,659,387)	(121,496,930)
Total	¢	11,126,041,057	9,557,558,927

(Continued)

As of December 31, 2013, interest rates on loans range between 8.01% and 14.05% per annum (average rate of 10.83% per annum) for operations in colones (2012: between 8.50% and 18% per annum, average rate of 13.15% per annum).

ii. Loan portfolio by arrears

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

		2013	2012
Current	¢	10,161,129,245	8,940,405,687
1 to 30 days		221,586,871	171,221,697
31 to 60 days		399,267,656	226,312,270
61 to 90 days		156,957,697	154,562,988
91 to 120 days		86,872,195	46,027,594
121 to 180 days		108,086,323	22,480,498
More than 180 days		148,727,477	57,375,535
Total	¢	11,282,627,464	9,618,386,269
Accrued interest receivable		76,072,980	60,669,588
Allowance for loan impairment		(232,659,387)	(121,496,930)
Total	¢	11,126,041,057	9,557,558,927

iii. Loan portfolio by origin

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

		2013	2012
Loans originated by the Bank	¢	11,282,627,464	9,618,386,269
Total direct loans	¢	11,282,627,464	9,618,386,269
Accrued interest receivable		76,072,980	60,669,588
Allowance for loan impairment		(232,659,387)	(121,496,930)
Total	¢	11,126,041,057	9,557,558,927

(Continued)

iv. Past due loans

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

		2013	2012
Past due loans in accrual status: 115 loans (2012: 84 loans)	¢	764,427,742	448,621,504
Loans in legal collections: 57 loans, 3.23% of portfolio (2012: 32 loans, 2.38% of portfolio)	¢	364,436,631	229,359,078
Total unearned interest	¢	5,454,995	1,457,369

For the 12 months ended December 31, 2013, the Bank increased the "Finance income on non-accrual loans" account by ¢5,454,995 (2012: ¢1,457,369), as a result of the increase in loans receivable over 180 days past due in the loan portfolio generated by the statutory allocations to FOFIDE.

As of December 31, 2013, restructured loans amount to a total of ¢80,827,163 (2012: ¢68,077,257).

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

v. Accrued interest receivable on loan portfolio

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

		2013	2012
Current	¢	38,855,364	29,320,806
Past due		10,489,838	8,362,467
Legal collections		26,727,778	22,986,317
	¢	76,072,980	60,669,590

b. Risk management

Credit risk

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

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

			Direct	
	Note		2013	2012
Loan portfolio				
Principal	45-a	¢	11,282,627,464	9,618,386,269
Accounts and accrued interest receivable			76,072,980	60,669,588
Carrying amount, gross			11,358,700,444	9,679,055,857
Allowance for loan impairment (accounting records)			(232,659,387)	(121,496,930)
Carrying amount, net		¢	11,126,041,057	9,557,558,927
Loan portfolio				
Total balances:				
A1		¢	9,728,925,067	8,540,358,594
A2			131,849,886	75,839,269
B1			453,786,224	317,338,759
B2			25,216,628	38,975,702
C1			216,038,428	344,820,984
C2			52,910,483	1,099,161
D			246,183,368	84,882,209
E			503,790,360	275,741,179
			11,358,700,444	9,679,055,857
Structural allowance (subledger – database)			(228,772,689)	(161,685,018)
Carrying amount, net		¢	11,129,927,755	9,517,370,839

(Continued)

		Direct	
		2013	2012
Individually assessed loans with allowance:			
A1	¢	5,146,964,110	3,599,532,938
A2		78,163,570	49,138,656
B1		220,324,644	130,601,435
B2		13,725,873	1,653,399
C1		125,899,382	124,518,143
C2		47,726,567	1,099,161
D		221,588,739	32,247,479
E		396,110,724	245,782,535
		6,250,503,609	4,184,573,746
Structural allowance (subledger – database)		(228,772,689)	(161,685,018)
Carrying amount, net	¢	6,021,730,920	4,022,888,728
Past due loans without allowance:			
A1	¢	43,743,732	55,626,146
B1		171,048,473	135,125,578
B2		11,490,755	37,322,303
C1		27,692,894	47,218,389
C2		5,183,916	-
D		3,338,680	52,634,729
E		47,584,140	28,121,857
Carrying amount	¢	310,082,590	356,049,002

(Continued)

			Direct	
			2013	2012
Aging of loan portfolio				
1 – 30 days		¢	45,902,538	112,044,989
31 – 60 days			183,981,956	148,510,399
61 – 90 days			30,917,087	72,767,079
91 – 180 days			7,751,886	10,499,680
More than 180 days			41,529,123	12,226,855
Carrying amount		¢	310,082,590	356,049,002
Current loans without allowance:				
A1		¢	4,538,217,225	4,885,199,512
A2			53,686,316	26,700,613
B1			62,413,107	51,611,746
C1			62,446,152	173,084,451
D			21,255,949	-
E			60,095,496	1,836,787
Carrying amount		¢	4,798,114,245	5,138,433,109
Carrying amount, gross			11,358,700,444	9,679,055,857
Allowance for loan impairment (database)			(228,772,689)	(161,685,018)
(Excess) insufficiency of allowance over structural allowance			(3,886,698)	40,188,088
Carrying amount, net	45-a	¢	11,126,041,057	9,557,558,927
Restructured loans	45-a	¢	80,827,163	68,077,257

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

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

(Continued)

		2012	
		Loans to customers	
		Gross	Net
A1	¢	8,540,358,594	8,568,330,047
A2		75,839,269	75,111,495
B1		317,338,759	314,358,377
B2		38,975,702	38,960,362
C1		344,820,984	328,943,950
C2		1,099,161	549,580
D		84,882,209	73,581,158
E		275,741,179	157,723,958
	¢	9,679,055,857	9,557,558,927

Past due loans without allowance:

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

		2013	2012
More than 180 days	¢	41,529,123	12,226,855

Restructured loans:

As of December 31, restructured loans are as follows:

		2013	2012
Restructured loans	¢	80,827,163	68,077,257

Risk ratings

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

		2013	2012
Borrower classification:			
Group 1	¢	400,768,597	335,341,213
Group 2		10,957,931,848	9,343,714,644
	¢	11,358,700,444	9,679,055,857

Borrower classification

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

Risk rating	Arrears		2013	2012
A1	30 days or less	¢	9,728,925,067	8,540,358,594
A2	60 days or less		131,849,886	75,839,269
B1	60 days or less		453,786,224	317,338,759
B2	60 days or less		25,216,628	38,975,702
C1	90 days or less		216,038,428	344,820,984
C2	90 days or less		52,910,483	1,099,161
D	120 days or less		246,183,368	84,882,209
E	More than 120 days or other factors		503,790,360	275,741,179
		¢	11,358,700,444	9,679,055,857

Loan portfolio by sector

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

Sector		2013	2012
Agriculture and forestry	¢	1,537,563,016	1,066,438,775
Livestock, hunting, and fishing		1,328,504,617	993,795,312
Manufacturing and quarrying		677,283,038	554,529,521
Trade		4,053,706,528	3,839,343,742
Transportation and telecommunications		543,056,321	320,517,466
Services		3,006,481,037	2,708,566,653
Tourism		212,105,887	195,864,388
	¢	11,358,700,444	9,679,055,857

Loan portfolio by geographic area

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

		2013	2012
Central America	¢	11,358,700,444	9,679,055,857

Loan portfolio by type of guarantee

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

Guarantee		2013	2012
Back to back	¢	15,250,040	19,301,844
Mortgage bond		-	2,641,048
Assignment of loans		30,646,209	4,947,990
Mortgage		6,813,816,656	6,190,709,424
Surety		3,530,316,955	2,967,410,930
Trust		142,965,221	131,504,217
Securities		102,882,910	33,967,758
Chattel mortgage		721,553,882	328,572,646
Other		1,268,571	-
	¢	11,358,700,444	9,679,055,857

Loan portfolio by individual borrower or economic interest group

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

Loan portfolio concentration		2013	2012
¢1 to ¢3,000,000	¢	1,583,418,607	1,536,812,153
¢3,000,001 to ¢15,000,000		4,945,443,833	4,785,508,831
¢15,000,001 to ¢30,000,000		2,353,894,057	1,831,374,764
¢30,000,001 to ¢50,000,000		1,557,525,836	1,132,162,660
¢50,000,001 to ¢75,000,000		918,418,111	393,197,449
	¢	11,358,700,444	9,679,055,857

(Continued)

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

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

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

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

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

As of December 31, 2013, those financial statements are as follows:

Development Credit Fund
Balance Sheet
As of December 31, 2013

		2013
Assets		
Investments in financial instruments	¢	126,461,520,459
Accounts and accrued interest receivable		3,355,094
Other assets		3,667,654,208
Total assets	¢	130,132,529,761
Liabilities		
Obligations with entities	¢	129,381,229,651
Accounts payable and provisions		25,830,469
Other liabilities		168,302,629
Total liabilities	¢	129,575,362,749
Equity		
Equity adjustments	¢	53,368,985
Income for the year		503,798,027
Total equity	¢	557,167,012
Total liabilities and equity	¢	130,132,529,761

Development Credit Fund
Income Statement
For the year ended December 31, 2013

		2013
Finance income	¢	6,252,116,638
Finance expense		(3,746,812,382)
Gross finance income		2,505,304,256
Other operating expenses		(2,001,506,229)
Income for the year	¢	503,798,027

(Continued)

a. Investments in financial instruments

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

		2013
Available for sale	¢	124,627,682,370
Accrued interest receivable		1,833,838,089
	¢	126,461,520,459

		2013
Available for sale:		
Local issuers:		
Government of Costa Rica	¢	59,002,804,778
BCCR		13,053,548,797
State-owned banks		9,080,725,741
		81,137,079,316
Foreign issuers:		
Governments		33.582.298.785
Private issuers		9.908.304.269
Subtotal		43.490.603.054
Accrued interest receivable on investments		1,833,838,089
	¢	126,461,520,459

As of December 31, 2013, returns on investments in financial instruments range between 0.00% and 9.20% per annum in colones and between 0.00% and 6.55% per annum in U.S. dollars and are established at 3.75% per annum for securities in euros.

As of December 31, 2013, valuation of available-for-sale investments gave rise to an unrealized gain, net of deferred tax, in the amount of ¢53,368,985, which is booked under "Equity adjustments for valuation of available-for-sale investments".

b. Obligations with entities

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

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

c. Finance income

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

		2013
Accrued interest on investments in available-for-sale investment securities	¢	3,557,916,761
Foreign exchange differences on other financial obligations		1,292,190,702
Foreign exchange differences on investments in financial instruments		1,269,606,021
Realized gain on available-for-sale financial instruments		132,403,154
	¢	6,252,116,638

d. Finance expense

For the year ended December 31, finance expense is as follows:

		2013
Demand obligations with financial entities	¢	1,263,652,818
Foreign exchange differences on other financial obligations		1,291,818,656
Foreign exchange differences on investments in financial instruments		1,191,340,908
	¢	3,746,812,382

e. Other operating expenses

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

		2013
Fees and commissions for brokerage services	¢	47,118,966
Fees and commissions for custodial services of financial instruments		31,932,126
Income tax (8%) on interest on investments in financial instruments		298,803,806
Transfer to FINADE (1)		1,623,651,331
	¢	2,001,506,229

(Continued)

(1) The transfer to FINADE corresponds to 85% of the net (base) earnings of the FCD. Base earnings are calculated by deducting monthly expenses incurred by the FCD and net foreign exchange differences from net earnings, as stipulated in article 35 of Law No. 8634 published in Official Gazette No. 87 dated May 7, 2008 and article 104 of Executive Order No. 34901-MEIC-MAG published in Official Gazette No. 22 dated December 1, 2008. The amount transferred to FINADE is allocated as follows: 62% (equivalent to ¢1,228,359,357) to FOFIDE; 37% (equivalent to ¢384,351,811) to the Surety Fund; and 1% (equivalent to ¢10,940,163) to the Development Services Fund. These amounts are deposited in the respective checking accounts.

f. Risk management

i. Market and liquidity risk management

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

Management of the FCD risk analysis is as follows:

Portfolio composition

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

Return

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

Price risk

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

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

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

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

Interest rate risk

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

Currency risk

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

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

Liquidity risk

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

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

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

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

ii. Credit risk management

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

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

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

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

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

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

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

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

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

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

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

		2013
U.S. dollars		
Assets:		
Investments in financial instruments	US$	156,104,614
Total assets	US$	156,104,614
Liabilities:		
Obligations with entities	US$	154,510,091
Other liabilities		339,998
Total liabilities	US$	154,850,089
Excess of assets over liabilities in U.S. dollars	US$	1,254,525

		2013
Euros		
Assets:		
Investments in financial instruments	€	3,112,118
Other assets		491,644
Total assets	€	3,603,762
Liabilities:		
Obligations with entities	€	3,635,786
Total liabilities	€	3,635,786
Excess (deficit) of assets over liabilities in euros	€	(32,024)

(Continued)

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

Assets		2013
Local currency:		
Financial instruments of BCCR – own resources	¢	13,053,548,797
Financial instruments from the local non-financial public sector		32,667,017,710
Accrued interest receivable associated to investments in financial instruments		1,343,214,745
Deferred tax		3,355,094
Balances with other departments		3,332,047,861
Total assets in local currency		50,399,184,207
Foreign currency:		
Financial instruments from the local non-financial public sector - own resources	¢	26,335,787,068
Financial instruments from local financial entities - own resources		9,080,725,741
Financial instruments from central banks and foreign public sector entities - own resources		33,582,298,785
Financial instruments from foreign financial entities - own resources		9,908,304,269
Accrued interest receivable associated to investments in financial instruments		490,623,344
Balances with other departments		335,606,347
Total assets in foreign currency		79,733,345,554
Total	¢	130,132,529,761

Liabilities		2013
Local currency:		
Obligations for management of FCD	¢	50,415,328,897
Deferred tax		25,830,469
Total liabilities in local currency		50,441,159,366
Foreign currency:		
Obligations for management of FCD	¢	78,965,900,754
Reciprocal accounts		168,302,629
Total liabilities in foreign currency		79,134,203,383
Total liabilities	¢	129,575,362,749

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(47) Notes required by Regulations on the Financial Reporting of Financial Entities, Groups, and Conglomerates

Pursuant to the Regulations on the Financial Reporting of Financial Entities, Groups, and Conglomerates, the following disclosures do not apply to the Bank:

- risk indicators and
- other concentrations of assets and liabilities.

(48) Restatement of financial statements

The Bank's financial statements as of and for the year ended December 31, 2012 were restated as a result of the restatement of the financial statements for such period of the subsidiary BN Vital Operadora de Planes de Pensiones Complementarias, S.A. (the Pension Fund Manager).

Pursuant to a precautionary measure issued by SUPEN in 2009 against the Pension Fund Manager, the subsidiary included in the accounting records a provision in the amount of ¢1,574,426,000 to cover possible losses incurred by pension funds managed during the restructuring of the "Income tax receivable" account. According to SUPEN, such losses should be assumed by the Pension Fund Manager, as the manager of such funds.

Such provision represents a preliminary estimate suggested by SUPEN due to difficulties in determining the completeness and accuracy of the balance receivable presented in the funds' accounting records, as a result of the lack of a subledger in late 2009 that evidenced and supported the composition of the balance receivable presented in the corresponding general ledger for each fund. In 2010, management of the subsidiary began to perform an assessment to determine the completeness, accuracy, and existence of the aforementioned balance receivable as well as the value of the provision. The assessment was substantially completed in 2013 and included the analysis, review, and restructuring of the income tax receivable subledger of each managed fund.

As a result of the restructuring, the financial statements of the Pension Fund Manager as of and for the year ended December 31, 2012 were restated to include the effect of the recognition of returns not earned by affiliates from 2010 to 2013. The net effect of the correction of the misstatement in "Prior period retained earnings", after deducting the provision mentioned above, amounts to ¢1,732,447,895.

Since the Pension Fund Manager is wholly owned by the Bank, the balances of the Bank's financial statements as of and for the year ended December 31, 2012 were restated in order to adjust the investment in that subsidiary. The restatement affected the following accounts:

Financial statement	Account		Balance at January 1, 2012, previously reported	Effect of correction	Balance at January 1, 2012, restated
Balance sheet	Investments in other companies	¢	65,546,074,807	(1,732,447,895)	63,813,626,912
Balance sheet	Prior period retained earnings	¢	27,128,969,721	(1,474,573,682)	25,654,396,039
Income statement	Gains on investments in SUPEN-regulated entities	¢	568,549,598	(257,874,213)	310,675,385
Statement of cash flows	Share in net profit of subsidiaries	¢	(2,253,984,683)	257,874,213	(1,996,110,470)