

BANCO NACIONAL DE COSTA RICA

Financial Information Required by the
Superintendency General of Financial Entities

Unconsolidated Financial Statements

December 31, 2014

(With corresponding figures for 2013)

(With Independent Auditor's Report Thereon)

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



KPMG, S. A.
Multiplaza Boulevard, KPMG Bldg.
San Rafael de Escazu
P.O. Box 10208
San Jose, Costa Rica 1000

Telephone (506) 2201-4100
Telefax (506) 2201-4131
Internet www.kpmg.co.cr

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, 2014, and the statements of comprehensive income, changes in equity, and cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information. The 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 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 structure 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 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.

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, 2014, 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 financial reporting provisions 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.



January 31, 2015

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



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



TABLE A
1 of 2

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

	Note	2014	2013
ASSETS			
Cash and due from banks	4	827,582,424,992	846,171,086,226
Cash		69,181,993,057	62,612,245,167
Demand deposits in BCCR		576,097,940,840	527,159,738,401
Demand deposits in local financial entities		12,862,465,611	14,641,609,790
Demand deposits in foreign financial entities		163,827,512,489	237,312,085,571
Other cash and due from banks		5,612,512,995	4,444,708,239
Accounts and accrued interest receivable		-	699,058
Investments in financial instruments	5	1,045,040,209,859	931,449,118,555
Available for sale		997,505,123,388	893,950,578,428
Held to maturity		27,328,967,634	25,823,991,217
Gap in positions in derivative financial instruments		11,281,570,780	-
Accounts and accrued interest receivable		8,985,047,615	11,728,217,894
(Allowance for impairment of financial instruments)		(60,499,558)	(53,668,984)
Loan portfolio	6	3,303,451,574,458	2,986,573,318,876
Current		3,142,775,035,799	2,799,657,018,936
Past due		116,679,181,039	139,042,678,627
Legal collections		72,120,002,831	73,965,839,402
Accounts and accrued interest receivable		21,715,928,888	19,553,964,785
(Allowance for loan impairment)	6-f	(49,838,574,099)	(45,646,182,874)
Accounts and fees and commissions receivable	7	1,956,793,547	2,352,125,374
Fees and commissions receivable		211,673,506	105,861,792
Accounts receivable for operations with related parties		26,735,434	29,583,734
Deferred tax and income tax receivable		3,985,280,760	2,065,557,346
Other receivables		3,091,890,476	2,452,741,042
Accrued interest receivable		2,572,781	1,608,084
(Allowance for impairment of accounts and fees and commissions receivable)		(5,361,359,410)	(2,303,226,624)
Foreclosed assets	8	19,355,058,030	20,702,082,917
Assets and securities acquired in lieu of payment		76,541,792,707	76,708,238,430
Other foreclosed assets		1,756,777	1,756,777
(Allowance for impairment of foreclosed assets and per legal requirements)		(57,188,491,454)	(56,007,912,290)
Investments in other companies	9	76,799,833,378	72,323,350,980
Property and equipment, net	10	166,387,915,819	164,829,338,029
Other assets	11	50,455,015,839	30,928,594,678
Deferred charges		21,568,465,566	8,978,335,212
Intangible assets		4,277,632,565	2,650,685,910
Other assets		24,608,917,708	19,299,573,556
TOTAL ASSETS		5,491,028,825,922	5,055,329,015,635

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

Continued...

TABLE A
2 of 2

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

LIABILITIES AND EQUITY	Note	2014	2013
LIABILITIES			
Obligations with the public	12	3,679,636,119,142	3,394,017,094,333
Deposits and other demand obligations		2,272,307,002,207	2,099,331,437,041
Deposits and other term obligations		1,388,070,829,970	1,275,447,391,754
Charges payable		19,258,286,965	19,238,265,538
Obligations with BCCR	13	182,746,931	29,911,289,724
Term obligations		182,452,312	29,904,277,636
Charges payable		294,619	7,012,088
Obligations with entities	14	1,089,004,307,672	1,027,946,177,790
Demand obligations		286,570,716,555	192,457,097,130
Term obligations		795,909,817,482	828,804,423,760
Charges payable		6,523,773,635	6,684,656,900
Accounts payable and provisions		120,993,852,530	120,520,062,480
Deferred tax	15-c	14,138,778,864	14,174,484,751
Provisions	16	38,697,849,103	48,955,117,923
Other sundry accounts payable	17	68,157,224,563	57,390,459,806
Other liabilities	18	34,084,373,087	28,504,123,816
Deferred income		9,003,262,472	2,458,330,689
Allowance for stand-by credit losses		1,319,693,076	138,964,729
Other liabilities		23,761,417,539	25,906,828,398
Subordinated obligations	14	70,358,271,862	-
Subordinated obligations		69,330,300,000	-
Finance charges payable		1,027,971,862	-
TOTAL LIABILITIES		4,994,259,671,224	4,600,898,748,143
EQUITY			
Share capital		118,130,303,482	118,130,303,482
Paid-in capital	19-a	118,130,303,482	118,130,303,482
Equity adjustments		66,252,321,126	62,621,518,232
Surplus from revaluation of property and equipment	19-b	63,639,596,055	63,639,596,055
Adjustment for valuation of available-for-sale investments	19-c	(1,746,379,939)	(1,659,792,110)
Adjustment for valuation of restricted financial instruments	19-c	(2,041,047,936)	(2,745,810,858)
Surplus from revaluation of other assets		70,246,625	70,246,625
Adjustment for valuation of investments in other companies	19-d	6,329,906,321	3,317,278,520
Equity reserves	1-t	209,058,123,505	196,909,225,981
Prior period retained earnings		49,146,520,984	39,383,506,918
Income for the year		39,633,711,775	25,141,909,678
Equity of the Development Financing Fund	41	14,548,173,826	12,243,803,201
TOTAL EQUITY		496,769,154,698	454,430,267,492
TOTAL LIABILITIES AND EQUITY		5,491,028,825,922	5,055,329,015,635
DEBIT MEMORANDA ACCOUNTS	20	510,980,047,903	439,765,081,943
TRUST ASSETS	21	904,374,430,249	907,975,474,740
TRUST LIABILITIES		76,808,439,940	65,814,216,435
TRUST EQUITY		827,565,990,309	842,161,258,305
TRUST MEMORANDA ACCOUNTS		13,092,078,570	3,573,614,623
OTHER DEBIT MEMORANDA ACCOUNTS	22	15,664,502,469,840	13,605,648,253,300
Own debit memoranda accounts		7,545,877,074,861	6,539,605,723,260
Third-party debit memoranda accounts		923,639,626,583	648,018,532,541
Own debit memoranda accounts for custodial activities		262,853,004,270	250,541,115,793
Third-party debit memoranda accounts for custodial activities		6,931,132,764,126	6,167,482,881,706

Juan Carlos Corrales Salas
Acting General Manager

Gerardo Gómez Solís
General Accountant

Ricardo Araya Jiménez
General Auditor

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

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

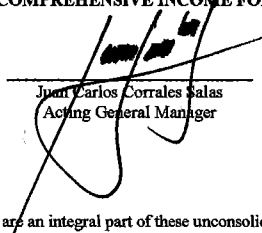
	Note	2014	(Restated) 2013
Finance income			
Cash and due from banks	23	206,134,989	303,424,037
Investments in financial instruments	23	37,221,558,846	46,338,244,766
Loan portfolio	24	304,492,853,084	274,158,445,294
Gain on foreign exchange differences and development units	1-c	317,756,425,419	77,918,258,717
Gain on available-for-sale financial instruments		1,680,198,856	15,295,453,265
Gain on derivative financial instruments	5-b	21,614,976,680	-
Other finance income	25	15,758,746,182	15,022,662,097
Total finance income		<u>698,730,894,056</u>	<u>429,036,488,176</u>
Finance expenses			
Obligations with the public	26	102,102,958,348	126,177,493,110
Obligations with BCCR		1,302,337	1,736,494
Obligations with financial entities		37,407,696,742	18,435,353,209
Other sundry accounts payable		90,992	-
Subordinated, convertible, and preferred obligations		1,626,258,416	-
Loss on foreign exchange differences and development units	1-c	317,489,596,405	74,959,993,017
Loss on available-for-sale financial instruments		578,583,205	267,228,828
Loss on derivative financial instruments	5-b	-	11,352,047,397
Other finance expenses	14	32,361,388,023	219,227,424
Total finance expenses		<u>491,567,874,468</u>	<u>231,413,079,479</u>
Allowance for impairment of assets	27	31,923,597,752	38,269,776,491
Recovery of assets and decrease in allowances	28	17,572,702,878	15,747,593,621
GROSS FINANCE INCOME		<u>192,812,124,714</u>	<u>175,101,225,827</u>
Other operating income			
Service fees and commissions	29	88,369,906,187	76,214,342,885
Foreclosed assets		24,079,765,543	16,604,463,853
Gain on investments in other foreign companies		5,225,407,598	4,290,638,809
Gain on investments in SUGEVAL-regulated entities		1,485,663,180	3,669,299,251
Gain on investments in SUPEN-regulated entities		761,671,541	1,916,246,228
Gain on investments in SUGESE-regulated entities		532,235,392	403,570,139
Foreign currency exchange and arbitrage		24,391,547,759	20,668,492,275
Other income - Related parties		347,576,960	319,545,521
Other operating income	30	20,388,079,647	7,362,575,270
Total other operating income		<u>165,581,853,807</u>	<u>131,449,174,231</u>

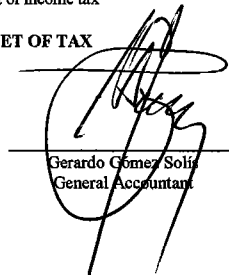
The notes are an integral part of these unconsolidated financial statements.

Continued...

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

		2014	(Restated) 2013
Other operating expenses			
Services fees and commissions		5,475,433,359	5,326,177,056
Foreclosed assets	31	43,310,427,306	44,553,512,618
Sundry assets		511,385,175	250,410,685
Provisions	32	18,372,337,520	20,663,847,329
Foreign currency exchange and arbitrage		1,832,495	777,784
Other expenses - Related parties		256,693,265	48,327,975
Other operating expenses	33	52,333,721,557	41,730,048,329
Amortization of deferred direct costs related to credits		2,541,395,912	-
Total other operating expenses		122,803,226,589	112,573,101,776
GROSS OPERATING INCOME		235,590,751,932	193,977,298,282
Administrative expenses			
Personnel expenses	34	113,258,446,407	113,561,568,988
Other administrative expenses	35	59,647,513,906	56,117,934,246
Total administrative expenses		172,905,960,313	169,679,503,234
NET OPERATING INCOME BEFORE TAXES AND STATUTORY ALLOCATIONS		62,684,791,619	24,297,795,048
Income tax	15-a	11,763,485,626	-
Decrease in income tax	15-a	202,760,722	-
Decrease in prior period income tax	15-b	-	6,524,041,757
Statutory allocations	36	11,490,354,940	7,357,577,009
Decrease in statutory allocations	36	-	1,677,649,882
INCOME FOR THE YEAR		39,633,711,775	25,141,909,678
OTHER COMPREHENSIVE INCOME, NET OF TAX			
Surplus from revaluation of property and equipment		-	14,515,324,702
Adjustment for valuation of available-for-sale investments, net of income tax		(86,587,829)	(2,127,515,542)
Adjustment for valuation of restricted financial instruments, net of income tax		704,762,922	(418,481,697)
Adjustment for valuation of investments in other companies		3,012,627,801	(1,483,577,659)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		3,630,802,894	10,485,749,804
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		43,264,514,669	35,627,659,482


Juan Carlos Corrales Salas
Acting General Manager


Gerardo Gomez Solis
General Accountant


Ricardo Araya Jimenez
General Auditor

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

BANCO NACIONAL DE COSTA RICA
UNCONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2014
(With corresponding figures for 2013)
(In colones)

Note	Equity adjustments					Total equity adjustments	Equity reserves	Opening retained earnings	Equity of the Development Financing Fund	Total
	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					
Balances at December 31, 2012	118,130,303,482	49,124,271,353	(1,859,605,729)	70,246,625	4,800,856,179	52,135,768,428	170,958,556,380	69,112,146,159	8,750,108,360	419,086,882,809
<i>Transactions with owners of the Bank booked directly in equity:</i>										
Legal and other statutory reserves	-	-	-	-	-	-	25,950,669,601	(25,950,669,601)	-	-
Adjustment for changes in equity of BN Vital	-	-	-	-	-	-	-	7,427,050	-	7,427,050
Statutory allocations - Mandatory pension funds, Employee Protection Law No. 7983	-	-	-	-	-	-	-	(291,701,849)	-	(291,701,849)
Equity of the Development Financing Fund	-	-	-	-	-	-	-	(3,493,694,841)	3,493,694,841	-
Total transactions with owners of the Bank booked directly in equity	118,130,303,482	49,124,271,353	(1,859,605,729)	70,246,625	4,800,856,179	52,135,768,428	196,909,225,981	39,383,506,918	12,243,803,201	418,802,608,010
<i>Comprehensive income for the year:</i>										
Income for the year	-	-	-	-	-	-	-	25,141,909,678	-	25,141,909,678
Surplus from revaluation of property and equipment	-	14,515,324,702	-	-	-	14,515,324,702	-	-	-	14,515,324,702
Adjustment for valuation of available-for-sale investments, net of income tax	-	-	(2,127,515,542)	-	-	(2,127,515,542)	-	-	-	(2,127,515,542)
Adjustment for valuation of restricted financial instruments, net of income tax	-	-	(418,481,697)	-	-	(418,481,697)	-	-	-	(418,481,697)
Adjustment for revaluation of investments in other companies	-	-	-	-	(1,483,577,659)	(1,483,577,659)	-	-	-	(1,483,577,659)
Total comprehensive income for the year	-	14,515,324,702	(2,545,997,239)	-	(1,483,577,659)	10,485,749,804	-	25,141,909,678	-	35,627,659,482
Balances at December 31, 2013	118,130,303,482	63,639,596,055	(4,405,602,968)	70,246,625	3,317,278,520	62,621,518,232	196,909,225,981	64,525,416,596	12,243,803,201	454,430,267,492
<i>Transactions with owners of the Bank booked directly in equity:</i>										
Legal and other statutory reserves	-	-	-	-	-	-	12,148,897,524	(12,148,897,524)	-	-
Adjustment for changes in equity of BN Vital	-	-	-	-	-	-	-	32,495,651	-	32,495,651
Statutory allocations - Mandatory pension funds, Employee Protection Law No. 7983	-	-	-	-	-	-	-	(958,123,114)	-	(958,123,114)
Equity of the Development Financing Fund	-	-	-	-	-	-	-	(2,304,370,625)	2,304,370,625	-
Total transactions with owners of the Bank booked directly in equity	118,130,303,482	63,639,596,055	(4,405,602,968)	70,246,625	3,317,278,520	62,621,518,232	209,058,123,505	49,146,520,984	14,548,173,826	453,504,640,029
<i>Comprehensive income for the year:</i>										
Income for the year	-	-	-	-	-	-	-	39,633,711,775	-	39,633,711,775
Adjustment for valuation of available-for-sale investments, net of income tax	-	-	(86,587,829)	-	-	(86,587,829)	-	-	-	(86,587,829)
Adjustment for valuation of restricted financial instruments, net of income tax	-	-	704,762,922	-	-	704,762,922	-	-	-	704,762,922
Adjustment for revaluation of investments in other companies	-	-	-	-	3,012,627,801	3,012,627,801	-	-	-	3,012,627,801
Total comprehensive income for the year	-	-	618,175,093	-	3,012,627,801	3,630,802,894	-	39,633,711,775	-	43,264,514,669
Balances at December 31, 2014	118,130,303,482	63,639,596,055	(3,787,427,875)	70,246,625	6,329,906,321	66,252,321,126	209,058,123,505	88,780,232,759	14,548,173,826	496,769,154,698

Juan Carlos Corrales Salas
Acting General Manager

Gerardo Gómez Solís
General Accountant

Ricardo Araya Jiménez
General Auditor

TABLE D
1 of 1

BANCO NACIONAL DE COSTA RICA
UNCONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2014
(With corresponding figures for 2013)
(In colones)

	Note	2014	2013
Cash flows from operating activities			
Income for the year		39,633,711,775	25,141,909,678
Items not requiring cash			
Gain on sale of idle property and equipment		(67,140)	(2,883)
Gain on foreign exchange and development units, net		31,816,509,522	(7,096,831,360)
Loss on allowance for loan impairment		10,808,070,399	23,338,820,866
Income from reversal of allowance for impairment of investments		2,678,088	(545,537,362)
Loss on allowances for foreclosed assets and other receivables		27,720,284,206	29,076,559,743
Expense for severance accrual		28,012,902,662	16,637,074,489
Depreciation and amortization		13,882,208,768	13,584,306,683
Share in net profit of subsidiaries		(2,779,570,113)	(5,989,115,618)
Share in net profit of foreign associate		(5,225,407,598)	(4,290,638,809)
Statutory allocations		11,490,354,940	7,357,577,009
Deferred tax		(507,012,667)	(329,821,571)
Current tax expense	15 -a	11,763,485,626	-
Finance income on loan portfolio and investments		(341,714,411,930)	(320,496,690,060)
Finance expenses on term obligations with the public and financial entities		103,798,040,574	106,822,452,549
		(71,298,222,888)	(116,789,936,646)
Net (increase) decrease in assets			
Credits and cash advances		(232,491,110,577)	(481,177,766,319)
Foreclosed assets		(22,828,896,225)	(20,213,914,832)
Accrued interest receivable on other receivables		(964,697)	(94,425)
Other assets		(24,240,908,594)	(14,056,607,833)
		(350,860,102,981)	(632,238,320,055)
Net increase (decrease) in liabilities			
Demand and term obligations		242,765,975,241	943,500,106,737
Other accounts payable and provisions		(50,179,554,447)	(18,407,782,047)
Other liabilities		5,942,996,744	(23,530,536,130)
		(152,330,685,443)	269,323,468,505
Interest received on loan portfolio and investments		342,295,618,106	315,646,463,842
Income tax paid		(874,940,590)	(3,836,943,798)
Interest paid on term obligations with the public and financial entities		(103,945,619,881)	(104,354,960,353)
Net cash from operating activities		85,144,372,192	476,778,028,196
Net cash flows from investing activities			
Increase in financial instruments		(2,487,039,745,623)	(3,433,390,130,182)
Decrease in financial instruments		2,513,924,980,192	3,035,498,384,854
Acquisition of property and equipment		(13,716,363,996)	(17,848,428,711)
Sale of property and equipment		444,775,670	250,342,335
Cash investments in other companies		5,615,495,651	2,177,901
Net cash used in from (used in) investing activities		19,229,141,894	(415,487,653,803)
Net cash flows from financing activities			
Other new financial obligations		3,042,916,505	202,125,387,900
New subordinated obligations		69,330,300,000	-
Settlement of obligations		(78,492,814,886)	(98,909,242,876)
Net cash (used in) from financing activities		(6,119,598,381)	103,216,145,024
Net increase in cash and cash equivalents		98,253,915,705	164,506,519,417
Cash and cash equivalents at beginning of year		903,866,178,449	739,359,659,032
Cash and cash equivalents at end of year		1,002,120,094,154	903,866,178,449

4

Juan Carlos Corrales Salas
Acting General Manager

Gerardo Gómez Solís
General Accountant

Ricardo Araya Jiménez
General Auditor

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

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

December 31, 2014

(With corresponding figures for 2013)

(1) Summary of operations and significant accounting policies

(a) Operations

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

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

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

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

As of December 31, 2014 and 2013, the Bank has 183 offices (2013: 185 offices), 465 automated teller machines (2013: 462 automated teller machines), and a total of 5,476 employees (2013: 5,504 employees). The Bank's website is www.bncr.fi.cr.

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

The following subsidiaries are wholly owned by the Bank:

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

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

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

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.

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

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.

(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 the exchange rates ruling on the dates of the transactions. Foreign exchange gains and losses arising on translation are recognized in the accounts corresponding to gains or losses on foreign exchange and development units (DU), as appropriate.

ii. *Monetary unit and foreign exchange regulations*

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

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

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

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

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

As of December 31, 2014, assets and liabilities denominated in euros were valued at the exchange rate of ¢648.98 to €1.00 (2013: ¢682.62 to €1.00). This exchange rate was calculated by multiplying the international exchange rate published by Reuters by the reference buy rate for U.S. dollars published by BCCR on the last business day of the month.

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

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

	2014	2013
Foreign exchange gain	¢ 317,756,425,419	77,918,258,717
Foreign exchange loss	(317,489,596,405)	(74,959,993,017)
Net gain (loss)	¢ 266,829,014	2,958,265,700

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

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

		2014	2013
Net gain on valuation of other assets (note 30)	¢	723,354,051	411,554,122
Net loss on valuation of other liabilities (note 33)		(1,210,441,092)	(181,805,685)
Net gain (loss)	¢	(487,087,041)	229,748,437

(d) Financial instruments

A financial instrument is any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity. 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.

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

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

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

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)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

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

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

Originated loans and other receivables

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

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.

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

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 were 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.

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

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

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

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

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

iv. Fair value measurement principles

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

v. *Gains and losses on subsequent measurement*

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

vi. *Derecognition*

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

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

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

vii. *Offsetting*

Financial assets and liabilities are offset and the net amount presented in the 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.

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

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 expenses in the income statement and accrued interest payable is recognized in the balance sheet.

Securities purchased under reverse repurchase agreements

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

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

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

(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.

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

ii. Leased assets

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

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

iii. Subsequent expenditure

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

iv. Depreciation and amortization

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

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

(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)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

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, 2014 and 2013, the Bank has no finance leases.

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

(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.

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

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

(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)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

As of December 31, 2014 and 2013, the Bank has no full or partial share 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 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.

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

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

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

The data obtained from the modules are reviewed on a monthly basis by the 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, 2014, a total of ¢28,421,229,753 (2013: ¢32,441,625,359) is booked in the "Provisions" account for severance benefits. That amount is sufficient to cover the provisions required by current legislation as of those dates (see note 16). The Employee Association of Banco Nacional de Costa Rica (ASEBANACIO) was created in 2012. Accordingly, the Bank currently follows the practice of making monthly transfers of severance benefits to the Employee Association, equivalent to 5.33% of member employees' monthly salaries, for management and custody. Those funds are paid out to employees upon termination of employment. Severance payments are expensed when the funds are transferred.

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

(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)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

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

- the Bank reports profits in its audited financial statements for the corresponding period; and
- the employee eligible for the SEDI incentive has worked for at least 6 months for the Bank during the period and has obtained the required minimum score in the assessed areas.

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

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

(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 is transferred to opening retained earnings.

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

As of December 31, 2014, the legal reserve amounts to ¢209,058,123,505 (2013: ¢196,909,225,981).

(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, 230 and 260), the amount allocated to cash and due from banks (group of accounts 110) and the loan portfolio (group of accounts 130), divided by total obligations with the public. All data correspond to annual averages based on month-end balances.

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

As of December 31, 2014, the Bank booked an account payable for a net amount of ¢10,685,784,314. As of December 31, 2013, the Bank booked no current tax liability since the AD-HOC methodology determined a negative tax base (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.

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

(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.

(y) Recognition of income and expenses

i. Finance income

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

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

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

ii. Fee and commission income

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

iii. Income from foreign currency exchange and arbitrage

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

iv. Operating lease expenses

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

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

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

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

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

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

(aa) Development Financing Fund (FOFIDE)

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

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

(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.

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

(2) Collateralized or restricted assets

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

Restricted asset	Carrying amount		Cause of restriction
	2014	2013	
Cash and due from banks	¢ 548,764,416,720	512,939,448,276	Minimum cash reserve
Investments in financial instruments	¢ 7,994,461,315	6,422,745,082	Guarantee for margin calls - term operations
Investments in financial instruments	¢ 288,928,706,371	244,735,960,400	Guarantee for obligations with foreign financial entities
Investments in financial instruments	¢ -	72,045,767,120	Interbank Electronic Payment System (SINPE) guarantee
Other assets (note 11)	¢ 316,541,740	227,561,623	Guarantee deposits

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

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

Restricted asset	Cause of restriction		2014	2013
			Carrying amount	Carrying amount
Checking account – colones	Minimum cash reserve	¢	374,788,268,448	347,894,567,731
Checking account – euros	Minimum cash reserve	€	7,962,840	8,323,774
Checking account – U.S. dollars	Minimum cash reserve	US\$	316,529,644	321,938,761
External debt bonds	Guarantee for margin calls - term operations – Bank of America	¢	3,732,194,049	3,459,941,933
External debt bonds	Guarantee for margin calls - term operations – Citi Swap	¢	2,130,530,785	987,317,244
External debt bonds	Guarantee for margin calls - term operations – JP Morgan Swap	¢	2,131,736,481	1,975,485,905
Monetary stabilization bonds	Citibank guarantee	¢	15,009,933,300	50,891,800,000
Central Bank bond (global bonds)	Citibank guarantee	¢	127,659,542,800	43,246,320,000
External debt bonds	Barclays guarantee	¢	75,765,386,092	44,625,998,979
Central Bank bonds (global bonds)	Barclays guarantee	¢	-	37,826,255,990
External debt bonds	Credit Suisse guarantee	¢	70,493,844,179	68,145,585,431
Monetary stabilization bonds	Interbank Electronic Payment System (SINPE) guarantee	¢	-	55,880,015,006
Central Bank bonds (global bonds)	Interbank Electronic Payment System (SINPE) guarantee	¢	-	16,165,752,114
Other assets	Guarantee deposits	¢	316,541,740	227,561,623

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

(3) Balances and transactions with related parties

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

	2014	2013
<u>Assets:</u>		
Checking accounts and demand deposits	¢ 7,799,157,076	2,697,887,241
Investments in financial instruments and accrued interest receivable	-	24,750,500,000
Accounts receivable (note 7)	728,637	553,249
Allowance for losses on transactions with related parties	(24,735,310)	(23,976,123)
Investments in other companies (note 9)	76,799,833,378	72,323,350,980
	¢ <u>84,574,983,781</u>	<u>99,748,315,347</u>
<u>Liabilities:</u>		
Demand deposits	¢ 2,450,288,584	2,240,797,725
Term deposits and accrued interest payable	11,300,000	588,049,474
Charges payable for obligations with the public	261,978	-
Accounts payable	-	24,695,377
	¢ <u>2,461,850,562</u>	<u>2,853,542,576</u>
<u>Income:</u>		
Finance	¢ 625,369,041	159,238,854
Operating	508,100,492	476,050,064
Gain on investments in other foreign entities	5,225,407,598	4,290,638,809
Gain on investments in SUGEVAL-regulated entities	1,485,663,180	3,669,299,251
Gain on investments in SUPEN-regulated entities	761,671,541	1,916,246,228
Gain on investments in SUGESE-regulated entities	532,235,392	403,570,139
	¢ <u>9,138,447,244</u>	<u>10,915,043,345</u>
<u>Expenses:</u>		
Finance	¢ 27,560,968	314,507,142
Operating	279,175,262	73,218,778
	¢ <u>306,736,230</u>	<u>387,725,920</u>

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

	2014	2013
Short-term benefits	¢ 1,026,125,434	1,269,507,358
Long-term benefits	133,396,306	165,035,957
Per diem – Board of Directors	112,752,728	112,508,305
	¢ <u>1,272,274,468</u>	<u>1,547,051,620</u>

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

(4) Cash and due from banks

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

	2014	2013
Cash and due from banks	¢ 827,582,424,992	846,171,086,226
Investments with maturities of less than two months	174,537,669,162	57,695,092,223
Cash and due from banks and cash equivalents	¢ 1,002,120,094,154	903,866,178,449

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

	2014	2013
<i>Local currency:</i>		
Cash	¢ 39,060,679,718	36,191,171,739
Cash in transit	15,112,028,982	12,063,605,000
Minimum cash reserve	393,234,842,023	357,794,845,844
Checking accounts and demand deposits in State-owned commercial banks and banks created under special laws	12,862,043,229	14,612,991,807
Outstanding checks and other	4,080,795,013	3,520,255,899
<i>Foreign currency:</i>		
Cash	13,408,625,012	12,791,185,308
Cash in transit	1,600,659,345	1,566,283,120
Minimum cash reserve	182,863,098,817	169,364,892,557
Checking accounts and demand deposits in State-owned commercial banks and banks created under special laws	422,382	28,617,983
Foreign correspondent banks	151,045,102,800	100,523,093,694
Checking accounts and demand deposits in related parties	7,799,157,076	2,697,887,241
Overnight deposits in foreign financial entities	4,983,252,613	134,091,104,636
Outstanding checks and other	1,531,717,982	924,452,340
Accrued interest receivable	-	699,058
	¢ 827,582,424,992	846,171,086,226

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

Minimum cash reserve

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

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

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

As of December 31, 2014 and 2013, deposits in BCCR amount to ¢576,097,940,840 and ¢527,159,738,401, 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 differs from the balance of deposits as of December 31.

(5) Investments in financial instruments and derivative financial instruments

(a) Investments in financial instruments

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

		2014	2013
Available for sale	¢	997,505,123,388	893,950,578,428
Held to maturity		27,328,967,634	25,823,991,217
Interest rate futures - Hedges (note 5-b)		10,619,377,926	-
FX futures - Other than hedges (note 5-b)		662,192,854	-
Accrued interest receivable		8,985,047,615	11,728,217,894
Allowance for impairment of investments		(57,821,470)	(53,668,984)
Allowance for impairment of derivative instruments other than hedges		(2,678,088)	-
	¢	1,045,040,209,859	931,449,118,555

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

		2014	2013
<i>Available for sale:</i>			
<u>Local issuers:</u>			
Government of Costa Rica	¢	378,671,225,449	374,144,722,998
BCCR		195,391,086,090	249,956,091,638
State-owned banks		90,363,300,015	25,279,105,737
Private banks		24,856,783,594	7,480,457,116
Private issuers		754,368,840	6,366,121,437
		<u>690,036,763,988</u>	<u>663,226,498,926</u>
<u>Foreign issuers:</u>			
Governments		86,334,217,941	118,160,726,219
Private issuers		72,306,895,820	14,694,527,871
Private banks		148,827,245,639	97,868,825,412
		<u>307,468,359,400</u>	<u>230,724,079,502</u>
		<u>997,505,123,388</u>	<u>893,950,578,428</u>
<i>Held to maturity:</i>			
Local issuers		27,328,967,634	25,823,991,217
		<u>27,328,967,634</u>	<u>25,823,991,217</u>
Interest rate futures - Hedges (note 5-b)		10,619,377,926	-
FX futures - Other than hedges (note 5-b)		662,192,854	-
Accrued interest receivable		8,985,047,615	11,728,217,894
Allowance for impairment of investments		(57,821,470)	(53,668,984)
Allowance for impairment of derivative instruments other than hedges		(2,678,088)	-
	¢	<u>1,045,040,209,859</u>	<u>931,449,118,555</u>

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

		2014	2013
Opening balance	¢	53,668,984	609,308,473
Allowance expense (note 27)		4,216,707	1,036
Decrease in allowance against income (note 28)		(1,538,619)	(545,538,398)
Foreign exchange differences		4,152,486	(10,102,127)
Closing balance	¢	<u>60,499,558</u>	<u>53,668,984</u>

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

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

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

	2014	2013
<i>Available for sale:</i>		
Securities issued by BCCR	¢ 112,820,754,496	143,184,276,539
Securities issued by local non-financial public sector	238,758,383,327	276,146,372,477
Securities issued by local financial entities	122,969,748,933	32,759,562,841
Securities issued by local non-financial private sector	18,862,014,392	54,259,246,621
Financial instruments issued by foreign financial entities	68,210,843,156	31,770,700,837
Financial instruments issued by foreign non-financial private sector – own resources	33,906,883,848	1,513,532,661
Financial instruments issued by foreign related parties	-	24,746,292,415
Liquidity market operations – own resources	99,666,550,000	-
Other available-for-sale financial instruments	5,386,777,550	6,366,121,435
Financial instruments restricted for margin calls on term operations	7,994,461,315	6,422,745,082
Financial instruments restricted for credit operations	288,928,706,371	244,735,960,400
Financial instruments restricted for liquidity market operations	-	72,045,767,120
	<u>997,505,123,388</u>	<u>893,950,578,428</u>
<i>Held to maturity:</i>		
Securities issued by local non-financial public sector	<u>27,328,967,634</u>	<u>25,823,991,217</u>
	<u>27,328,967,634</u>	<u>25,823,991,217</u>
<i>Derivative financial instruments:</i>		
Interest rate futures - Hedges (note 5-b)	10,619,377,926	-
FX futures - Other than hedges (note 5-b)	662,192,854	-
	<u>11,281,570,780</u>	<u>-</u>
Accrued interest receivable	8,985,047,615	11,728,217,894
Allowance for impairment of investments	(57,821,470)	(53,668,984)
Allowance for impairment of derivative instruments other than hedges	(2,678,088)	-
¢	<u>1,045,040,209,859</u>	<u>931,449,118,555</u>

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

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

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

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

(b) Derivative financial instruments

In Notice J.D. 5566/06/02 dated October 29, 2012, SUGEF authorized the Bank to trade derivative financial instruments (see note 43-a).

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

✓ Derivatives as risk hedging instruments:

Interest rate swaps:

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

Gains and losses on valuation of derivative financial instruments are booked under asset and liability accounts, respectively. As of December 31, 2014, the Bank booked an increase and a decrease in the fair value of these hedges in the amounts of US\$19,912,205, equivalent to ¢10,619,377,910 (see note 5-a), and US\$387,629, equivalent to ¢206,726,657 (2013: decrease of US\$20,209,761, equivalent to ¢10,004,033,392), respectively, under "Other sundry accounts payable" (see note 17).

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

Valuation of these financial instruments is as follows:

		December 31, 2014		Purpose
Issuing bank		Notional amount	Valuation	
Citibank	US\$	100,000,000	US\$ 3,982,441	Swaps to hedge 10-year issues
JP Morgan		200,000,000	7,964,882	
Bank of America		200,000,000	7,964,882	
Subtotal		500,000,000	19,912,205	
Citibank		100,000,000	(155,052)	Swaps to hedge 5-year issues
JP Morgan		150,000,000	(232,579)	
Subtotal		250,000,000	(387,631)	
Total	US\$	750,000,000	US\$ 19,524,574	
Amount in colones	¢	399,982,500,000	¢ 10,412,651,253	

		December 31, 2013		Purpose
Issuing bank		Notional amount	Valuation	
Citibank	US\$	100,000,000	US\$ (3,429,800)	Swaps to hedge 10-year issues
JP Morgan		200,000,000	(6,859,599)	
Bank of America		200,000,000	(6,859,599)	
Subtotal		500,000,000	(17,148,998)	
Citibank		100,000,000	(1,224,305)	Swaps to hedge 5-year issues
JP Morgan		150,000,000	(1,836,458)	
Subtotal		250,000,000	(3,060,763)	
Total	US\$	750,000,000	US\$ (20,209,761)	
Amount in colones	¢	371,257,500,000	¢ (10,004,033,392)	

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

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

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

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

- ✓ Derivatives for trading purposes:

Currency forwards:

In 2014, currency forwards were formalized with several clients. Under these derivative financial instruments, the Bank acts as an authorized intermediary (counterparty). These instruments serve as a trading tool that is not used for currency speculation and whereby no risks are hedged.

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

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

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

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

(6) Loan portfolio

(a) Loan portfolio by sector

The loan portfolio by sector is as follows:

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

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

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

Sold and securitized portfolio

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

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

As of December 31, 2014, the balance of the securitized portfolio is US\$6,892,764 equivalent to ¢3,675,980,193 (2013: US\$6,977,247, equivalent to ¢3,453,806,835).

Sale of portfolio

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

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

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

(b) Loan portfolio by arrears

The loan portfolio by arrears is as follows:

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

(c) Loan portfolio by origin

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

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

(d) Past due loans

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

	2014	2013
Past due loans in accrual status: 17,843 loans (2013: 18,875 loans)	¢ 115,703,988,334	138,735,758,526
Loans in legal collections: 6,025 loans, 2.16% of portfolio (2013: 4,984 loans, 2.46% of portfolio)	¢ 72,120,002,831	73,965,839,402
Total unearned interest in 2014 and 2013	¢ 424,946,962	1,082,349,202

For the years ended December 31, 2014 and 2013, the Bank increased the “Finance income on non-accrual loans” account as a result of the recovery of loans receivable over 180 days past due by ¢424,946,962 and ¢1,082,349,202, respectively.

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

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

(e) Accrued interest receivable on loan portfolio

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

(f) Allowance for loan impairment

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

	2014	2013
Opening balance	¢ 45,646,182,874	42,305,801,609
Expense for the year (note 27)	26,164,806,164	36,912,921,429
Settlements	(21,708,233,163)	(33,393,373,813)
Decrease in allowance against income (note 28)	(1,200,000,000)	(60,689,015)
Foreign exchange differences	935,818,224	(118,477,336)
Closing balance	¢ 49,838,574,099	45,646,182,874

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

(7) Other receivables

As of December 31, other receivables are as follows:

	2014	2013
Fees and commissions	¢ 211,673,506	105,861,792
Transactions with related parties (note 3)	728,637	553,249
Transactions with related parties (officers, employees and related branches)	26,006,797	29,030,485
Deferred tax (note 15-c)	1,392,591,923	1,943,597,323
Income tax receivable	2,592,688,837	121,960,023
Other sundry accounts receivable	3,091,890,476	2,452,741,042
Accrued interest receivable on other sundry accounts receivable	2,572,781	1,608,084
Allowance for impairment of other accounts receivable	(5,361,359,410)	(2,303,226,624)
	¢ 1,956,793,547	2,352,125,374

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

	2014	2013
Opening balance	¢ 2,303,226,624	2,944,473,955
Allowance expense (note 27)	4,558,394,587	1,356,827,241
Decrease in allowance against income (note 28)	(1,014,031,493)	(1,627,926,839)
Items settled against allowance	(495,113,902)	(367,527,573)
Foreign exchange differences	8,883,594	(2,620,160)
Closing balance	¢ 5,361,359,410	2,303,226,624

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

(8) Foreclosed assets

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

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

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

	2014	2013
Opening balance	¢ 56,007,912,290	42,610,655,528
Allowance expense (note 31)	23,421,294,389	29,347,659,340
Decrease in allowance against income	(22,240,715,225)	(15,950,402,578)
Closing balance	¢ 57,188,491,454	56,007,912,290

(9) Investments in other companies

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

	2014	2013
BN Valores Puesto de Bolsa, S.A.	¢ 14,566,465,597	18,114,864,505
BN Sociedad Administradora de Fondos de Inversión, S.A.	4,436,442,377	4,612,298,475
BN Vital Operadora de Planes de Pensiones Complementarias, S.A.	6,665,437,016	7,245,090,894
BN Corredora de Seguros, S.A.	1,305,708,578	1,023,473,187
Banco Internacional de Costa Rica, S.A. and Subsidiary (BICSA)	49,805,156,510	41,307,000,619
Investments in other non-financial companies	20,623,300	20,623,300
	¢ 76,799,833,378	72,323,350,980

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

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

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

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

	2014	2013
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, 2014 and 2013, the Bank booked investments in Interclear Central de Valores de la Bolsa Nacional de Valores, S.A. for ¢15,000,000 to operate as a custodian of electronic securities.

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

(10) Property and equipment

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

		Land	Buildings	Furniture and equipment	Computer hardware	Vehicles	Total
<i>Cost:</i>							
Opening balance	¢	42,478,456,440	109,501,340,751	51,452,946,257	49,388,093,653	428,342,524	253,249,179,625
Additions		693,861,397	2,735,561,071	4,994,843,636	4,819,472,843	-	13,243,738,947
Retirements		-	-	(3,021,509,025)	(3,478,923,067)	-	(6,500,432,092)
Adjustments		-	(1,939,628,547)	148,792,275	138,022	19,600	(1,790,678,650)
Reclassifications		-	-	79,841,066	(79,841,066)	-	-
Closing balance		43,172,317,837	110,297,273,275	53,654,914,209	50,648,940,385	428,362,124	258,201,807,830
<i>Accumulated depreciation:</i>							
Opening balance		-	26,226,274,877	24,642,083,173	37,318,378,374	233,105,172	88,419,841,596
Depreciation expense on historical cost		-	1,586,922,291	4,315,624,331	4,303,749,437	44,339,467	10,250,635,526
Depreciation expense on revaluation		-	1,462,442,151	-	-	-	1,462,442,151
Retirements		-	-	(2,590,542,559)	(3,465,181,005)	-	(6,055,723,564)
Adjustments		-	(2,434,802,679)	74,981,344	96,498,037	19,600	(2,263,303,698)
Reclassifications		-	-	71,939,566	(71,939,566)	-	-
Closing balance		-	26,840,836,640	26,514,085,855	38,181,505,277	277,464,239	91,813,892,011
Net closing balance	¢	43,172,317,837	83,456,436,635	27,140,828,354	12,467,435,108	150,897,885	166,387,915,819

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

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

		Land	Buildings	Furniture and equipment	Computer hardware	Vehicles	Total
<i>Cost:</i>							
Opening balance	¢	32,814,840,012	98,625,536,741	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
<i>Accumulated depreciation:</i>							
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

Notes to Unconsolidated Financial Statements

(11) Other assets

As of December 31, other assets are as follows:

	2014	2013
<i>Deferred charges:</i>		
Leasehold improvements	¢ 742,371,266	1,173,516,815
Cost of issue of financial instruments (3)	1,401,680,466	1,497,331,306
Cost of subordinated debt project	615,917,148	922,154
Deferred direct costs related to loans	13,834,802,293	-
Other deferred charges	4,973,694,393	6,306,564,937
Subtotal	21,568,465,566	8,978,335,212
<i>Intangible assets:</i>		
Software (2)	4,277,632,565	2,650,685,910
Subtotal	4,277,632,565	2,650,685,910
<i>Other assets:</i>		
Prepaid interest and fees and commissions	218,164,300	321,530,718
Estimated tax	-	1,507,111,356
Prepaid insurance policy	231,529,680	172,458,831
Other prepaid expenses	698,011,695	772,433,655
Stationery, office supplies, and other materials	346,464,331	171,690,838
Leased assets	149,956,917	151,192,594
Library and artwork	337,994,511	336,738,251
Construction work-in-progress	17,031,899,617	9,503,968,175
Rights in welfare and trade associations	350,000	350,000
Other sundry assets	1,646,564,772	999,765,010
Operations pending settlement	3,179,252,420	4,764,073,413
Other operations pending application	452,187,725	370,699,092
Guarantee deposits (1)	237,628,940	181,507,319
Legal and administrative deposits (1)	78,912,800	46,054,304
Subtotal	24,608,917,708	19,299,573,556
Total	¢ 50,455,015,839	30,928,594,678

(1) As of December 31, 2014, guarantee deposits amount to ¢316,541,740 (2013: ¢227,561,623) (see note 2).

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

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

	Software	Other intangible assets	Total
<i>Cost:</i>			
Opening balance	¢ 15,337,187,059	94,029,559	15,431,216,618
Additions	3,313,112,545	-	3,313,112,545
Adjustments	(36,031,188)	-	(36,031,188)
Closing balance	18,614,268,416	94,029,559	18,708,297,975
<i>Accumulated amortization:</i>			
Opening balance	12,686,501,149	94,029,559	12,780,530,708
Expense for the year	1,650,134,702	-	1,650,134,702
Closing balance	14,336,635,851	94,029,559	14,430,665,410
Net closing balance	¢ 4,277,632,565	-	4,277,632,565

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

	Software	Other intangible assets	Total
<i>Cost:</i>			
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
<i>Accumulated amortization:</i>			
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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

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

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

(12) Obligations with the public

(a) By cumulative amount

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

	2014	2013
<i>Demand obligations:</i>		
Checking accounts	¢ 1,198,704,476,197	1,103,852,248,659
Certified checks	103,521,169	123,192,416
Savings deposits	1,015,801,186,963	934,435,231,917
Matured term deposits	19,745,314,768	23,752,056,570
Other demand deposits	24,057,553,654	26,860,438,817
Drafts and transfers	198,809,563	224,837,748
Cashier's checks	6,126,485,979	4,106,080,883
Advance collections from customers for credit cards	7,450,712,822	5,902,144,599
Obligations for trust funds	118,941,092	75,205,432
Subtotal	2,272,307,002,207	2,099,331,437,041
<i>Term obligations:</i>		
Deposits from the public	1,308,851,407,479	1,223,683,448,848
Other term deposits	79,219,422,491	51,763,942,906
Subtotal	1,388,070,829,970	1,275,447,391,754
Charges payable for obligations with the public	19,258,286,965	19,238,265,538
Total	¢ 3,679,636,119,142	3,394,017,094,333

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

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

(b) By number of customers

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

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

As of December 31, demand and term obligations by cumulative amount are as follows:

	2014	2013
<i>Obligations with the public:</i>		
Deposits from the public	₡ 3,679,636,119,142	3,394,017,094,333
Subtotal	3,679,636,119,142	3,394,017,094,333
<i>Obligations with State-owned entities:</i>		
Deposits from State-owned entities	182,746,931	29,911,289,724
Subtotal	182,746,931	29,911,289,724
<i>Obligations with financial entities:</i>		
Deposits from other banks	135,966,875,133	74,943,923,523
Deposits from other local entities	1,818,472,759	41,209,686,330
Deposits from management of funds	156,295,635,782	129,381,229,651
Deposits from other foreign entities	788,399,550,363	775,726,681,386
Charges due to other entities	6,523,773,635	6,684,656,900
Subtotal	1,089,004,307,672	1,027,946,177,790
	₡ 4,768,823,173,745	4,451,874,561,847

(13) Obligations with BCCR

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

(14) Obligations with entities and subordinated obligations

(a) Obligations with entities

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

	2014	2013
<i>Demand:</i>		
Checking accounts of local financial entities	¢ 123,921,208,197	57,789,494,163
Savings deposits from local financial entities	38,289,746	39,298,498
FCD fund management	156,295,635,782	129,381,229,651
Outstanding checks	3,421,821,488	2,571,590,762
Other demand obligations with financial entities	2,893,761,342	2,675,484,056
Subtotal	286,570,716,555	192,457,097,130
<i>Term:</i>		
Term deposits from local financial entities	6,135,267,119	12,302,742,374
Term deposits from foreign financial entities (3)	537,734,760,627	479,333,818,592
Loans from local financial entities	1,375,000,000	1,875,000,000
Loans from foreign financial entities (1)(2)	250,664,789,736	296,392,862,794
Liquidity market operations	-	38,900,000,000
Subtotal	795,909,817,482	828,804,423,760
Charges payable for other demand and term obligations with financial entities –foreign currency	4,375,166	6,987,650
Charges payable for other demand and term obligations with financial entities –local currency	66,400,347	116,390,933
Charges payable for loans with foreign financial entities (1)	1,501,293,430	1,951,687,515
Charges payable for loans with local financial entities	7,476,563	20,435,590
Charges payable for term deposits from foreign financial entities (3)	4,944,228,129	4,589,155,212
Subtotal	6,523,773,635	6,684,656,900
Total	¢ 1,089,004,307,672	1,027,946,177,790

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

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

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

- (3) On October 29, 2013, the Bank made two international issues with a face value of US\$1 billion, equivalent to ₡529,051,519,650 in 2014 (2013: ₡491,037,340,614) and with the following characteristics:

a. 5-year issue:

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

b. 10-year issue:

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

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

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

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

For the year ended December 31, 2014, the Bank booked an increase in the fair value of these issues in the amount of ¢11,354,254,000 under “Other finance income” (2013: ¢11,780,565,447) (see note 25). For the year ended December 31, 2014, the Bank booked a decrease in the fair value of these issues in the amount of ¢31,798,043,109 under “Other finance expenses”. The balance of this account amounts to a total of ¢32,361,388,023 (2013: ¢219,227,424).

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

Maturities of loans due to entities

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

		2014		
		Local	Foreign	Total
Less than 1 year		-	584,686,485	584,686,485
Between 1 and 2 years		-	54,811,230,679	54,811,230,679
Between 3 and 5 years		1,436,872,528	117,193,596,699	118,630,469,227
More than 5 years		128,350,966	79,576,569,303	79,704,920,269
	¢	<u>1,565,223,494</u>	<u>252,166,083,166</u>	<u>253,731,306,660</u>
		2013		
		Local	Foreign	Total
Less than 1 year	¢	68,616,840,278	58,856,189,754	127,473,030,032
Between 1 and 2 years		-	1,042,552,494	1,042,552,494
Between 3 and 5 years		1,961,350,019	162,717,053,312	164,678,403,331
More than 5 years		128,535,017	75,728,754,749	75,857,289,766
	¢	<u>70,706,725,314</u>	<u>298,344,550,309</u>	<u>369,051,275,623</u>

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

(a) Subordinated obligations

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

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

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

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

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

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

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

(15) Income tax

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

a) Current period income tax

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

	2014	2013
Current	¢ 11,763,485,626	-
Decrease in current tax	(202,760,722)	-
	¢ 11,560,724,904	-

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

	2014	2013
Expected income tax on accounting income	¢ 18,805,437,485	7,289,338,514
Plus (less):		
Nondeductible expenses	7,936,161,067	9,355,195,337
Deductible expenses	(1,050,619,258)	(2,043,461,315)
Nontaxable income	(14,130,254,390)	(17,111,304,791)
Taxable income	-	277,096,108
Tax loss from excess deductible expenses on taxable income	-	2,233,136,147
Subtotal income tax payable	¢ 11,560,724,904	-
Less:		
Estimated income tax	(874,940,590)	-
Total income tax payable	¢ 10,685,784,314	-

b) Prior period income tax

	2014	2013
Decrease in prior period income tax	¢ -	6,524,041,757

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

c) Deferred tax

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

		2014	2013
Unrealized losses	¢	<u>1,392,591,923</u>	<u>1,943,597,323</u>

In 2014, movement in temporary differences that give rise to deferred tax assets is as follows:

		December 31, 2013	Included in income statement	Included in equity	December 31, 2014
Unrealized losses	¢	<u>1,943,597,323</u>	<u>(365,229,456)</u>	<u>(185,775,944)</u>	<u>1,392,591,923</u>
	¢	<u>1,943,597,323</u>	<u>(365,229,456)</u>	<u>(185,775,944)</u>	<u>1,392,591,923</u>

In 2013, movement in temporary differences that give rise to deferred tax assets is as follows:

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

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

		2014	2013
Asset revaluation	¢	<u>13,283,636,328</u>	<u>13,605,138,375</u>
Unrealized gains		<u>855,142,536</u>	<u>569,346,376</u>
	¢	<u>14,138,778,864</u>	<u>14,174,484,751</u>

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

In 2014, movement in temporary differences that give rise to deferred tax liabilities is as follows:

		December 31, 2013	Included in income statement	Included in equity	December 31, 2014
Revaluation of assets	¢	13,605,138,376	-	(321,502,048)	13,283,636,328
Unrealized gains		569,346,375	374,840,477	(89,044,316)	855,142,536
	¢	<u>14,174,484,751</u>	<u>374,840,477</u>	<u>(410,546,364)</u>	<u>14,138,778,864</u>

In 2013, movement in temporary differences that give rise to deferred tax liabilities is as follows:

		December 31, 2012	Included in income statement	Included in equity	December 31, 2013
Revaluation of assets	of ¢	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
	¢	<u>12,388,840,463</u>	<u>4,587,663,429</u>	<u>(2,802,019,141)</u>	<u>14,174,484,751</u>

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

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

(16) Provisions

As of December 31, provisions are as follows:

		2014	2013
Severance benefits	¢	28,421,229,753	32,441,625,359
Litigation		2,415,808,599	9,464,453,978
Other		7,860,810,751	7,049,038,586
	¢	<u>38,697,849,103</u>	<u>48,955,117,923</u>

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

Movement in provisions is as follows:

	Severance benefits	Litigation	Income tax	Other	Total
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
Provisioned	9,938,126,841	1,065,446,483	-	7,368,517,864	18,372,091,188
Used	(13,958,522,447)	(387,507,370)	-	(5,886,286,715)	(20,232,316,532)
Decrease in provisions against profit or loss	-	(7,726,584,492)	-	(670,458,984)	(8,397,043,476)
Balance at December 31, 2014	¢ <u>28,421,229,753</u>	<u>2,415,808,599</u>	<u>-</u>	<u>7,860,810,751</u>	<u>38,697,849,103</u>

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

	2014	2013
Ordinary suits	¢ 1,998,040,666	9,050,683,978
Phishing	417,767,933	413,770,000
	¢ <u>2,415,808,599</u>	<u>9,464,453,978</u>

As of December 31, 2014 and 2013, the Bank is a defendant in litigation and management considers that an outflow of economic benefits will be required to settle the corresponding obligations. The Bank has estimated future disbursements and made the following provisions:

- Ordinary suits filed against the Bank have been estimated at ¢65,961,788,888 (2013: ¢65,462,382,872) and US\$341,991,608 (2013: US\$352,326,678). Management of the Bank has provisioned ¢1,998,040,666 (2013: ¢9,050,683,978) for ordinary and labor suits and judicial litigation.
- For criminal proceedings in which the Bank is the civil defendant, the total potential liability has been estimated at ¢427,042,800 (2013: ¢13,528,507). The amount provisioned by the Bank in connection therewith is included in the provision for ordinary suits.

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

- Labor suits by nature are difficult to estimate. However, they have been estimated at ¢2,703,131,086 (2013: ¢2,681,824,395). The amount provisioned by the Bank in connection therewith is included in the provision for ordinary suits.
- As of December 31, 2014, the Bank faces 514 administrative actions related to Internet fraud (phishing) for a total of ¢417,767,933 (2013: 514 administrative actions for ¢413,770,000). The Bank has provisioned 100% of that amount.

(17) Other sundry accounts payable

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

	2014	2013
Professional fees	¢ 3,220,299	13,011,051
Creditors - goods and services	2,453,453,791	3,943,453,846
Employer contributions (1)	8,801,534,035	7,325,026,597
Current tax (note 15)	10,685,784,314	-
Court-ordered withholdings	2,601,689,304	2,342,561,123
Tax withholdings	787,979,776	776,311,992
Employee withholdings	491,217,445	470,818,142
Other third-party withholdings	17,507,185	25,234,712
Compensation	6,925,778,129	6,550,305,483
Statutory allocations	11,490,354,940	5,679,927,127
Obligations for loans with related parties	-	24,695,377
Clearing house operations	4,414,157,187	229,959,113
Accrued vacation	6,068,518,906	5,782,482,049
Accrued statutory Christmas bonus	1,556,496,691	1,364,091,320
Foreclosed assets	502,916,892	625,131,888
Fees and commissions – Related parties	3,390,461	-
Various creditors - Local currency (2)	6,601,533,717	7,447,404,132
Various creditors - Foreign currency	4,527,184,924	4,786,012,462
Interest rate futures - Hedges (note 5-b)	206,726,657	10,004,033,392
FX futures - Other than hedges (note 5-b)	17,779,910	-
	¢ 68,157,224,563	57,390,459,806

- (1) The “Employer contributions” line item mainly includes employer contributions due to the CCSS, Banco Popular y de Desarrollo Comunal, National Learning Institute (INA), and Mixed Institute of Social Welfare (IMAS).
- (2) As of December 31, 2014 and 2013, the “Various creditors” account includes ¢956.3 million and ¢819.1 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.

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

(18) Other liabilities

As of December 31, other liabilities are as follows:

	2014	2013
<i>Deferred income:</i>		
Deferred finance income	¢ 8,985,345,777	2,444,042,568
Deferred fees and commissions for trust management	17,605,208	13,976,993
Other	11,487	311,128
Subtotal	9,003,262,472	2,458,330,689
Allowance for stand-by credit losses (1)	1,319,693,076	138,964,729
<i>Operations pending application:</i>		
Operations pending settlement	16,684,027,434	22,238,412,623
Other	7,077,390,105	3,668,415,775
Subtotal	23,761,417,539	25,906,828,398
Total	¢ 38,084,373,087	28,504,123,816

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

	2014	2013
Opening balance	¢ 138,964,729	346,388,473
Allowance expense charged to profit or loss (note 27)	1,196,180,294	26,785
Adjustment for foreign exchange differences	34,548,053	(38,896)
Decrease in allowance against income (note 28)	(50,000,000)	(207,411,633)
Closing balance	¢ 1,319,693,076	138,964,729

(19) Equity

(a) Share capital

The Bank's share capital is as follows:

	2014	2013
Capital under Law No. 1644	¢ 90,511,345,645	90,511,345,645
Bank capitalization bonds (note 39)	27,618,957,837	27,618,957,837
	¢ 118,130,303,482	118,130,303,482

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

On December 23, 2008, the Executive Branch of the Costa Rican Government authorized a capital contribution funded under Law No. 8703 "Amendment to Law No. 8627 on the Ordinary and Extraordinary Budget of the Republic for Tax Year 2008." Such law grants funds to capitalize three State-owned banks, including the Bank, in order to stimulate productive sectors, particularly small and medium-sized enterprises. For such purposes, the Bank received four securities for a total of US\$50,000,000 (equivalent to ¢27,619,000,002) and denominated in DU maturing in 2013, 2017, 2018, and 2019 (No. 4183, No. 4184, No. 4185, and No. 4190 for DU10,541,265.09 each, at a reference exchange rate of ¢655.021 to DU1.00). As of December 31, 2014 and based on the exchange rate as of that date, the balance of those investments is ¢27,328,967,634 (2013: 25,823,991,217) (see note 5-a).

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

(b) Revaluation surplus

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

As of December 31, 2014 and 2013, revaluation surplus amounts to ¢63,639,596,055.

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

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

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

(d) Adjustment for valuation of investments in other companies

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

(20) Commitments and contingencies

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

	2014	2013
Performance bonds	¢ 37,617,018,016	34,210,268,379
Bid bonds	2,054,648,682	3,014,257,962
Other guarantees	2,423,528,942	372,911,236
Letters of credit	7,103,231,794	10,127,000,305
Credits pending disbursement	340,507,165	339,897,778
Subtotal	49,538,934,599	48,064,335,660
Pre-approved lines of credit	195,705,059,566	149,666,830,500
Other contingencies – Pending litigation and lawsuits (note 40)	250,210,718,116	241,830,125,067
Other contingencies not related to credits	251,337,222	203,790,716
Subtotal	446,167,114,904	391,700,746,283
FX futures - Other than hedges (note 5-b)	15,273,998,400	-
Total	¢ 510,980,047,903	439,765,081,943

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.

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

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

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

(21) Trust assets

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

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

Nature of trust		Guaranty and cash management	Cash or property management	Securitization	Portfolio management	Guaranty	Testamentary	Custody of stock with testamentary clause	Custody and management of stock	Pre-sales management	Guaranty and custody of stock	Total
<i>Trust assets</i>												
Cash and due from banks	¢	-	152,055,081	1,444,909,475	-	38,048,091	-	7,893	-	906,627	-	1,635,927,167
Investment securities and term deposits		-	169,300,276,073	11,293,419,379	57,052,732	557,922,577,913	1,406,393,738	-	1,770,343	492,421,042	-	740,473,911,220
Loan portfolio		-	2,057,997,821	-	431,092,077	-	-	-	-	-	-	2,489,089,898
Accounts and accrued interest receivable		-	8,195,592,156	228,611,087	2,420,262,751	-	-	-	-	-	-	10,844,465,994
Foreclosed assets		-	55,104,261	-	2,314,082,361	-	-	-	-	-	-	2,369,186,622
Investments in other companies		-	588,742,426	-	6,669,788	-	2,320,000	2,406,000	-	-	853,296,000	1,453,434,214
Property and equipment		1,544,041,161	2,886,418,207	69,055,290,625	-	68,202,416,097	-	-	-	-	-	141,688,166,090
Other assets		-	287,643,096	580,483,704	14,260,566	2,537,704,227	157,451	-	-	-	-	3,420,249,044
Total	¢	1,544,041,161	183,523,829,121	82,602,714,270	5,243,420,275	628,700,746,328	1,408,871,189	2,413,893	1,770,343	493,327,669	853,296,000	904,374,430,249

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
<i>Trust assets</i>													
Cash and due from banks	¢	-	260,210,808	1,345,910,277	2,572,796	48,608,796	757,624	7,326	-	18	-	-	1,658,067,645
Investment securities and term deposits		39,615,828	142,709,661,084	2,200,973,498	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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

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

a) Housing mortgage

These trusts are exclusively dedicated to managing housing loan portfolios.

b) Cash or property management

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

c) Securitization

These trusts are used to obtain funds from liquid assets by issuing asset-backed securities.

d) Portfolio management

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

e) Special accounts

These accounts are "special" funds (not trusts) managed by BN-Fiduciaria that are created for different purposes in order to help facilitate the control, management, location, and future settlement of certain accounting items used to settle trust contingencies, the maturity of mortgage investment certificates (CIH), the management of fixed assets, etc.

f) Guaranty

These trusts hold trust property that is to be transferred as a guaranty for loan operations at the direction of the trustor.

g) Testamentary

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

h) Custody of stock with testamentary clause

These trusts hold in custody capital stock, plus an added value based on the testamentary trust agreement. The purpose of these trusts is to manage the assets represented by the aforementioned stock on behalf of third parties.

(22) Other debit memoranda accounts

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

	2014	2013
Guarantees received in the Bank's custody	¢ 6,084,249,794,139	5,200,607,350,044
Unused, authorized lines of credit	599,371,531,413	500,818,978,300
Write-offs	172,006,315,708	161,028,091,538
Finance income on non-accrual loans	6,713,999,134	6,289,052,172
Supporting documentation received in the Bank's custody	807	619
Nondeductible expenses	26,453,870,224	26,431,554,423
Nontaxable income	47,100,847,967	57,037,682,635
Other memoranda accounts	609,980,715,469	587,393,013,529
Subtotal	7,545,877,074,861	6,539,605,723,260
Third-party debit memoranda accounts (1)	923,639,626,583	648,018,532,541
Own debit memoranda accounts for custodial activities	263,853,004,270	250,541,115,793
Third-party debit memoranda accounts for custodial activities	6,931,132,764,126	6,167,482,881,706
Total	¢ 15,664,502,469,840	13,605,648,253,300

- (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.

As of December 31, banking mandates are as follows:

	2014	2013
Management of banking mandates	¢ 923,639,233,682	648,016,172,575
Assets in custody on behalf of third parties	392,901	2,359,966
	¢ 923,639,626,583	648,018,532,541

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

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

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

	2014	2013
<i>Cash and due from banks:</i>		
Checking accounts and demand deposits in foreign entities	206,134,989	303,424,037
	<u>206,134,989</u>	<u>303,424,037</u>
<i>Financial instruments:</i>		
Investments in trading securities	-	45,463,782
Investments in available-for-sale securities	27,672,483,561	43,508,187,838
Committed instruments	9,549,075,285	2,784,593,146
	<u>37,221,558,846</u>	<u>46,338,244,766</u>
¢	<u>37,427,693,835</u>	<u>46,641,668,803</u>

(24) Finance income on loan portfolio

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

(25) Other finance income

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

	2014	2013
Fees and commissions on letters of credit	¢ 66,386,792	63,318,515
Fees and commissions on guarantees granted	654,009,876	444,170,159
Fees and commissions on lines of credit	95,940,130	132,758,626
Gain on fair value hedge for item measured at cost	11,354,254,000	11,780,565,447
Other sundry finance income	3,588,155,384	2,601,849,350
	¢ 15,758,746,182	15,022,662,097

(26) Expenses for obligations with the public

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

	2014	2013
Demand deposits	¢ 33,525,937,269	36,214,913,335
Term deposits	68,577,021,079	89,961,709,474
Other term obligations with the public	-	870,301
	¢ 102,102,958,348	126,177,493,110

(27) Expenses for allowances for impairment of assets

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

	2014	2013
Allowance for loan impairment (note 6-f)	¢ 25,946,790,270	36,912,921,429
General and counter-cyclical allowance for loan portfolio (note 6-f)	218,015,894	-
Allowance for impairment of other accounts receivable (note 7)	4,558,394,587	1,356,827,241
Allowance for stand-by credit losses (note 18)	1,125,231,628	26,785
General and counter-cyclical allowance for stand-by credit losses (note 18)	70,948,666	-
Allowance for impairment of derivative financial instruments (note 5-a)	4,216,707	1,036
	¢ 31,923,597,752	38,269,776,491

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

(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:

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

(29) Operating income from service fees and commissions

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

	2014	2013
Drafts and transfers	¢ 6,950,090,882	6,602,426,692
Certified checks	5,700,727	8,143,052
Trusts	858,618,520	902,690,273
Custodial services	1,021,430,837	796,713,571
Banking mandates	340,133	421,842
Collections	47,398,658	38,414,447
Credit cards	36,293,715,985	31,116,552,233
Management services	3,573,672,292	2,522,347,175
Insurance underwriting	1,021,318,384	593,091,656
Transactions with related parties	160,491,044	156,488,054
Other	38,437,128,725	33,477,053,890
	¢ <u>88,369,906,187</u>	<u>76,214,342,885</u>

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

(30) Other operating income

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

	2014	2013
Leasing of assets	¢ 29,226,340	11,700,579
Recovery of expenses	4,629,504,490	1,107,455,704
Net valuation of other assets (note 1-c-iii)	723,354,051	411,554,122
Other income from accounts receivable	2,289,995	1,729,892
Sundry operating income	6,606,661,295	4,523,427,068
Decrease in provisions	8,397,043,476	1,306,707,905
	¢ <u>20,388,079,647</u>	<u>7,362,575,270</u>

(31) Operating expenses for foreclosed assets

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

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

(32) Expenses for provisions

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

	2014	2013
Severance benefits	¢ 9,938,126,841	8,776,410,328
Pending litigation	1,065,446,483	5,825,642,012
Other provisions	7,368,764,196	6,061,794,989
	¢ <u>18,372,337,520</u>	<u>20,663,847,329</u>

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

(33) Other operating expenses

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

	2014	2013
Penalties for noncompliance with regulatory provisions	¢ 1,090,677,814	3,331,117
Net valuation of other liabilities (note 1-c-iii)	1,210,441,092	181,805,685
Income tax (8%) on interest on investments in financial instruments	3,011,336,676	3,215,787,611
Property tax	153,818,785	135,008,198
Licenses	631,443,740	867,566,011
Other local taxes	838,060,712	-
Transfers to FINADE	2,189,343,489	1,623,651,331
Sundry operating expenses	43,208,599,249	35,702,898,376
	¢ <u>52,333,721,557</u>	<u>41,730,048,329</u>

(34) Personnel expenses

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

	2014	2013
Salaries and bonuses, permanent staff	¢ 45,685,978,960	52,095,576,549
Salaries and bonuses, contractors	2,066,411,990	2,037,215,179
Compensation for directors and statutory examiners	112,752,728	112,508,305
Overtime	965,971,768	1,411,455,552
Travel expenses	909,741,826	1,209,344,079
Statutory Christmas bonus	6,782,277,552	6,338,862,682
Vacation	5,790,558,097	5,596,398,533
Other compensation	7,268,140,283	6,735,076,923
Severance benefits	4,245,501,662	-
Employer social security taxes	28,306,060,523	27,213,682,749
Refreshments	569,343,153	698,871,609
Uniforms	24,823,471	119,860,450
Training	891,819,794	1,183,680,170
Employee insurance	211,473,440	167,960,699
Back-to-school bonus	6,086,945,461	6,009,578,324
Mandatory retirement savings account	2,723,248,747	2,283,056,505
Other personnel expenses	617,396,952	348,440,680
	¢ <u>113,258,446,407</u>	<u>113,561,568,988</u>

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

(35) Other administrative expenses

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

	2014	2013
Outsourcing	¢ 13,203,777,528	10,258,827,787
Transportation and communications	4,307,888,074	4,030,696,111
Infrastructure	30,767,476,796	27,620,159,377
Overhead	11,368,371,508	14,208,250,971
	¢ <u>59,647,513,906</u>	<u>56,117,934,246</u>

(36) Statutory allocations

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

	2014	2013
CONAPE (5%)	¢ 3,134,239,581	1,574,746,459
CNE (3%)	1,797,156,645	793,808,242
INFOCOOP (10%)	4,619,267,048	3,565,957,199
RIVM (5%)	1,939,691,666	1,423,065,109
	¢ <u>11,490,354,940</u>	<u>7,357,577,009</u>

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

	2014	2013
CONAPE (5%)	¢ -	359,856,707
CNE (3%)	-	243,806,997
INFOCOOP (10%)	-	660,262,618
RIVM (5%)	-	413,723,560
	¢ <u>-</u>	<u>1,677,649,882</u>

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

(37) Fair value of financial instruments

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

	2014	
	Carrying amount	Fair value
<i>Financial assets:</i>		
Cash and due from banks	¢ 827,582,424,992	827,582,424,992
Investments in financial instruments	1,045,040,209,859	1,045,040,209,859
Loan portfolio	3,353,290,148,557	2,867,538,794,577
	¢ 5,225,912,783,408	4,740,161,429,428
<i>Financial liabilities:</i>		
Demand deposits from the public and financial entities	¢ 2,564,241,056,272	2,564,241,056,272
Other demand obligations with the public	13,894,949,455	13,894,949,455
Term deposits from the public and financial entities	2,254,521,371,626	2,256,516,669,695
	¢ 4,832,657,377,353	4,834,652,675,422
	2013	
	Carrying amount	Fair value
<i>Financial assets:</i>		
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
<i>Financial liabilities:</i>		
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	2,142,523,110,995
	¢ 4,445,182,892,859	4,453,549,910,704

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.

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

b. Investments in financial instruments

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

c. Loan portfolio

The fair value of loans is calculated by discounting future cash flows expected for principal and interest. Loan payments are assumed to be made on the contractually agreed payment dates. Future expected cash flows for loans are discounted at the interest rates offered for similar loans to new borrowers as of December 31, 2014 and 2013.

d. Term deposits

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

e. Obligations with entities

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

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.

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

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

		2014			
		Level 1	Level 2	Level 3	Total
Available for sale	¢	<u>852,332,608,849</u>	<u>148,770,782,150</u>	<u>5,386,777,967</u>	<u>1,006,490,168,966</u>
Held to maturity	¢	<u>-</u>	<u>27,328,967,634</u>	<u>-</u>	<u>27,328,967,634</u>
		2013			
		Level 1	Level 2	Level 3	Total
Available for sale	¢	<u>807,593,306,166</u>	<u>91,622,638,325</u>	<u>6,366,121,447</u>	<u>905,582,065,938</u>
Held to maturity	¢	<u>-</u>	<u>25,824,307,455</u>	<u>-</u>	<u>25,824,307,455</u>

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

(38) Vehicle operating leases

Lessee

As of December 31, 2014, 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 and
 - 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.

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

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.

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

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

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

Individually assessed loans with allowance:

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

Past due loans without allowance:

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

Restructured loans:

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

Restructured loans are classified as follows:

	2014	2013	2014	2013
Restructured loans ¢	<u>26,654,096,704</u>	<u>22,943,856,728</u>	<u>7,033,221</u>	<u>7,033,221</u>

Loan charge-off policy:

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

Risk ratings

The loan portfolio by borrower classification is as follows:

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

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

Borrower classification

Analysis of creditworthiness

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

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

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

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

Analysis of historical payment behavior

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

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

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

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

Borrower classification

Until December 31, 2013, for purposes of borrower classification, pursuant to SUGEF Directive 1-05, borrowers in Group 1 were to be classified based on arrears, historical payment behavior, and creditworthiness; whereas, pursuant to the Bank's internal policies and based on the credit web, borrowers in Group 2 were to be classified based on arrears and historical payment behavior. Starting January 1, 2014, borrowers are classified in Group 1 and Group 2 based on arrears, historical payment behavior, and creditworthiness.

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

Structural allowance for loan impairment

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

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

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

If the result of this calculation is negative or zero, the allowance is zero. If the total outstanding balance includes a stand-by principal balance, the credit equivalent indicated below should be used.

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

Risk ratings are as follows:

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

Pursuant to articles 11 bis and 12 of SUGEF Directive 1-05, the calculations of the general allowance and the specific allowance for covered portion for loan operations must consider the provisions of Transition Provision XII of such Directive. Accordingly, as of December 31, 2014, the Bank applied an allowance percentage of 0.08%, which will gradually increase on a quarterly basis to 0.5%, pursuant to the aforementioned Transition Provision.

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

Allowance percentages based on borrower risk rating are as follows:

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

As of December 31, 2013, the allowance was calculated as follows:

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

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

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

As of December 31, 2012, the amount of ¢914,041 represents an excess of 0.00200% above the minimum allowance required by the current regulations.

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

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

Credit equivalent

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

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

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

Allowance for other assets

Allowances should be established for the following assets:

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

<u>Arrears</u>	<u>Allowance percentage</u>
30 days or less	2%
60 days or less	10%
90 days or less	50%
120 days or less	75%
More than 120 days	100%

- b. Foreclosed assets acquired prior to May 2010 that have not been sold or leased within two years from the date of their acquisition, an allowance equivalent to 100% of their value. The booking of the allowance shall begin at month-end of the month in which the assets were i) acquired, ii) produced for sale or lease, or iii) retired from use. After May 2010, an allowance must be established gradually by booking one-twenty-fourth of the value of the assets each month until the allowance is equivalent to 100% of the assets' carrying amount. The booking of the allowance shall begin at month-end of the month in which the assets were acquired.

As of December 31, 2014, the carrying amount of the allowance for impairment of foreclosed assets and per legal requirements amounts to ¢57,188,491,454 (2013: ¢56,007,912.290).

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

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

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

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

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

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

Guarantee		Direct		Stand-by	
		2014	2013	2014	2013
Back to back	¢	8,349,482,793	10,033,185,466	18,600,000	24,750,500
Mortgage bond		10,491,930,530	12,357,755,747	-	-
Assignment of loans		338,007,471,020	305,840,291,027	-	-
Mortgage		1,571,558,153,121	1,474,219,074,670	488,137,360	144,488,065
Surety		605,188,481,637	569,051,089,792	88,600,623	78,264,292
Trust		244,750,948,840	219,812,852,312	105,152,706	448,136,402
Securities		1,239,767,595	1,775,822,139	-	-
Chattel mortgage		130,472,720,262	92,626,498,600	-	139,413,047
Other		443,231,192,759	346,502,931,997	244,543,994,302	47,229,283,354
	¢	<u>3,353,290,148,557</u>	<u>3,032,219,501,750</u>	<u>245,243,994,165</u>	<u>48,064,335,660</u>

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

Guarantees:

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

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

The Bank conducts strict credit analyses before granting loans and requires guarantees from its borrowers before disbursing loans. As of December 31, 2014 and 2013, 46.87% and 48.62% of the loan portfolio is secured by collateral guarantees.

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

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

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

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

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

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

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

b) Liquidity risk

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

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

		Days							Total
		Past due	Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	
Cash and due from banks	¢	-	71,115,546,942	-	-	-	-	-	71,115,546,942
Minimum cash reserve in BCCR		-	393,234,842,023	-	-	-	-	-	393,234,842,023
Investments		-	-	112,011,472,882	17,247,146,907	28,619,899,983	23,759,838,654	68,552,486,380	460,645,913,059
Loan portfolio		98,006,859,466	6,704,614,514	32,579,495,429	24,516,087,088	23,085,763,294	77,631,034,875	82,953,595,483	2,078,464,707,437
Total recovery of assets	¢	98,006,859,466	471,055,003,479	144,590,968,311	41,763,233,995	51,705,663,277	101,390,873,529	151,506,081,863	3,003,461,009,461
Obligations with the public	¢	-	1,509,135,482,087	291,100,218,725	89,984,422,325	108,562,675,264	257,354,767,998	159,976,288,947	2,480,644,157,671
Obligations with BCCR		-	-	-	-	-	-	-	182,452,312
Obligations with financial entities		-	97,828,411,906	2,257,721,417	120,933,392	229,302,557	792,516,361	216,458,952	1,382,999,999
Charges payable		-	6,485,711,031	5,109,382,238	2,390,232,690	769,737,496	1,635,510,228	256,017,218	16,810,372,669
Total maturity of liabilities	¢	-	1,613,449,605,024	298,467,322,380	92,495,588,407	109,561,715,317	259,782,794,587	160,448,765,117	2,600,465,327,236
Difference	¢	98,006,859,466	(1,142,394,601,545)	(153,876,354,069)	(50,732,354,412)	(57,856,052,040)	(158,391,921,058)	(8,942,683,254)	402,995,682,225

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

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

		Days							Total
		Past due	Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	
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	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	1,866,625,222,379
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	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	2,296,592,622,982
Obligations with BCCR		-	-	29,700,000,000	-	-	-	-	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	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	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	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	356,056,357,725

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

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

		Days							Total
		Past due	Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	
Cash and due from banks	¢	-	180,368,937,210	-	-	-	-	-	180,368,937,210
Minimum cash reserve in BCCR		-	182,863,098,817	-	-	-	-	-	182,863,098,817
Investments		-	-	11,758,808,854	33,520,240,520	11,873,439,534	45,630,198,796	149,158,027,331	584,454,796,358
Loan portfolio		41,739,245,478	15,420,979,266	21,706,768,889	27,184,507,678	35,566,067,013	77,384,944,376	69,730,721,324	1,274,825,441,120
Total recovery of assets	¢	41,739,245,478	378,653,015,293	33,465,577,743	60,704,748,198	47,439,506,547	123,015,143,172	218,888,748,655	2,222,512,273,505
Obligations with the public	¢	-	763,171,520,120	93,459,838,941	63,094,980,617	51,554,795,210	160,878,645,871	41,667,110,955	1,179,958,181,073
Obligations with financial entities		-	188,742,304,649	1,270,844,100	10,025,561	862,466,159	238,204,255	704,525,976	979,652,189,453
Charges payable		-	876,099,386	576,679,362	1,531,149,272	201,222,984	5,617,516,207	144,837,812	8,971,982,550
Total maturity of liabilities	¢	-	952,789,924,155	95,307,362,403	64,636,155,450	52,618,484,353	166,734,366,333	42,516,474,743	2,168,582,353,076
Difference	¢	41,739,245,478	(574,136,908,862)	(61,841,784,660)	(3,931,407,252)	(5,178,977,806)	(43,719,223,161)	176,372,273,912	53,929,920,429

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

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

		Days								Total
		Past due	Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	More than 365	
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

c) Market risks

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

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

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

Interest rate risk

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

Fair value hedge

Fair value hedges are recognized as follows:

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

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

		1 to 30 days	31 to 90 days	91 to 180 days	181 to 360 days	361 to 720 days	More than 720 days	Total
<i>Local currency (LC)</i>								
Investments	¢	111,961,068,510	45,596,209,851	23,715,047,486	68,256,326,106	114,747,081,757	68,379,018,861	432,654,752,571
Loan portfolio		136,412,783,044	37,419,815,500	70,090,495,000	80,753,840,600	138,112,228,730	1,524,866,110,338	1,987,655,273,212
Total recovery of rate-sensitive assets LC (A)	¢	248,373,851,554	83,016,025,351	93,805,542,486	149,010,166,706	252,859,310,487	1,593,245,129,199	2,420,310,025,783
Obligations with the public	¢	298,934,011,701	201,646,467,800	259,377,830,988	160,661,115,417	17,451,119,458	48,828,850,902	986,899,396,266
Obligations with BCCR		325,365	10,836,075	61,667	11,023,054	22,372,764	138,128,004	182,746,929
Obligations with financial entities LC	¢	115,384,257	84,306,047	128,352,335	308,537,037	559,824,037	252,473,195	1,448,876,908
Total maturity of rate-sensitive liabilities LC (B)	¢	299,049,721,323	201,741,609,922	259,506,244,990	160,980,675,508	18,033,316,259	49,219,452,101	988,531,020,103
LC difference, recovery of assets less maturity of liabilities (A - B)	¢	(50,675,869,769)	(118,725,584,571)	(165,700,702,504)	(11,970,508,802)	234,825,994,228	1,544,025,677,098	1,431,779,005,680
<i>Foreign currency (FC)</i>								
Investments	¢	11,758,807,208	45,393,680,360	45,232,012,496	148,552,522,113	117,600,736,578	205,297,659,458	573,835,418,213
Loan portfolio		33,739,469,567	52,348,099,340	63,075,545,785	56,361,052,853	88,478,637,173	939,555,491,406	1,233,558,296,124
Total recovery of rate-sensitive assets FC (C)	¢	45,498,276,775	97,741,779,700	108,307,558,281	204,913,574,966	206,079,373,751	1,144,853,150,864	1,807,393,714,337
Obligations with the public	¢	95,492,439,437	116,133,001,406	166,576,951,346	43,137,987,391	2,467,859,875	541,373,970,546	965,182,210,001
Obligations with entities		1,649,485,128	1,300,258,178	1,466,509,811	2,973,626,469	57,979,957,090	186,800,599,927	252,170,436,603
Total maturity of rate-sensitive liabilities FC (D)	¢	97,141,924,565	117,433,259,584	168,043,461,157	46,111,613,860	60,447,816,965	728,174,570,473	1,217,352,646,604
FC difference, recovery of assets less maturity of liabilities (C - D)	¢	(51,643,647,790)	(19,691,479,884)	(59,735,902,876)	158,801,961,106	145,631,556,786	416,678,580,391	590,041,067,733
Total recovery of rate-sensitive assets 1/ (A + C)	¢	293,872,128,329	180,757,805,051	202,113,100,767	353,923,741,672	458,938,684,238	2,738,098,280,063	4,227,703,740,120
Total maturity of rate-sensitive liabilities 2/ (B + D)	¢	396,191,645,888	319,174,869,506	427,549,706,147	207,092,289,368	78,481,133,224	777,394,022,574	2,205,883,666,707
LC + FC difference, recovery of assets less maturity of liabilities (item 1 – item 2)	¢	(102,319,517,559)	(138,417,064,455)	(225,436,605,380)	146,831,452,304	380,457,551,014	1,960,704,257,489	2,021,820,073,413

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

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

		1 to 30	31 to 90	91 to 180	181 to 360	361 to 720	More than 720	Total
<i>Local currency (LC)</i>								
Investments	¢	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
<i>Foreign currency (FC)</i>								
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

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

Currency risk

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

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

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

Investments in Europe

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

Investments in euros - Europe

- The investment portfolio denominated in euros amounts to €41 million as of December 2014 and represents 3% of the total investment portfolio, which is in line with the strategy for investment diversification and portfolio currency matching. This portfolio has remained relatively stable during the past year, ranging between €39 million and €43 million. The main issuers are Holland (29%), France (21%), Germany (19%), and Belgium (13%).
- Most issuers comprising this portfolio are sovereign issuers with very high credit ratings.
- VaR of fair value was 0.03% and duration locates at 1 year.
- The entire portfolio bears interest at a fixed rate. Of the total portfolio, 35% matures between 1 and 2 years, while 7% matures in more than 3 years.
- As a result of the ongoing monitoring performed by the Market Risk Division regarding the situation in Europe, the strategy used to manage the portfolio is based on increased liquidity and reduced exposure of the most volatile instruments.

Investments in dollars - Europe

- As of December 2014, the portfolio denominated in international dollars for a total of US\$463 million includes a component of European instruments, equivalent to 36% (US\$165 million). However, excluding the note issued by Barclays with underlying bonds issued by the Government of Costa Rica, the share in the portfolio decreases to 27%.
- In this case, the portfolio concentrates in instruments issued by sovereign issuers that are considered to have very high credit ratings, including Germany, Belgium, France, Holland, and England.

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

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

		U.S. dollars	
		2014	2013
Assets:			
Cash and due from banks	US\$	663,540,653	825,195,990
Investments in financial instruments		1,043,246,701	715,249,726
Loan portfolio		2,356,742,015	2,329,421,798
Accounts and accrued interest receivable		521,977	345,421
Investments in other companies		93,388,754	83,446,800
Other assets		5,956,474	5,613,323
Total assets	US\$	4,163,396,574	3,959,273,058
Liabilities:			
Obligations with the public	US\$	2,155,375,601	2,110,868,895
Obligations with entities		1,840,424,925	1,782,680,076
Subordinated obligations		131,927,532	-
Accounts payable and provisions		9,902,046	30,887,813
Other liabilities		26,602,531	27,140,426
Total liabilities	US\$	4,164,232,635	3,951,577,210
(Deficit) Excess of assets over liabilities in U.S. dollars	US\$	(836,061)	7,695,848

		Euros	
		2014	2013
Assets:			
Cash and due from banks	€	14,421,354	19,788,387
Investments in financial instruments		43,180,205	41,546,795
Total assets	€	57,601,559	61,335,182
Liabilities:			
Obligations with the public	€	50,525,715	52,700,818
Obligations with entities		7,065,040	6,987,547
Accounts payable and provisions		39,803	57,938
Other liabilities		101,829	
Total liabilities	€	57,732,387	59,746,303
(Deficit) Excess of assets over liabilities in euros	€	(130,828)	1,588,879

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

		DU	
		2014	2013
Assets:			
Investments in financial instruments	DU	39,220,808	39,089,427
Loan portfolio		41,956,600	52,948,335
Total assets	DU	81,177,408	92,037,762
Liabilities:			
Accounts payable and provisions		1,046,672	1,137,285
Other liabilities		8,708	9,770
Total liabilities	DU	1,055,380	1,147,055
Excess of assets over liabilities in DU	DU	80,122,028	90,890,707

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

As of December 31, 2014 and 2013, the financial statements show a net foreign exchange gain of ¢266,829,014 and ¢2,958,265,700, respectively.

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

d) Operational risk

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

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

- Board of Directors: Approve and provide a general oversight of the operational risk management framework.
- Corporate Risk Committee: Analyze, validate, and authorize policies, best practices, limits and strategies.
- General Risk Management: Implement the strategy.
- Operational Risk Management: Implement the strategy in coordination with the respective processes and areas.
- Monitoring and follow-up groups: Perform independent evaluations to determine the effectiveness of the management framework.
- Process owners: Implement and follow up on mitigating action.
- Process guardians: Update and adjust the process to the operating reality.
- Risk liaisons: Liaise with the Operational Risk Management to identify and assess risks, report events, etc.
- Heads of Business Areas and Support Units: Establish mitigating action and controls necessary to reduce operational risk.
- Officers: Apply procedures in job positions and support superior officers to mitigate risk.

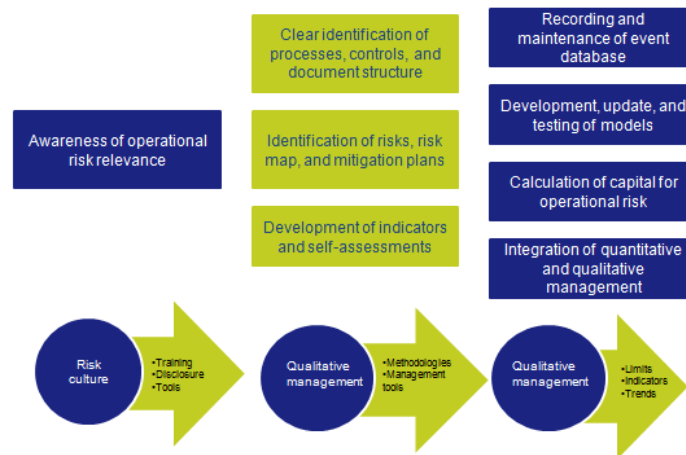
One of the Bank's fundamental operational risk management principles is transparency, defined as the identification, documentation, and reporting of risk events in order to allow the Bank to adequately measure risk events and carry out any necessary corrective, preventive, and mitigation measures in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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

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. Also, a specific management framework was developed to clearly define the roles and responsibilities of the areas involved in managing this type of risk.

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.

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

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, 2014 and 2013, 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:

	2014	2013
Tier I capital:		
Ordinary paid-in capital	¢ 118,130,303,482	118,130,303,482
Legal reserve	209,058,123,505	196,909,225,981
	<u>327,188,426,987</u>	<u>315,039,529,463</u>
Tier II capital:		
Adjustment for revaluation of property and equipment	47,729,697,041	47,729,697,041
Adjustment for valuation of available-for-sale investments	(1,746,379,939)	(1,659,792,110)
Adjustment for valuation of restricted financial instruments	(2,041,047,936)	(2,745,810,858)
Adjustment for valuation of investments in other companies	6,329,906,321	3,317,278,520
Prior period retained earnings	49,146,520,984	39,383,506,918
Income for the year	39,633,711,775	25,141,909,678
Equity of FOFIDE	14,548,173,826	12,243,803,201
	<u>153,600,582,072</u>	<u>123,410,592,390</u>
Less: Deductions	<u>(76,799,833,378)</u>	<u>(72,323,350,980)</u>
Total regulatory capital	¢ <u>403,989,175,681</u>	<u>366,126,770,873</u>

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.

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

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 BCCR, 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.

The maximum limit will be equivalent to twenty percent (20%) of the entity's subscribed and paid-in 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".

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

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.

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-in capital" account (account No. 311) (see note 19).

As of December 31, 2014 and 2013, 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, 2014, the Bank is a defendant and a claimant in 247 and 52, respectively, ordinary, labor, and criminal lawsuits (2013: 212 and 56, respectively) estimated at ¢250,210,718,116 (2013: ¢241,830,125,067) and ¢4,762,380,295 (2013: ¢5,464,227,782), respectively. The legal actions filed against the Bank are as follows:

Number of cases		Phase	Total estimated amount	
2014	2013		2014	2013
227	196	First instance	¢ 233,079,736,602	240,790,461,699
14	10	Second instance	10,380,221,514	293,905,368
6	6	Appeal	6,750,760,000	745,758,000
247	212	Total (note 20)	¢ 250,210,718,116	241,830,125,067

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

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

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

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

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.

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

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

Through Official Letter SUGEF 0180-2014 dated January 30, 2014, SUGEF dismissed the request for suspension of the effects of the administrative act. Accordingly, the Bank requested that precautionary measures be taken against SUGEF, which was upheld by the Administrative Litigation Court of the Second Judicial Circuit of San José. The judge granted SUGEF three days to reply. As of the date of the approval of the 2013 audited financial statements, a final decision was pending in respect of the precautionary measures requested by the Bank; consequently, the expenses derived from BN Vivienda 10 are deferred in the accounting records over 5 years.

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

As of December 31, the unaudited financial statements are as follows:

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

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

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

a. Loan portfolio

i. Loan portfolio by sector

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

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

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

ii. Loan portfolio by arrears

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

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

iii. Loan portfolio by origin

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

iv. Past due loans

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

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

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

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

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

v. Accrued interest receivable on loan portfolio

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

b. Risk management

Credit risk

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

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

			Direct	
	Note		2014	2013
Loan portfolio				
Principal	41-a	¢	10,728,420,556	11,282,627,464
Accounts and accrued interest receivable			92,483,722	76,072,980
Carrying amount, gross			10,820,904,278	11,358,700,444
Allowance for loan impairment (accounting records)			(245,903,545)	(232,659,387)
Carrying amount, net		¢	10,575,000,733	11,126,041,057
Loan portfolio				
Total balances:				
A1		¢	8,697,226,342	9,728,925,067
A2			205,763,722	131,849,886
B1			679,492,660	453,786,224
B2			66,015,183	25,216,628
C1			257,399,931	216,038,428
C2			16,944,096	52,910,483
D			88,471,875	246,183,368
E			809,590,469	503,790,360
			10,820,904,278	11,358,700,444
Structural allowance (subledger – database)			(257,650,167)	(228,772,689)
Carrying amount, net		¢	10,563,254,111	11,129,927,755

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

	Direct	
	2014	2013
Individually assessed loans with allowance:		
A1	¢ 8,697,226,342	5,146,964,110
A2	205,763,722	78,163,570
B1	679,492,660	220,324,644
B2	66,015,183	13,725,873
C1	257,399,931	125,899,382
C2	16,944,096	47,726,567
D	88,471,875	221,588,739
E	809,590,469	396,110,724
	<u>10,820,904,278</u>	<u>6,250,503,609</u>
Structural allowance (subledger – database)	(257,650,167)	(228,772,689)
Carrying amount, net	¢ <u>10,563,254,111</u>	<u>6,021,730,920</u>
Past due loans without allowance:		
A1	¢ -	43,743,732
B1	-	171,048,473
B2	-	11,490,755
C1	-	27,692,894
C2	-	5,183,916
D	-	3,338,680
E	-	47,584,140
Carrying amount	¢ <u>-</u>	<u>310,082,590</u>
Aging of loan portfolio		
1 – 30 days	¢ -	45,902,538
31 – 60 days	-	183,981,956
61 – 90 days	-	30,917,087
91 – 180 days	-	7,751,886
More than 180 days	-	41,529,123
Carrying amount	¢ <u>-</u>	<u>310,082,590</u>

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

		Direct	
		2014	2013
Current loans without allowance:			
A1	¢	-	4,538,217,225
A2		-	53,686,316
B1		-	62,413,107
C1		-	62,446,152
D		-	21,255,949
E		-	60,095,496
Carrying amount	¢	-	4,798,114,245
Carrying amount, gross		10,820,904,278	11,358,700,444
Allowance for loan impairment (database)		(257,650,167)	(228,772,689)
(Excess) insufficiency of allowance over structural allowance		11,746,622	(3,886,698)
Carrying amount, net	41-a ¢	10,575,000,733	11,126,041,057
Restructured loans	41-a ¢	89,902,986	80,827,163

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

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

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

Past due loans without allowance:

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

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

Restructured loans:

As of December 31, restructured loans are as follows:

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

Risk ratings

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

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

Borrower classification

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

Loan portfolio by sector

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

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

Loan portfolio by geographic area

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

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

Loan portfolio by type of guarantee

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

Loan portfolio by individual borrower or economic interest group

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

As of December 31, the unaudited financial statements are as follows:

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

a. Investments in financial instruments

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

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

b. Loan portfolio

i. Loan portfolio by sector

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

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

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

	2014		2013	
Currency	Rates	Average	Rates	Average
Colones	8.01% to 8.12%	8.11%	-	-

ii. Loan portfolio by arrears

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

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

iii. Loan portfolio by origin

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA
Notes to Unconsolidated Financial Statements

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

iv. Accrued interest receivable on loan portfolio

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

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

c. Obligations with entities

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

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

d. Finance income

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

e. Finance expenses

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

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

f. Other operating expenses

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

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

- (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. For the year ended December 31, 2014, the amount transferred to FINADE is allocated as follows: 46.86%, equivalent to ¢1,025,979,205 (2013: 75.65%, equivalent to ¢1,228,359,357) to FOFIDE; 30.77%, equivalent to ¢673,592,602 (2013: 23.67%, equivalent to ¢384,351,811) to the Surety Fund; and 22.37%, equivalent to ¢489,771,682 (2013: 0.67%, equivalent to ¢10,940,163) to the Development Services Fund. These amounts are deposited in the respective checking accounts.

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

g. Risk management

i. *Market and liquidity risk management*

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

Management of the FCD risk analysis is as follows:

Portfolio composition

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

Return

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

Price risk

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

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

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

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

Interest rate risk

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

Currency risk

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

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

Liquidity risk

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

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

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

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

ii. Credit risk management

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

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

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

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA
Notes to Unconsolidated Financial Statements

Risk ratings

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

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

Borrower classification

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

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

Loan portfolio by sector

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

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

Loan portfolio by geographic area

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

	2014	2013
Central America	¢ 51,382,941	-

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

Loan portfolio by type of guarantee

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

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

Loan portfolio by individual borrower or economic interest group

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

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

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

<u>Assets</u>	2014	2013
<i>Local currency:</i>		
Financial instruments of BCCR – own resources	¢ 1,197,374,054	13,053,548,797
Financial instruments from the local non-financial public sector – own resources	36,243,088,699	32,667,017,710
Financial instruments from local financial entities – own resources	17,508,460,000	-
Accrued interest receivable associated to investments in financial instruments	503,661,680	1,343,214,745
Deferred tax	1,698,791	3,355,094
Balances with other departments	1,510,572,773	3,332,047,861
Total assets in local currency	56,411,971,027	50,399,184,207
<i>Foreign currency:</i>		
Financial instruments from the local non-financial public sector – own resources	¢ 11,820,289,229	26,335,787,068
Financial instruments from local financial entities – own resources	61,083,244,750	9,080,725,741
Financial instruments from central banks and foreign public sector entities - own resources	2,078,771,201	33,582,298,785
Financial instruments from foreign financial entities - own resources	25,016,531,650	9,908,304,269
Accrued interest receivable associated to investments in financial instruments	499,074,334	490,623,344
Balances with other departments	952,661,904	335,606,347
Total assets in foreign currency	101,450,573,068	79,733,345,554
Total	¢ 157,862,544,095	130,132,529,761

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

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

(43) Significant events

a) Derivative financial instruments

Pursuant to the provisions of SUGEF Directive 9-08 “Regulations to Authorize and Execute Operations with Foreign Exchange Derivatives” approved by the Board of Directors of BCCR and as recorded in article 6 of the minutes of meeting No. 5566-2013 held on October 24, 2012, the Board of Directors of BCCR agreed to grant final authorization to the Bank to act as an intermediary in the Foreign Exchange Derivatives Market and trade forwards, FX Swaps, and Currency Swaps.

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

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

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

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

(44) Other significant events

a- Dividends paid to the Bank

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

Under article No. 2 of meeting No. 11.888 held on February 11, 2014, the Board of Directors agreed to authorize the distribution of dividends from retained earnings in accordance with Official letter SGRF-047-2014 dated February 6, 2014 in the amount of ¢250 million.

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

Under article No. 2 of meeting No. 11.887 held on February 11, 2014, the Board of Directors agreed to authorize the distribution of dividends from retained earnings in accordance with Official letter SGRF-047-2014 dated February 6, 2014 in the amount of ¢1,000 million.

- *Puesto de Bolsa Sociedad Anónima - BN Valores, S.A.*

Under article No. 2 of meeting No. 11.885 held on February 11, 2014, the Board of Directors agreed to authorize the distribution of dividends from retained earnings in accordance with Official letter SGRF-047-2014 dated February 6, 2014 in the amount of ¢4,000 million.

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

Under article No. 2 of meeting No. 11,886 held on February 11, 2014, the Board of Directors agreed to authorize the distribution of dividends from retained earnings in accordance with Official letter SGRF-047-2014 dated February 6, 2014 in the amount of ¢333 million.

b- Amendments to accounting regulations

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

(45) Transition to International Financial Reporting Standards (IFRSs)

Through various resolutions, CONASSIF (the Board) agreed to partial adoption starting January 1, 2004 of IFRSs promulgated by the International Accounting Standards Board (IASB).

In order to regulate application of those Standards, the Board issued the *Terms of the Accounting Regulations Applicable to Entities Regulated by SUGEF, SUGEVAL, SUPEN, and SUGESE and to Non-financial Issuers* (the Regulations) and approved a comprehensive revision of those Regulations on December 17, 2007.

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

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

a) IAS 1: Presentation of Financial Statements

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

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

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

b) Revised IAS 1: Presentation of Financial Statements

The revised Standard introduces the term “Statement of total comprehensive income”, which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Other comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the statement of operations and all non-owner changes in equity in a single statement) or in a separate income statement and statement of comprehensive income. Adoption of Revised IAS1 was mandatory for the 2009 financial statements. As of December 31, 2013, these changes had not been adopted by the Board; however, the approval of the amendments to SUGEF Directive 31-04 and SUGEF Directive 34-02 requires the aforementioned presentation for financial statements as of December 31, 2014.

c) IAS 7: Statement of Cash Flows

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

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

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

e) IAS 12: Income Taxes

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

f) IAS 16: Property, Plant and Equipment

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

Additionally, SUGEF has allowed certain regulated entities to convert (capitalize) revaluation surplus into share capital. This Standard only permits realization of revaluation surplus through the sale or depreciation of the asset. As a result of this treatment, regulated entities must recognize the effect of any impaired fixed assets in profit or loss, since the effect cannot be credited to equity. Under this Standard, impairment is charged to revaluation surplus and any difference is recognized in profit or loss. The amendments to SUGEF Directive 31-04 and SUGEF Directive 34-02 eliminate the option of capitalizing the surplus derived from revaluation of assets for financial statements as of December 31, 2014.

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

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

g) IAS 18: Revenue

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

The Board has also allowed deferral of the net excess of loan fee and commission income minus expenses incurred for activities such as assessment of the borrower's financial position, evaluation and recognition of guarantees, sureties, or other collateral instruments, negotiation of the terms of the instrument, preparation and processing of documents, and settlement of the operation. This Standard does not allow deferral on a net basis of such income. Instead, it prescribes deferral of 100% of loan fee and commission income and permits the deferral of only certain incremental transaction costs, rather than all direct costs. Accordingly, when costs exceed income, loan fee and commission income may not be deferred in full, since the Board only allows the net excess of income over expenses to be deferred. This treatment does not conform to IAS 18 and IAS 39, which prescribe separate treatment for income and expenses (see comments on IAS 39). With the amendments to SUGEF Directive 31-04 and SUGEF Directive 34-02, the Board adopted the accounting treatment prescribed by IAS 18 and IAS 39 for fees and commissions and transaction costs. However, the following differences remain between the accounting standards issued by the Board and IAS 18 and IAS 39:

- The Board requires that fee and commission income be recognized as a liability and booked under "Deferred income" (liability) and incremental direct costs be amortized in "Deferred charges" (asset). Under IAS 39, fees and commissions and incremental costs are part of the amortized cost of financial instruments, rather than separate assets and liabilities.
- The Board requires that fee and commission income be deferred in "Other income" and costs be amortized in "Other expenses". Under IAS 18 and IAS 39, income and costs must be booked as part of "Finance income on financial instruments".

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

- The Board requires that the effective interest rate be calculated over the financial instrument's contractual life. Under IAS 39, the effective interest rate for financial instruments is calculated over their expected life (or over a shorter period, if appropriate).
- Under SUGEF regulations, in the event of issuance of a credit-related guarantee, deferred income and incremental costs pending deferral or amortization as of the issue date are not included in the instrument's amortized cost or the calculation of the foreclosed asset's carrying amount. As a result, upon issuance, fees and commissions pending deferral and costs pending amortization are booked in profit or loss for the period.

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

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

i) IAS 27: Consolidated and Separate Financial Statements

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

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

j) IAS 28: Investments in Associates

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

k) Revised IAS 32: Financial Instruments - Presentation

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

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

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

m) IAS 37: Provisions, Contingent Liabilities and Contingent Assets

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

n) IAS 38: Intangible Assets

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

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.

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.

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

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 SUGEFE 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 SUGEFE 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.

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

- Any pre-existing ownership interest in the acquiree will be measured at fair value, with the gain or loss recognized in profit or loss.
- Any noncontrolling (minority) interest will be measured at either fair value or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

The revised Standard became mandatory for 2010 financial statements with prospective application required. The Board adopted this Standard through the amendments to the accounting regulations in effect as of January 1, 2014. However, the Board established that a business combination between jointly controlled entities must consider assets and liabilities measured at fair value.

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.

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

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

The amendments require disclosure of a maturity analysis for non-derivative and derivative financial liabilities, but contractual maturities are required to be disclosed for derivative financial liabilities only when contractual maturities are essential for an understanding of the timing of cash flows. For issued financial guarantee contracts, the amendments require the maximum amount of the guarantee to be disclosed in the earliest period in which the guarantee could be called. The Board adopted this Standard through the amendments to the accounting regulations in effect as of January 1, 2014.

t) IFRS 9: Financial Instruments

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

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

u) IFRS 10: Consolidated Financial Statements

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

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)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

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

aa) IFRIC 13: Customer Loyalty Programs

This Interpretation gives guidance on the accounting by entities that grant loyalty award credits to customers as part of a sales transaction which, subject to meeting any further qualifying conditions, the customers can redeem in the future for free or discounted goods or services. This Interpretation became mandatory for annual periods beginning on or after January 1, 2011. The Board adopted this Standard through the amendments to the accounting regulations in effect as of January 1, 2014.

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

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

This Interpretation applies to all post-employment defined benefits and other long-term employee defined benefits. Also, it considers the minimum funding requirements to fund a post-employment or other long-term defined benefit plan. It also addresses when a minimum funding requirements might give rise to a liability. This Interpretation became mandatory for annual periods beginning on or after January 1, 2011 with retrospective application required. The Board adopted this Standard through the amendments to the accounting regulations in effect as of January 1, 2014.

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

This Interpretation allows entities that use the step-by-step consolidation method to choose an accounting policy that hedges currency risk to determine the amount of the cumulative foreign currency translation reserve that is reclassified to profit or loss on the disposal of a net investment in a foreign operation, which is equivalent to the amount that would have been reclassified had the entity used the direct method of consolidation. This Interpretation became mandatory for annual periods beginning on or after July 1, 2009. The Board adopted this Standard through the amendments to the accounting regulations in effect as of January 1, 2014.

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

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

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.

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

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

ee) IFRIC 18: Transfers of Assets from Customers

This Interpretation gives guidance on the accounting of transfers of items of property, plant and equipment by entities that receive such transfers from their customers. This Interpretation also applies to agreements in which an entity receives cash when that amount of cash must be used only to construct or acquire an item of property, plant and equipment and that the entity must then use the item either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services, or to both. This Interpretation became mandatory for annual periods beginning on or after July 1, 2009. The Board adopted this Standard through the amendments to the accounting regulations in effect as of January 1, 2014.

ff) IFRIC 19: Extinguishing Financial Liabilities with Equity Instruments

This Interpretation gives guidance on the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. This Interpretation became mandatory for annual periods beginning on or after July 1, 2010. The Board adopted this Standard through the amendments to the accounting regulations in effect as of January 1, 2014.

(46) Disclosure of economic impact of departure from IFRSs

Since the basis of accounting used by the Bank's management described in note 1-b differs from IFRSs. Discrepancies may arise related to the balances of certain accounts.

The Bank's management has chosen not to determine the economic impact of those differences since they consider such determination impractical.

(47) 2013 figures

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

(Continued)

BANCO NACIONAL DE COSTA RICA

Notes to Unconsolidated Financial Statements

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

- For the year ended December 31, 2014, foreign exchange gains and losses are presented under finance income and finance expenses, respectively. In the 2013 audited financial statements, those figures were presented on a net basis as foreign exchange gains in the amount of ¢2,958,265,700.