

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Financial Information required by the
Superintendency General of Financial Entities

Consolidated Financial Statements

As of June 30, 2021
(With corresponding figures for 2020)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2021 AND 2020 AND DECEMBER 31, 2020
(In colones)

	Note	June 2021	December 2020	June 2020
ASSETS				
Cash and due from banks	9	1,254,808,263,819	1,383,902,440,319	1,332,795,564,412
Cash		99,987,423,177	99,375,577,345	85,915,253,574
BCCR		718,840,054,883	822,607,349,488	821,028,282,721
Local financial entities		1,715,006,784	1,403,645,589	1,315,115,400
Foreign financial entities		307,448,525,907	452,827,309,776	417,023,294,143
Notes payable on demand		5,841,944,650	6,280,622,565	6,067,030,570
Restricted cash and due from banks		120,975,308,418	1,407,935,556	1,446,588,004
Investments in financial instruments	10	1,721,719,905,901	1,388,856,750,831	1,636,528,123,547
At fair value through profit or loss		32,014,314,395	23,465,673,087	43,094,164,410
At fair value through other comprehensive income		773,997,463,093	849,337,898,903	773,069,575,755
At amortized cost		885,594,522,389	483,076,553,779	777,449,155,642
Derivative financial instruments	11	11,882,581,308	15,753,371,710	24,685,045,365
Accrued interest receivable		20,801,411,607	19,648,169,663	18,553,350,091
(Allowance for impairment of investments in financial instruments)		(2,570,386,891)	(2,424,916,311)	(323,167,716)
Loan portfolio	12	4,201,655,074,722	4,296,577,338,170	4,134,003,567,873
Current		3,957,696,930,466	4,116,568,006,084	4,007,985,502,957
Past due		145,618,024,760	84,141,099,223	65,433,399,186
In legal collection		157,412,394,611	158,003,288,313	157,215,403,805
Direct incremental costs related to loans		3,589,157,504	3,756,519,754	3,922,294,551
(Deferred income on loan portfolio)		(32,964,070,406)	(33,106,164,873)	(31,957,115,610)
Accrued interest receivable		124,573,963,478	122,742,551,278	72,927,318,504
(Allowance for loan losses)		(154,271,325,691)	(155,527,961,609)	(141,523,235,520)
Accounts and fees and commissions receivable	13	4,191,184,034	3,540,248,917	3,260,164,751
Fees and commissions receivable		1,901,885,942	1,378,393,151	1,661,725,325
Accounts receivable for brokerage operations		1,865,761	5,728,706	7,503,012
Accounts receivable for transactions with related parties		21,644,853	19,025,296	62,133,504
Deferred tax and income tax receivable		2,170,104,257	2,026,008,000	1,452,056,016
Other receivables		4,314,176,706	4,326,039,872	4,393,137,119
Accrued interest receivable		3,033,784	2,991,594	8,979,815
(Allowance for impairment of accounts and fees and commissions receivable)		(4,221,527,269)	(4,217,937,702)	(4,325,370,040)
Foreclosed assets	14	29,135,775,865	32,365,899,015	26,360,442,063
Assets and securities acquired in lieu of payment		90,390,979,078	98,844,527,473	95,379,783,259
Other available-for-sale assets		55,884,629	55,884,629	55,884,629
(Allowance for impairment of foreclosed assets and per legal requirements)		(61,311,087,842)	(66,534,513,087)	(69,075,225,825)
Investments in other companies	15	73,470,374,878	72,427,044,877	68,486,066,255
Property, furniture and equipment, net	16	206,560,641,978	213,220,001,233	213,965,368,059
Other assets	17	71,891,453,117	99,224,929,910	74,044,500,116
Deferred charges		35,994,036,201	43,321,227,963	50,798,956,186
Intangible assets		4,395,610,149	5,300,401,472	5,887,424,110
Other assets		31,501,806,767	50,603,300,475	17,358,119,820
TOTAL ASSETS		7,563,432,674,314	7,490,114,653,272	7,489,443,797,076

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2021 AND 2020 AND DECEMBER 31, 2020
(In colones)

LIABILITIES AND EQUITY	Note	June 2021	December 2020	June 2020
LIABILITIES				
Obligations with the public	18	5,721,648,790,060	5,634,090,139,712	5,596,536,364,122
Demand obligations		3,676,747,890,355	3,553,063,486,246	3,586,917,046,596
Term obligations		2,013,511,964,379	2,036,536,524,256	1,953,691,897,597
Other obligations		-	7,873,700,508	13,379,322,344
Finance charges payable		31,388,935,326	36,616,428,702	42,548,097,585
Obligations with BCCR	19	168,690,573,856	8,126,311,079	125,644,412
Term obligations		168,418,644,412	8,125,644,412	125,644,412
Finance charges payable		271,929,444	666,667	-
Obligations with entities	20	756,186,233,726	921,247,445,981	1,008,431,130,537
Demand obligations		68,113,905,769	65,275,408,256	62,726,875,404
Term obligations		684,918,246,725	850,885,682,288	939,744,190,814
Other obligations with entities		(128,516,173)	(49,567,474)	(76,912,729)
Finance charges payable		3,282,597,405	5,135,922,911	6,036,977,048
Accounts payable and provisions		110,034,373,912	130,862,868,189	101,157,001,030
Provisions	22	21,259,954,702	28,641,885,395	26,577,436,397
Accounts payable for brokerage services		1,033,287,859	1,683,288,201	1,369,989,106
Deferred tax	21-b	16,983,185,458	24,275,593,286	12,078,348,291
Other sundry accounts payable	23	70,757,945,893	76,262,101,307	61,131,227,236
Other liabilities	24	31,175,735,136	37,052,115,137	20,869,399,448
Deferred income		66,506,141	72,347,267	47,694,858
Other liabilities		31,109,228,995	36,979,767,870	20,821,704,590
Subordinated obligations	25	54,084,341,593	60,950,013,196	64,693,123,865
Subordinated obligations		53,174,160,000	59,878,100,000	63,308,665,000
Finance charges payable		910,181,593	1,071,913,196	1,384,458,865
TOTAL LIABILITIES		6,841,820,048,283	6,792,328,893,294	6,791,812,663,414
EQUITY				
Share capital		172,237,030,102	172,237,030,102	172,237,030,102
Paid-in capital	26-a	172,237,030,102	172,237,030,102	172,237,030,102
Equity adjustments - Other comprehensive income		92,783,692,291	79,402,840,338	83,190,830,680
Reserves	26-b	364,564,592,548	381,362,590,326	377,901,490,319
Prior-period retained earnings		40,217,214,267	11,005,359,016	18,187,249,907
Income for the period		10,122,592,801	14,734,575,073	7,071,167,531
Capital contributions or special funds	26-c	41,687,504,022	39,043,365,123	39,043,365,123
TOTAL EQUITY		721,612,626,031	697,785,759,978	697,631,133,662
TOTAL LIABILITIES AND EQUITY		7,563,432,674,314	7,490,114,653,272	7,489,443,797,076
DEBIT MEMORANDA ACCOUNTS	27	493,227,000,109	481,372,304,314	459,443,517,165
TRUST ASSETS	28	2,737,516,887,348	2,001,643,523,415	1,811,320,271,206
TRUST LIABILITIES		134,787,099,932	138,640,927,340	138,889,117,508
TRUST EQUITY		2,602,729,787,416	1,863,002,596,075	1,672,431,153,698
TRUST MEMORANDA ACCOUNTS		175,495,090,224	159,832,530,404	121,645,626,436
OTHER DEBIT MEMORANDA ACCOUNTS	29	28,846,536,865,482	26,668,196,780,571	24,162,328,862,076
Own debit memoranda accounts		8,248,528,519,304	8,317,223,534,996	7,128,557,961,928
Third-party debit memoranda accounts		4,443,284,751,516	4,073,331,070,341	3,722,143,039,016
Own debit memoranda accounts for custodial activities		671,041,564,829	654,639,927,606	663,648,974,479
Third-party debit memoranda accounts for custodial activities		15,483,682,029,833	13,623,002,247,628	12,647,978,886,653

Bernardo Alfaro Araya
General Manager

Alejandra Morales Centeno
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CPI 21119

Ricardo Araya Jiménez
General Auditor

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



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 2020 AND 2021
(In colones)

		Six months ended		Three months ended	
	Note	June 2021	June 2020	June 2021	June 2020
Finance income					
Cash and due from banks	33	586,991,455	1,852,560,976	383,831,048	542,035,944
Investments in financial instruments	33	31,507,187,880	37,504,312,322	15,749,544,459	17,960,097,051
Loan portfolio	34	178,973,340,090	200,082,526,479	89,274,952,938	94,712,212,972
Gain on financial instruments at fair value through profit or loss		117,486,860	2,335,666,799	67,346,788	1,041,987,067
Gain on financial instruments at fair value through other comprehensive income		7,854,468,769	3,848,060,567	4,065,483,255	1,995,950,874
Gain on derivative financial instruments, net	11	-	15,820,075,890	-	2,081,978,476
Other finance income	35	4,894,745,397	7,560,173,122	1,757,990,262	4,559,154,907
Total finance income		223,934,220,451	269,003,376,155	111,299,148,750	122,893,417,291
Finance costs					
Obligations with the public	36	64,179,156,832	94,014,368,526	31,118,305,044	43,408,117,941
Obligations with BCCR		273,541,319	6,180,556	222,543,955	6,180,556
Obligations with financial and non-financial entities	37	18,922,312,164	24,523,425,376	8,352,858,657	11,126,613,669
Subordinated, convertible and preferred obligations		1,516,107,481	2,403,331,799	709,323,959	1,127,214,923
Loss on foreign exchange differences and DU, net	6-c	12,620,179	464,851,896	2,111,412	(448,699,678)
Loss on financial instruments at fair value through profit or loss		2,186,351	2,912,945,592	1,121,914	1,619,978,908
Loss on financial instruments at fair value through other comprehensive income		75,148,690	799,970,934	53,512,942	633,339,682
Loss on derivative financial instruments, net	11	112,073,485	-	(535,412,746)	-
Other finance costs	38	1,248,650,876	19,125,476,273	806,013,053	4,906,007,198
Total finance costs		86,341,797,377	144,250,550,952	40,730,378,190	62,378,753,199
Allowance for impairment of assets	39	47,176,624,179	38,544,147,292	28,545,783,581	22,532,485,720
Recovery of assets and decrease in allowances	40	6,827,661,582	5,086,022,486	2,511,174,651	1,938,069,365
FINANCE INCOME		97,243,460,477	91,294,700,397	44,534,161,630	39,920,247,737
Other operating income					
Service fees and commissions	41	71,434,606,445	67,747,897,943	35,454,002,994	30,006,999,048
Foreclosed assets		6,459,895,242	2,345,963,728	5,617,110,427	2,130,275,225
Gain on investments in other companies	8	459,036,012	772,534,620	274,345,260	231,651,478
Foreign currency exchange and arbitrage		10,682,634,554	10,488,313,165	5,465,839,766	4,186,607,740
Other income from related parties		2,063,325	-	-	-
Other operating income	42	3,674,465,119	11,750,788,562	1,439,676,784	8,497,159,183
Total other operating income		92,712,700,697	93,105,498,018	48,250,975,231	45,052,692,674

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 2020 AND 2021
(In colones)

		Six months ended		Three months ended	
	Note	June 2021	June 2020	June 2021	June 2020
Other operating expenses					
Service fees and commissions		16,832,352,576	16,923,809,233	8,574,372,204	8,088,906,520
Foreclosed assets	43	6,254,099,891	11,418,343,769	4,035,761,315	3,796,961,914
Provisions	44	3,304,388,248	3,682,879,297	1,836,399,197	1,135,620,352
Bonuses on fees and commissions of voluntary pension funds		264,514,049	90,689,724	159,828,840	29,535,575
Foreign currency exchange and arbitrage		627,493	2,349,624	626,053	1,583,359
Other expenses with related parties		8,117,046	9,608,760	4,345,162	4,658,300
Other operating expenses	45	26,533,986,083	24,650,643,548	12,768,184,332	10,106,081,592
Total other operating expenses		53,198,085,386	56,778,323,955	27,379,517,103	23,163,347,612
GROSS OPERATING INCOME		136,758,075,788	127,621,874,460	65,405,619,758	61,809,592,799
Administrative expenses					
Personnel expenses	46	68,239,259,088	67,230,471,389	34,169,331,719	32,755,781,832
Other administrative expenses	47	34,029,857,135	31,804,246,617	17,210,949,748	17,028,762,005
Total administrative expenses		102,269,116,223	99,034,718,006	51,380,281,467	49,784,543,837
NET OPERATING INCOME BEFORE TAXES AND STATUTORY ALLOCATIONS		34,488,959,565	28,587,156,454	14,025,338,291	12,025,048,962
Current tax	21-a	9,756,822,191	8,493,436,299	3,910,064,746	4,380,881
Prior period income tax	21-a	7,094,618,966	7,148,147,558	3,547,309,483	7,148,147,558
Deferred tax	21-a	838,964,344	565,737,239	420,088,748	407,353,719
Deferred tax income	21-a	917,980,113	860,013,238	433,909,912	371,382,575
Statutory allocations	48	7,593,941,376	6,168,681,065	3,058,561,855	2,454,281,619
INCOME FOR THE PERIOD		10,122,592,801	7,071,167,531	3,523,223,371	2,382,267,760
OTHER COMPREHENSIVE INCOME, NET OF TAX					
Items that will not be reclassified to profit or loss					
Surplus from revaluation of property		97,026,389	250,078,254	48,784,540	250,078,254
Other adjustments		1,869,728,507	222,770,040	1,671,819,323	(1,363,579,470)
Items that are or may be reclassified to profit or loss					
Adjustment for valuation of investments at fair value through other comprehensive income		3,246,189,838	610,846,736	2,496,777,897	(376,394,965)
Adjustment for valuation of restricted financial instruments		(2,869,322)	(22,318,602)	(512)	(4,071,635)
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX		5,210,075,412	1,061,376,428	4,217,381,248	(1,493,967,816)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		15,332,668,213	8,132,543,959	7,740,604,619	888,299,944

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY, NET
FOR THE SIX MONTHS ENDED JUNE 30, 2020
(In colones)

	Note	Share capital	Equity adjustments - other comprehensive income	Reserves	Capital contributions in special funds	Prior-period retained earnings	TOTAL
Balance at December 31, 2019		172,237,030,102	83,000,303,041	348,798,402,459	34,648,535,964	53,253,753,772	691,938,025,338
Changes in accounting policies	10	-	-	-	-	(2,439,435,635)	(2,439,435,635)
Balance at January 1, 2020		172,237,030,102	83,000,303,041	348,798,402,459	34,648,535,964	50,814,318,137	689,498,589,703
<i>Transactions with owners booked directly in equity:</i>							
Legal reserves		-	-	28,501,192,608	-	(28,501,192,608)	-
Other statutory reserves		-	-	601,895,252	-	(601,895,252)	-
Equity of special funds		-	-	-	4,394,829,159	(4,394,829,159)	-
Total transactions with owners booked directly in equity		-	-	29,103,087,860	4,394,829,159	(33,497,917,019)	-
<i>Comprehensive income for the period:</i>							
Income for the period		-	-	-	-	7,071,167,531	7,071,167,531
Surplus from revaluation of property		-	250,078,254	-	-	-	250,078,254
Adjustment for valuation of investments at fair value through other comprehensive income	10	-	610,846,736	-	-	-	610,846,736
Adjustment for valuation of restricted financial instruments	10	-	(22,318,602)	-	-	-	(22,318,602)
Other adjustments		-	222,770,040	-	-	-	222,770,040
Realization of surplus from revaluation of property		-	(870,848,789)	-	-	870,848,789	-
Total comprehensive income for the period		-	190,527,639	-	-	7,942,016,320	8,132,543,959
Balances at June 30, 2020	26	172,237,030,102	83,190,830,680	377,901,490,319	39,043,365,123	25,258,417,438	697,631,133,662

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY, NET
FOR THE SIX MONTHS ENDED JUNE 30, 2021
(In colones)

Note	Share capital	Equity adjustments - other comprehensive income	Reserves	Capital contributions in special funds	Prior-period retained earnings	TOTAL
Balances as of December 31, 2020	172,237,030,102	79,402,840,338	381,362,590,326	39,043,365,123	25,739,934,089	697,785,759,978
Changes in accounting policies	-	8,494,197,840	-	-	-	8,494,197,840
Balances as of January 1, 2021	172,237,030,102	87,897,038,178	381,362,590,326	39,043,365,123	25,739,934,089	706,279,957,818
<i>Transactions with owners booked directly in equity:</i>						
Legal reserves	-	-	(16,063,362,607)	-	16,063,362,607	-
Other statutory reserves	-	-	(734,635,171)	-	734,635,171	-
Equity of special funds	-	-	-	2,644,138,899	(2,644,138,899)	-
Total transactions with owners booked directly in equity	-	-	(16,797,997,778)	2,644,138,899	14,153,858,879	-
<i>Comprehensive income for the period:</i>						
Income for the period	-	-	-	-	10,122,592,801	10,122,592,801
Surplus from revaluation of property	-	97,026,389	-	-	-	97,026,389
Adjustment for valuation of investments at fair value through other comprehensive income	10	3,246,189,838	-	-	-	3,246,189,838
Adjustment for valuation of restricted financial instruments	10	(2,869,322)	-	-	-	(2,869,322)
Other adjustments	-	1,869,728,507	-	-	-	1,869,728,507
Realization of surplus from revaluation of property	-	(323,421,299)	-	-	323,421,299	-
Total comprehensive income for the period	-	4,886,654,113	-	-	10,446,014,100	15,332,668,213
Balance at June 30, 2021	172,237,030,102	92,783,692,291	364,564,592,548	41,687,504,022	50,339,807,068	721,612,626,031

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2021 AND 2020
(In colones)

	Note	June 2021	June 2020
Cash flows from operating activities			
Income for the period		10,122,592,801	7,071,167,531
Items not requiring cash			
Depreciation and amortization		10,724,899,117	11,625,625,306
Loss on foreign exchange differences and DU, net		3,098,955,327	15,432,581,116
Loss (gain) on sale of non-financial assets		4,028,675,439	(2,028,835,581)
Finance income		(210,480,527,970)	(237,586,838,801)
Finance costs		63,185,913,302	88,665,331,137
Allowance for investments, net		2,342,052,436	355,214,945
Allowance for loan losses and stand-by credits, net		42,511,153,679	32,925,867,484
Allowance for other accounts receivable, net		137,733,847	177,042,375
(Gain) loss on allowance for foreclosed assets, net		(5,223,425,245)	5,356,814,741
Severance provision, net		(6,910,774)	(115,199,078)
Other provisions		7,311,731,951	(1,198,669,082)
Share of profit in foreign associate, net		690,056,217	(772,534,612)
Statutory allocations		7,593,941,376	6,168,681,065
Income tax expense, net	21-a	16,851,441,157	15,641,583,857
Deferred tax, net	21-a	(79,015,769)	(294,275,999)
		(47,190,733,109)	(58,576,443,596)
Cash flows from operating activities			
Loan portfolio		55,598,882,035	90,383,582,589
Accounts and fees and commissions receivable		(2,649,297,061)	(1,087,745,103)
Foreclosed assets		11,408,501,079	9,552,971,230
Other assets		26,596,221,770	13,302,292,240
Obligations with the public		69,552,278,295	309,223,112,110
Obligations with BCCR and other entities		(173,101,573,221)	9,194,688,413
Obligations for accounts payable, fees and commissions payable and provisions		(1,980,943,049)	(15,521,114,900)
Other liabilities		2,522,260,553	(84,844,874,798)
Income tax paid		(21,259,920,846)	(20,839,638,804)
Interest received on loan portfolio and investments		207,495,873,826	200,970,429,663
Interest paid on term obligations with the public and financial entities		(69,995,469,407)	(97,140,790,902)
Statutory allocations paid		(12,320,255,489)	(17,158,214,687)
Net cash from operating activities		44,675,825,376	337,458,253,455
Cash flows from investing activities			
Increase in financial instruments		(734,190,236,314)	(2,073,352,463,180)
Decrease in financial instruments		504,776,815,000	1,964,046,224,006
Acquisition of property and equipment		(15,496,897,735)	(5,329,350,256)
Sale of property and equipment		603,538,339	212,871,304
Acquisition of intangible assets		(1,131,838,421)	(975,143,129)
Net cash used in investing activities		(245,438,619,131)	(115,397,861,255)
Cash flows from financing activities			
Settlement of financial obligations		(21,874,894,493)	(7,949,297,782)
Other financing activities		192,985,000,000	35,975,062,308
Payment of lease liabilities		(923,419,037)	(847,120,684)
Net cash from financing activities		170,186,686,470	27,178,643,842
Net (decrease) increase in cash and cash equivalents		(30,576,107,285)	249,239,036,042
Cash and cash equivalents at beginning of period		1,483,188,630,362	1,395,702,680,764
Cash and cash equivalents at end of period	9	1,452,612,523,077	1,644,941,716,806

Bernardo Alfaro Araya
General Manager

Alejandra Morales Centeno
General Accountant
CPI 21119

Ricardo Araya Jiménez
General Auditor

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

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(1) Reporting entity

Banco Nacional de Costa Rica (the Conglomerate) 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 General Superintendency 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.

In agreement with IRNBS, if a bank divides its services into departments, its operations must 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 must 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 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 market, pension fund management, investment funds, insurance brokerage, international banking services and electronic banking services. It seeks to become the leading conglomerate in Costa Rica, strengthening its decisive role in the country's development and wellbeing; significantly promote profitability; offer superior services to the customer at prices aligned with the market; have exemplary organizational health and financial strength.

As of June 30, 2021, the Bank has 156 offices, 464 ATM's, and along with its subsidiaries a total of 5,519 employees (2020: 162 offices, 473 ATM's, and along with its subsidiaries a total of 5,571 employees). Employees are distributed as follows: Banco Nacional de Costa Rica - 5,058 employees (2020: 5,127); BN Valores Puesto de Bolsa, S.A. - 72 employees (2020: 70); BN Vital Operadora de Planes de Pensiones Complementarias, S.A. - 199 employees (2020: 183); BN Sociedad Administradora de Fondos de Inversión, S.A. - 90 employees (2020: 88); and BN Sociedad Corredora de Seguros, S.A. - 100 employees (2020: 103). The Bank's website is www.bncr.fi.cr.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated 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. Its main activity is performing securities transactions in 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 the Superintendency General of Securities (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 the management, on behalf of third parties, of 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 under the laws of the Republic of Costa Rica. 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 the *Law of the Private Supplemental Pension Fund System* (Law No. 7523) 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 Sociedad 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).

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

Banco Internacional de Costa Rica, S.A. and Subsidiary (BICSA), which was organized under the laws of the Republic of Panama in 1976. BICSA 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. Banco de Costa Rica holds the remaining 51% ownership interest.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The main components of the financial statements of the entities in which the Bank holds ownership interest are as follows:

		June 2021				
		BN Valores Puesto de Bolsa, S.A.	BN Sociedad Administradora de Fondos de Inversión, S.A.	BN Vital Operadora de Planes de Pensiones Complementarias S.A.	BN Sociedad Corredora de Seguros, S.A.	Banco Internacional de Costa Rica, S.A.
Assets	¢	37,039,170,262	14,251,058,521	11,322,779,799	8,482,437,092	523,905,249,696
Liabilities		20,952,576,820	2,902,653,550	1,551,586,234	1,281,435,323	450,485,498,100
Equity		16,086,593,442	11,348,404,971	9,771,193,565	7,201,001,769	73,419,751,599
Income for the period		1,634,905,328	959,320,263	1,654,957,217	1,798,443,098	454,987,898
Memoranda accounts		1,209,373,562,368	2,080,772,135,907	675,837,203,917	-	-

		December 2020				
		BN Valores Puesto de Bolsa, S.A.	BN Sociedad Administradora de Fondos de Inversión, S.A.	BN Vital Operadora de Planes de Pensiones Complementarias S.A.	BN Sociedad Corredora de Seguros, S.A.	Banco Internacional de Costa Rica, S.A.
Assets	¢	49,576,661,728	11,093,309,837	12,218,697,173	8,106,052,844	562,510,298,505
Liabilities		31,045,542,773	1,289,254,469	2,507,717,325	931,494,174	490,133,876,894
Equity		18,531,118,955	9,804,055,368	9,710,979,848	7,174,558,670	72,376,421,611
Income for the year		2,565,073,680	2,691,762,046	1,337,726,758	3,537,361,479	866,529,479
Memoranda accounts		1,199,940,596,159	599,339,040,487	1,870,044,097,261	-	-

		June 2020				
		BN Valores Puesto de Bolsa, S.A.	BN Sociedad Administradora de Fondos de Inversión, S.A.	BN Vital Operadora de Planes de Pensiones Complementarias S.A.	BN Sociedad Corredora de Seguros, S.A.	Banco Internacional de Costa Rica, S.A.
Assets	¢	59,748,561,088	12,393,843,381	11,603,473,698	6,585,528,322	520,017,938,922
Liabilities		41,274,765,662	2,795,544,263	1,594,596,282	1,226,643,652	451,582,495,954
Equity		18,473,795,426	9,598,299,118	10,008,877,416	5,358,884,670	68,435,442,968
Income for the period		1,273,427,493	755,375,494	1,220,059,188	1,719,822,165	772,534,620
Memoranda accounts		1,179,974,012,341	1,751,184,901,709	545,253,307,406	-	-

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(2) Basis of accounting

(a) Basis of accounting

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

With the entrance into effect of SUGEF Directive 30-18 *Regulation on Financial Information* (RFI), the regulatory basis of accounting is updated in order to make progress in the adoption of International Financial Reporting Standards (IFRS). It also includes a single body of regulations, provisions regarding the remission, presentation and publication of financial statements, providing more uniformity in the actions of the superintendencies, as well as preventing duplications.

(b) Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis, except for financial assets and liabilities at fair value through other comprehensive income, at fair value through profit or loss and derivative financial instruments, which are measured at fair value; and foreclosed assets for sale, which are measured at the lower of their carrying amount and their estimated realizable value.

The Bank initially recognizes loans, accounts receivable and deposits on the date on which they are originated. All other financial assets (including assets at fair value through profit or loss) are initially recognized on the transaction date, the date on which the Conglomerate commits to purchase or sell an instrument.

(3) Functional and presentation currency

These consolidated financial statements and notes thereto are expressed in colones (¢), the currency of the Republic of Costa Rica, in accordance with the accounting regulations issued by CONASSIF, SUGEF, SUGEVAL, SUPEN and SUGESE.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(4) Use of estimates and judgments

In preparing these consolidated financial statements, management has made judgments, estimates and assumptions that affect the application of the Bank's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

Management applies judgment when determining, through the established control indicators, whether the Conglomerate controls an entity or a separate vehicle.

a- Judgments

Information about judgments made in applying accounting policies that have the most significant effects on the amounts recognized in the consolidated financial statements is included in the following notes:

- Note 5 (b) (ii) – Classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the asset are solely payment of principal and interest (SPPI) on the principal amount outstanding.
- Note 5-j (i) – Lease term: Whether the Conglomerate is reasonably certain that it will exercise extension options.
- Note 5 (b) (ii) – Establishing the criteria for determining whether credit risk on a financial asset has increased significantly since initial recognition, determining the methodology for incorporating forward-looking information in the measurement of ECL and selection and approval of models used to measure ECL.

b- Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment for the six months ended June 30, 2021 is related to the impairment of financial instruments.

(i) Fair value measurement

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(5) Significant accounting policies

The Conglomerate has consistently applied the following accounting policies to all periods presented in the consolidated financial statements.

(a) Basis of consolidation

i. Subsidiaries

Subsidiaries are entities controlled by the Conglomerate. The Conglomerate ‘controls’ an entity if it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of the subsidiaries described in Note 1 are included in the consolidated financial statements from the date that control commences until the date that control ceases.

ii. Non-controlling interests

Non-controlling interests are measured initially at their proportionate share of the acquiree’s identifiable net assets at the date of acquisition. As of June 30, 2021, the Bank has 49% interest in Banco Internacional de Costa Rica, S.A. and Subsidiary (BICSA), a Panamanian entity.

Changes in the Bank’s participation in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

iii. Loss of control

When the Bank loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, and any related non-controlling interests and other components of equity. Any resulting gain or loss is recognized in profit or loss. Any interest retained by the Bank in the former subsidiary is measured at fair value when control is lost.

iv. Interests in equity-accounted investees

CONASSIF requires the financial statements of investees to be presented unconsolidated and to account for those investments under the equity method. BICSA is a bank that was organized under the laws of the Republic of Panama. Since 1976, BICSA operates under a general license granted by the Superintendency of Banks of Panama to engage in banking operations in Panama or abroad.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

v. *Transactions eliminated on consolidation*

Intra-group balances and transactions, and any unrealized income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated during the preparation of the consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency

i. *Foreign currency transactions*

Monetary assets and liabilities denominated in foreign currencies are translated into colones at the exchange rate at the date of the consolidated statement of financial position, except for transactions that have a contractually agreed exchange rate. Transactions in foreign currencies during the period are translated at the exchange rates at the dates of the transactions. Foreign currency differences arising on translation are generally recognized in profit or loss for the period.

ii. *Monetary unit and foreign exchange regulations*

The parity of the colon with the US dollar is determined in a free exchange market, under the supervision of the Central Bank of Costa Rica (BCCR) through a managed float regime. Under the managed float regime, the exchange rate is determined by the market, but BCCR still reserves the right to intervene in the foreign currency market to moderate significant fluctuations in the exchange rate and prevent deviations from the behavior of the variables that explain its medium- and long-term trends.

In conformity with the *Law to Strengthen Public Finances* (Law No. 9635), as of January 1, 2020, assets and liabilities in foreign currency must be expressed in colones, using the reference selling rate set by BCCR.

iii. *Method for valuation of assets and liabilities in foreign currency*

As of June 30, 2021, assets and liabilities in US dollars are valued at the exchange rate of ¢621.92 to US\$1.00 (2020: ¢583.49 to US\$1.00), which is the reference selling rate established by BCCR.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of June 30, 2021, assets and liabilities denominated in euro are valued at the exchange rate of ¢738.28 to €1.00 (2020: ¢653.86 to €1.00), which is obtained by multiplying the international Reuter exchange rate by the reference rate set by BCCR for the sale of US dollars on the last business day of the month.

As of June 30, 2021, assets and liabilities denominated in Development Units (DU) were valued at the exchange rate of ¢927.05 to DU1.00 (2020: ¢915.19 to DU1.00). This exchange rate is based on the DU value tables published by SUGEVAL.

iv. Foreign operations

The financial statements of BICSA are presented in US dollars, which is the entity's functional currency. They have been converted as follows:

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

(c) Financial instruments

(i) Recognition and initial measurement

The Conglomerate initially recognizes cash, deposits in checking accounts and cash equivalents on the date on which they are originated. All other financial instruments are recognized on the trade date, which is the date on which the Conglomerate becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss (FVTPL), transactions costs that are directly attributable to its acquisition or issue.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(ii) Classification and subsequent measurement

Financial assets

Classification

On initial recognition, a financial asset is classified as measured at: amortized cost, fair value through other comprehensive income or fair value through profit or loss, according to the business model under which it is managed as well as the characteristics of the contractual cash flows.

Financial assets are not reclassified subsequent to their initial recognition, unless the Conglomerate changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in business model.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at fair value through profit or loss:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset is measured at fair value through other comprehensive income if it meets both of the following conditions and it is not designated as at fair value through profit or loss:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

All financial assets not classified as measured at amortized cost or fair value through other comprehensive income as described above are measured at fair value through profit or loss.

On initial recognition, the Conglomerate may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at fair value through other comprehensive income as at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

The Conglomerate makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Conglomerate's senior management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reason for such sales and expectations about future sales activity.

The transfer of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for that purpose, in conformity with the continuous recognition of assets.

Financial assets held for trading or managed whose performance is assessed on a fair value basis are measured at fair value through profit or loss.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. However, the principal may change over time (e.g. if there are reimbursements of the principal).

'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Conglomerate considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Conglomerate considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and
- terms that limit the Conglomerate's claim to cash flows from specified assets (e.g. non-recourse loans);
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract.

Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Subsequent measurement and gains and losses

Financial assets at fair value through profit or loss are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.

Financial assets at fair value through other comprehensive income are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in other comprehensive income and are accumulated in the fair value reserve. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

Financial assets at amortized cost are subsequently measured at amortized cost using the effective interest method. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

Financial liabilities

Classification

Financial liabilities are classified as measured at amortized cost or fair value through profit or loss.

A financial liability is classified as at fair value through profit or loss if it is classified as held for trading or it is designated as such on initial recognition.

Subsequent measurement and gains and losses

Financial liabilities at fair value through profit or loss are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(iii) Impairment of financial assets

The Conglomerate recognizes expected credit losses on the following assets that are not measured at fair value through profit or loss:

- Investments in financial instruments
- Accrued interest receivable

The Conglomerate measures loss allowances at an amount equal to 12-month ECL or lifetime ECL.

Twelve-month ECL are the portion of lifetime ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which 12-month ECL are recognized are referred to as 'Stage 1 financial instruments'. Financial instruments allocated to Stage 1 have not undergone a significant increase in credit risk since initial recognition and are not credit-impaired.

Lifetime ECL are the ECL that result from all possible default events over the expected life of the financial instrument or the maximum contractual period of exposure. Financial instruments for which lifetime ECL are recognized but that are not credit-impaired are referred to as 'Stage 2 financial instruments'. Financial instruments allocated to Stage 2 are those that have experienced a significant increase in credit risk since initial recognition but are not credit-impaired.

Financial instruments for which lifetime ECL are recognized and that are credit-impaired are referred to as 'Stage 3 financial instruments'.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Conglomerate expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

ECL are discounted using the effective interest rate of the financial asset.

At each reporting date, the Conglomerate assesses whether financial assets carried at amortized cost and debt securities at fair value through other comprehensive income are credit impaired. A financial asset is 'credit impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the consolidated statement of financial position

Loss allowances for financial assets measured at amortized cost are presented as a deduction from the gross carrying amount of the assets. For debt securities at fair value through other comprehensive income, the loss allowance is charged to profit or loss and is recognized in other comprehensive income.

Forward-looking information

The Conglomerate incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL. The Conglomerate will formulate a base scenario of the future direction of the relevant economic variables, considering the advice of the Risk Committee, the Investments Committee, external information and forecasts. This process entails the development of two or more additional economic scenarios and assessing their likelihood.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The base scenario will represent a more likely outcome; it is aligned with information used by the Conglomerate for other purposes such as strategic planning and budgeting. The other scenarios are one upside scenario and one downside scenario. Periodically, the Conglomerate carries out stress testing of more extreme shocks to calibrate its determination of the upside and downside representative scenarios.

(d) Impairment of non-financial assets

At each reporting date, the Conglomerate reviews the carrying amounts of its non-financial assets (other than investment properties and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and intangible assets with indefinite useful lives are tested annually for impairment.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognized in the consolidated statement of comprehensive income. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU (or groups of CGUs) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(iv) Derecognition

Financial assets

The Conglomerate derecognizes a financial asset from its consolidated statement of financial position when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Conglomerate neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the consideration received (including any new asset obtained less any new liability assumed) is recognized in profit or loss.

Financial liabilities

The Conglomerate derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire.

(v) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Conglomerate currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis in the consolidated statement of comprehensive income only when permitted under IFRS Standards, or for gains and losses arising from a group of similar transactions, such as gains or losses on financial assets measured at fair value through profit or loss.

(e) Derivative financial instruments

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. All derivatives are measured at fair value in the consolidated statement of financial position.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

If a derivative is not held for trading and is not designated in a qualifying hedging relationship, then all changes in its fair value are recognized immediately in profit or loss as a component of net income from other financial instruments at fair value through profit or loss.

(f) Embedded derivatives

Derivatives may be embedded in another contractual arrangement (a host contract). The Conglomerate accounts for an embedded derivative separately from the host contract when:

- the host contract is not itself carried at fair value through profit or loss;
- the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and
- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

Separated embedded derivatives are measured at fair value, with all changes in fair value recognized in profit or loss unless they form part of a qualifying cash flow or net investment hedging relationship. Separated embedded derivatives are presented in the consolidated statement of financial position together with the host contract.

The Conglomerate currently has the following derivative financial instruments:

✓ Derivatives held for risk management

The Conglomerate obtained derivative instruments to hedge exposure to the LIBOR rate related to the issue of debt in October 2013 and April 2016 at a fixed rate in US dollars, with the purpose of compensating for changes in fair value attributable to changes in said benchmark rate.

✓ Derivatives other than hedges

The Conglomerate entered into currency forwards with several clients. Under these derivative financial instruments, the Conglomerate 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 types of instruments are products which the Conglomerate can offer to its clients pursuant to the authorization provided by BCCR to operate exchange rate derivatives.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For currency forwards, the Conglomerate 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 market interest rates in colones and in US dollars, applicable to the different terms.

(g) Cash and cash equivalents

Cash and cash equivalents include demand deposits in other banks and deposits in BCCR with original maturities of less than three months that are subject to an insignificant risk of changes in their fair value and are used by the Bank in the management of its short-term commitments.

Cash and cash equivalents are carried at amortized cost in the consolidated statement of financial position.

(h) Property, furniture, equipment and leasehold improvements

(i) Recognition and measurement

Items of property, furniture, equipment and leasehold improvements are measured at cost less accumulated depreciation and any accumulated impairment losses. Cost includes disbursements directly attributable to the acquisition of the asset. If significant parts of an item of property, furniture, equipment and leasehold improvements have different useful lives, then they are accounted for as separate items (major components) of property, furniture, equipment and leasehold improvements. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

(ii) Subsequent costs

Subsequent expenditure is capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to the Conglomerate. Ongoing repairs and maintenance are expensed as incurred.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(iii) *Depreciation and amortization*

Depreciation is calculated using the straight-line method over the estimated useful life of each item of property, furniture, equipment and leasehold improvements, and it is recognized in profit or loss for the period. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Conglomerate will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives for the current period and comparative periods are as follows:

<u>Type of asset</u>	<u>Estimated useful life</u>
Buildings	25 to 120 years
Vehicles	10 years
Furniture and equipment	10 years
Computer hardware	5 years
Laptops	3 years
Leasehold improvements	According to the estimated useful life or the term of the lease

(i) Intangible assets

(i) *Recognition and measurement*

Intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses.

(ii) *Amortization*

Software is amortized on a straight-line basis in profit or loss over its estimated useful life, from the date on which it is available for use. The estimated useful life of software is three to five years.

(iii) *Subsequent costs*

Subsequent expenditure on software assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognized in profit or loss as it is incurred

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(j) Leases

At inception of a contract, the Conglomerate assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

(i) As a lessee

At commencement or on modification of a contract that contains a lease component, the Conglomerate allocates consideration in the contract to each lease component on the basis of its relative stand-alone price.

The Conglomerate recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Conglomerate by the end of the lease term or the cost of the right-of-use asset reflects that the Conglomerate will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Conglomerate's incremental borrowing rate. Generally, the Conglomerate uses its incremental borrowing rate as the discount rate.

The Conglomerate determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments; and
- the exercise price under a purchase option that the Conglomerate is reasonably certain to exercise, lease payments in an optional renewal period if the Conglomerate is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Conglomerate's estimate of the amount expected to be payable under a residual value guarantee, if the Conglomerate changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

(ii) Short-term leases and leases of low-value assets

The Conglomerate has elected not to recognize right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Conglomerate recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(k) Loan portfolio

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

(l) Allowance for loan losses

The allowance for loan losses is based on a periodic assessment of the probability of recovery 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 probability of recovery of the loan portfolio is assessed in conformity with the provisions of SUGEF Directive 1-05 *Regulations for Borrower Classification*. That assessment considers parameters including borrower payment history, creditworthiness, quality of guarantees and delinquency.

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 June 30, 2021, increases in the allowance for loan losses are included in the accounting records in accordance with Article 10 of IRNBS.

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(n) Other receivables

Other receivables are recorded at amortized cost. 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.

(o) Foreclosed assets

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

Foreclosed assets are valued at the lower of cost and market value. If market 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 in which they were incurred.

The net realizable value of an asset should be used as its market value. Net realizable value is determined by applying strictly conservative criteria and is calculated by subtracting expenses to be incurred in 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. 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 performed the appraisals and those reports must be updated at least annually.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

Through notes No. 1573-09 and No. 1574-10 dated May 7, 2020, CONASSIF communicated by means of Article 72 of IRNBS (Law No. 1644) the extension of the term from 24 months to 48 months, whereby the total (100%) allowance for impairment of foreclosed assets must be applied. However, if it has not been sold within 24 months from the date of the award or receipt of the asset, the entity must request from the Superintendency an extension for an equal term for sale of the asset. The extension request may be denied by the Superintendency, providing adequate grounds for its decision, in which case it will require the creation of an allowance for 100% of the carrying amount. If the entity does not request an extension, it will also be required to create an allowance.

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

(p) Accounts payable and other liabilities

Accounts payable and other liabilities are carried at amortized cost.

(q) Provisions

A provision is recognized in the consolidated statement of financial position if, as a result of a past event, the Conglomerate 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 consolidated statement of financial position, directly affecting the consolidated statement of comprehensive income.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(r) Employee benefits

(i) Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Statutory Christmas bonus

Each month, the Conglomerate books an accrual to cover future statutory Christmas bonus disbursements. Costa Rican legislation requires the payment of one-twelfth of an employee's monthly salary for each month of service. That payment is made to the employee in December, even in the event of dismissal. In the case of dismissals or resignations that occur prior to December, the employee is entitled to a bonus that is proportional to the time worked during the year.

Vacation

Costa Rican legislation establishes that for every fifty weeks of service, employees are entitled to two weeks of vacation. The Conglomerate has the policy that for all of its personnel, the accrued vacation days at year end may not exceed one and a half periods.

Incentives plan

The Conglomerate has an incentives and performance assessment system (*Sistema de Evaluación del Desempeño e Incentivos*, SEDI). It is defined at the BNCR financial conglomerate level and is subject to management models that have been previously approved.

The score obtained in this assessment is the sum of the percentages obtained in the individual and group evaluations. The minimum score to be obtained is 80 points.

These incentives aim to promote effective achievement of institutional objectives and goals, which requires continuous efforts by the Conglomerate to coordinate and consolidate its work force, increase its productivity and ensure its compensation is market competitive.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

These incentives are paid as compensations for the employees' business effort and individual effort, so as to promote an extraordinary performance, reaching the goals established in the Annual Operating Plan and in the Strategic Plan. This salary incentive is annual; the evaluation covers from January to December of each year. The allowance is calculated as 15% of income after income tax and statutory allocations. The amount obtained from that percentage includes the social security contributions corresponding to that payment.

This item may not exceed 60% of the employee's monthly salary, in conformity with the guidelines set forth by the Executive Branch in Directive No. 026-H dated May 26, 2015 "Regarding the Policies on the Payment of Incentives at State-owned Banks" and Directive No. 036-H dated November 10, 2015 "Regarding the Parameters to be Used in Determining the Feasibility of the Payment of Incentives to Employees of State-owned Banks".

The expense for the incentive is booked monthly in a liability account, which is liquidated the following year when the payment is made to employees and former employees who met the required conditions. For 2020, there is an arbitration process underway, which prevents the payment of the incentive.

(ii) Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided. This includes the contributions to supplemental pension fund operators.

Pursuant to the *Employee Protection Law*, all 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.

(iii) Defined benefit plans

The Conglomerate's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Conglomerate, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income. The Conglomerate determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Conglomerate recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

(iv) Termination benefits

Termination benefits are expensed when the Conglomerate has an obligation in relation to those benefits. If benefits are not expected to be settled wholly within 12 months of the reporting date, then they are discounted.

Costa Rican legislation requires the payment of severance benefits to employees in the event of retirement, death or dismissal without just cause, equivalent to seven days' salary for employees with between three and six months of service, 14 days' salary for employees with between six months and one year of service and an amount prescribed by the *Employee Protection Law* for employees with more than 1 year of service, up to a maximum of eight years.

The Conglomerate follows the practice of making monthly transfers to the Employee Association (*Asociación Solidarista de Empleados del Banco Nacional*, ASEBANACIO) equivalent to 5.33% of member employees' monthly salaries for management and custody, which are expensed in the year incurred. The aforementioned contributions and those made to the Supplemental Pension System are considered advance severance payments.

In the event of dismissal without just cause, the amount payable to the former employee is calculated and if there are any differences between the calculation and the amount payable by the Employee Association, the Conglomerate assumes the difference as an expense. If the dismissal is with just cause, then the Bank does not have to make any payments.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(v) Employee Protection and Retirement Fund

The Employee Protection and Retirement Fund of Banco Nacional de Costa Rica (the Fund) was created by the *Law of Banco Nacional de Costa Rica* (Law No. 16) dated November 5, 1936 and has been amended on a number of occasions. The most recent amendment was included in the *Law to Modernize the Financial System of the Republic* (Law No. 7107) dated 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 composed 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 5.50% 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. The Fund operates based on the principle of solidarity.

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

(s) Deferred income

Deferred income corresponds to income received in advance by the Conglomerate that should not be recognized in profit or loss for the year since it has not yet been accrued. Deferred income is recognized and credited to the corresponding income account as it accrues.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(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.

Other statutory reserves

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

Statutory reserve	Agreement of the Superintendency of Banks of Panama
Statutory reserve for foreclosed assets	Agreement No. 003-2009
Statutory dynamic provision	Agreement No. 004-2013

(u) Revaluation surplus

Revaluation surplus included in the consolidated statement of changes in equity may be transferred directly to prior period 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 prior period retained earnings is not made through the consolidated statement of comprehensive income. Per SUGEF's authorization, the Bank follows the policy of transferring the revaluation surplus to prior year retained earnings for subsequent capitalization, in conformity with Article 8 of IRNBS (Law No. 1644).

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

i. *Current tax*

Current tax is the expected tax payable on taxable income for the year, using tax rates enacted at the date of the consolidated statement of financial position and any adjustment to tax payable in respect of previous periods.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

ii. *Deferred tax*

Deferred tax is recognized 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.

iii. *Tax benefits FOCREDE*

Regarding the tax benefits applied to the Development Credit Fund (FOCREDE), the Development Financing Fund (FOFIDE) and the National Development Trust (FINADE) as part of the resources of the Development Banking System managed by the Bank, as established in Article 15 of the *Comprehensive Amendment to Law No. 8634, Development Banking System Act and Amendment to Other Laws* (Law No. 9274), effective from November 27, 2014, that fund is exempt from income tax and from any other type of tax.

The 8% exemption on securities is effective from August 23, 2016, as evidenced in certification SRCST-TV-009-2016 of the Ministry of Finance issued for the period of one year, which was renewed indefinitely by means of resolution DGCN-146-2017, at the request of the banks that manage the fund, i.e. Banco Nacional de Costa Rica and Banco de Costa Rica. Pursuant to the *Law to Strengthen Public Finances* (Law No. 9635), a 15% exemption is effective from July 1, 2019.

(w) Segment reporting

A business segment is a distinguishable component of the Conglomerate that is engaged either in providing a specific product or service or a group of related products or services within a particular economic environment and that is subject to risks and returns different from those of other business segments.

(x) Financial statements of the different departments

The consolidated financial statements include the financial statements of the Commercial Banking, Mortgage Banking and Rural Credit Banking departments, which 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 subordinated to the Bank's General Board of Directors.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

Pursuant to the provisions of Article No. 43 of IRNBS (Law No. 1644), the accounting records of each of the Bank's departments are kept separately.

(y) Recognition of income and expenses

i. Interest income and interest expense

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

The Conglomerate follows the policy of suspending interest accruals on loans when principal or interest payments are more than 180 days past due. Interest 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 statement of comprehensive income.

ii. Fee and commission income

Fee and commission income arises on services provided by the Conglomerate and is recognized when the corresponding service is provided. When fees and commissions are an integral part of the return on the underlying operation, they are deferred over the term of the operation and amortized using the effective interest method.

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 consolidated statement of comprehensive income on a monthly basis.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

iv. Operating lease expenses

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

(z) Statutory allocations

In accordance with SUGEF's Chart of Accounts, statutory allocations on the period's net earnings payable to the National Institute for Cooperative Development (INFOCOOP), the National Emergency Commission (CNE), the National Commission for Educational Loans (CONAPE) and the Disability, Old Age and Death Benefit System (RIVM) are recognized as expenses in the consolidated statement of comprehensive income.

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 INFOCOOP; and the remainder to increase the Bank's capital, pursuant to Article 20 of Law No. 6074.

Pursuant to paragraph a) of Article 20 of the *Law to Create the National Commission for Education (CONAPE)* (Law No. 6041), the Bank is required to make statutory allocations equivalent to 5% of earnings before taxes and statutory allocations to CONAPE.

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

Article 78 of the *Employee Protection Law* (Law No. 7983) 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 RIVM of CCSS and to provide universal CCSS coverage for impoverished non-salaried workers.

For the Pension Fund Manager, Article 49 of Law No. 7983 establishes that public capital pension operators must allocate 50% of their earnings to the affiliates of the Compulsory Retirement Savings Fund.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(aa) Development Financing Funds (FOFIDE)

In accordance with Article 32 of the *Development Banking System Act* (Law No. 8634), all State-owned banks, except Banco Hipotecario para la Vivienda (BANHVI), must 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 must transfer to their respective funds the amount corresponding to prior year's 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 (FOCREDE)

The Development Credit Fund (FOCREDE) is comprised of the funds prescribed in Article 59 of IRNBS (Law No. 1644). FOCREDE will be managed by State-owned banks. Accordingly, in compliance with the *Repeal of Transition Provision VII of Law No. 8634* (Law No. 9094) and Article 35 of the *Development Banking System Act* (Law No. 8634), 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 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.

As a result, 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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

- a. Pursuant to Article 6 of Law No. 8634, the Managing Banks may offer first-tier banking services to the beneficiaries of the Development Banking System.
- b. Pursuant to Article 35 of Law No. 8634, the Managing Banks may offer second-tier banking services with FOCREDE funds for financial entities other than private banks, provided that the purposes and obligations established in Law No. 8634 are met and such entities are duly authorized by the Governing Board.
- c. Pursuant to Article 35 of Law No. 8634, the Managing Banks may channel FOCREDE 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.

(cc) Trust operations

Assets managed by the Conglomerate as trustee are not considered part of the Bank's equity and, therefore, are not included in the consolidated financial statements. Fee and commission income derived from trust management is recognized on an accrual basis.

(6) Risk management

The Conglomerate has exposure to the following risks:

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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 Conglomerate 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. the Brokerage Firm, Investment Fund Manager and Pension Fund Manager.

The Conglomerate manages the above risks as follows:

a) Credit risk

i. Banco Nacional de Costa Rica

This is the risk that the borrower or issuer of a financial asset fails to meet its contractual obligations, 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 investment securities. The exposure to credit risk on those assets is represented by the carrying amount of the assets in the consolidated statement of financial position. 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:

- The Bank has defined procedures for the monitoring, application of controls and loan processing. The functions, tasks and procedures performed by the Credit Risk Division have been documented with the support of the Quality Management Division. Consequently, the Bank has been able to optimize and standardize the process.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- The Bank has performed and reviewed the administrative loan follow-up procedures for branches and regional offices.
- The work plan for loan follow-up includes an evaluation of main borrowers (higher balances in the loan portfolio), which involves continuous monitoring and visits to regional offices.

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

As of June 30, the Bank's financial instruments with exposure to credit risk are as follows:

	Note	Direct		Stand-by	
		2021	2020	2021	2020
Loan portfolio					
Principal	7-a	¢ 4,260,727,349,837	4,230,634,305,948	336,761,426,722	312,856,247,387
Accounts and accrued interest receivable		124,573,963,478	72,927,318,504	-	-
Gross carrying amount		4,385,301,313,315	4,303,561,624,452	336,761,426,722	312,856,247,387
Incremental direct costs related to loans		3,589,157,504	3,922,294,551	-	-
(Deferred income from loan portfolio)		(32,964,070,406)	(31,957,115,610)	-	-
Allowance for loan losses (accounting records)		(154,270,986,047)	(121,512,116,769)	(841,686,759)	(608,188,711)
Net carrying amount	¢	<u>4,201,655,414,366</u>	<u>4,154,014,686,624</u>	<u>335,919,739,963</u>	<u>312,248,058,676</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		Direct		Stand-by	
		2021	2020	2021	2020
<i>Loan portfolio</i>					
Total balances:					
0	¢	39,155,875,240	39,655,714,772	-	-
A1		3,352,547,961,118	3,229,663,840,079	327,819,066,694	292,295,673,439
A2		70,212,782,123	66,551,902,365	1,233,660,025	910,718,746
B1		404,352,232,690	452,494,345,798	3,435,273,399	15,745,656,492
B2		10,972,539,157	5,419,942,538	79,483,257	24,882,937
C1		122,910,402,601	116,900,853,495	1,118,356,543	1,644,652,230
C2		11,637,267,470	3,494,561,266	42,039,801	12,088,921
D		153,035,777,209	181,956,437,799	1,569,520,960	1,096,221,925
E		220,476,475,707	207,424,026,340	1,464,026,077	1,126,352,697
		4,385,301,313,315	4,303,561,624,452	336,761,426,756	312,856,247,387
Structural allowance					
(subledger – database)		(110,993,480,043)	(108,774,232,941)	(169,491,267)	(240,210,326)
Net carrying amount	¢	4,274,307,832,898	4,194,787,391,511	336,591,935,489	312,616,037,061
Individually assessed loans with allowance:					
0	¢	39,155,874,866	39,482,420,754	327,819,065,888	-
A1		3,352,547,961,118	3,228,884,611,517	1,233,660,025	22,326,228,459
A2		70,212,782,123	66,551,902,365	3,435,273,399	25,000,000
B1		404,352,232,690	452,494,345,798	79,483,257	12,315,294,153
B2		10,972,539,157	5,419,942,538	1,118,356,543	-
C1		122,910,402,601	116,893,453,495	42,040,574	231,880,576
C2		11,637,267,470	3,494,561,266	1,569,520,960	-
D		153,035,777,209	181,956,437,799	1,464,026,077	38,032,902
E		220,476,475,707	207,403,254,883	327,819,065,888	22,690,607
		4,385,301,312,941	4,302,580,930,415	336,761,426,723	34,959,126,697
Structural allowance					
(subledger – database)		(110,993,480,043)	(108,774,232,941)	(169,491,267)	(240,210,326)
Net carrying amount	¢	4,274,307,832,898	4,193,806,697,474	336,591,935,456	34,718,916,371

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		Direct		Stand-by	
		2021	2020	2021	2020
Current loan portfolio, without allowance:					
Gross carrying amount	¢	4,385,301,313,315	4,303,561,624,452	336,761,426,723	312,856,247,387
Allowance for loan losses (database)		(110,993,480,043)	(108,774,232,941)	(169,491,267)	(240,210,326)
(Excess) of allowance over structural allowance		(43,277,506,004)	(12,737,883,828)	(672,195,492)	(367,978,385)
Incremental direct costs		3,589,157,504	3,922,294,551	-	-
(Deferred income from loan portfolio)		(32,964,070,406)	(31,957,115,610)	-	-
Net carrying amount	7-a ¢	4,201,655,414,366	4,154,014,686,624	335,919,739,964	312,248,058,676
Restructured loans	¢	32,160,443,475	26,435,763,871	-	-

Set out below is an analysis of the Bank's loan portfolio balances as of June 30, 2021, gross and net of the allowance for loan losses, by risk rating according to SUGEF Directive 1-05 and SUGEF Directive 15-16:

		June 2021	
		Loans to customers	
		Gross	Net
0	¢	39,155,875,240	38,170,717,518
A1		3,352,547,961,118	3,291,385,942,103
A2		70,212,782,123	69,858,017,859
B1		404,352,232,690	400,396,627,471
B2		10,972,539,157	10,806,021,401
C1		122,910,402,601	119,280,623,222
C2		11,637,267,470	10,928,430,999
D		153,035,777,209	134,287,939,602
E		220,476,475,707	155,916,007,093
	¢	4,385,301,313,315	4,231,030,327,268

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		June 2020	
		Loans to customers	
		Gross	Net
0	¢	39,655,714,772	38,032,710,227
A1		3,229,663,840,079	3,199,484,350,842
A2		66,551,902,365	66,217,633,786
B1		452,494,345,798	448,237,005,385
B2		5,419,942,538	5,343,311,415
C1		116,900,853,495	113,582,893,658
C2		3,494,561,266	3,170,350,369
D		181,956,437,799	167,581,477,735
E		207,424,026,340	140,399,774,266
	¢	4,303,561,624,452	4,182,049,507,683

As shown above, as of June 30, 2021, the gross portfolio amounts to ¢4,385 billion. Of that amount, 88.41% is classified in risk ratings “A+B” and 11.90% in risk ratings “C+D+E” (2020: ¢4,279 billion, of which 88.17% is classified in risk ratings “A+B” and 11.83% in risk ratings “C+D+E”).

Individually assessed loans with allowance:

Pursuant to SUGEF Directives 1-05 and 15-16, 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 for which, 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 that covers at least the outstanding balance due to the Bank. Accordingly, no allowance is established.

Restructured loans:

Through Note CNS-2020, in Article 7 of Minutes of Meeting No. 1602-2020, held on August 31, 2020, CONASSIF communicated the different considerations to be made with regard to restructured loan operations.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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. The various types of restructured loans are as follows:

- 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.

Loan write-off policy:

The Bank writes off a loan (and any allowance for loan losses) 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, write-offs are generally based on the level of arrears of the loan granted.

Borrower classification

Pursuant to SUGEF Directive 1-05, borrowers are classified in two groups: Group 1, borrowers whose total outstanding balance exceeds ¢100 million, according to Note SGF-1514-2019 and Group 2, borrowers whose total outstanding balance is less than ¢100 million.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of June 30, the loan portfolio by borrower classification is as follows:

Borrower classification	Direct		Stand-by	
	2021	2020	2021	2020
Group 1	¢ 2,300,948,033,626	2,161,150,663,031	46,728,722,412	42,023,732,621
Group 2	2,084,353,279,315	2,142,410,961,421	290,032,704,342	270,832,514,766
	¢ 4,385,301,312,941	4,303,561,624,452	336,761,426,754	312,856,247,387

Risk ratings

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.

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

<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 o Level 2
B2	60 days or less	Level 2	Level 1 o Level 2
C1	90 days or less	Level 1	Level 1 o Level 2 o Level 3
C2	90 days or less	Level 1 o Level 2	Level 1 o Level 2 o Level 3
D	120 days or less	Level 1 o Level 2	Level 1 o Level 2 o Level 3 o Level 4
E	More than 121 days	Level 1 o Level 2	Level 1 o Level 2 o Level 3 o Level 4

Through that set forth in SUGEF Directive 15-16 to calculate specific allowances, risk ratings 2 to 6 for the microfinance, development and second-tier banking portfolios are subject to specific allowances according to the percentages in the following table:

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

<u>Risk rating</u>	<u>Specific allowance percentage (uncovered portion)</u>
1	0%
2	5%
3	25%
4	50%
5	70%
6	100%

In all cases, borrowers without valid authorization for a credit check through SUGEF's Credit Information Center (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.

Borrowers are to be assigned a risk rating of E if they fail to meet the conditions for any of the risk ratings defined above, are in a state of bankruptcy, meeting of creditors, court protected reorganization procedure or takeover or if the Bank considers assignment of such rating to be appropriate.

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- 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 CIC.

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

Structural allowance for loan losses

Pursuant to Article 12 of SUGEF Directive 1-05, the specific allowance is calculated on the covered and uncovered balance of each loan operation. The allowance on the uncovered balance is equivalent to the total outstanding balance of each loan operation less the adjusted weighted value of the corresponding guarantee, multiplying the resulting amount by the allowance percentage corresponding to the risk rating of the borrower or co-borrower in the lowest risk rating. If the result of this calculation is negative or zero, the allowance is zero. If the total outstanding balance includes a stand-by principal balance, the credit equivalent should be used in accordance with Article 13 of SUGEF Directive 1-05.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The allowance for the covered portion of each loan operation is equivalent to the result of multiplying the covered amount by the corresponding allowance percentage pursuant to Article 12 of SUGEF Directive 1-05.

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

Weightings lower than 100% apply for all guarantees except for the guarantees mentioned in subsections d. through r. of Article 14 of SUGEF Directive 1-05. Weightings mentioned in subsection s. apply for trust assets whose nature corresponds to that of the assets mentioned in subsections a. through c. of Article 14 of SUGEF Directive 1-05.

Specific allowance percentages based on borrower risk rating are as follows:

<u>Risk rating</u>	<u>Specific allowance percentage - Uncovered portion</u>	<u>Specific allowance percentage - Covered portion</u>
A1	0%	0.00%
A2	0%	0.00%
B1	5%	0.50%
B2	10%	0.50%
C1	25%	0.50%
C2	50%	0.50%
D	75%	0.50%
E	100%	0.50%

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
60 days or less	50%	0.50%	Level 2	Level 1
More than 60 days	100%	0.50%	Level 1 or Level 2 or Level 3 or Level 4	Level 1 or Level 2

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

In accordance with Article 11 bis of SUGEF Directive 1-05, at each month-end, the Bank must book the general allowance for a minimum of 0.50% of the total outstanding balance for loan operations rated A1 and A2, without reducing the effect of guarantees. The provisions of Article 13 of the aforementioned Directive are to be applied to stand-by credits.

General allowance percentages, based on borrower risk ratings, 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%

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, the Bank must maintain a structural allowance, as follows:

	<u>June 2021</u>		
	<u>Allowance booked</u>	<u>Structural allowance</u>	<u>Excess of allowance</u>
Allowance for direct loans	¢ 153,429,299,288	(110,993,480,034)	42,435,819,254
Allowance for stand-by credits	841,686,759	(169,491,267)	672,195,492
	154,270,986,047	(111,162,971,301)	43,108,014,746
Counter-cyclical allowance per SUGEF Directive 19-16	339,644	(339,644)	-
	¢ 154,271,325,691	(111,163,310,945)	43,108,014,746

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		June 2020	
	Allowance booked	Structural allowance	Excess of allowance
Allowance for direct loans	¢ 120,903,928,058	(108,774,232,941)	12,129,695,117
Allowance for stand-by credits	608,188,711	(240,210,326)	367,978,385
	121,512,116,769	(109,014,443,267)	12,497,673,502
Counter-cyclical allowance per SUGEF Directive 19-16	20,011,118,751	(20,011,118,751)	-
	¢ <u>141,523,235,521</u>	<u>(129,025,562,018)</u>	<u>12,497,673,503</u>

Counter-cyclical allowance

As of June 30, 2021, the counter-cyclical allowance is valued pursuant to the provisions set forth in SUGEF Directive 19-16 *Regulations to Determine and Book Counter-cyclical Allowances*.

The percentage to be applied to the counter-cyclical allowance will increase gradually, as follows:

Date of application	Percentage
Starting from the effective date	5.00%
From June 1, 2019	6.00%
From June 1, 2020	7.00%

Through note SGF-0902-2020 dated March 16, 2020, SUGEF communicated the decrease in the percentage (over monthly income) used to determine the counter-cyclical allowance to 0.00%.

From December 1, 2020 to December 1, 2021, according to Directive No. CNS 1617-2020 dated November 2, 2020, the application of the counter-cyclical regulation until December 31, 2021 is suspended. Moreover, the total or partial reclassification of the balance accumulated in the accounts 139.02.M.02 (counter-cyclical allowance) and 139.52.M.03 (counter-cyclical allowance for stand-by credits) shall only be performed, for the same amount, to account 139.01 (specific allowance for the loan portfolio). Thus, the size of the reclassification is determined solely by increases in specific allowances for borrowers reclassified to risk categories C1, C2, D and E, in conformity with Articles 10 and 11 of SUGEF Directive 1-05 and categories 4, 5 and 6 according to section 2 of Appendix 3 “Standard Methodology” of SUGEF Directive 15-16.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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
- c. pre-approved lines of credit: 0.50.

Allowance for other assets

Allowances should be established for the following assets:

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

<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%

As of June 30, 2021, the carrying amount of the allowance for impairment of foreclosed assets and per legal requirements amounts to ¢61,311,087,842 (2020: ¢69,075,225,825).

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of June 30, the concentration of the loan portfolio by sector is as follows:

Sector		Direct		Stand-by	
		2021	2020	2021	2020
Trade	¢	360,022,050,658	375,247,561,703	3,194,602	2,902,116
Services		898,460,478,200	888,300,005,433	51,674,610,636	46,976,238,637
Financial services		76,046,061,249	101,631,106,306	-	-
Mining		690,970,355	739,178,551	-	-
Manufacturing and quarrying		154,014,317,520	160,715,211,091	-	-
Construction		96,034,310,135	95,625,371,130	-	-
Agriculture and forestry		114,856,443,810	108,713,795,360	-	1,381,585
Livestock, hunting and fishing		75,967,622,591	75,923,575,445	-	-
Electricity, water, sanitation and other related sectors		468,847,934,921	387,812,514,349	-	-
Transportation and telecommunications		47,351,393,181	47,536,998,319	-	-
Housing		1,353,086,013,343	1,326,128,970,713	2,787,854	2,441,872
Personal or consumer		520,304,828,919	544,283,993,555	284,954,134,728	265,719,333,177
Tourism		219,618,888,060	190,903,342,497	126,698,935	153,950,000
	¢	<u>4,385,301,312,942</u>	<u>4,303,561,624,452</u>	<u>336,761,426,754</u>	<u>312,856,247,387</u>

As of June 30, the concentration of financial assets by geographic location is as follows:

		Direct		Stand-by	
		2021	2020	2021	2020
Central America	¢	<u>4,385,301,313,315</u>	<u>4,303,561,624,452</u>	<u>336,761,426,722</u>	<u>312,856,247,387</u>

As of June 30, the loan portfolio by type of guarantee is as follows:

Type of guarantee		Direct		Stand-by	
		2021	2020	2021	2020
Back-to-back	¢	13,844,084,197	16,517,191,201	499,022	583,490
Letters of credit		-	94,222,506	-	-
Mortgage bond		81,679,387	337,660,375,736	-	1,750,470
Assignment of loans		340,349,652,440	15,555,087,382	-	-
Mortgage		1,744,582,790,055	2,087,463,550,463	103,157,032	12,739,577
Surety		884,735,195,590	472,256,144,036	1,865,587	-
Trust		406,172,164,047	439,902,817,587	-	-
Securities		31,583,706,279	681,625,881	-	-
Chattel mortgage		223,361,878,574	265,048,403,118	-	-
Other		740,590,162,373	668,382,206,542	336,655,904,308	312,841,173,850
	¢	<u>4,385,301,312,942</u>	<u>4,303,561,624,452</u>	<u>336,761,426,722</u>	<u>312,856,247,387</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Guarantees:

- a. Collateral: The Conglomerate 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.
- b. Personal: The Conglomerate also accepts sureties from individuals or legal entities. The Conglomerate 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 June 30, 2021, 63.11% of the loan portfolio is secured by collateral guarantees (2020: 58.81%).

As of June 30, the concentration of the loan portfolio by individual borrower is as follows:

Loan portfolio concentration	Direct		Stand-by	
	2021	2020	2021	2020
¢1 to ¢3,000,000	¢ 136,264,289,403	146,684,109,260	90,620,874,443	97,609,859,655
¢3,000,001 to ¢15,000,000	555,557,821,803	599,021,809,647	190,639,362,060	167,136,738,320
¢15,000,001 to ¢30,000,000	448,302,251,504	459,474,595,198	8,542,216,688	6,106,829,600
¢30,000,001 to ¢50,000,000	477,046,611,902	476,074,119,643	3,167,686,090	2,183,817,160
¢50,000,001 to ¢75,000,000	433,283,627,536	415,523,730,651	2,489,350,377	2,515,474,737
¢75,000,001 to ¢100,000,000	211,557,529,857	199,845,763,216	608,616,083	1,195,269,907
¢100,000,001 to ¢200,000,000	240,814,836,655	232,186,133,020	2,082,249,031	2,896,585,137
More than ¢200,000,000	<u>1,882,474,344,187</u>	<u>1,774,751,363,817</u>	<u>38,611,072,757</u>	<u>33,211,672,871</u>
	<u>¢ 4,385,301,312,847</u>	<u>4,303,561,624,452</u>	<u>336,761,427,529</u>	<u>312,856,247,387</u>

As of June 30, 2021, the portion of the loan portfolio (direct and stand-by loans) corresponding to economic interest groups amounts to ¢730,218,525,085,535 (2020: (¢732,461,233,028), equivalent to 16.52% of the loan portfolio.

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

As of June 30, 2021, all economic activities showed increases in the VaR of the loan portfolio, especially in activities such as livestock, transport, industry, consumer and trade. These increases are the result of higher levels of arrears in the loan portfolios for those activities, due to the difficult economic situation faced by the country in relation to the COVID-19 pandemic.

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

Credit risk is the risk of financial loss to the Investment Fund Manager if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Investment Fund Manager’s investment debt securities and accounts receivable. For risk management reporting purposes, the Investment Fund Manager considers and consolidates all elements of credit risk exposure – e.g. individual obligor default risk, country and sector risk.

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

The Investment Fund Manager enters into repurchase agreements, which can lead to credit risk exposure if the counterparty to the transaction is unable to fulfill its contractual obligations. Repurchase agreements are secured by securities pledged by the counterparty but are not directly secured by the Costa Rican National Stock Exchange. In the event of default, the Investment Fund Manager has recourse to the guarantee fund and to traditional recovery mechanisms such as termination of the agreement and foreclosure.

With the entrance into effect of SUGEF Directive 30-18 *Regulation on Financial Information* (RFI), regulated entities are required to calculate estimated credit losses for their investment portfolios.

Financial instruments are classified according to the business models defined and approved by the board of directors.

The calculation of ECL applies only to instruments measured at amortized cost or at FVOCI. ECL due to impairment in the issuer's credit is not calculated for those instruments that directly affect equity.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of June 30, an allowance for ECL was booked for the managed portfolio, as follows:

Loss Allowance	
Portfolio	2021
Investments in financial instruments at FVOCI	20,185,802

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

Credit risk is the risk of financial loss to the Brokerage Firm if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Brokerage Firm's investment debt securities and accounts receivable. For risk management reporting purposes, the Brokerage Firm considers and consolidates all elements of credit risk exposure – e.g. individual obligor default risk, country and sector risk.

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

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

To mitigate credit risk, the Brokerage Firm's liquidity policy sets the following limits:

- Pursuant to the requirements set out in the investment policy, the Brokerage Firm takes into consideration the ratings granted by rating agencies to local or international issues, in compliance with the provisions of current regulations.
- The Brokerage Firm assesses the marketability of the instruments based on internally calculated indicators. In the case of investments in the local market, the Brokerage Firm considers those registered with the National Registry of Securities and Brokers, while for investments in international markets, the Brokerage Firm considers instruments that may be sold at any point in time.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Consequently, in order for the Brokerage Firm to acquire securities issued abroad, those securities must have been assigned a risk rating by a risk rating agency authorized by SUGEVAL or by a renowned international risk rating agency such as Standard & Poor's, Moody's or Fitch. This requirement does not apply to securities issued abroad by the Government of Costa Rica, BCCR and other Costa Rican public institutions.

The Brokerage Firm may acquire the following instruments:

- fixed income external debt securities issued by the Government of Costa Rica, BCCR and other Costa Rican public institutions
- fixed income securities issued by the government or the central bank of countries that have been assigned an investment grade rating
- investment grade corporate bonds and fixed income securities issued by supranational entities
- structured notes issued by investment grade banks, provided that the underlying instrument is not related to commodities, stock indexes or shares; has a risk rating that is not below the risk rating assigned to Costa Rica; and is available for public offering on a national or international stock exchange, subject to prior approval of General Management.

In local currency, the Brokerage Firm may invest in instruments issued by the Government of Costa Rica, BCCR, commercial State-owned banks and local and foreign public or private entities authorized by SUGEVAL, which issue securities that meet the set criteria and investment limits and that may be freely transferred in the Costa Rican securities market.

The weighted average duration of the total portfolio based on Macaulay's duration and by weighing the carrying amount of each investment shall not exceed five years.

The Brokerage Firm enters into repurchase agreements, which can lead to credit risk exposure if the counterparty to the transaction is unable to fulfill its contractual obligations. Repurchase agreements are secured by securities pledged by the counterparty but are not directly secured by the Costa Rican National Stock Exchange. In the event of default, the Brokerage Firm has recourse to the guarantee fund and to traditional recovery mechanisms such as termination of the agreement and foreclosure.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

With the entrance into effect of SUGEF Directive 30-18 *Regulation on Financial Information* (RFI), regulated entities are required to calculate estimated credit losses for their investment portfolios.

Financial instruments are classified according to the business models defined and approved by the board of directors.

The calculation of ECL applies only to instruments measured at amortized cost or at FVOCI. ECL due to impairment in the issuer's credit is not calculated for those instruments that directly affect equity.

As of June 30, an allowance for ECL was booked for the managed portfolio, as follows:

Loss allowance		
Portfolio		2021
Investments measured at amortized cost	¢	173,569,660
Investments measured at FVOCI	¢	31,614,274

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

For the Pension Fund Manager, the credit risk of an investment is defined as the uncertainty that the issuer of the acquired instrument or counterparty, may not fulfill its obligations, resulting in nonpayment, also known as issuer credit risk. For risk management reporting purposes, the Pension Fund Manager considers and consolidates all elements of credit risk exposure – e.g. individual obligor default risk, country and sector risk.

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The Pension Fund Manager monitors the notes on relevant events provided by SUGEVAL, which evidence changes in ratings by local rating agencies. With this information, Management and the committees are able to make timely decisions to maintain the investments that are favorable to the portfolios managed by the Pension Fund Manager, protecting the affiliates' interests and wellbeing.

With the entrance into effect of SUGEF Directive 30-18 *Regulation on Financial Information* (RFI), regulated entities are required to calculate estimated credit losses for their investment portfolios.

Financial instruments are classified according to the business models defined and approved by the board of directors.

The calculation of ECL applies only to instruments measured at amortized cost or at FVOCI. ECL due to impairment in the issuer's credit is not calculated for those instruments that directly affect equity.

As of June 30, an allowance for ECL was booked for the managed portfolio, as follows:

Loss Allowance	
Fund	2021
Investments measured at FVOCI	¢ 16,180,547

v. BN Sociedad Corredora de Seguros, S.A.

Credit risk is the risk of financial loss to the Insurance Brokerage Firm if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Insurance Brokerage Firm's investment debt securities and accounts receivable. For risk management reporting purposes, the Insurance Brokerage Firm considers and consolidates all elements of credit risk exposure – e.g. individual obligor default risk, country and sector risk.

To mitigate credit risk, the Insurance Brokerage Firm's liquidity policy sets the following limits:

- Pursuant to the requirements set out in the investment policy, the Insurance Brokerage Firm takes into consideration the ratings granted by rating agencies to local or international issues, in compliance with the provisions of current regulations.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- The Insurance Brokerage Firm assesses the marketability of the instruments based on internally calculated indicators. In the case of investments in the local market, the Insurance Brokerage Firm considers those registered with the National Registry of Securities and Brokers, while for investments in international markets, the Insurance Brokerage Firm considers instruments that may be sold at any point in time.

With the entrance into effect of SUGEF Directive 30-18 *Regulation on Financial Information* (RFI), regulated entities are required to calculate estimated credit losses for their investment portfolios.

Financial instruments are classified according to the business models defined and approved by the board of directors.

The calculation of ECL applies only to instruments measured at amortized cost or at FVOCI. ECL due to impairment in the issuer's credit is not calculated for those instruments that directly affect equity.

As of June 30, an allowance for ECL was booked for the managed portfolio, as follows:

Loss allowance	
Portfolio	June 2021
Investments measured at amortized cost	¢ 15,218,943

Investments in financial instruments

With the entrance into effect of SUGEF Directive 30-18 *Regulation on Financial Information* (RFI), Article 18 requires regulated entities to calculate estimated credit losses for their investment portfolios. This calculation has been performed monthly since January 2020 for the Bank's investments.

The Bank has a classification of its instruments aligned with the three business models defined and updated as of the first quarter of 2021. The calculation of ECL applies only to instruments measured at amortized cost and instruments measured at fair value through other comprehensive income (FVOCI). For instruments measured at fair value through profit or loss, expected credit losses are not calculated for impairment of the issuer's credit.

Instruments classified under model 1 (measured at amortized cost) are held to collect contractual cash flows and give rise to cash flows that are solely payments of principal and interest.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Instruments classified under model 2 (measured at fair value through other comprehensive income, FVOCI) are held to obtain income from collecting contractual cash flows and selling financial assets, for reinvestment or to be used to address the liquidity needs of the investments portfolio.

Instruments classified under model 3 (other assets) are held to obtain income from cash flows generated by trading the assets and are recorded at fair value through profit or loss.

As of June 30, 2021, the instruments by model are as follows:

Date		Model 1 Amortized cost	Model 2 Comprehensive income	Total estimated loss
January	¢	5,707,886,149	907,120,180	6,615,006,329
February	¢	5,771,486,817	1,716,961,888	7,488,448,705
March	¢	5,860,177,013	1,912,333,323	7,772,510,336
April	¢	5,838,269,399	1,949,143,279	7,787,412,678
May	¢	5,921,652,314	1,891,224,378	7,812,876,692
June	¢	7,987,154,446	3,469,879,404	11,457,033,850

The following table sets out information about the credit quality of financial assets measured at amortized cost. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. Explanation of the terms ‘Stage 1’ and ‘Stage 2’ is included in Note 5(b)(iii).

		June 2021	
		Stage 1	Total
Investments in financial instruments	¢	885,594,522,389	885,594,522,389
Allowance		(2,570,386,890)	(2,570,386,890)
	¢	<u>883,024,135,499</u>	<u>883,024,135,499</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The following table sets out information about the credit quality of financial assets measured at fair value through other comprehensive income (FVOCI). Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. Explanation of the terms 'Stage 1' and 'Stage 2' is included in Note 5(b)(iii).

		June 2021	
		Stage 1	Total
Investments in financial instruments	¢	773,997,463,093	773,997,463,093
Allowance		(3,438,265,130)	(3,438,265,130)
	¢	<u>770,559,197,963</u>	<u>770,559,197,963</u>

The following table sets out information about the credit quality of financial assets measured at fair value through profit or loss (FVTPL). Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. Explanation of the term 'Stage 1' is included in Note 5(b)(iii).

		June 2021	
		Stage 1	Total
Investments in financial instruments	¢	30,450,286,242	30,450,286,242
	¢	<u>30,450,286,242</u>	<u>30,450,286,242</u>

As of June 30, 2021, the expected loss by currency is as follows:

	Absolute	Relative
Colones	¢ 5,681,787,255	051%
US dollars	358,479,039	0.23%
	¢ <u>6,040,266,294</u>	<u>0.74%</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Investments by geographic location are as follows:

Country	June 2021		
	Principal	Interests	Total
Costa Rica	¢ 1.095.133.983.375	18.398.564.107	1.113.532.547.482
Panama	6.142.803.937	-	6.142.803.937
United States	419,086,579,344	2,098,898,774	421,185,478,118
Mexico	192,917,281	2,652,464	195,569,745
Canada	12,812,416,361	97,418,761	12,909,835,122
Venezuela	9,904,044,511	1,200,303	9,905,244,814
Europe	71,838,020,526	550,368,328	72,388,388,854
Asia	7,383,941,737	57,019,099	7,440,960,836
Australia	8,305,922,418	88,708,745	8,394,631,163
New Zealand	372,513,753	2,563,510	375,077,263
	¢ 1,690,861,699,225	20,801,411,607	1,711,663,110,832

Amounts arising from expected credit losses

- *Significant increase in credit risk*

When determining whether the credit risk of a financial instrument has increased significantly since initial recognition, the Bank shall consider reasonable and supportable information that is relevant and available without undue cost or effort, which is indicative of significant increases in credit risk since initial recognition. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information.

For issuers that only have a local rating, the same methodology is applied, using the equivalence table in effect published by CONASSIF to obtain the equivalent to international ratings.

- *Definition of default*

The Bank considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realizing security (if any is held); or
- the borrower is more than 90 days past due on any material credit obligation to the Bank.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

In assessing whether a borrower is in default, the Bank considers indicators that are mainly quantitative (e.g. overdue status and non-payment on another obligation with the Bank) and qualitative.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

- *Incorporation of forward-looking information*

The Bank incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

The Bank will formulate a base scenario of the future direction of the relevant economic variables, considering the advice of the Risk Committee, the Investments Committee, and external information and forecasts. This process entails the development of two or more additional economic scenarios and assessing their likelihood. The base scenario will represent a more likely outcome; it is aligned with information used by the Bank for other purposes such as strategic planning and budgeting. The other scenarios are one upside scenario and one downside scenario. Periodically, the Bank carries out stress testing of more extreme shocks to calibrate its determination of the upside and downside representative scenarios.

- *Measurement of expected credit losses*

The key inputs used into the measurement of ECL are the term structure of the following variables:

- probability of default (PD)
- loss given default (LGD)
- exposure at default (EAD).

The Conglomerate defines these parameters using statistical models developed internally, using historical data and business-based assumptions, which are adjusted to reflect projected information, as described below:

Probability of default (PD): This is the probability that, given a risk profile, an operation will enter default over a particular time horizon. PD estimates are performed as of a certain date; the Bank calculates them through an analysis of historical information and using statistical models.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Loss given default (LGD): This is the magnitude of the likely loss if there is default. The Bank estimates LGD parameters based on a historical analysis of the recovery rates of operations that have entered into default. The model developed to calculate LGD considers the structure, collateral and recovery cost. It is calculated on a discounted cash flow basis, using the original effective interest rate of the loans as the discounting factor. The LGD may differ from the figures used for regulatory purposes, mainly due to the elimination of regulatory provisions, calibration assumptions, inclusion of forward-looking information, and the discount rate used.

Exposure at default (EAD): This measures the current and future exposure to default over the life of the loan. The Bank derives EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortization. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EAD considers the potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts.

As described above, and subject to using a maximum of 12-month PD for financial assets for which credit risk has not increased significantly, the Bank measures ECL considering the risk of default over the maximum contractual period (including any extension option for the borrower) over which it is exposed to credit risk, even when, for credit risk management purposes, the Bank considers a longer period.

- *Expected credit losses*

The reconciliation of the opening balance and closing balance of expected credit losses by type of instrument is as follows:

		Stage 1	Total
<u>Investment securities</u>			
Balance as of January 1, 2021	¢	3,399,289,291	3,399,289,291
Update of allowance		4,172,330,667	4,171,330,667
Allowance for new investments		(1,788,122,891)	(1,788,122,891)
Decrease in allowance		5,783,497,067	5,783,497,067
Balance as of June 30, 2021	¢	<u>3,399,289,291</u>	<u>3,399,289,291</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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.

i. Banco Nacional de Costa Rica

To support liquidity risk management, the Market Risk Division (MRD) monitors indicators such as liability structure, daily changes and trends in demand and term account balances, volatility of deposit-taking from the public (VaR of liquidity) liquidity coverage ratio (LCR), systemic liquidity indicators and variables with the greatest impact on SUGEF's term matching indicators.

LCR results are compared with the risk appetite limit approved by the General Board of Directors, which was set at 125% for the LCR in colones and in US dollars.

Below is the LCR indicator as of the period ended June 2021, term during which the indicators are considerably above the risk appetite level in both currencies. This means that commitments and net cash outflows for 30 days can be met in an adverse scenario.

Year on year, the LCR indicator in colones has remained mostly above 200%, locating at 197% at the June 2021 close, 1% higher than a year ago, as a result of a decrease in net cash outflows of 10.4% (-¢60,200 million, mainly in wholesale and financial commitments) that was offset with a decrease in the stock of liquid assets (HQLA) of 11.3% (-¢113,400 million, mainly in investments in MIL). The LCR indicator remains considerably below the appetite level at 125%, equivalent to ¢426,500 million.

At the June 30, 2021 close, the LCR indicator in US dollars located at 250%, showing a significant decrease of 118% as a result of the payment made of the international issue for a total of \$310 million in April 2021. The foregoing was reflected in a decrease of HQLA) of 16.4% (-\$243 million, mainly in investments and cash and due from banks abroad, Level 1A), together with an increase in net outflows of 23.2% (\$93 million, mainly due to the increase in wholesale and retail commitments). The LCR indicator is considerably below the appetite level at 125%, equivalent to \$617 million.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of June 30, the LCR's percentage indicator by currency is as follows:

<u>Indicator</u>	<u>2021</u>	<u>2020</u>	<u>Variation</u>	<u>Level</u>
LCR - colones	197%	196%	1%	Appetite
LCR - US dollars	250%	368%	(118%)	Appetite

This information is communicated to management in a monthly report that is reviewed by the Corporate Risk Committee and subsequently presented to the board of directors.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of June 30, 2021, the terms of the Bank and its Subsidiaries' assets and liabilities denominated in local currency are matched as follows:

		Days								
		Past due	Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	More than 365	Total
Cash and due from banks	¢	-	154,396,457,458	-	-	-	-	-	-	154,396,457,458
Minimum legal deposit in BCCR		-	239,574,238,998	23,255,044,898	22,642,140,940	28,507,403,619	49,465,647,513	50,228,775,975	17,200,147,812	430,873,399,755
Investments		-	1,519,685,256	179,247,051,470	2,851,376,224	9,853,795,763	48,641,567,218	40,522,090,547	792,102,319,173	1,074,737,885,651
Loan portfolio		242,467,323,148	-	83,006,872,788	33,814,455,381	31,462,059,144	83,697,192,010	128,002,885,609	2,570,077,631,068	3,172,528,419,148
Recovery of assets	¢	242,467,323,148	395,490,381,712	285,508,969,156	59,307,972,545	69,823,258,526	181,804,406,741	218,753,752,131	3,379,380,098,053	4,832,536,162,012
Obligations with the public	¢	-	2,345,294,126,424	167,958,759,668	222,098,584,730	120,400,584,420	457,573,091,339	331,976,969,248	125,647,484,509	3,770,949,600,338
Obligations with BCCR		-	-	-	-	-	-	-	168,418,644,412	168,418,644,412
Obligations with financial entities		-	47,088,908,291	117,263,271,634	20,424,037,966	14,171,346,375	11,325,833,539	25,752,238,354	36,066,883,756	272,092,519,915
Charges payable		-	8,729,675,608	5,861,918,114	4,673,299,557	1,077,017,583	1,608,184,751	1,580,614,494	1,654,442,306	25,185,152,413
Maturity of liabilities	¢	-	2,401,112,710,323	291,083,949,416	247,195,922,253	135,648,948,378	470,507,109,629	359,309,822,096	331,787,454,983	4,236,645,917,078
Difference	¢	242,467,323,148	(2,005,622,328,611)	(5,574,980,260)	(187,887,949,708)	(65,825,689,852)	(288,702,702,888)	(140,556,069,965)	3,047,592,643,070	595,890,244,934

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of June 30, 2021, 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	¢	-	381,372,760,502	-	-	-	-	-	381,571,751,478
Minimum legal deposit in BCCR		-	192,434,572,219	13,669,365,160	13,037,404,035	7,440,293,446	20,037,159,086	23,221,872,854	287,966,655,128
Investments		-	-	9,202,752,133	4,983,394,174	15,346,011,883	49,582,947,943	86,571,258,276	649,552,407,141
Loan portfolio		171,611,368,744	-	31,545,814,292	11,861,888,351	16,086,930,069	30,836,152,940	49,319,639,915	1,183,397,981,265
Recovery of assets	¢	171,611,368,744	573,807,332,721	54,417,931,585	29,882,686,560	38,873,235,398	100,456,259,969	159,112,771,045	2,502,488,795,012
Obligations with the public	¢	-	1,331,453,763,931	63,464,184,688	49,272,734,781	43,704,105,651	150,884,143,754	161,122,757,804	1,919,341,229,059
Obligations with financial entities		-	22,683,709,520	87,565,286,340	3,115,819,200	2,506,337,600	10,383,990,935	983,838,470	480,939,632,580
Charges payable		-	2,525,947,438	848,818,888	560,294,756	426,710,550	3,570,868,735	1,132,741,138	9,758,309,761
Maturity of liabilities	¢	-	1,356,663,420,889	151,878,289,916	52,948,848,737	46,637,153,801	164,839,003,424	163,239,337,412	2,410,039,171,400
Difference	¢	171,611,368,744	(782,856,088,168)	(97,460,358,331)	(23,066,162,177)	(7,763,918,403)	(64,382,743,455)	(4,126,566,367)	92,449,623,612

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of June 30, 2020, 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	¢	-	440,576,667,734	-	-	-	-	-	440,576,667,734
Minimum legal deposit in BCCR		-	198,121,678,278	12,458,552,130	11,756,732,664	6,976,895,735	17,565,996,787	51,047,102,482	316,448,230,671
Investments		-	-	15,894,222,180	28,837,875,085	63,899,017,674	112,048,872,753	126,937,452,722	565,145,949,122
Loan portfolio		299,767,342,778	-	18,414,817,283	12,287,547,264	13,863,153,001	34,572,278,061	43,045,987,289	1,174,638,349,312
Recovery of assets	¢	299,767,342,778	638,698,346,012	46,767,591,593	52,882,155,013	84,739,066,410	164,187,147,601	221,030,542,493	2,496,809,196,839
Obligations with the public	¢	-	1,052,849,738,920	84,314,168,081	43,668,800,629	48,076,099,178	146,337,680,301	155,445,893,400	1,622,357,625,133
Obligations with financial entities		-	21,943,978,553	91,213,712,823	3,500,940,000	2,934,954,700	21,034,231,010	182,489,316,364	766,791,078,657
Charges payable		-	2,876,959,202	1,250,372,805	766,851,983	414,056,045	6,207,377,943	1,434,286,058	13,713,610,233
Maturity of liabilities	¢	-	1,077,670,676,675	176,778,253,709	47,936,592,612	51,425,109,923	173,579,289,254	339,369,495,822	2,402,862,314,023
Difference	¢	299,767,342,778	(438,972,330,663)	(130,010,662,116)	4,945,562,401	33,313,956,487	(9,392,141,653)	(118,338,953,329)	93,946,882,816

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

Liquidity risk is the risk that the Investment Fund Manager will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises from mismatches in the timing and amounts of cash flows, which is inherent to the Investment Fund Manager's operations and investments.

Management of liquidity risk

The board of directors sets the Investment Fund Manager's strategy for managing liquidity risk and oversight of the implementation is administered by the General Risk Department. It approves the Investment Fund Manager's liquidity policies and procedures. The Treasury department manages the liquidity position on a day-to-day basis and reviews daily reports on the liquidity position.

The Investment Fund Manager's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Investment Fund Manager's reputation. It is worth noting that liquidity risk management is closely related to credit risk management, meaning that securities listed in the financial market are included in order to facilitate their negotiation.

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

Liquidity risk is the risk that the Brokerage Firm will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises from mismatches in the timing and amounts of cash flows, which is inherent to the Brokerage Firm's operations and investments.

Management of liquidity risk

The board of directors sets the Brokerage Firm's strategy for managing liquidity risk and oversight of the implementation is administered by the Corporate Risks Committee. This Committee approves the Brokerage Firm's liquidity policies and procedures. The Treasury department manages the liquidity position on a day-to-day basis and reviews daily reports on the liquidity position.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Successful investment portfolio management is directly linked to good risk management practices. Securities are highly liquid instruments that can be purchased or sold, acting as a natural hedging mechanism for liquidity risk and interest rate risk. The Brokerage Firm's liquidity management improves when it ensures that the investment portfolios are composed of instruments that can be sold or used as collateral to cover unexpected outflows or needs arising from the main lines of business.

The Brokerage Firm's risk profile is conservative, meaning that it has low risk tolerance (i.e. lower than the average investor). This low risk tolerance represents a restriction to returns on the investments portfolio, evidenced by the benchmarks, in which the conservation of capital with high liquidity is one of the main premises of the investments made.

Through its investment portfolio the Brokerage Firm seeks to manage liquidity risk, credit risk and interest rate risk, carrying highly liquid assets that allow adjusting the maturity of the portfolio according to the financial outlook and performance, measuring total returns according to the best practices.

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

Liquidity risk is the risk that the Pension Fund Manager will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises from mismatches in the timing and amounts of cash flows, which is inherent to the Pension Fund Manager's operations and investments.

Management of liquidity risk

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

All policies and procedures are subject to review and approval by the Risk Committee and the Investment Committee. The board of directors has established minimum liquidity levels on the minimum portion of funds available to meet the fund requirements.

Additionally, according to the portfolio's nature, the Pension Fund Manager has established limits to manage liquidity risk that allow determining liquidity levels. To assess liquidity risk, indicators are used, such as the market index of investment instruments.

v. *BN Sociedad Corredora de Seguros, S.A.*

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

Management of liquidity risk

The board of directors sets the Insurance Brokerage Firm's strategy for managing liquidity risk and oversight of the implementation is administered by the Corporate Risks Committee. This Committee approves Insurance Brokerage Firm's liquidity policies and procedures. The Financial Administrative Unit manages the liquidity position on a day-to-day basis and reviews daily reports on the liquidity position.

The Insurance Brokerage Firm's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to its reputation. A key element of the Insurance Brokerage Firm's liquidity strategy is to carry a portfolio of highly liquid assets that match the maturities of the main liabilities.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

c) Market risk

i. Banco Nacional de Costa Rica

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

<u>Indicator</u>	<u>Limit</u>	<u>Level</u>
Consolidated VaR	3.00%	Appetite
Currency risk	3.00%	Appetite
Interest rate risk – colones	2.00%	Appetite
Interest rate risk – foreign currency	2.50%	Appetite

The main indicator used is the market VaR of the Bank's investments, which is measured by means of an internal methodology and quantified for each currency in which the Bank holds positions. That indicator is complemented with the duration and return, which show the Bank's risk-return profile derived from holding an investment portfolio.

The Market Risk Division periodically analyzes and follows-up on the investment portfolio on a periodic basis through the Comprehensive Risk Assessment Report, which is submitted to the Corporate Risk Committee and the board of directors.

As of June 30, the portfolios by currency are as follows:

<u>Currency</u>	<u>Face value of investments by currency</u>		<u>Variation</u>
	<u>2021</u>	<u>2020</u>	
Colones	956,300,100,000	959,990,184,576	(3 690 084 576)
US dollars - local issuers	62,404,166	83,223,948	(72,899,782)
US dollars - international issuers	939,963,000	825,503,000	166,540,000

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

For the Investment Fund Manager, market risk is the risk that changes in market prices – e.g. interest rates and foreign exchange rates – will affect its income or the value of its holdings of financial instruments. The objective of the Investment Fund Manager's market risk management is to manage and control market risk exposures within acceptable parameters to ensure the entity's solvency while optimizing the return on risk.

Market risk refers to potential losses in the market value of the financial instruments portfolio or trading position during the time elapsed until the position is liquidated; losses are equivalent to the difference between the opening and closing market values. The magnitude of market risk depends on the liquidation period, market volatility and the instruments' liquidity.

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

Management of market risks

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

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

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

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

The Investment Fund Manager uses the above methods and calculations to analyze the risk on its portfolios and the correlation between risk and return over a given period of time. The Sharpe ratio measures the risk-adjusted return based on the relationship between return and risk-free assets and the volatility of returns.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Market risk exposure – trading portfolio:

The Investment Fund Manager sets VaR limits for all identified market risks. The structure of those limits is subject to review and approval by the Investment Committee and Board of Directors, respectively and is based on the local VaR limits of the trading portfolio. VaR is calculated at each month-end, with reports on the usage of VaR limits submitted to the Investment Committee.

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

	June 2021	June 2020
VaR indicator (99% confidence level)	0.85%	0.98%

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

For the Brokerage Firm, market risk is the risk that changes in market prices – e.g. interest rates and foreign exchange rates – will affect its income or the value of its holdings of financial instruments. The objective of the Brokerage Firm's market risk management is to manage and control market risk exposures within acceptable parameters to ensure the entity's solvency while optimizing the return on risk.

Market risk refers to potential losses in the market value of the financial instruments portfolio or trading position, during the time elapsed until the position is liquidated; losses are equivalent to the difference between the opening and closing market values. The magnitude of market risk depends on the liquidation period, market volatility and the instruments' liquidity.

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

Market risk management

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

Market risk exposure

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

The Brokerage Firm uses the historical method to calculate VaR, as established in the risk regulations issued by SUGEVAL, based on a confidence level of 95% and a 21-day holding period. As a complement to determine price risk exposure, the Brokerage Firm uses the consolidated VaR model, provided by the Bank's Risk Division, which assumes a 99% confidence level and a 10-day holding period, based on the RiMer approach.

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

For the Pension Fund Manager, market risk is the risk that changes in market prices, e.g. interest rates and foreign exchange rates, will affect the Pension Fund Manager's income or the value of its holdings of financial instruments. The objective of the Pension Fund Manager's market risk management is to manage and control market risk exposures within acceptable parameters to ensure the Pension Fund Manager's solvency while optimizing the return on risk.

Market risk management

The objective of market risk management is to manage and control market risk exposures to ensure solvency while optimizing the return on risk.

For liquidity risk, the Risk Committee and Investment Committee are responsible for ensuring an efficient market risk management for the Pension Fund Manager. Specific levels of authority and responsibility have been assigned to the appropriate market risk committees regarding market risk management.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Market risks are calculated since the end of 2003. A database is in place to determine the corresponding limits. The potential loss is calculated daily in view of the changes in risk factors that affect the valuation of positions, such as interest rate changes. For such purposes, the RiMeR methodology is used, which was internally developed by the Mathematical Modeling and Market Risk Divisions of the Bank. This methodology permits calculating the VaR of portfolios comprised of fixed income instruments. The model considers yield curves, rate model parameter estimation, scenario simulations and calculation of VaR. This methodology uses a two-factor rate model (G2++ model), which involves decomposing the short rate into two processes and a deterministic function to be selected.

v. *BN Sociedad Corredora de Seguros, S.A.*

For the Insurance Brokerage Firm, market risk is the risk that changes in market prices, e.g. interest rates and foreign exchange rates, will affect the Insurance Brokerage Firm's income or the value of its holdings of financial instruments. The objective of the Insurance Brokerage Firm's market risk management is to manage and control market risk exposures within acceptable parameters to ensure the Insurance Brokerage Firm's solvency while optimizing the return on risk.

Market risk management

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

Additionally, the Insurance Brokerage Firm's approach to market risk management includes aspects, such as identifying risk factors, monitoring any such factors identified using market analyses and assessing positions that are subject to price risk using models that measure potential losses on those positions as a result of changes in prices, interest rates or foreign exchange rates.

• *Market risk of investments*

i. *Banco Nacional de Costa Rica*

As of June 30, 2021, the Bank's consolidated VaR regarding the market value of investments is at the risk appetite level. There was an increase of 0.12% during the last period, mainly caused by the increase in the volatility of prices due to the COVID-19 situation.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- Interest rate risk

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

As of June 30, the Market Risk Division monitors this risk regularly through the indicators established by SUGEF Directive 24-00 and reports monthly on its performance to the Bank's Corporate Risk Committee.

<u>Type of risk</u>	<u>2021</u>	<u>2020</u>	<u>Variation</u>	<u>Level</u>
Interest rate risk - In colones	0.19%	0.57%	(0.38%)	Normal
Interest rate risk – In foreign currency	0.002%	0.54%	(0.54%)	Normal

For the Bank, both indicators closed considerably below SUGEF's regulatory limits and the risk appetite approved by the board of directors.

The interest rate risk indicator in colones increased mainly due to the increase in the duration of equity in local currency. In US dollars, the decrease corresponds to the combined effect of a decrease in the duration of equity and lower volatility in the 3-month LIBOR rate.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of June 30, 2021, 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):

		Demand	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	¢	1,519,685,256	179,148,227,854	12,524,820,256	48,591,044,278	37,060,877,377	308,169,155,214	486,984,826,964	1,073,998,637,199
Loan portfolio		-	2,688,001,781,758	108,169,566,569	103,188,326,712	14,748,086,504	15,446,914,048	93,579,437,627	3,023,134,113,218
Recovery of rate-sensitive assets LC (A)	¢	1,519,685,256	2,867,150,009,612	120,694,386,825	151,779,370,990	51,808,963,881	323,616,069,262	580,564,264,591	4,097,132,750,417
Obligations with the public	¢	-	274,518,433,737	383,093,609,872	470,507,109,629	355,808,853,515	87,319,690,193	51,245,326,155	1,622,493,023,101
Obligations with BCCR		-	17,200,000,000	-	-	-	-	168,690,573,856	185,890,573,856
Obligations with financial entities		-	127,981,093	-	-	-	-	28,762,056,464	28,890,037,557
Maturity of rate-sensitive liabilities LC (B)	¢	-	291,846,414,830	383,093,609,872	470,507,109,629	355,808,853,515	87,319,690,193	248,697,956,475	1,837,273,634,514
Difference in LC, recovery of assets less maturity of liabilities (A - B)	¢	1,519,685,256	2,575,303,594,782	(262,399,223,047)	(318,727,738,639)	(303,999,889,634)	236,296,379,069	331,866,308,116	2,259,859,115,903
<i>Foreign currency (FC)</i>									
Investments	¢	-	9,183,101,208	20,340,951,214	47,863,270,576	77,628,093,557	173,847,156,708	308,807,252,570	637,669,825,833
Loan portfolio		-	982,533,561,473	36,592,498,048	21,401,660,327	2,352,891,641	19,658,527,627	55,651,410,633	1,118,190,549,749
Recovery of rate-sensitive assets FC (C)	¢	-	991,716,662,681	56,933,449,262	69,264,930,903	79,980,985,198	193,505,684,335	364,458,663,203	1,755,860,375,582
Obligations with the public	¢	-	151,704,104,135	99,555,027,874	153,991,074,516	162,036,644,218	53,530,940,980	305,415,838,784	926,233,630,507
Obligations with BCCR		-	621,920,000	-	-	-	-	-	621,920,000
Obligations with entities		-	54,055,489	-	10,847,928,908	765,279	-	117,134,278,560	128,037,028,236
Maturity of rate-sensitive liabilities FC (D)	¢	-	152,380,079,624	99,555,027,874	164,839,003,424	162,037,409,497	53,530,940,980	422,550,117,344	1,054,892,578,743
Difference in FC, recovery of assets less maturity of liabilities (C - D)	¢	-	839,336,583,057	(42,621,578,612)	(95,574,072,521)	(82,056,424,299)	139,974,743,355	(58,091,454,141)	700,967,796,839
Recovery of rate-sensitive assets 1/ (A + C)	¢	1,519,685,256	3,858,866,672,293	177,627,836,087	221,044,301,893	131,789,949,079	517,121,753,597	945,022,927,794	5,852,993,125,999
Maturity of rate-sensitive liabilities 2/ (B + D)	¢	-	444,226,494,454	482,648,637,746	635,346,113,053	517,846,263,012	140,850,631,173	671,248,073,819	2,892,166,213,257
Difference in LC + FC, recovery of assets less maturity of liabilities (item 1 - item 2)	¢	1,519,685,256	3,414,640,177,839	(305,020,801,659)	(414,301,811,160)	(386,056,313,933)	376,271,122,424	273,774,853,975	2,960,826,912,742

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of June 30, 2020, 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	¢ 260,318,998,203	39,620,337,819	33,701,995,873	187,953,612,992	90,326,907,205	379,123,841,224	991,045,693,316
Loan portfolio	2,633,993,511,622	106,056,520,763	101,205,969,389	14,687,652,836	15,469,375,681	89,111,538,136	2,960,524,568,427
Recovery of rate-sensitive assets LC (A)	¢ 2,894,312,509,825	145,676,858,582	134,907,965,262	202,641,265,828	105,796,282,886	468,235,379,360	3,951,570,261,743
Obligations with the public	¢ 307,237,864,948	234,627,010,805	387,874,707,424	413,320,207,669	143,529,557,055	59,693,171,311	1,546,282,519,212
Obligations with BCCR	-	-	-	-	-	125,644,412	125,644,412
Obligations with financial entities	65,695,366	-	-	-	-	31,337,453,444	31,403,148,810
Maturity of rate-sensitive liabilities LC (B)	¢ 307,303,560,314	234,627,010,805	387,874,707,424	413,320,207,669	143,529,557,055	91,156,269,167	1,577,811,312,434
Difference in LC, recovery of assets less maturity of liabilities (A - B)	¢ 2,587,008,949,511	(88,950,152,223)	(252,966,742,162)	(210,678,941,841)	(37,733,274,169)	377,079,110,193	2,373,758,949,309
<i>Foreign currency (FC)</i>							
Investments	¢ 9,987,093,240	98,638,276,359	109,108,810,126	122,584,725,928	108,617,871,985	91,524,126,031	540,460,903,669
Loan portfolio	989,732,426,395	36,846,733,439	21,481,444,932	2,355,969,659	19,869,044,709	55,626,500,353	1,125,912,119,487
Recovery of rate-sensitive assets FC (C)	¢ 999,719,519,635	135,485,009,798	130,590,255,058	124,940,695,587	128,486,916,694	147,150,626,384	1,666,373,023,156
Obligations with the public	¢ 177,311,998,736	99,303,795,570	155,707,557,875	336,759,217,848	56,908,501,535	367,926,551,122	1,193,917,622,686
Obligations with entities	209,843,555	50,316,916	17,871,731,414	1,642,070,768	29,174,500,000	83,835,376,408	132,783,839,061
Maturity of rate-sensitive liabilities FC (D)	¢ 177,521,842,291	99,354,112,486	173,579,289,289	338,401,288,616	86,083,001,535	451,761,927,530	1,326,701,461,747
Difference in FC, recovery of assets less maturity of liabilities (C - D)	¢ 822,197,677,344	36,130,897,312	(42,989,034,231)	(213,460,593,029)	42,403,915,159	(304,611,301,146)	339,671,561,409
Recovery of rate-sensitive assets 1/ (A + C)	¢ 3,894,032,029,460	281,161,868,380	265,498,220,320	327,581,961,415	234,283,199,580	615,386,005,744	5,617,943,284,899
Maturity of rate-sensitive liabilities 2/ (B + D)	¢ 484,825,402,605	333,981,123,291	561,453,996,713	751,721,496,285	229,612,558,590	542,918,196,697	2,904,512,774,181
Difference in LC + FC, recovery of assets less maturity of liabilities (item 1 - item 2)	¢ 3,409,206,626,855	(52,819,254,911)	(295,955,776,393)	(424,139,534,870)	4,670,640,990	72,467,809,047	2,713,430,510,718

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

The Investment Fund Manager faces interest rate risk when it holds assets or liabilities subject to interest rate changes. Exposure to losses exist on the value of a financial asset or liability arising from fluctuations in interest rates, when interest rates for investments are mismatched and when the Investment Fund Manager does not have the necessary flexibility to make a timely adjustment.

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

The Pension Fund Manager faces interest rate risk when it holds assets or liabilities subject to interest rate changes. Exposure to losses exist on the value of a financial asset or liability that arises from rate fluctuations when mismatches occur in the changes in investment rates, without having the flexibility required for a timely adjustment.

The consolidated VaR of the Pension Fund Manager's own funds has a decreasing trend, with a maximum of 2.08% and a minimum of 0.67% for an average of 1.19%, equivalent to ₡116.06 million. As of June 30, 2021, the indicator closes at 0.93%, showing an increase due to the portfolio's portion of fixed-rate investments, because the indicator shows the portfolio volatility with respect to market interest rates.

iv. BN Sociedad Corredora de Seguros, S.A.

The Insurance Brokerage Firm faces interest rate risk when it holds assets or liabilities subject to interest rate changes. Exposure to losses exist on the value of a financial asset or liability arising from fluctuations in interest rates, when interest rates for investments are mismatched and when the Insurance Brokerage Firm does not have the necessary flexibility to make a timely adjustment.

As of June 30, 2021, the Insurance Brokerage Firm has investments amounting to ₡5,249,253,988 in open investment funds managed by BN Sociedad Administradora de Fondos de Inversiones S.A. They are related to financial assets subject to interest rate changes due to fluctuations in the stock market since short-term positions are constituted to meet investor's liquidity needs. The remainder of the investment portfolio is kept in financial instruments measured at amortized cost, whose market interest rate variations are monitored on an ongoing basis by BN Valores, with quarterly reports to the Insurance Brokerage Firm. The Insurance Brokerage Firm holds no liabilities subject to interest rate variations.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- Currency risk

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

The Conglomerate's Asset and Liability Committee (ALCO) decided to take a neutral foreign currency position, which has been ratified annually by the Corporate Risk Committee. This is to protect the Conglomerate from any variation in the foreign currency position, which is monitored daily by the Market Risk Division.

- i. Banco Nacional de Costa Rica

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

The Bank calculates the SUGEF currency risk indicator on a monthly basis, which remained at the appetite level in both periods. The indicator has increased due to an increase in the foreign currency position and a greater volatility of the exchange rate, which is reflected in an increase in the expected variation of the US dollar.

The result is as follows:

<u>Type of risk</u>	<u>June 2021</u>	<u>June 2020</u>	<u>Variation</u>	<u>Level</u>
Currency risk	0.68%	0.94%	(0.26%)	Normal

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of June 30, assets and liabilities denominated in foreign currency are as follows:

		US dollars	
		2021	2020
<u>Assets:</u>			
Cash and due from banks	US\$	1,026,820,077	1,250,458,864
Investments in financial instruments		1,042,957,747	968,561,499
Loan portfolio		1,841,189,577	1,943,395,041
Accounts and accrued interest receivable		487,438	421,680
Investments in other companies		118,053,370	117,286,404
Other assets		1,767,705	1,370,758
	US\$	<u>4,031,275,914</u>	<u>4,281,114,734</u>
<u>Liabilities:</u>			
Obligations with the public	US\$	3,048,906,291	2,748,967,162
Obligations with entities		776,107,266	1,322,715,275
Accounts payable and provisions		11,328,620	110,872,721
Other liabilities		11,159,318	10,602,135
Subordinated obligations		86,963,503	10,943,933
	US\$	<u>3,934,464,998</u>	<u>4,204,101,226</u>
Excess of assets over liabilities in US dollars	US\$	<u>96,810,916</u>	<u>77,013,508</u>
		Euro	
		2021	2020
<u>Assets:</u>			
Cash and due from banks	€	40,943,531	41,896,822
	€	<u>40,943,531</u>	<u>41,896,822</u>
<u>Liabilities:</u>			
Obligations with the public	€	40,963,218	40,624,694
Obligations with entities		772,712	656,048
Accounts payable and provisions		88,410	27,269
Other liabilities		784,037	222,000
	€	<u>42,608,377</u>	<u>41,530,011</u>
(Deficit) excess of assets over liabilities in euro	€	<u>(1,664,846)</u>	<u>366,811</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		DU	
		June 2021	June 2020
<u>Assets:</u>			
Loan portfolio		1,847,611	3,660,623
	UD	1,847,611	3,660,623
<u>Liabilities:</u>			
Accounts payable and provisions	UD	164,140	261,873
Other liabilities		-	25
	UD	164,140	261,898
Excess of assets over liabilities in DU	UD	1,683,471	3,398,725

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 June 30, the valuation in colones of monetary assets and liabilities in foreign currency gave rise to foreign exchange gains and losses, as follows:

		2021	2020
Foreign exchange gains	¢	34,488,350,729	231,083,234,825
Foreign exchange losses		(34,500,970,908)	(231,548,086,721)
Net losses	¢	(12,620,179)	(464,851,896)

Additionally, the valuation of other assets and other liabilities as of June 30 gave rise to gains and losses, which are booked in "Other operating income" and "Other operating expenses", respectively, as follows:

		2021	2020
Gain on valuation of other assets, net	¢	34,952,704	389,910,815
Loss on valuation of other liabilities, net		(57,730,633)	(486,093,940)
Loss, net	¢	(22,777,929)	(96,183,125)

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

For each of the funds managed, the Comprehensive Risk Management Unit (UAIR) performs simulations of exchange rate variations and their effect on changes in the value of the assets managed, the share value and accordingly, the portfolio yield.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of June 30, 2021, 7.55% of the Pension Fund Manager's portfolio of own funds is represented by investments in US dollars. By adding cash and due from banks denominated in foreign currency, the percentage increases to 8.76% (¢1,037.52 million), which reveals a currency risk that is relatively low considering the size of the managed portfolio.

v. *BN Sociedad Corredora de Seguros, S.A.*

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

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

d) *Operational risk*

i. *Banco Nacional de Costa Rica*

Operational risk is the risk of potential loss resulting from failures or deficiencies in processes, personnel, information systems, internal controls and external events. This definition includes legal risk, but excludes strategic, business and reputational risks. In addition, the existing methodologies incorporate the criteria and best practices regarding the taxonomy and classification of operational risks established as recommendations and best practices by the Basel Committee.

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

That policy is implemented through a management framework that includes:

- defining operational risk and best practices
- goals of the operational risk function
- institutional principles to manage operational risk
- roles and relationships
- specific framework to manage legal risk.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Furthermore, the Bank has defined operating policies related to the implementation of new products, services and operations in relation to fraud management and the reporting of operational risk events.

The Information Security and Business Continuity functions fall within the scope of operational risk, in conformity with SUGEF Directive 18-16 *Regulations on operational risk management*.

One of the Bank's fundamental principles for operational risk management is transparency, which means that all risk events should be identified, documented, and reported 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.

The operational risk management's main activity is the valuation 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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For legal risk, the Bank applies a model that permits estimating the expected losses and VaR of lawsuits, considering the expert opinion of the legal counsel, the subject matter of the cases when calculating the probability of an unfavorable ruling and a continuous model for the duration of the lawsuits. This model provides a direct estimate of the duration of each lawsuit in the corresponding court and the possible outcomes. The results obtained are used to contemplate possible losses from unfavorable rulings.

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

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

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

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

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- Analysis: Using tools defined by international methods, the Investment Fund Manager analyzed the risks identified for each business unit and determined the degree of impact, the probability of occurrence and the origin of each risk. In addition to this analysis, the Investment Fund Manager assesses aspects of the business that can affect risk such as its image, operations, income, human resources, etc.
- Measurement: Similar to the analysis mentioned above, each risk identified was assessed from two perspectives (its probability of occurrence and its potential impact) in order to determine which risks require the most attention and the formulation of action plans to be carried out in the event that the risk materializes. Such information is included in the Business Continuity Plan (BCP).
- Follow-up: Periodic assessments are made of the institutional risk map to identify changes that could increase or decrease the probability that risk events will occur in order to adapt the Investment Fund Manager's strategies to address areas in which risk exposures are considered unacceptable.
- Control: The Investment Fund Manager's strategies to control and mitigate the potential impact of different operational risks include contingent computer hardware, a redundant power infrastructure, personnel turnover, documentation of the activities performed by each position, specialized training, varied and continually open channels of communication, development of a general culture focused on operational controls, etc.
- Communication: Senior management informs employees of risk management trends and strategies as well the results of assessments through meetings with employees or announcements.

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

Fair value of financial instruments

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

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

Regulatory compliance risk: This risk refers to the scope and adoption of regulations in effect of the Pension Fund Manager. For such purposes, a Compliance Area is in charge of reviewing in a systematic and comprehensive manner any departure from regulations.

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

As of June 30, 2021, the Bank's General Risk Division presented the results of the VaR by legal risk for the Pension Fund Manager, indicating that the amount to be provisioned is the EL of ¢35,907,784 (December and June 2020: ¢43,447,803 and ¢7,999,063, respectively) that covers the lawsuits against the Pension Fund Manager with a probability of an unfavorable outcome, out of eight pending lawsuits, most of which are in first instance.

v. *BN Sociedad Corredora de Seguros, S.A.*

For the Insurance Brokerage Firm, operational risk is the possibility of incurring losses arising from deficient, failed or inadequate processes, personnel, technology, infrastructure or related external events. This risk includes legal risk and reputational risk.

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

Information systems are being purchased, which implies a risk since the current information system process is not appropriate.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated 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 June 30, 2021, the Bank is above the minimum level required by applicable regulations.

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 a report issued by SUGEF.

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

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

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.

From January 1, 2007 in order to comply with the disclosure of objectives, policies, and procedures for managing capital and 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 official communication 043-2005.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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 be presented on a net basis at the close of the last business day of each half of the year must be liquidated. Such liquidations must be reported to SUGEF.

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

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

As part of the Bank's approach to capital management, the Bank's CAR is monitored monthly and reported to the general board of directors in a detailed financial report that covers all main items of interest: consolidated statement of financial position, consolidated statement of comprehensive income, CAMELS indicators, budget execution, and capital adequacy.

As of June 30, 2021, 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.

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 26).

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

COVID 19 implications for the Bank

The Coronavirus (COVID-19) pandemic, declared as such by the World Health Organization, has international implications. On one hand, it has caused a large number of deaths. On the other hand, markets and productive sectors have been heavily affected, due to the fear of rapid spread of the disease and to the preventive measures taken by some governments, including: social distancing, cancellation of mass events, decrease in interest rates, closing of borders, among other. This has strongly impacted the countries' economies and their production dynamic.

According to the IMF, the recovery of the global economy will be faster than initially expected, with growth projections for 2021 and 2022 up to 6% and 4.4%, respectively, thanks to economic stimulation measures in countries such as the United States, as well progress with vaccination, although it has alerted of differences in the rate of recovery between different countries and economic sectors.

Factors that could affect the growth rate include delays in vaccination and difficulty controlling new variants of SARS-CoV-2. Until June 2021, it is estimated that more than 3,400 million doses of the vaccine have been applied and 940 million people are fully vaccinated, which represents 12% of the global population.

The main changes and concerns for the Bank are detailed below. They have been mitigated by the state of emergency declared by the Government of Costa Rica on March 16, 2020.

(a) Financially

- Significant decrease in credit growth
- Higher levels of arrears and delinquency by customers
- Increase in allowances for loan losses
- Impact on financial margin (lower rate)
- Decrease in service fees and commissions and merchant acquisition
- Impact on equity ratio.

(b) Credit risk

- A simplified processing system was established for payment arrangements, extensions, and restorations, offered to specific customer profiles.
- Strengthening of collection management.
- Ongoing monitoring of the internal policies and guidelines, in order to promote effective payment arrangements with customers.

(c) Interest rate risk

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- Ongoing monitoring of interest rate indicators.
- Promote the use of the interbank rate (TRI) as reference for loans since it best reflects market conditions.

(d) Liquidity risk

- Daily monitoring of the main liquidity indicators.
- Potential lines of credit with foreign entities have been processed.
- Weekly stress testing of liquidity indicators.
- The liquidity coverage ratio for 5 and 10 days is sent weekly as part of the information requested by the Central Bank for analysis of the last-minute loan requests.

(e) Price risk

- Ongoing monitoring of concentration of instruments in the investment portfolio by currency, sector, rating, and others.
- Monitoring of prices and ratings of local and international securities.
- Constant monitoring of the main price risk indicators, including internal VaR and SUGEF VaR, as well as stress testing to determine possible impacts on solvency ratios.

(f) Currency risk

- Periodic monitoring of systemic indicators to analyze the exchange rate. It is presented to the board of directors weekly.

These measures are constantly being reviewed in order to adjust them to changing market conditions and to foresee risks.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(7) Collateralized or restricted assets

Collateralized or restricted assets are as follows:

Restricted asset	Cause of restriction		June 2021	December 2020	June 2020
<i>Cash and due from banks:</i>					
Checking account – colones (Note 9)	Minimum legal deposit	¢	473,915,403,257	471,119,415,447	486,827,588,632
Checking account – US dollars (Note 9)	Minimum legal deposit		293,989,783,791	303,912,606,319	277,215,035,642
Checking account – euro (Note 9)	Minimum legal deposit		4,552,645,561	4,365,899,890	3,998,545,148
Other cash and due from banks (Note 9)	Custody of BCAC liabilities		-	1,142,835,066	1,117,201,766
Other cash and due from banks (Note 9)	Margin calls – derivative financial instruments		20,510,276	-	106,715,461
Other cash and due from banks (Note 9)	Margin calls for tri-party repurchase agreements		120,644,543,173	-	-
Other cash and due from banks (Note 9)	Contribution to FOGABONA		310,254,970	265,100,489	222,670,777
		¢	<u>893,433,141,028</u>	<u>780,805,857,211</u>	<u>769,487,757,426</u>
<i>Investments in financial instruments:</i>					
Investments in financial instruments	Guarantee for tri-party repurchase agreements	¢	-	8,649,884,640	14,704,391,613
Investments in financial instruments	Liquidity market operations		30,404,499,866	33,429,088,935	36,769,748,312
Securities issued by BCCR and the Government	Investments securing repurchase agreements		2,557,440,000	3,053,900,150	707,927,144
External debt bonds	Nomura Bank guarantee		59,437,936,210	59,031,542,209	50,132,499,249
External debt bonds	JP-SWAPS guarantee		-	9,178,308,496	1,192,197,376
External debt bonds	JP-SWAPS guarantee		-	1,240,773,951	-
External debt bonds	SINPE guarantee		208,630,265,124	-	-
Term Certificate of Deposit	Nomura Bank guarantee		24,876,800,000	24,692,000,000	-
		¢	<u>325,906,941,200</u>	<u>139,275,498,381</u>	<u>103,506,763,694</u>
Other assets (Note 17)	Security deposits	¢	<u>606,367,994</u>	<u>701,139,441</u>	<u>796,184,200</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of June 30, 2021, the Brokerage Firm has restricted assets in the amount of ¢30,418,884,563 (December and June 2020: ¢42,093,256,466 and ¢54,124,383,385), corresponding to guarantees for tri-party repurchase agreements, operations in the liquidity market and contributions to the liquidation and compensation risk management fund.

(8) Balances and transactions with related parties

Balances and transactions with related parties are as follows:

		<u>June 2021</u>	<u>December 2020</u>	<u>June 2020</u>
<u>Assets:</u>				
Checking accounts in foreign financial entities (1) (Note 9)	¢	20,238,934,546	18,728,211,563	15,978,134,106
Allowance for impairment of transactions with related parties		(14,215,000)	-	-
Investments in financial instruments and accrued interest receivable (2)		<u>24,481,880,769</u>	<u>13,138,269,284</u>	<u>7,997,650,882</u>
Investments in other companies (3)		<u>73,369,128,278</u>	<u>72,325,798,277</u>	<u>68,384,819,655</u>
	¢	<u>118,075,728,593</u>	<u>104,192,279,124</u>	<u>92,360,604,643</u>
<u>Liabilities:</u>				
Demand obligations with entities (4)		1,008,237,180	817,312,947	129,468,120
Accounts due to related parties (5)		3,930,554	1,253,627	2,200,005
Term obligations with entities		-	-	600,000,000
	¢	<u>1,012,167,734</u>	<u>818,566,574</u>	<u>731,668,125</u>
<u>Income:</u>				
Gain on investments in other foreign companies (6)		<u>459,036,012</u>	<u>876,994,771</u>	<u>772,534,620</u>
		<u>459,036,012</u>	<u>876,994,771</u>	<u>772,534,620</u>
<u>Expenses:</u>				
Operating expenses (7)		<u>8,117,046</u>	<u>42,738,454</u>	<u>30,984,928</u>
	¢	<u>8,117,046</u>	<u>42,738,454</u>	<u>30,984,928</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The aforementioned balances and transactions with related parties correspond to:

- (1) Balances in foreign checking accounts with Banco Internacional de Costa Rica, S.A.
- (2) Accounts receivable from transactions with subsidiaries and the corresponding impairment allowance as per SUGEF Directive 1-05
- (3) Investments in the share capital of entities over which the Bank exercises control or significant influence
- (4) Movements in the subsidiaries' checking accounts with the Bank
- (5) Balances of term certificates of deposit held by subsidiaries with the Bank
- (6) Commissions on the placement of investment funds and services provided by Banco Nacional to subsidiaries
- (7) Correspond to services of the Bank's procedures and self-issue insurance unit (*Unidad de Trámites y Autoexpedibles*) and custody rental system.

a) Compensation to key personnel

Compensation to key personnel is as follows:

		June 2021	December 2020	June 2020
Short-term benefits	¢	1,071,831,127	1,994,768,937	1,005,871,685
Long-term benefits		139,338,047	259,319,962	130,763,319
Per diem – Board of directors		100,112,124	202,058,176	85,990,983
	¢	<u>1,311,281,298</u>	<u>2,456,147,075</u>	<u>1,222,625,987</u>

The price for services in transactions with subsidiaries are established by the Conglomerate at market value. In conformity with Directive 20/03 dated June 10, 2003, Decree No. 37898-H dated June 5, 2013, and judgements of the Constitutional Chamber of the Supreme Court of Justice No. 2012008739 and No. 2012004940, the Bank performs a transfer pricing study.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(9) Cash and cash equivalents

For purposes of reconciliation with the consolidated statement of cash flows, cash and cash equivalents are as follows:

		June 2021	December 2020	June 2020
Cash and due from banks	¢	1,254,808,263,819	1,383,902,440,319	1,332,795,564,412
Investments with maturities of less than two months		197,804,259,258	99,286,190,041	312,146,152,394
	¢	<u>1,452,612,523,077</u>	<u>1,483,188,630,360</u>	<u>1,644,941,716,806</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Cash and due from banks is as follows:

	June 2021	December 2020	June 2020
Cash on hand and in vaults	¢ 70,293,943,149	71,803,663,890	56,991,087,636
Cash in transit	29,693,480,028	27,571,913,455	28,924,165,938
Checking account in BCCR (1)	58,454,211,282	35,863,230,024	69,240,460,380
Minimum legal deposits in BCCR (1)	660,385,843,601	786,744,119,464	751,787,822,341
Checking accounts and demand deposits in State-owned commercial banks and banks created under special laws	252,429,131	163,010,654	149,436,053
Checking accounts and other demand accounts in private financial entities	862,577,653	840,634,935	565,679,347
Overnight deposits in local financial entities	600,000,000	400,000,000	600,000,000
Checking accounts in foreign financial entities	280,665,479,727	431,725,189,207	384,740,622,672
Deposits and other demand accounts in foreign financial entities	103,341,209	634,807,976	63,423,249
Checking accounts and demand deposits in related parties (Note 3)	20,238,934,546	18,728,211,563	15,978,134,106
Overnight deposits in foreign financial entities	6,440,770,425	1,739,101,030	16,241,114,116
Transfers through the Interbank Electronic Payment System (SINPE)	2,202,509,773	2,067,809,169	2,415,325,737
Local notes receivable	2,908,522,576	3,502,281,731	3,249,731,668
Foreign notes receivable	730,912,301	710,531,665	401,973,164
Margin calls – derivative financial instruments (Note 7)	20,510,275	-	106,715,461
Fondo de Garantía de la Bolsa Nacional de Valores (FOGABONA)	310,254,970	265,100,489	222,670,776
Contingent guarantee of the deposits guarantee fund (Fondo de Garantía de Depósitos, FGD)	120,644,543,173	-	-
Other restricted cash and due from banks (2)	-	1,142,835,067	1,117,201,768
	¢ <u>1,254,808,263,819</u>	<u>1,383,902,440,319</u>	<u>1,332,795,564,412</u>

(1) Checking accounts and demand deposits in BCCR include the balances of the minimum legal deposits required for 2021 (see Note 7).

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- (2) As per Note GD-5879/09, the percentage for the minimum legal deposit is 12% and 15% in colones and US dollars, respectively. The amount of that legal deposit must be deposited in cash in BCCR in conformity with the current banking legislation. The legal deposit is calculated as a percentage of third-party deposits, which varies based on the term and form of deposit-taking used by the Bank. Additionally, the board of directors of BCCR, in number 6 of Article 5 of Minutes of Meeting No. 5923-2020, held on March 20, 2020, specifies that, during the legal deposit control period, the end-of-day balance of deposits in BCCR must not be less than 90% of the minimum legal deposit required in the second half of the previous month.
- (3) Other restricted cash and due from Banks include the Commission Agreement for the custody of liabilities, checking accounts, savings accounts and term certificates of deposit of Banco Crédito Agrícola de Cartago (see Note 7).

(10) Investments in financial instruments

Investments in financial instruments are as follows:

		June 2021	December 2020	June 2020
Investments at fair value through profit or loss	¢	32,014,314,394	23,465,673,087	43,094,164,410
Investments at fair value through other comprehensive income		773,997,463,087	723,002,449,515	773,069,575,755
Investments at amortized cost		885,594,522,389	609,412,003,167	777,449,155,642
	¢	<u>1,691,606,299,870</u>	<u>1,355,880,125,769</u>	<u>1,593,612,895,807</u>
Interest rate futures – Hedges		11,882,581,308	15,753,371,710	24,685,045,365
Allowance for impairment of investments		(2,570,386,891)	(2,525,392,151)	(323,167,716)
Allowance for impairment of derivative instruments other than hedges		-	(58,698)	-
Accrued interest receivable on investments		20,801,411,607	19,648,169,663	18,553,350,091
	¢	<u>1,721,731,305,901</u>	<u>1,388,756,216,293</u>	<u>1,636,528,123,547</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

a) *Investments at fair value through profit or loss*

Investments at fair value through profit or loss are as follows:

	June 2021	December 2020	June 2020
<u>Local issuers</u>			
Private banks	-	-	41,602,837
Private issuers	32,014,314,395	23,465,673,087	12,934,245,885
¢	<u>32,014,314,395</u>	<u>23,465,673,087</u>	<u>12,975,848,722</u>

b) *Investments at fair value through other comprehensive income*

Investments at fair value through other comprehensive income are as follows:

	June 2021	Diciembre2020	June 2020
<u>Local issuers</u>			
Government of Costa Rica	¢ 461,577,336,238	393,816,770,016	435,718,624,136
BCCR	55,051,159,817	17,463,207,857	41,791,980,021
State-owned banks	6,992,781,145	5,637,250,549	3,953,796,099
Private banks	624,836,867	-	-
Private issuers	2,557,440,000	3,438,576,362	1,091,495,934
¢	<u>526,803,554,067</u>	<u>420,355,804,784</u>	<u>482,555,896,190</u>
	June 2021	December 2020	June 2021
<u>Foreign issuers</u>			
Governments	¢ 53,893,728,798	78,890,923,811	122,406,646,460
Private issuers	89,218,484,749	108,960,124,861	80,700,025,114
Private banks	104,081,695,479	114,795,596,059	87,407,007,983
	<u>247,193,909,026</u>	<u>302,646,644,803</u>	<u>290,513,679,557</u>
¢	<u>773,997,463,093</u>	<u>723,002,449,515</u>	<u>773,069,575,755</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

c) Investments at amortized cost

Investments at amortized cost are as follows:

	June 2021	December 2020	June 2020
<u>Local issuers</u>			
Government of Costa Rica	¢ 531,056,591,223	256,575,723,320	307,945,162,198
BCCR	265,285,979,140	81,767,031,269	298,136,706,324
Private banks	1,865,760,000	-	-
Private issuers	6,931,986,499	35,579,860,552	-
	¢ 805,140,316,862	373,922,615,141	606,081,868,522
<u>Foreign issuers</u>			
Governments	¢ 41,651,848,940	187,044,327,663	127,417,721,458
Private issuers	6,114,834,781	4,868,656,150	1,540,543,482
Private banks	32,698,921,806	43,576,404,213	42,409,022,181
	80,465,605,527	-	171,367,287,121
	885,605,922,389	235,489,388,026	777,449,155,642
¢	1,691,617,699,877	609,412,003,167	1,593,612,895,807

As of June 30, 2021, the valuation of available-for-sale investments and restricted financial instruments gives rise to unrealized gains, net of deferred tax, in the amount of ¢3,243,320,517 (December and June 2020: unrealized gains in the amount of ¢2,061,632,488 and ¢ 588,528,134, respectively). The cumulative balance of equity adjustments arising from the valuation of those investments is equivalent to unrealized gains of ¢13,780,247,695 (December and June 2020: unrealized gains in the amount of ¢10,536,927,179 and ¢9,444,289,425, respectively).

(11) Derivative financial instruments

The Bank holds the following types of derivative financial instruments:

✓ Derivatives as risk hedging instruments

The Bank obtained interest rate hedges to hedge exposure to the LIBOR rate on international debt issues made in October 2013 in US dollars at a fixed rate. The purpose of these financial instruments is to offset the changes in fair value attributable to fluctuations in such reference rate.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Derivative financial instruments are as follows:

		June 2021		Purpose
Issuing bank		Notional amount	Valuation	
CitiBank	US\$	100,000,000	US\$ 5,946,023	Swaps to hedge 10-year issues (maturing in 2023)
JP Morgan		46,533,000	2,781,090	
Bank of America		173,588,000	10,374,657	
	US\$	320,121,000	US\$ 19,101,770	
Amount in colones	¢	<u>199,089,652,320</u>	¢ <u>11,879,772,948</u>	
Chicago Board of Trade	US\$	13,200,000	US\$ (45,289)	Standardized futures contracts (maturing in 2021)
Amount in colones	¢	<u>8,209,344,000</u>	¢ <u>(28,166,303)</u>	
		December 2020		Purpose
Issuing bank		Notional amount	Valuation	
CitiBank	US\$	100,000,000	US\$ 7,396,127	Swaps to hedge 10-year issues (maturing in 2023)
JP Morgan		46,533,000	3,441,640	
Bank of America		173,588,000	12,838,790	
	US\$	320,121,000	US\$ 23,676,557	
Amount in colones	¢	<u>197,610,693,300</u>	¢ <u>14,615,538,723</u>	
Bank of America	US\$	60,200,000	US\$ 352,970	Swaps to hedge 5-year issues (maturing in 2021)
JP Morgan		250,000,000	1,457,517	
	US\$	310,200,000	US\$ 1,810,487	
Amount in colones	¢	<u>191,486,460,000</u>	¢ <u>1,117,613,736</u>	
Chicago Board of Trade	US\$	12,200,000	US\$ 11,171	Standardized futures contracts (maturing in 2021)
Amount in colones	¢	<u>7,531,060,000</u>	¢ <u>6,896,000</u>	

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		June 2020		
Issuing bank		Notional amount	Valuation	Purpose
CitiBank	US\$	180,850,000	US\$ 15,071,180	Swaps to hedge 10-year issues (maturing in 2023)
JP Morgan		100,000,000	8,323,379	
Bank of America		196,457,000	16,346,233	
	US\$	477,307,000	US\$ 39,740,793	
Amount in colones	¢	<u>278,503,861,430</u>	¢ <u>23,188,355,022</u>	
Bank of America	US\$	60,200,000	US\$ 505,447	Swaps to hedge 5-year issues (maturing in 2021)
JP Morgan		250,000,000	2,055,892	
	US\$	310,200,000	US\$ 2,561,339	
Amount in colones	¢	<u>180,998,598,000</u>	¢ <u>1,494,515,892</u>	
Chicago Board of Trade	US\$	8,700,000	US\$ (9,281)	Standardized futures contracts (maturing in 2020)
Amount in colones	¢	5,076,363,000	¢ (5,415,598)	

As of June 30, 2021, total notional amounts of US\$333,321,000, equivalent to ¢207,298,996,320 (December and June 2020: US\$642,521,000, equivalent to ¢396,628,213,300 and US\$796,207,000 equivalent to ¢464,578,822,430, respectively) are booked under “Other debit memoranda accounts” (see Note 29).

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

As of June 30, 2021, the Bank books an increase in the fair value of these swaps in the amount of US\$19,101,770 equivalent to ¢11,879,772,947 (December and June 2020: US\$25,487,044, equivalent to ¢15,733,152,459 and US\$42,305,858, equivalent to ¢24,685,045,365) (see Note 11).

For purposes of the valuation the aforementioned interest rate swaps, the Bank elected to apply the “Fair Value Hedge Method”; while the “Dollar Offset Method” is used to test hedge effectiveness. The latter method was defined 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%.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The effectiveness of the valuation of derivative financial instruments is as follows:

	Rate of effectiveness		
	June 2021	December 2020	June 2020
10-year issue (maturing in 2023)	108.18%	94.58%	94.58%

A valuation was performed as of June 30, 2021 to calculate the change in the fair value of the primary and derivative instruments based on the following inputs:

- A 10-year LIBOR rate at the issue of the bond
- discount rates from Bloomberg
- zero rates corresponding to the swap curve as of June 30, 2021
- only a portion of the bond cash flows is hedged (corresponding to the 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 June 30, 2021, standardized futures contracts were negotiated as part of the management of the financial derivatives portfolio. The Bank booked a notional amount of US\$13,200,000, equivalent to ¢8,209,344,000 (December and June 2020: US\$12,200,000, equivalent to ¢7,531,060,000 and US\$8,700,000, equivalent to ¢5,076,363,000, respectively) for the sale and purchase of these futures contracts.

As of June 30, 2021, the Bank booked an increase in the fair value of futures contracts in the amount of US\$4,516, equivalent to ¢2,808,361 (December and June 2020: US\$11,171, equivalent to ¢6,896,000 and US\$249.92, equivalent to ¢146,795, respectively), as well as a decrease in the fair value of futures contracts in the amount of US\$49,805, equivalent to ¢30,974,663.

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

	June 2021	December 2020	June 2020
Gains on derivative financial instruments	¢ 4,487,489,100	21,875,260,965	17,094,270,967
Losses on derivative financial instruments	<u>(4,599,562,585)</u>	<u>(6,149,525,767)</u>	<u>(1,274,195,077)</u>
Net (losses) gains	<u>¢ (112,073,485)</u>	<u>15,725,735,198</u>	<u>15,820,075,890</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(12) Loan portfolio

(a) Loan portfolio by sector

The loan portfolio by sector is as follows:

	June 2021	December 2020	June 2020
Trade	347,193,169,095	366,543,473,364	367,807,985,139
Services	873,512,045,362	882,958,009,616	875,894,992,336
Financial services	75,636,929,910	86,384,902,878	101,169,836,293
Mining	659,067,275	723,836,045	713,978,401
Manufacturing and quarrying	150,123,925,254	154,439,840,021	158,391,604,106
Construction	93,981,883,644	97,117,113,215	94,682,057,871
Agriculture and forestry	111,015,284,740	119,176,139,304	106,149,210,983
Livestock, hunting and fishing	73,353,452,277	73,609,723,660	73,975,312,701
Electricity, water, sanitation and other related sectors	467,001,207,614	483,518,311,261	386,402,745,300
Transportation and telecommunications	44,174,709,493	46,878,351,392	46,164,331,568
Housing	1,314,271,246,867	1,317,083,078,572	1,302,626,807,832
Personal or consumer loans	502,499,200,932	528,808,645,806	529,793,518,602
Tourism	207,305,227,374	201,470,966,486	186,861,924,816
	<u>4,260,727,349,837</u>	<u>4,358,712,393,620</u>	<u>4,230,634,305,948</u>
Incremental direct costs related to loans	3,589,157,504	3,756,519,754	3,922,294,551
(Deferred income from loan portfolio)	(32,964,070,406)	(33,106,164,873)	(31,957,115,610)
Accrued interest receivable	124,573,963,478	122,742,551,278	72,927,318,504
Allowance for loan losses	(154,271,325,691)	(155,527,961,609)	(141,523,235,520)
	<u>¢ 4,201,655,074,722</u>	<u>4,296,577,338,170</u>	<u>4,134,003,567,873</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Annual interest rates on loans receivable are as follows:

Currency	June 2021		December 2020		June 2020	
	Rates	Average (1)	Rates	Average (1)	Rates	Average (1)
Colones	1.20% to 45.00%	12.52%	2.00% to 45.00%	13.32%	2.00% to 45.00%	14.75%
US dollars	0.20% to 30.00%	7.50%	0.24% to 31.00%	7.47%	0.48% to 34.92%	9.04%
DU	3.85% to 10.00%	5.70%	3.85% to 10.00%	5.67%	3.85% to 10.50%	6.35%

(1) Simple average of the minimum and maximum values of the portfolio as of June 30, 2021.

(b) Loan portfolio by arrears

The loan portfolio by arrears is as follows:

	June 2021	December 2020	June 2020
Current	¢ 3,958,705,645,522	4,116,568,006,122	4,009,138,410,987
1 to 30 days	88,384,276,424	39,182,017,579	33,081,009,295
31 to 60 days	25,415,846,817	30,186,427,162	10,843,265,850
61 to 90 days	23,075,660,949	12,005,404,085	20,014,910,729
91 to 120 days	13,597,242,005	12,340,866,689	11,759,851,248
121 to 180 days	36,322,999,074	19,995,685,880	17,592,225,841
More than 180 days	115,225,679,046	127,100,892,512	128,204,631,998
In legal collection	-	158,003,288,313	-
	4,260,727,349,837	4,358,712,393,620	4,230,634,305,948
Incremental direct costs related to loans	3,589,157,504	3,756,519,754	3,922,294,551
(Deferred income from loan portfolio)	(32,964,070,406)	(33,106,164,873)	(31,957,115,610)
Accrued interest receivable	124,573,963,478	122,742,551,278	72,927,318,504
Allowance for loan losses	(154,271,325,691)	(155,527,961,609)	(141,523,235,520)
	¢ 4,201,655,074,722	4,296,577,338,170	4,134,003,567,873

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(c) Allowance for loan losses

Movement in the allowance for loan losses is as follows:

	June 2021	December 2020	June 2020
Opening balance	¢ 155,527,961,609	118,507,110,835	118,507,110,835
Allowance expense for the period (Note 39)	42,511,153,679	68,378,115,626	37,173,315,461
Write-offs	(44,102,606,587)	(34,781,370,191)	(15,146,892,727)
Adjustments due to reclassification of allowance	-	147,982,736	147,982,736
Foreign exchange differences	334,816,990	3,276,122,603	841,719,216
Closing balance	¢ <u>154,271,325,691</u>	<u>155,527,961,609</u>	<u>141,523,235,520</u>

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

As of June 30, 2021, the allowance for stand-by credits is as follows:

	June 2021
Opening balance	¢ 717,444,504
Allowance expense for the year (Note 36)	120,000,001
Foreign exchange differences	244,242,256
Closing balance	¢ <u>841,686,759</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(13) Accounts and fees and commissions receivable

Accounts and fees and commissions receivable are as follows:

	June 2021	December 2020	June 2020
Fees and commissions	¢ 1,901,885,942	1,378,393,151	1,661,725,325
Accounts receivable for brokerage operations	1,865,761	5,728,706	7,503,012
Accounts due from employees	21,644,853	19,025,296	62,133,504
Deferred tax (Note 21-b)	1,998,361,944	1,686,064,546	1,287,117,963
Income tax receivable (1)	160,374,728	321,987,420	156,076,536
Value added tax	11,367,585	17,962,034	8,861,517
Sundry accounts receivable related to credit cards	289,317,355	237,913,865	214,751,248
Other expenses receivable	26,211,509	22,525,394	21,012,447
Other accounts receivable	1,613,529,750	1,291,096,921	1,281,216,858
Credit fraud	748,936,955	748,936,955	748,936,955
Misappropriation and theft	1,636,181,137	1,636,896,256	1,696,635,400
Stealing of information	-	200,323,088	216,950,932
Input, maintenance or upload errors	-	185,347,393	213,633,279
Accrued interest receivable on other sundry accounts receivable	3,033,784	2,991,594	8,979,815
Allowance for impairment of accounts receivable	(4,221,527,269)	(4,217,937,702)	(4,325,370,040)
¢	<u>4,191,184,034</u>	<u>3,540,248,917</u>	<u>3,260,164,751</u>

(1) Income tax receivable, by entity, is as follows:

	June 2021	December 2020	June 2020
Banco Nacional de Costa Rica	¢ 62,393,176	143,613,342	65,456,892
BN Vital Operadora de Planes de Pensiones Complementarias, S.A.	34,322	79,766	11,113,513
BN Sociedad Corredora de Seguros, S.A.	97,947,231	-	79,506,131
¢	<u>160,374,729</u>	<u>143,693,108</u>	<u>156,076,536</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

		June 2021	December 2020	June 2020
Opening balance	¢	4,217,937,702	4,439,440,280	4,439,440,280
Allowance expense (Note 39)		463,657,025	1,080,131,153	633,088,773
Decrease in allowance (Note 40)		(323,547,984)	(752,680,302)	(455,439,941)
Write-offs		(138,369,594)	(574,231,463)	(296,151,702)
Foreign exchange differences		1,850,119	25,278,034	4,432,630
Closing balance	¢	4,221,527,268	4,217,937,702	4,325,370,040

(14) Foreclosed assets

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

		June 2021	December 2020	June 2020
Assets acquired in lieu of payment	¢	90,390,979,078	98,844,527,473	95,379,783,259
Idle property, furniture and equipment		55,884,629	55,884,629	55,884,629
Allowance for impairment of foreclosed assets and per legal requirements		(61,311,087,842)	(66,534,513,087)	(69,075,225,825)
	¢	29,135,775,865	32,365,899,015	26,360,442,063

Movement in the allowance for impairment of foreclosed assets and per legal requirements is as follows:

	June 2021	December 2020	June 2020
Opening balance	66,534,513,087	63,718,411,084	63,718,411,084
Allowance expense (Note 39)	381,769,384	9,628,924,296	7,195,811,585
Decrease in allowance	(5,605,194,629)	(6,812,822,294)	(8,838,996,844)
Closing balance	61,311,087,842	66,534,513,087	69,075,225,825

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(15) Investments in other companies

Investments in other companies are as follows:

		June 2021	December 2020	June 2020
Investment in other financial and non-financial entities (1)	¢	50,623,300	50,623,300	50,623,300
Banco Internacional de Costa Rica, S.A. and Subsidiary (BICSA)				
(Note 8) (2)		73,419,751,578	72,376,421,577	68,435,442,955
	¢	<u>73,470,374,878</u>	<u>72,427,044,877</u>	<u>68,486,066,255</u>

(1) The Conglomerate's investments in other entities are as follows:

		June 2021	December 2020	June 2020	Description
Bolsa Nacional de Valores	¢	15,000,000	-	15,000,000	To operate in the electronic custody of securities
Central de Valores de la Bolsa Nacional de Valores, S.A.		15,000,000	-	15,000,000	To operate in the electronic custody of securities
Interclear Central de Valores, S.A.		15,000,000	15,000,000	15,000,000	To operate in the electronic custody of securities
Depósito Libre Comercial de Golfito (Golfito Duty Free Shopping Center) per article 24 of Law No. 7131		5,200,000	5,200,000	5,200,000	Golfito Duty Free Shopping Center
Other financial entities (cooperatives)		423,300	423,300	423,300	Investments in various cooperatives
	¢	<u>50,623,300</u>	<u>20,623,300</u>	<u>50,623,300</u>	

(2) The Bank holds 49% ownership interest in BICSA, which as of June 30, 2021 is represented by 6,506,563 ordinary shares with a par value of US\$10.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(16) Property, furniture and equipment, and right-of-use assets, net

a) *Historical cost and depreciation*

Property, furniture and equipment is as follows:

		June 2021					
		Land	Buildings	Furniture and equipment	Computer hardware	Vehicles	Total
<u>Cost:</u>							
Historical cost at beginning of period	¢	4,281,149,677	70,673,112,451	65,964,459,511	52,338,212,534	341,154,043	193,598,088,216
Revalued cost at beginning of period		49,374,508,221	65,580,690,063	(10,298,846)	(34,287,876)	-	114,910,611,562
Additions		-	-	2,447,796,192	621,010,153	-	3,068,806,345
Disposals		-	-	(491,811,507)	(2,637,307,593)	-	(3,129,119,100)
Reclassifications		-	-	(7,092,654)	(12,769,707)	-	(19,862,361)
Closing balance		53,655,657,898	136,253,802,514	67,903,052,696	50,274,857,511	341,154,043	308,428,524,662
<u>Accumulated depreciation:</u>							
Opening balance		-	48,747,685,316	39,861,872,241	40,281,237,135	252,905,267	129,143,699,959
Depreciation expense on historical cost		-	795,735,484	3,352,354,465	2,347,266,220	9,724,716	6,505,080,885
Depreciation expense on revalued cost		-	441,000,068	-	-	-	441,000,068
Disposals		-	-	(442,781,968)	(2,562,233,881)	-	(3,005,015,849)
Reclassifications		-	-	11,454,272	7,728,240	-	19,182,512
Closing balance	¢	-	49,984,420,868	42,782,899,010	40,073,997,714	262,629,983	133,103,947,575
Net closing balance	¢	53,655,657,898	86,269,381,646	25,120,153,686	10,200,859,797	78,524,060	175,324,577,087

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		December 2020					
		Land	Buildings	Furniture and equipment	Computer hardware	Vehicles	Total
<u>Cost:</u>							
Historical cost at beginning of year	¢	4,281,149,677	70,302,884,014	64,407,050,144	52,648,710,467	357,222,206	191,997,016,508
Revalued cost at beginning of year		49,385,684,604	65,580,690,062	(9,833,907)	(33,717,532)	-	114,922,823,227
Additions		-	413,600,223	8,688,718,059	5,116,115,646	-	14,218,433,928
Asset revaluation		(11,176,383)	-	-	-	-	(11,176,383)
Disposals		-	-	(6,983,631,077)	(5,466,801,027)	(10,425,000)	(12,460,857,104)
Adjustments		-	(43,371,785)	(106,429,686)	(7,738,927)	-	(157,540,398)
Reclassifications		-	-	(41,712,868)	47,356,031	(5,643,163)	-
Closing balance		53,655,657,898	136,253,802,514	65,954,160,665	52,303,924,658	341,154,043	308,508,699,778
<u>Accumulated depreciation:</u>							
Opening balance		-	46,650,108,387	39,746,312,102	40,158,922,649	238,523,705	126,793,866,843
Depreciation expense on historical cost		-	1,604,652,444	6,413,744,232	5,310,669,556	24,854,489	13,353,920,721
Depreciation expense on revalued cost		-	965,406,447	-	-	-	965,406,447
Disposals		-	-	(6,222,046,359)	(5,184,857,548)	(10,425,000)	(11,417,328,907)
Adjustments		-	(472,481,962)	(72,262,378)	(7,420,805)	-	(552,165,145)
Reclassifications		-	-	(3,875,355)	3,923,283	(47,928)	-
Closing balance	¢	-	48,747,685,316	39,861,872,242	40,281,237,135	252,905,266	129,143,699,959
Net closing balance	¢	53,655,657,898	87,506,117,198	26,092,288,423	12,022,687,523	88,248,777	179,364,999,819

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		June 2020					
		Land	Buildings	Furniture and equipment	Computer hardware	Vehicles	Total
<u>Cost:</u>							
Historical cost at beginning of year	¢	4,281,149,677	70,302,884,014	64,407,050,144	52,648,710,467	357,222,206	191,997,016,508
Revalued cost at beginning of year		49,385,684,604	65,580,690,062	26,144,758	11,366,105	-	115,003,885,529
Additions		-	86,743,570	1,877,518,541	1,029,531,272	-	2,993,793,383
Asset revaluation		(11,176,383)	-	(57,484,814)	(36,749,285)	-	(105,410,482)
Disposals		-	-	(2,883,827,383)	(3,813,913,345)	(1,370,000)	(6,699,110,728)
Adjustments		-	(43,371,785)	(105,964,747)	(6,992,929)	-	(156,329,461)
Reclassifications		-	-	(40,827,590)	46,470,753	(5,643,163)	-
Closing balance		53,655,657,898	135,926,945,861	63,222,608,909	49,878,423,038	350,209,043	303,033,844,749
<u>Accumulated depreciation:</u>							
Opening balance		-	46,650,108,387	39,746,312,102	40,158,922,648	238,523,705	126,793,866,842
Depreciation expense on historical cost		-	800,376,606	3,180,348,691	2,858,410,208	14,158,620	6,853,294,125
Depreciation expense on revalued cost		-	517,096,986	-	-	-	517,096,986
Disposals		-	-	(2,766,821,161)	(3,812,282,361)	(1,370,000)	(6,580,473,522)
Adjustments		-	(472,481,962)	(71,950,289)	(6,992,933)	-	(551,425,184)
Reclassifications		-	-	(3,875,355)	3,923,283	(47,928)	-
Closing balance	¢	-	47,495,100,017	40,084,013,988	39,201,980,845	251,264,397	127,032,359,247
Net closing balance	¢	53,655,657,898	88,431,845,844	23,138,594,921	10,676,442,193	98,944,646	176,001,485,502

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of June 30, 2021, the appraisals of the Conglomerate's land and buildings were performed by an independent appraiser. The net realizable value obtained was compared to the carrying amount to determine the equity increase and the effects on the accumulated depreciation and revaluation accounts. Based on the valuation techniques used, those items are classified as Level 3 of the fair value hierarchy.

b) *Right-of-use assets*

The right of use comprises the lease of land and building as follows:

		June 2021			
		Right of use of land	Right of use of building	Right of use of vehicles	Total
<u>Cost:</u>					
Historical cost at beginning of period	¢	5,571,583	39,540,817,132	277,254,296	39,823,643,011
Additions		-	24,156,142	-	24,156,142
Disposals		-	(494,347,167)	-	(494,347,167)
Adjustments		(5,571,583)	(709,654,446)	(9,595,209)	(724,821,238)
Closing balance		-	38,360,971,661	267,659,087	38,628,630,748
<u>Accumulated depreciation:</u>					
Opening balance		-	5,776,635,561	192,006,038	5,968,641,599
Depreciation expense on historical cost		-	1,455,608,245	43,521,701	1,499,129,946
Disposals		-	(61,875,842)	-	(61,875,842)
Adjustments		-	(11,215,236)	(2,114,610)	(13,329,846)
Closing balance	¢	-	7,159,152,728	233,413,129	7,392,565,857

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		December 2020		
		Right of use of building	Right of use of vehicles	Total
<u>Cost:</u>	¢			
Additions		43,228,824,081	277,254,296	43,506,078,377
Disposals		(3,285,365,707)	-	(3,285,365,707)
Adjustments		(397,069,659)	-	(397,069,659)
Closing balance		39,546,388,715	277,254,296	39,823,643,011
<u>Accumulated depreciation:</u>				
Opening balance		82,823,437	-	82,823,437
Effect of implementation of IFRS		3,046,732,987	97,203,330	3,143,936,317
Depreciation expense on historical cost		3,312,926,599	94,802,707	3,407,729,306
Disposals		(527,027,745)	-	(527,027,745)
Adjustments		(138,819,718)	-	(138,819,718)
Closing balance		5,776,635,560	192,006,037	5,968,641,597
Net closing balance	¢	33,769,753,155	85,248,259	33,855,001,414
		June 2020		
		Right of use of building	Right of use of vehicles	Total
<u>Cost:</u>				
Additions		42,676,412,607	277,254,296	42,953,666,903
Closing balance		42,676,412,607	277,254,296	42,953,666,903
<u>Accumulated depreciation:</u>				
Depreciation expense on historical cost		4,802,567,635	145,804,993	4,948,372,628
Depreciation expense on revaluation		41,411,718	-	41,411,718
Closing balance	¢	4,843,979,353	145,804,993	4,989,784,346
Net closing balance	¢	37,832,433,254	131,449,303	37,963,882,557

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

c) Lease liabilities

i. Amounts recognized in profit or loss

The amounts recognized in profit or loss are as follows:

		June 2021	December 2020	June 2020
Interest on lease liability	¢	<u>1,740,552,258</u>	<u>3,623,877,063</u>	<u>1,815,434,686</u>
Expenses for leases of low-value assets, excluding short-term assets	¢	<u>269,067,780</u>	<u>874,620</u>	<u>510,195</u>

ii. Amounts recognized in the statement of cash flows

		June 2021	December 2020	June 2020
Total cash outflows for leases	¢	<u>(849,909,881)</u>	<u>1,811,972,981</u>	<u>(885,140,268)</u>

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(17) Other assets

Other assets are as follows:

	June 2021	December 2020	June 2021
<i>Deferred charges:</i>			
Leasehold improvements (1)	¢ 39,174,168	109,029,869	214,808,352
Cost of issue of financial instruments, net (2)	281,947,552	383,327,082	611,201,214
Cost of subordinated debt project	189,732,174	215,689,311	229,765,526
Other deferred charges	35,483,182,307	42,613,181,701	49,743,181,094
	<u>35,994,036,201</u>	<u>43,321,227,963</u>	<u>50,798,956,186</u>
<i>Intangible assets:</i>			
Software (3)	4,378,157,946	5,295,527,348	5,882,549,986
Other intangible assets (3)	17,452,203	4,874,124	4,874,124
	<u>4,395,610,149</u>	<u>5,300,401,472</u>	<u>5,887,424,110</u>
<i>Other assets:</i>			
Prepaid taxes	11,544,793,438	16,712,469,431	4,012,925,173
Prepaid insurance policy	172,500,726	169,380,002	370,679,100
Other prepaid expenses	7,462,211,060	7,866,604,530	2,973,695,792
Stationery, office supplies and other materials	540,637,654	913,024,907	1,047,904,137
Leased assets	120,812,470	121,506,085	122,210,458
Library and artwork	404,704,948	404,704,948	429,918,818
Construction work in progress	2,048,846,962	1,383,200,612	1,343,735,715
Automated applications under development	127,010,031	88,151,366	-
Payments to welfare and trade associations	600,000	600,000	600,000
Other sundry assets	158,557,669	158,557,669	480,811,772
Operations pending settlement	8,209,073,427	21,965,902,330	5,569,155,955
Other operations pending application	105,690,388	118,059,154	210,298,700
Security deposits (Note 7)	382,497,500	460,789,956	522,952,535
Legal and administrative deposits (Note 7)	223,870,494	240,349,485	273,231,665
	<u>31,501,806,767</u>	<u>50,603,300,475</u>	<u>17,358,119,820</u>
¢	<u>71,891,453,117</u>	<u>99,224,929,910</u>	<u>74,044,500,116</u>

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- (1) As of June 30, 2021, the amortization expense for leasehold improvements amounts to ¢48,227,276.
- (2) As of June 30, 2021, the costs of issue of financial instruments are as follows:

		June 2021			
		5-year issue (maturing in 2018)	10-year issue (maturing in 2023)	5-year issue (maturing in 2021)	Total
Commission - structuring banks	¢	310,960,000	310,960,000	528,632,000	1,150,552,000
Commission - Moody's Investors Service		155,480,000	155,480,000	-	310,960,000
Commission - Société de la Bourse de Luxembourg S.A.		7,600,484	7,600,484	-	15,200,969
RR Donnelley		6,808,158	6,808,133	4,075,613	17,691,904
BNY Mellon		2,458,450	2,458,450	3,586,613	8,503,512
Moody's issuer rating		20,585,552	20,585,552	155,480,000	196,651,104
Fitch Ratings		155,480,000	155,480,000	155,480,000	466,440,000
Milbank		91,521,747	91,521,747	122,531,058	305,574,552
Shearman & Sterling		91,640,534	91,640,534	136,321,195	319,602,263
External audit		118,164,800	118,164,800	144,285,440	380,615,040
Perkins Cole (Broker)		-	-	8,157,756	8,157,756
Printing of documents		-	-	9,835,643	9,835,643
		<u>960,699,725</u>	<u>960,699,701</u>	<u>1,268,385,317</u>	<u>3,189,784,743</u>
Amortization		<u>(960,699,725)</u>	<u>(678,752,293)</u>	<u>(1,268,385,317)</u>	<u>(2,907,837,336)</u>
	¢	<u>-</u>	<u>281,947,407</u>	<u>-</u>	<u>281,947,407</u>

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 2020				
	5-year issue (maturing in 2018)	10-year issue (maturing in 2023)	5-year issue (maturing in 2021)	Total
Commission - structuring banks	¢ 308,650,000	308,650,000	524,705,000	1,142,005,000
Commission - Moody's Investors Service	154,325,000	154,325,000	-	308,650,000
Commission - Société de la Bourse de Luxembourg, S.A.	7,544,023	7,544,023	-	15,088,047
RR Donnelley	6,757,583	6,757,558	4,045,337	17,560,478
BNY Mellon	2,440,187	2,440,187	3,559,969	8,440,343
Moody's - issuer rating	20,432,630	20,432,630	154,325,000	195,190,260
Fitch Ratings	154,325,000	154,325,000	154,325,000	462,975,000
Milbank	90,841,868	90,841,868	121,620,823	303,304,559
Shearman & Sterling	90,959,773	90,959,771	135,308,518	317,228,063
External audit	117,287,000	117,287,000	143,213,600	377,787,600
Perkins Cole (Broker)	-	-	8,097,155	8,097,155
Printing of documents	-	-	9,762,503	9,762,503
	<u>953,563,064</u>	<u>953,563,037</u>	<u>1,258,962,905</u>	<u>3,166,089,006</u>
Amortization	<u>(953,563,064)</u>	<u>(619,064,422)</u>	<u>(1,210,134,438)</u>	<u>(2,782,761,924)</u>
	<u>¢ -</u>	<u>334,498,615</u>	<u>48,828,467</u>	<u>383,327,082</u>

June 2020				
	5-year issue (maturing in 2018)	10-year issue (maturing in 2023)	5-year issue (maturing in 2021)	Total
Commission - structuring banks	¢ 291,745,000	291,745,000	495,966,500	1,079,456,500
Commission - Moody's Investors Service	145,872,500	145,872,500	-	291,745,000
Commission - Société de la Bourse de Luxembourg, S.A.	7,130,831	7,130,831	-	14,261,663
RR Donnelley	6,387,465	6,387,442	3,823,770	16,598,677
BNY Mellon	2,306,536	2,306,536	3,364,987	7,978,059
Moody's - issuer rating	19,313,519	19,313,519	145,872,500	184,499,538
Fitch Ratings	145,872,500	145,872,500	145,872,500	437,617,500
Milbank	85,866,388	85,866,388	114,959,556	286,692,333
Shearman & Sterling	85,977,835	85,977,835	127,897,565	299,853,235
External audit	110,863,100	110,863,100	135,369,680	357,095,880
Perkins Cole (Broker)	-	-	7,653,668	7,653,668
Printing of documents	-	-	9,227,800	9,227,800
	<u>901,335,675</u>	<u>901,335,651</u>	<u>1,190,008,526</u>	<u>2,992,679,852</u>
Amortization	<u>(901,335,675)</u>	<u>(535,142,106)</u>	<u>(945,000,857)</u>	<u>(2,381,478,638)</u>
	<u>¢ -</u>	<u>366,193,545</u>	<u>245,007,669</u>	<u>611,201,214</u>

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

(3) Intangible assets, net, are as follows:

		June 2021		
		Software	Other intangible assets	Total
<u>Cost:</u>				
Opening balance	¢	32,942,596,150	42,095,559	32,984,691,709
Additions		1,018,457,156	-	1,018,457,156
Disposals		(115,468,468)	-	(115,468,468)
Closing balance		<u>33,845,584,838</u>	<u>42,095,559</u>	<u>33,887,680,397</u>
<u>Accumulated amortization:</u>				
Opening balance		28,238,271,839	42,095,559	28,280,367,398
Expense for the period		1,770,011,694	-	1,770,011,694
Adjustments		(486,951)	-	(486,951)
Closing balance		<u>30,007,796,582</u>	<u>42,095,559</u>	<u>30,049,892,141</u>
Net closing balance	¢	<u>3,837,788,256</u>	<u>-</u>	<u>3,837,788,256</u>

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		December 2020		
		Software	Other intangible assets	Total
<u>Cost:</u>				
Opening balance	¢	32,758,659,684	44,965,618	32,803,625,302
Additions		2,518,506,297	16,490,398	2,534,996,695
Disposals		(1,008,133,238)	-	(1,008,133,238)
Reclassifications		(1,659,291)	(14,486,333)	(16,145,624)
Adjustments		(126,417,047)	-	(126,417,047)
Closing balance		<u>34,140,956,405</u>	<u>46,969,683</u>	<u>34,187,926,088</u>
<u>Accumulated amortization:</u>				
Opening balance		25,835,625,309	42,095,559	25,877,720,868
Expense for the year		4,093,766,764	-	4,093,766,764
Disposals		(1,021,627,707)	-	(1,021,627,707)
Reclassifications		1,889,740	-	1,889,740
Adjustments		(64,225,048)	-	(64,225,048)
Closing balance		<u>28,845,429,057</u>	<u>42,095,559</u>	<u>28,887,524,616</u>
Net closing balance	¢	<u>5,295,527,348</u>	<u>4,874,124</u>	<u>5,300,401,472</u>
		June 2020		
		Software	Other intangible assets	Total
<u>Cost:</u>				
Opening balance	¢	32,758,659,684	44,965,618	32,803,625,302
Additions		976,802,421	7,744,183	984,546,604
Disposals		(974,082,878)	(5,740,118)	(979,822,996)
Reclassifications		(1,659,292)	-	(1,659,292)
Adjustments		(110,257,661)	-	(110,257,661)
Closing balance		<u>32,649,462,274</u>	<u>46,969,683</u>	<u>32,696,431,957</u>
<u>Accumulated amortization:</u>				
Opening balance		25,835,625,309	42,095,559	25,877,720,868
Expense for the period		1,959,075,833	5,740,118	1,964,815,951
Disposals		(965,453,546)	-	(965,453,546)
Reclassifications		1,889,740	(5,740,118)	(3,850,378)
Adjustments		(64,225,048)	-	(64,225,048)
Closing balance		<u>26,766,912,288</u>	<u>42,095,559</u>	<u>26,809,007,847</u>
Net closing balance	¢	<u>5,882,549,986</u>	<u>4,874,124</u>	<u>5,887,424,110</u>

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(18) Obligations with the public

Obligations with the public by cumulative amount are as follows:

	June 2021	December 2020	June 2020
<i><u>Demand deposits:</u></i>			
Checking accounts	¢ 1,805,193,076,745	1,722,635,196,234	1,967,877,251,985
Certified checks	74,510,213	158,566,763	76,842,690
Savings deposits	1,829,166,322,820	1,793,268,825,369	1,579,256,859,230
Matured term deposits	26,685,524,200	21,038,851,425	23,730,273,400
Other demand deposits	122,236,952	126,026,584	131,533,553
Drafts and transfers payable	187,886,521	402,866,378	430,884,650
Cashier's checks	4,140,879,732	2,853,421,177	3,329,830,100
Advance collections from customers for credit cards	11,128,212,179	11,366,072,439	10,877,894,839
Banking mandates	-	1,142,835,067	1,117,201,767
Trust fund obligations	49,240,993	70,824,810	88,474,382
	<u>3,676,747,890,355</u>	<u>3,553,063,486,246</u>	<u>3,586,917,046,596</u>
<i><u>Term deposits:</u></i>			
Deposits from the public	1,969,759,918,584	1,938,769,672,856	1,804,336,645,457
Other term deposits	43,752,045,795	97,766,851,400	149,355,252,140
	<u>2,013,511,964,379</u>	<u>2,036,536,524,256</u>	<u>1,953,691,897,597</u>
<i><u>Other obligations with the public:</u></i>			
Obligations for tri-party repurchase agreements	-	7,873,700,508	13,379,322,344
Finance charges payable	31,388,935,326	36,616,428,702	42,548,097,585
	<u>¢ 5,721,648,790,060</u>	<u>5,634,090,139,712</u>	<u>5,596,536,364,122</u>

As of June 30, 2021, deposits in checking accounts in colones bear interest at a maximum rate of 1.15% per annum on full balances (December and June 2020: 1.15% and 2.05% per annum, respectively) and at a minimum rate of 0.00% per annum on balances greater than or equal to ¢500,001 (December and June 2020: 0.65% and 0.00% per annum, respectively). Deposits in checking accounts in US dollars bear interest at a maximum rate of 0.20% per annum on full balances (December and June 2020: 0.20% and 0.45% per annum, respectively) and at a minimum rate of 0.00% per annum on balances greater than or equal to US\$5,000.99 (December and June 2020: 0.10% and 0.00% per annum, respectively).

Term deposits correspond to term certificates of deposit in colones, US dollars, and euro. As of June 30, 2021, term certificates bear annual interest at the following rates:

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Currency	June 2021	December 2020	June 2020
Colones	1.00% to 6.25%	1.25% to 6.75%	1.25% to 6.75%
US dollars	0.10% to 3.80%	0.20% to 3.90%	0.25% to 3.90%

The Conglomerate has term certificates of deposit that are restricted to secure certain loan operations. As of June 30, 2021, the balance of those term certificates of deposit is ¢80,582,023,236. As of that date, the Conglomerate has no inactive deposits with State-owned entities or other banks.

(19) Obligations with BCCR

Obligations with BCCR are as follows:

	June 2021	December 2020	June 2020
Financing of loans using internal funds	¢ 168,293,000,000	-	-
Financing of loans using external funds (i)	125,644,412	125,644,412	125,644,412
Other term obligations (ii)	-	8,000,000,000	-
Finance charges payable	271,929,444	666,667	-
	<u>¢ 168,690,573,856</u>	<u>8,126,311,079</u>	<u>125,644,412</u>

- i. According to Agreement MAG/AID 515-T-027 signed December 15, 1981, obligations related to financing of loans using external funds correspond to the agreement between the Government of Costa Rica and the Conglomerate regarding management of the funds of the Agricultural Production Systems Project. This loan bears no interest and the agreement shall remain effective until otherwise agreed.
- ii. Other term obligations with BCCR correspond to deferred liquidity operations (MIL operations), with the corresponding interest.

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Notes to the Consolidated Financial Statements

(20) Obligations with financial entities

Obligations with financial entities are as follows:

	June 2021	December 2020	June 2020
<i><u>Demand:</u></i>			
Checking accounts with local financial entities	¢ 63,277,429,569	63,081,831,168	58,932,064,834
Savings deposits with local financial entities	27,832,304	52,978,622	30,804,575
Outstanding checks	3,353,584,527	1,319,135,518	3,580,484,284
Matured term deposits	446,822,189	4,150,001	54,053,591
Checking accounts and obligations with related parties	1,008,237,180	817,312,947	129,468,120
	<u>68,113,905,769</u>	<u>65,275,408,256</u>	<u>62,726,875,404</u>
<i><u>Term:</u></i>			
Term deposits with local financial entities	111,879,256,428	81,249,784,724	75,573,301,675
Term obligations with foreign financial entities (1)	208,790,848,339	400,679,619,801	479,515,276,141
Obligations for funds from the liquidity market	17,821,919,998	19,484,690,997	25,201,879,998
Loans from local financial entities (3)	28,762,056,464	30,060,611,046	31,337,453,444
Loans from foreign financial entities (2)	127,499,611,895	114,374,846,095	132,155,642,033
Lease liabilities (1)	35,114,479,025	37,044,902,529	38,980,493,862
Obligations with funds from the Development Credit Fund	155,050,074,576	167,991,227,096	156,380,143,661
Obligations with related financial entities	-	-	600,000,000
	<u>684,918,246,725</u>	<u>850,885,682,288</u>	<u>939,744,190,814</u>
(Deferred fees and commissions on own loan portfolio)	(128,516,173)	(49,567,474)	(76,912,729)
	<u>(128,516,173)</u>	<u>(49,567,474)</u>	<u>(76,912,729)</u>
Charges payable for other demand and term obligations with financial entities – foreign currency	39,033,770	23,373,089	27,148,617
Charges payable for other demand and term obligations with financial entities – local currency	571,390,847	393,526,931	465,348,261
Charges payable for loans with foreign financial entities (1)(4)	537,416,465	534,786,904	628,197,145
Charges payable for loans with local financial entities (3)	60,905,741	63,322,482	65,695,366
Charges payable for term deposits with foreign financial entities (1)(2)	2,073,850,582	4,120,913,505	4,850,587,659
	<u>3,282,597,405</u>	<u>5,135,922,911</u>	<u>6,036,977,048</u>
¢	<u>756,186,233,726</u>	<u>921,247,445,981</u>	<u>1,008,431,130,537</u>

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Notes to the Consolidated Financial Statements

a) *Lease liabilities*

As of June 30, 2021, long-term lease liabilities and their current portion amount to ¢6,004,550,398 and US\$46,927,525, for a total in colones of ¢34,902,989,654, using an exchange rate of ¢621.2 (December 2020: ¢6,852,361,433 and US\$48,071,709, for a total in colones of ¢37,044,903,048, using an exchange rate of ¢617.30; and June 2020: ¢6,326,519,401 and US\$54,244,029, for a total in colones of ¢37,977,368,262, using an exchange rate of ¢583.49).

Lease liabilities include 76 lease operations, of which 16 operations are denominated in colones, with rates ranging between 11.80% and 13.63% per annum and maturing between 2022 and 2042 (December and June 2020: 79 lease operations, 15 denominated in colones, with rates ranging between 11.80% and 13.63% per annum; and 60 lease operations, 16 denominated in colones, bearing interest at rates ranging from 11.80% to 13.63% per annum, respectively), and 60 operations are denominated in US dollars, with rates ranging between 11.80% and 13.63% per annum and maturing between 2021 and 2041 (December and June 2020: 64 operations denominated in US dollars, with rates ranging between 8.80% and 8.85% per annum and maturing in June 2020).

Future minimum lease payments are as follows:

		June 2021	
		<u>Future minimum lease payments</u>	<u>Present value of minimum lease payments</u>
Less than one year	¢	5,260,711,387	1,980,177,401
Between one and five years		24,285,203,720	10,846,656,642
More than five years		32,489,274,059	22,324,480,102
	¢	<u>62,035,189,166</u>	<u>35,151,314,145</u>
		December 2020	
		<u>Future minimum lease payments</u>	<u>Present value of minimum lease payments</u>
Less than one year	¢	5,295,814,630	2,009,847,998
Between one and five years		24,553,927,714	10,209,599,908
More than five years		36,156,589,332	24,307,579,504
	¢	<u>66,006,331,676</u>	<u>36,527,027,410</u>

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

June 2020			
	<u>Future minimum</u>		<u>Present value of</u>
	<u>lease payments</u>	<u>Interest</u>	<u>minimum lease</u>
			<u>payments</u>
Less than one year	¢ 5,511,759,109	3,584,174,059	1,927,591,216
Between one and five years	25,570,000,145	15,007,587,774	10,562,443,203
More than five years	38,672,187,709	12,932,681,089	25,739,563,854
	¢ <u>69,753,946,963</u>	<u>31,524,442,922</u>	<u>38,229,598,274</u>

The reconciliation of the lease liabilities with cash flows from financing activities is as follows:

	June 2021	December 2020	June 2020
Balance at January 1, 2021	¢ 36,527,027,411	38,483,041,275	38,483,041,275
New financial obligations	18,916,950	9,960,187	-
Settlements or withdrawals	(457,570,020)	(2,947,517,894)	-
Adjustments	(721,594,073)	660,828,920	-
Payment of obligations	(923,419,037)	(1,811,972,981)	(885,140,268)
Interest expense	1,720,371,374	-	(1,815,434,686)
Foreign exchange differences	213,073,083	2,132,687,903	(379,467,255)
Balance at June 30, 2021	¢ <u>34,656,434,314</u>	<u>36,527,027,410</u>	<u>37,977,368,262</u>

(1) The characteristics of obligations with foreign financial entities are as follows:

<u>Date of issue</u>	<u>Face value</u>	<u>Characteristics</u>
		<ul style="list-style-type: none"> • Traded amount: 99.072% • Term: 10 years • Interest rate: 6.250% per coupon payment
11/01/2013	US\$500 million	

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Notes to the Consolidated Financial Statements

(2) The characteristics of loans with foreign financial entities are as follows:

Date of issue	Face value	Characteristics
10/19/2007	US\$20 million	<ul style="list-style-type: none"> • Traded amount: 100% • Term: 16 years • Interest rate: 6.20% per coupon payment
09/04/2007	US\$20 million	<ul style="list-style-type: none"> • Traded amount: 100% • Term: 16 years • Interest rate: 6.20% per coupon payment
05/07/2007	US\$10 million	<ul style="list-style-type: none"> • Traded amount: 100% • Term: 17 years • Interest rate: 6.20% per coupon payment
03/12/2007	US\$75 million	<ul style="list-style-type: none"> • Traded amount: 100% • Term: 22 years • Interest rate: 6.65% per coupon payment
04/17/2020	US\$50 million	<ul style="list-style-type: none"> • Traded amount: 100% • Term: 2 years • Interest rate: 6.65% per coupon payment
11/25/2020	US\$10 million	<ul style="list-style-type: none"> • Traded amount: 100% • Term: 3 years • Interest rate: 2.85% per coupon payment
01/05/2021	US\$40 million	<ul style="list-style-type: none"> • Traded amount: 100% • Term: 3 years • Interest rate: 2.85% per coupon payment
04/27/2016	US\$20.43% million	<ul style="list-style-type: none"> • Traded amount: 100% • Term: 8 years • Interest rate: 3.32% per coupon payment
07/21/2016	US\$ 8.11 % million	<ul style="list-style-type: none"> • Traded amount: 100% • Term: 7 years • Interest rate: 3.32% per coupon payment
01/30/2015	US\$ 11.47 % million	<ul style="list-style-type: none"> • Traded amount: 100% • Term: 9 years • Interest rate: 3.32% per coupon payment

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b) Obligations with international issuers:

The balances of those issues according to the term of the obligations are as follows:

		June 2021	
		10-year issue (maturing in 2023)	Total
Issue	¢	197,242,100,346	197,242,100,346
Adjustment to fair value of hedged item measured at cost of international issues		10,263,083,953	10,263,083,953
Amortization of discount in traded amount of issues		1,285,664,201	1,285,664,201
		208,790,848,500	208,790,848,500
Finance charges payable		2,073,850,582	2,073,850,582
	¢	210,864,699,082	210,864,699,082

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	December 2020		
	10-year issue (maturing in 2023)	5-year issue (maturing in 2021)	Total
Issue	¢ 195,776,866,066	190,873,703,328	386,650,569,394
Adjustment to fair value of hedged item measured at cost of international issues	12,722,231,276	(413,491,874)	12,308,739,402
Amortization of discount in traded amount of issues	1,171,077,027	549,233,978	1,720,311,005
	209,670,174,369	191,009,445,432	400,679,619,801
Finance charges payable	2,058,444,759	2,062,468,746	4,120,913,505
	¢ 211,728,619,128	193,071,914,178	404,800,533,306
	June 2020		
	10-year issue (maturing in 2023)	5-year issue (maturing in 2021)	Total
Issue	¢ 275,919,345,596	180,419,402,486	456,338,748,082
Adjustment to fair value of hedged item measured at cost of international issues	21,573,971,776	(358,899,798)	21,215,071,978
Amortization of discount in traded amount of issues	1,507,005,104	454,450,976	1,961,456,080
	299,000,322,476	180,514,953,664	479,515,276,140
Finance charges payable	2,901,081,927	1,949,505,733	4,850,587,660
	¢ 301,901,404,403	182,464,459,397	484,365,863,800

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(3) The maturity of loans and term obligations due to financial entities is as follows:

		June 2021		
		Local	Foreign	Total
Less than one year	¢	-	10,419,388,949	10,419,388,949
Three to five years		329,061,014	70,732,386,276	71,061,447,290
More than five years		28,619,545,603	46,885,253,135	75,504,798,738
	¢	<u>28,948,606,617</u>	<u>128,037,028,360</u>	<u>156,985,634,977</u>
		December 2020		
		Local	Foreign	Total
Less than one year	¢	63,322,482	21,690,172,319	21,753,494,801
Three to five years		-	46,297,500,000	46,297,500,000
More than five years		30,060,611,046	46,921,960,680	76,982,571,726
	¢	<u>30,123,933,528</u>	<u>114,909,632,999</u>	<u>145,033,566,527</u>
		June 2020		
		Local	Foreign	Total
Less than one year	¢	-	19,196,082,541	19,196,082,541
One to two years		-	29,384,343,671	29,384,343,671
Three to five years		-	40,215,317,467	40,215,317,467
More than five years		31,528,793,222	43,988,095,498	75,516,888,720
	¢	<u>31,528,793,222</u>	<u>132,783,839,177</u>	<u>164,312,632,399</u>

Loans due to foreign financial entities bear interest at rates ranging between 2.60% and 6.65% per annum.

The reconciliation of notes payable with cash flows from financing activities, as required by IAS 7 is as follows:

	June 2021	December 2020
Balance at beginning of period	¢ 144,435,457,141	135,780,260,555
New financial obligations	25,956,430,961	38,326,617,261
Settlement of financial obligations	(13,795,945,792)	(39,250,574,578)
Foreign exchange differences	(334,273,951)	9,579,153,903
Cash flows from financing activities	11,826,211,219	8,655,196,586
Balance at end of period	¢ <u>156,261,668,359</u>	<u>144,435,457,141</u>

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(21) Income tax

Pursuant to the Costa Rican *Income Tax Law*, the Conglomerate is required to file income tax returns each year. As of June 30, 2021, income tax is as follows:

a) Income tax for the period

For the six months ended June 30, 2021, the income tax expense is as follows:

		June		Quarter from April 1 to June 30	
		2021	2020	2021	2020
<i><u>Current tax:</u></i>					
Current tax expense for the period	¢	9,756,822,191	8,493,436,299	5,987,962,448	3,604,421,332
Prior-period income tax expense		<u>7,094,618,966</u>	<u>7,148,147,558</u>	<u>3,546,605,028</u>	<u>3,548,107,107</u>
		16,851,441,157	15,641,583,857	9,534,567,476	7,152,528,439
<i><u>Deferred tax:</u></i>					
Deferred tax expense		838,964,344	565,737,239	830,876,592	407,353,719
Deferred tax income		<u>(917,980,113)</u>	<u>(860,013,238)</u>	<u>(878,395,111)</u>	<u>(371,382,575)</u>
Total deferred tax expense, net		<u>(79,015,769)</u>	<u>(294,275,999)</u>	<u>(47,518,519)</u>	<u>35,971,144</u>
Income tax expense, net	¢	16,772,425,388	15,347,307,858	9,487,048,957	7,188,499,583

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of June 30, the difference between the income tax expense and the amount that would result from applying the corresponding tax rate to pre-tax income (30%) is reconciled as follows:

	2021	2020
Profit before tax	¢ 31,383,265,997	28,587,156,454
<i>Plus (less) tax effect of:</i>		
Non-deductible expenses	8,061,485,180	6,984,388,167
Deductible expenses	(5,715,928,485)	(1,866,851,937)
Non-taxable income	(1,204,424,903)	(5,393,238,350)
Tax base	32,524,397,789	28,311,454,334
Tax rate	30%	30%
Subtotal income tax expense	9,756,822,191	8,493,436,299
Prior-period income tax expense	7,094,618,966	7,148,147,558
Deferred tax expense	838,964,344	565,737,239
Deferred tax income	(917,980,112)	(860,013,238)
Deferred tax expense	(79,015,768)	(294,275,999)
Net income tax expense	¢ 16,772,425,389	15,347,307,858

b) Deferred tax

Deferred tax assets and liabilities are as follows:

		June 2021	
	Assets	Liabilities	Net
Unrealized losses on			
valuation of investments	¢ 531,303,734	-	531,303,734
Provisions	310,293,014	-	310,293,014
Right-of-use assets	1,156,765,196	-	1,156,765,196
Unrealized gains on			
valuation of investments	-	(4,171,186,441)	(4,171,186,441)
Revaluation of property	-	(8,939,092,745)	(8,939,092,745)
Tax base of property and			
equipment	-	(3,872,906,273)	(3,872,906,273)
	¢ 1,998,361,944	(16,983,185,459)	(14,984,823,515)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		December 2020		
		Assets	Liabilities	Net
Unrealized losses on valuation of investments	¢	446,733,973	-	446,733,973
Provisions		287,529,817	-	287,529,817
Right-of-use assets		951,800,756	-	951,800,756
Unrealized gains on valuation of investments		-	(3,006,120,072)	(3,006,120,072)
Revaluation of property		-	(17,530,316,973)	(17,530,316,973)
Tax base of property and equipment		-	(3,739,156,241)	(3,739,156,241)
	¢	<u>1,686,064,546</u>	<u>(24,275,593,286)</u>	<u>(22,589,528,740)</u>
		June 2020		
		Assets	Liabilities	Net
Unrealized losses on valuation of investments	¢	642,887,833	-	642,887,833
Provisions		342,138,155	-	342,138,155
Unrealized gains on valuation of investments		302,091,975	-	302,091,975
Revaluation of property		-	(2,833,210,147)	(2,833,210,147)
Unrealized losses on valuation of investments		-	(9,245,138,144)	(9,245,138,144)
	¢	<u>1,287,117,963</u>	<u>(12,078,348,291)</u>	<u>(10,791,230,328)</u>

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Deferred tax assets and liabilities are as follows:

		June 2021			
		December 2020	Included in the income statement	Included in equity	June 2021
Unrealized losses on valuation of investments	¢	446,733,973	(84,763,319)	169,333,080	531,303,734
Provisions		287,529,817	22,763,197	-	310,293,014
Right-of-use assets		951,800,756	-	204,964,440	1,156,765,196
Unrealized gains		(3,006,120,072)	71,551,737	(1,236,618,106)	(4,171,186,441)
Asset revaluation		(17,530,316,973)	-	8,591,224,229	(8,939,092,744)
Tax base of property, furniture and equipment		(3,739,156,241)	(345,275,292)	211,525,260	(3,872,906,273)
	¢	<u>(22,589,528,740)</u>	<u>(335,723,677)</u>	<u>7,940,428,903</u>	<u>14,984,823,514)</u>
		December 2020			
		December 2019	Included in the income statement	Included in equity	December 2020
Unrealized losses on valuation of investments	¢	1,049,189,321	-	(530,233,034)	518,956,287
Provisions		198,437,376	1,710,738	-	200,148,114
Right-of-use assets		-	971,338,597	(18,206,160)	953,132,437
Impairment of investments		-	12,686,297	-	12,686,297
Asset depreciation		-	346,133	-	346,133
Lease liabilities		-	(1,221,832)	-	(1,221,832)
Unrealized gains on valuation of investments		(4,547,196,438)	-	1,642,602,757	(2,904,593,681)
Revaluation of property		(9,506,392,781)	-	470,273,651	(9,036,119,130)
Tax base of property, furniture and equipment		-	(358,422,205)	(3,469,008,302)	(3,827,430,507)
	¢	<u>(12,805,962,522)</u>	<u>626,437,728</u>	<u>(1,904,571,088)</u>	<u>(14,084,095,882)</u>

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	June 2020		
	Assets	Liabilities	Net
Unrealized losses on valuation of investments	¢ 642,887,833	-	642,887,833
Provisions	342,138,155	-	342,138,155
Right-of-use assets	302,091,975	-	302,091,975
Unrealized gains on valuation of investments	-	(2,833,210,147)	(2,833,210,147)
Revaluation of property	-	(9,245,138,144)	(9,245,138,144)
	¢ 1,287,117,963	(12,078,348,291)	(10,791,230,328)

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

As of June 30, 2021, the Bank has not recognized a deferred tax liability in the amount of ¢4,576,273,002, given that it controls the moment when the subsidiaries pay dividends.

Tax returns filed by the Conglomerate for the years ended December 31, 2020 and the tax return that will be filed for the year ended December 31, 2021 are open to review by the Tax Authorities.

(22) Provisions

Provisions are as follows:

	June 2021	December 2020	June 2020
Severance benefits	¢ 319,332,082	314,133,990	486,696,030
Litigation	7,332,682,535	6,952,427,372	6,545,542,189
Inactive checking and savings accounts liquidated	757,705,081	759,171,321	726,422,772
Manager commissions	7,416,159,710	15,931,625,072	15,294,893,407
Variation in RIVM methodology	490,003,103	490,003,103	490,003,103
Notice of deficiency	4,714,347,682	3,736,545,365	2,758,743,048
Other	229,724,510	457,979,172	275,135,848
	¢ <u>21,259,954,703</u>	<u>28,641,885,395</u>	<u>26,577,436,397</u>

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Movement in provisions is as follows:

June 2021				
	Severance benefits	Litigation	Other	Total
Balance as of December 31, 2020	¢ 314,133,990	6,952,427,372	21,375,324,034	28,641,885,396
Increase in provision	61,951,580	577,927,861	2,664,508,807	3,304,388,248
Used	12,108,868	(189,863,817)	(10,404,715,034)	(10,582,469,983)
Decrease in provision	(68,862,356)	(7,808,881)	(27,177,721)	(103,848,958)
Balance as of June 30, 2021	¢ 319,332,082	7,332,682,535	13,607,940,086	21,259,954,703

December 2020				
	Severance benefits	Litigation	Other	Total
Balance as of December 31, 2019	¢ 490,062,436	7,728,962,160	23,746,890,492	31,965,915,088
Increase in provision	91,966,068	787,932,165	6,522,769,241	7,402,667,474
Used	(10,100,884)	(303,159,638)	(3,188,691,827)	(3,501,952,349)
Decrease in provision	(257,793,630)	(1,261,307,315)	(5,705,643,873)	(7,224,744,818)
Balance as of December 31, 2020	¢ 314,133,990	6,952,427,372	21,375,324,033	28,641,885,395

June 2020				
	Severance benefits	Litigation	Other	Total
Balance as of December 31, 2019	¢ 462,095,363	6,366,395,778	19,521,990,414	26,350,481,555
Increase in provision	59,379,829	255,850,162	3,367,649,306	3,682,879,297
Used	21,040,087	1,183,978,150	2,357,867,273	3,562,885,510
Decrease in provision	(55,819,249)	(1,260,681,901)	(5,702,308,815)	(7,018,809,965)
Balance as of June 30, 2020	¢ 486,696,030	6,545,542,189	19,545,198,178	26,577,436,397

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The Bank and its subsidiaries are defendants in pending lawsuits, for which the potential outflow of economic benefits is considered. The Bank has estimated future outflows and made the following provisions:

Type	Claimed amount			Provision		
	June 2021	December 2020	June 2020	June 2021	December 2020	June 2020
Ordinary - in colones	18,672,832,552	18,699,964,447	18,858,072,522	4,618,493,561	4,196,881,474	3,981,821,292
Ordinary - in US dollars	135,813,128,966	132,624,641,534	125,738,782,901	2,204,326,900	2,188,079,724	2,017,037,116
Criminal - in colones	1,020,877,223	1,020,877,223	1,020,877,223	-	-	-
Labor - in colones	879,064,573	879,064,573	876,564,572	509,862,074	567,466,174	546,683,781
	<u>156,385,903,314</u>	<u>153,224,547,777</u>	<u>146,494,297,218</u>	<u>7,332,682,535</u>	<u>6,952,427,372</u>	<u>6,545,542,189</u>

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(23) Other sundry accounts payable

Other sundry accounts payable are as follows:

	June 2021	December 2020	June 2020
Professional fees	¢ 1,428,250	1,514,875	2,120,875
Creditors - goods and services	4,631,688,696	7,348,831,124	5,527,663,296
Income tax	9,756,822,191	17,056,944,248	8,493,436,299
Value added tax	257,043,645	271,040,616	157,082,374
Employer contributions	7,286,942,708	7,611,217,677	5,807,293,330
Court-ordered withholdings	3,957,738,306	3,642,750,117	3,640,381,745
Tax withholdings	1,880,534,387	2,145,519,550	2,048,887,464
Employee withholdings	734,797,939	736,355,713	676,151,109
Other third-party withholdings	241,725,359	187,242,872	229,206,175
Compensation	9,093,006,959	10,053,389,163	5,541,753,004
Statutory allocations	10,803,380,481	12,320,255,503	6,168,681,079
Obligations on loans with related parties	956,468	200,171	5,763,837
Clearing house operations	293,916,670	207,654,419	1,870,835,880
Accrued vacation	5,012,716,071	4,463,928,317	5,190,178,793
Accrued statutory Christmas bonus	5,203,852,757	1,343,813,548	4,605,803,029
Contribution to the superintendencies' budget	6,111,241	6,111,241	4,997,897
Foreclosed assets	217,189,848	198,833,316	765,781,905
Provisional deposits for the payment of premiums	2,301,940,217	2,063,670,964	2,482,963,278
Property	1,134,044,394	-	-
Direct contracts with the Government Purchases department - various	849,822,700	974,210,561	977,049,518
PAYPAL transactions	-	-	247,462,643
Accounts due to customers (1)	-	13,575,039	12,214,861
Merlink guarantees	1,533,478,398	1,422,035,747	1,304,445,513
Fees due to international organizations	901,000,000	-	687,750,000
Amounts received for partial sales of foreclosed assets	503,428,180	635,281,514	559,606,095
Master Card and Visa payments	1,323,030,094	-	1,362,669,639
Allocation for petty cash differences	574,036,798	583,322,866	-
Various creditors	2,226,338,475	2,974,402,146	2,753,457,548
Interest rate futures - Hedges (Note 9)	30,974,663	-	7,590,050
¢	<u>70,757,945,893</u>	<u>76,262,101,307</u>	<u>61,131,227,236</u>

(1) Accounts due to customers correspond to dividends, sales or liquidations pending instructions from foreign investors.

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(24) Other liabilities

Other liabilities are as follows:

	<u>June 2021</u>	<u>December 2020</u>	<u>June 2020</u>
<i><u>Deferred income:</u></i>			
Deferred fees and commissions for trust management	<u>66,506,141</u>	<u>72,347,267</u>	<u>47,694,858</u>
	<u>66,506,141</u>	<u>72,347,267</u>	<u>47,694,858</u>
<i><u>Operations pending application:</u></i>			
Operations pending settlement	<u>9,130,963,180</u>	<u>25,188,593,904</u>	<u>7,800,536,376</u>
Other operations pending settlement	<u>21,978,265,815</u>	<u>11,791,173,966</u>	<u>13,021,168,214</u>
	<u>31,109,228,995</u>	<u>36,979,767,871</u>	<u>20,821,704,590</u>
¢ 31,175,735,136	<u>31,175,735,136</u>	<u>37,052,115,137</u>	<u>20,869,399,448</u>

(25) Subordinated obligations

The Conglomerate's subordinated obligations are as follows:

<u>Annual interest rate</u>	<u>Term</u>	<u>Maturity</u>		<u>June 2021</u>	<u>December 2020</u>	<u>June 2020</u>
6-month LIBOR + 4.50% in the first 5 years and 6-month LIBOR + 5.00% thereafter	10	05/27/2024	US\$	60,000,000	70,000,000	80,000,000
6-month LIBOR + 5.25% in the first 5 years and 6-month LIBOR + 5.75% thereafter	15	10/23/2029		<u>26,250,000</u>	<u>27,000,000</u>	<u>28,500,000</u>
			US\$	<u>86,250,000</u>	<u>97,000,000</u>	<u>108,500,000</u>
Equivalent in colones			¢	<u>53,174,160,000</u>	<u>59,878,100,000</u>	<u>63,308,665,000</u>
Finance charges payable				<u>910,181,593</u>	<u>1,071,913,196</u>	<u>1,384,458,865</u>
			¢	<u>54,084,341,593</u>	<u>60,950,013,196</u>	<u>64,693,123,865</u>

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

(26) Equity

(a) Share capital

The Conglomerate's share capital is as follows:

		June 2021	December 2020	June 2020
Capital under Law No. 1644	¢	144,618,072,265	144,618,072,265	144,618,072,265
Bank capitalization bonds		27,618,957,837	27,618,957,837	27,618,957,837
	¢	<u>172,237,030,102</u>	<u>172,237,030,102</u>	<u>172,237,030,102</u>

(b) Capital reserves

Capital reserves are as follows:

		June 2021	December 2020	June 2020
Legal reserve	¢	343,172,110,194	359,235,472,801	359,232,987,766
Statutory reserve for foreclosed assets		2,462,175,235	1,730,214,922	1,113,333,358
Excess of statutory reserve for loans		7,094,751,626	8,231,223,420	6,865,948,927
Statutory dynamic provision		11,835,555,493	12,165,679,183	10,689,220,268
	¢	<u>364,564,592,548</u>	<u>381,362,590,326</u>	<u>377,901,490,319</u>

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(c) Equity of the Development Financing Fund

As of June 30, 2021, the allocation of the Bank's earnings for the creation of the Development Financing Fund (FOFIDE) amounts to ¢41,687,504,022 (December and June 2020: ¢39,043,365,123).

(27) Commitments and contingencies

As of December 31, the Conglomerate has off-balance sheet commitments and contingencies that arise in the ordinary course of business and involve elements of credit and liquidity risk, and the notional amounts of foreign exchange derivatives, as follows:

	June 2021	December 2020	June 2020
Performance bonds	¢ 44,382,041,945	43,130,640,271	39,872,272,530
Bid bonds	2,894,956,532	3,226,116,392	3,077,633,449
Other guarantees	429,264,292	698,212,573	399,241,356
Letters of credit	3,968,347,061	2,514,802,830	3,627,091,001
Credits pending disbursement	132,682,164	130,054,473	160,675,874
	<u>51,807,291,994</u>	<u>49,699,826,539</u>	<u>47,136,914,210</u>
Pre-approved lines of credit	284,954,134,728	276,948,161,866	265,719,333,177
Other contingencies not related to credits	83,658,104	83,658,102	92,897,699
Other contingencies - Pending litigation and lawsuits (Note 47)	<u>156,381,915,283</u>	<u>153,220,867,807</u>	<u>146,494,372,079</u>
	<u>441,419,708,115</u>	<u>430,252,687,775</u>	<u>412,306,602,955</u>
Sales of FX futures - Other than hedges (Note 6)	-	1,419,790,000	-
¢	<u>493,227,000,109</u>	<u>481,372,304,314</u>	<u>459,443,517,165</u>

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Letters of credit, guarantees and sureties granted expose the Bank to credit loss in the event of noncompliance by the customer. The Conglomerate'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 for the Conglomerate. Most letters of credit are used and those used are generally available on demand, issued, and confirmed by correspondent banks and payable immediately.

These commitments and contingent liabilities expose the Bank to credit risk since fees and commissions and losses are recognized in the consolidated statement of financial position until the commitments are fulfilled or expire.

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

(28) Trust assets

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

The types of trusts managed are as follows:

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

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of June 30, 2021, trust capital is invested in the following assets:

Nature of trust	Cash or property management	Securitization	Portfolio management	Guaranty	Testamentary	Custody of stock with testamentary clause	Custody of stock and cash management	Guaranties and cash management	Custody of stock	Management, custody and guaranty	Guaranty and custody of stock	Total
<i>Trust assets</i>												
Cash and due from banks	¢ 164,513,177	9,709,321	12,873,091	-	392	-	-	493,532,463	-	19,298,623,218	5,000	19,979,256,662
Investments in financial instruments	257,459,249,271	7,180,813,635	1,064,592,891	2,098,016,717,954	3,986,848,266	-	2,500,512	100,558,549	-	15,961,385	631,360	2,367,827,873,823
Loan portfolio	3,270,914,897	-	1,299,136,484	-	-	-	-	-	-	-	-	4,570,051,381
Accounts and accrued interest receivable	127,942,459,953	28,881,621,629	1,918,096,580	52,646,824	-	-	-	161,728,193	-	-	679,799	158,957,232,978
Foreclosed assets	126,215,034	-	8,576,863	-	-	-	-	-	-	-	-	134,791,897
Investments in other companies	-	-	-	200,000,000	23,382,192	164,000	-	-	36,000	-	4,740,000	228,322,192
Property and equipment	788,359,128	27,318,172,684	-	115,741,768,221	521,102,270	-	-	8,719,375,327	-	-	3,004,248,009	156,093,025,639
Other assets	22,967,008,537	1,890,379,487	1,262	235,000,000	7,991,895	-	-	713,283	-	2,950,732,993	1,674,505,319	29,726,332,776
¢	412,718,719,997	65,280,696,756	4,303,277,171	2,214,246,132,999	4,539,325,015	164,000	2,500,512	9,475,907,815	36,000	22,265,317,596	4,684,809,487	2,737,516,887,348

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of December 31, 2020, trust capital is invested in the following assets:

Nature of trust	Cash or property management	Securitization	Portfolio management	Guaranty	Testamentary	Custody of stock with testamentary clause	Custody of stock and cash management	Guaranties and cash management	Custody of stock	Management, custody and guaranty	Guaranty and custody of stock	Total
<i>Trust assets</i>												
Cash and due from banks	¢ 152,212,681	13,742,792	32,573,063	-	50,948	-	-	112,688,268	-	-	-	311,267,752
Investments in financial instruments	257,725,189,796	9,454,518,197	683,694,474	1,343,755,390,190	3,913,798,890	-	2,476,638	99,318,230	-	25,040,096	623,863	1,615,660,050,374
Loan portfolio	3,381,226,990	-	1,366,285,824	-	-	-	-	-	-	-	-	4,747,512,814
Accounts and accrued interest receivable	124,970,432,328	28,641,538,113	1,809,785,283	48,243,476	4,130	-	-	150,558,000	-	-	226,600	155,620,787,930
Foreclosed assets	156,440,366	-	10,344,986	-	-	-	-	-	-	-	-	166,785,352
Investments in other companies	-	-	-	200,000,000	3,381,730	176,000	-	-	36,000	-	4,740,000	208,333,730
Property and equipment	814,658,626	41,230,798,513	-	117,743,721,852	713,984,053	-	-	8,719,375,327	-	-	3,004,248,009	172,226,786,380
Other assets	26,057,695,783	20,546,461,139	-	235,000,000	6,129,435	-	-	-	-	4,182,208,000	1,674,504,726	52,701,999,083
¢	413,257,856,570	99,887,058,754	3,902,683,630	1,461,982,355,518	4,637,349,186	176,000	2,476,638	9,081,939,825	36,000	4,207,248,096	4,684,343,198	2,001,643,523,415

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of June 30, 2021, trust capital is invested in the following assets:

Nature of trust	Cash or property management	Securitization	Portfolio management	Guaranty	Testamentary	Custody of stock with testamentary clause	Custody of stock and cash management	Guaranties and cash management	Custody of stock	Management, custody and guaranty	Guaranty and custody of stock	Total
<i>Trust assets</i>												
Cash and due from banks	€ 164,508,692	11,779,147	19,828,787	-	12	-	-	337,841,019	-	-	-	533,957,657
Investments in financial instruments	259,145,386,105	14,589,746,492	291,821,582	1,178,465,706,647	3,681,760,353	-	2,452,605	93,382,422	-	32,175,769	585,404	1,456,303,017,379
Loan portfolio	3,240,187,304	-	1,395,177,232	-	-	-	-	-	-	-	-	4,635,364,536
Accounts and accrued interest receivable	89,860,756,404	28,649,370,385	1,807,546,091	31,825,078	-	-	-	138,963,830	-	-	461,383	120,488,923,171
Foreclosed assets	121,159,198	-	10,015,766	-	-	-	-	-	-	-	-	131,174,964
Investments in other companies	-	-	-	200,000,000	3,378,349	176,000	-	-	36,000	-	4,740,000	208,330,349
Property and equipment	834,604,715	43,097,049,442	-	113,851,340,156	483,082,253	-	-	8,719,375,327	-	-	1,738,460,805	168,723,912,698
Other assets	43,520,060,136	14,860,285,347	-	235,000,000	5,739,963	-	-	-	-	-	1,674,505,006	60,295,590,452
€	396,886,662,554	101,208,230,813	3,524,389,458	1,292,783,871,881	4,173,960,930	176,000	2,452,605	9,289,562,598	36,000	32,175,769	3,418,752,598	1,811,320,271,206

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The types of trusts managed by the Conglomerate 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 socioeconomic 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 per the instructions 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.

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(29) Other debit memoranda accounts

Other debit memoranda accounts are as follows:

	June 2021	December 2020	June 2020
Pension Fund Manager's own investments in custody – Face value of principal (unaudited) ¢	9,958,496,000	9,429,338,000	8,447,852,400
Pension Fund Manager's own investments in custody – Coupons (unaudited)	4,726,797,304	4,075,938,978	4,905,179,102
Pension Fund Manager's own investments in custody – Number of shares (unaudited)	23	23	23
Guarantees received in the Bank's custody	387,101,206	189,575,678	140,564,800
Guarantees on financial instruments	-	70,693,196	-
Other guarantees received in the Bank's custody	6,689,330,792,501	6,552,472,403,964	5,269,653,242,796
Lines of credit granted but unused	395,463,570,554	406,505,614,639	347,781,894,788
Loans pending disbursement	157,237,584,652	172,571,373,581	169,413,113,654
Investments settled	61,214,654	111,415,987	322,880,116
Loans settled	373,086,497,174	338,806,069,999	324,651,091,744
Other accounts receivable settled	17,897,586,890	14,954,527,504	14,611,636,966
Accrued interest receivable settled	34,032,761,368	30,839,072,824	29,243,648,079
Interest income on non-accrual loans of loan portfolio	29,543,438,141	30,647,147,213	27,686,353,206
Supporting documentation received in the Bank's custody	9,002,615	2,384	1,255
Securities issued pending placement	6,248,000,000	6,248,000,000	6,248,000,000
Lines of credit or overdrafts obtained but unused	6,219,199,998	6,173,000,001	5,834,900,001
Notified letters of credit	4,801,168,398	4,025,233,726	4,334,178,984
Notional value subject to interest rate futures (Note 9)	207,298,996,320	396,628,213,300	464,578,822,430
Reversals made to income accounts for the period	27,776,760,923	30,789,263,983	30,789,263,983
Reversals made to expense accounts for the period	44,626,590,692	52,976,645,521	52,976,645,521
Non-deductible expenses	12,389,918,809	12,389,918,809	76,710,515,077
Non-taxable income	13,624,603,217	13,624,603,217	87,270,366,858
Other memoranda accounts	213,808,437,865	233,695,482,469	202,957,810,145
	<u>8,248,528,519,304</u>	<u>8,317,223,534,996</u>	<u>7,128,557,961,928</u>
Third-party debit memoranda accounts (1)	4,443,284,751,516	4,073,331,070,341	3,722,143,039,016
Own debit memoranda accounts for custodial activities	671,041,564,829	654,639,927,606	663,648,974,479
Third-party debit memoranda accounts for custodial activities	15,483,682,029,833	13,623,002,247,628	12,647,978,886,653
	<u>20,598,008,346,178</u>	<u>18,350,973,245,575</u>	<u>17,033,770,900,148</u>
¢	<u>28,846,536,865,482</u>	<u>26,668,196,780,571</u>	<u>24,162,328,862,076</u>

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(1) Third-party debit memoranda accounts are as follows:

		<u>June 2021</u>	<u>December 2020</u>	<u>June 2020</u>
Management of banking mandates	¢	1,600,061,317,890	1,520,637,448,493	1,352,463,994,717
“TUDES” securities received in custody from affiliates under Article 75 of Law No. 7531		588,832,050	586,174,589	559,935,819
Pension funds (Note 27)		2,065,366,595,236	1,855,825,633,619	1,737,147,849,388
Investment funds (Note 26)		675,786,694,970	599,338,640,487	545,199,154,091
Portfolio management		101,481,311,370	96,690,264,876	86,772,105,001
	¢	<u>4,443,284,751,516</u>	<u>4,073,078,162,064</u>	<u>3,722,143,039,016</u>

Other memoranda accounts by entity are as follows:

		<u>June 2021</u>	<u>December 2020</u>	<u>June 2020</u>
Banco Nacional de Costa Rica	¢	24,880,553,963,289	22,998,578,779,433	20,685,916,640,621
BN Valores Puesto de Bolsa, S.A. (Note 30)		1,209,373,562,369	1,199,940,596,159	1,179,974,012,341
BN Sociedad Administradora de Fondos de Inversión, S.A. (Note 31)		675,837,203,918	599,380,399,441	545,253,307,404
BN Vital Operadora de Planes de Pensiones Complementarias, S.A. (Note 32)		2,080,772,135,907	1,870,044,097,261	1,751,184,901,710
	¢	<u>28,846,536,865,483</u>	<u>26,667,943,872,294</u>	<u>24,162,328,862,076</u>

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

Memoranda accounts for brokerage operations are summarized below:

	<u>June 2021</u>	<u>June 2020</u>
<i><u>Own</u></i>		
Repurchase agreements pending settlement (Note 30-a)	19,336,334,270	39,277,071,257
Trading securities (Note 30-a)	25,812,002	17,915,886,014
Other own memoranda accounts	6,243,737,029	5,849,209,110
	<u>25,605,883,301</u>	<u>63,042,166,381</u>
<i><u>Third party</u></i>		
Trading securities received as guarantees	40,543,613,521	25,412,587,205
Trading securities pending receipt	761,787,435	1,097,396,747
Signed contracts pending settlement	1,143,876,519	2,679,858,637
Futures contracts pending settlement (Note 30- b)	90,236,892,913	79,791,247,149
Third-party trading securities (Note 30-a)	948,565,043,864	919,801,159,363
Cash and accounts receivable	1,035,153,445	1,377,491,858
Portfolio management	101,481,311,370	86,772,105,001
	<u>1,183,767,679,067</u>	<u>1,116,931,845,960</u>
Memoranda accounts (Note 29)	¢ <u>1,209,373,562,368</u>	<u>1,179,974,012,341</u>

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

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

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

a) As of June 30, securities held in custody are as follows:

Location	Type of custody	2021	2020
<i>Own custodial activities</i>			
Local	CEVAL - private	-	14,704,411,732
Local	CEVAL - public	-	3,196,474,279
Local	Vault	25,812,002	15,000,003
		<u>25,812,002</u>	<u>17,915,886,014</u>
<i>Custodial activities on behalf of third parties</i>			
Local	CEVAL - private	126,784,013,392	156,751,895,265
Foreign	CEVAL - private	44,630,831,543	52,017,409,982
Local	CEVAL - public	742,907,948,013	692,247,074,099
Foreign	International custody	33,438,500,139	18,378,099,441
Local	Vault	8,024,829	8,024,829
Local- Foreign	Securities that are doubtful, in arrears or in litigation	795,725,946	398,655,747
		<u>948,565,043,862</u>	<u>919,801,159,363</u>
		¢ <u>948,590,855,864</u>	<u>937,717,045,377</u>

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- b) As of June 30, term buyer and seller positions in third-party repurchase agreements involving the Brokerage Firm are as follows:

2021								
	Term buyer				Term seller			
	Colones	US dollars	US dollars expressed in colones	Total	Colones	US dollars	US dollars expressed in colones	Total
Own	17,213,888,889	1,000,778	622,403,714	17,836,292,603	1,500,041,667	-	-	1,500,041,667
Third parties	7,805,906,877	82,711,440	51,439,898,548	59,245,805,425	4,417,341,848	42,728,559	26,573,745,640	30,991,087,488
	<u>25,019,795,766</u>	<u>83,712,217</u>	<u>52,062,302,262</u>	<u>77,082,098,028</u>	<u>5,917,383,515</u>	<u>42,728,559</u>	<u>26,573,745,640</u>	<u>32,491,129,155</u>
2020								
	Term buyer				Term seller			
	Colones	US dollars	US dollars expressed in colones	Total	Colones	US dollars	US dollars expressed in colones	Total
Own	18,232,297,083	35,067,066	20,461,282,552	38,693,579,635	-	1,000,003	583,491,622	583,491,622
Third parties	14,147,818,181	79,159,102	46,188,544,588	60,336,362,769	7,431,543,980	20,605,907	12,023,340,400	19,454,884,380
	<u>32,380,115,264</u>	<u>114,226,169</u>	<u>66,649,827,140</u>	<u>99,029,942,404</u>	<u>7,431,543,980</u>	<u>21,605,909</u>	<u>12,606,832,022</u>	<u>20,038,376,002</u>

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of June 30, the maturity structure of term buyer and seller positions in tri-party repurchase agreements involving the Brokerage Firm is as follows:

		2021			
		Term buyer		Term seller	
		Colones	US dollars	Colones	US dollars
<u>Own</u>					
1 to 30 days	¢	17,213,888,889	1,000,779	1,500,041,667	-
31 to 60 days					
		<u>17,213,888,889</u>	<u>1,000,779</u>	<u>1,500,041,667</u>	<u>-</u>
<u>Third-party</u>					
1 to 30 days		326,298,643	3,414,427	152,507,597	-
31 to 60 days		2,821,520,774	25,514,849	826,369,725	12,397,491
61 to 90 days		3,380,011,010	53,141,018	2,410,735,168	29,689,923
More than 91 days		<u>1,278,076,450</u>	<u>641,146</u>	<u>1,027,729,358</u>	<u>641,146</u>
		<u>7,805,906,877</u>	<u>82,711,440</u>	<u>4,417,341,848</u>	<u>42,728,560</u>
	¢	<u>25,019,795,766</u>	<u>83,712,219</u>	<u>5,917,383,515</u>	<u>42,728,560</u>
		2020			
		Term buyer		Term seller	
		Colones	US dollars	Colones	US dollars
<u>Own</u>					
1 to 30 days	¢	1,501,875,000	-	-	1,000,003
31 to 60 days		16,730,422,083	12,015,469	-	-
61 to 90 days		<u>-</u>	<u>23,051,597</u>	<u>-</u>	<u>-</u>
		<u>18,232,297,083</u>	<u>35,067,066</u>	<u>-</u>	<u>1,000,003</u>
<u>Third-party</u>					
1 to 30 days		-	979,046	-	-
31 to 60 days		8,531,783,081	17,515,171	1,850,748,421	2,625,201
61 to 90 days		4,125,393,585	60,327,354	4,090,154,043	17,643,174
More than 91 days		<u>1,490,641,515</u>	<u>337,532</u>	<u>1,490,641,516</u>	<u>337,532</u>
		<u>14,147,818,181</u>	<u>79,159,103</u>	<u>7,431,543,980</u>	<u>20,605,907</u>
	¢	<u>32,380,115,264</u>	<u>114,226,169</u>	<u>7,431,543,980</u>	<u>21,605,910</u>

In tri-party repurchase agreements and term operations, the Brokerage Firm is contingently liable for the short balance that arises when a security is sold for an amount that is less than the amount payable to the respective term seller. In accordance with the Regulations on Repurchase Agreements and the Regulations on Term Operations, all operations are backed by guarantees in order to cover any related contingencies.

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

(31) Investment fund management agreements

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

	June 2021		
Fund	Net value	Shares	Value per share
<i>Funds in colones:</i>			
Súper Fondo colones	¢ 167,514,016,096	37,730,154,918	4,44
Fon Depósito colones	66,200,565,072	41,284,239,230	1,60
Creci Fondo colones	9,229,708,838	1,406,284,823	6,56
Redi Fondo colones	48,303,167,556	10,451,368,223	4,62
Diner Fondo colones	64,910,109,832	21,843,507,179	2,97
	¢ <u>356,157,567,394</u>	<u>112,715,554,373</u>	
<i>Funds in US dollars:</i>			
Súper Fondo US dollars	US\$ -	-	0,00
Creci Fondo US dollars	14,902,874	6,746,599	2,21
Redi Fondo US dollars	41,022,495	22,720,421	1,81
Diner Fondo US dollars	140,374,137	103,232,649	1,36
Fon Depósito US dollars	61,795,885	53,783,973	1,15
Súper Fondo Plus US dollars	222,773,111	196,731,684	1,13
International liquidity fund	29,291,413	21,750	1,346,73
BN internacional Valor	101,998	101,998	1,00
BN internacional Suma	632,229	627,697	1,01
BN internacional Crece	44,381	44,179	1,00
BN Infraestructura Pública -1	3,000,773	3,000,000	1,00
	US\$ <u>513,939,296</u>	<u>387,010,950</u>	
	¢ <u>319,629,127,576</u>	<u>240,689,850,024</u>	
Assets of managed funds	¢ <u>675,786,694,970</u>	<u>353,405,404,397</u>	
<i>Guarantees:</i>			
Performance bonds	48,533,644	-	
Outstanding checks	<u>1,975,304</u>	-	
	<u>50,508,948</u>	-	
Memoranda accounts (Note 29)	¢ <u>675,837,203,918</u>	-	

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Fund	June 2020		
	Net value	Shares	Value per share
<i>Funds in colones:</i>			
Súper Fondo colones	¢ 145,176,544,341	33,083,703,087	4,39
Fon Depósito colones	51,892,094,539	32,688,667,321	1,59
Creci Fondo colones	4,510,666,228	743,874,914	6,06
Redi Fondo colones	26,837,036,201	6,199,658,965	4,33
Diner Fondo colones	72,571,443,904	24,696,736,414	2,94
	¢ 300,987,785,213	97,412,640,701	
<i>Funds in US dollars:</i>			
Súper Fondo - US dollars	US\$ 16,071,867	10,448,578	1,54
Creci Fondo - US dollars	7,418,370	3,667,306	2,02
Redi Fondo - US dollars	25,213,227	15,004,282	1,68
Diner Fondo - US dollars	98,613,290	73,287,932	1,35
Fon Depósito - US dollars	54,005,653	47,382,530	1,14
Súper Fondo Plus - US dollars	187,944,509	167,860,989	1,12
Fondo Hipotecario (Mortgage Fund) - US dollars	17,064	18,156	19,24
BN Infraestructura Pública -1	29,251,675	21,750	1,344,90
	US\$ 418,535,655	317,691,523	
	¢ 244,211,368,877	185,369,826,755	
Assets of managed funds	¢ 545,199,154,090	282,782,467,456	
<i>Guarantees:</i>			
Performance bonds	52,178,011	-	
Outstanding checks	1,975,304	-	
	54,153,315	-	
Memoranda accounts (Note 24)	¢ 545,253,307,405	-	

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

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

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

- *BN SuperFondo Colones No Diversificado colones (non-diversified - colones)*: This is an open-end (floating number of outstanding shares) money market fund with a variable income portfolio. Returns on the investment portfolio are not distributed until the customer requests partial or full redemption of shares.
- *BN CreciFondo Colones No Diversificado (non-diversified - colones)*: This is an open-end (floating number of outstanding shares) growth fund with a variable income portfolio. Returns on the investment portfolio are not distributed until the customer requests partial or full redemption of shares.
- *BN RediFondo Mensual Colones No Diversificado (monthly, non-diversified - Colones)*: This is an open-end (floating number of outstanding shares) income fund with a fixed income portfolio. Returns on the investment portfolio are not distributed until the customer requests partial or full redemption of shares.
- *BN DinerFondo Colones No Diversificado (non-diversified - colones)*: This is an open-end (floating number of outstanding shares) money market fund with a fixed income portfolio. Returns on the investment portfolio are not distributed until the customer requests partial or full redemption of shares.
- *BN FonDepósito Colones No Diversificado (non-diversified - colones)*: This is an open-end (floating number of outstanding shares) money market fund with a fixed income portfolio. Returns on the investment portfolio are not distributed until the customer requests partial or full redemption of shares.
- *BN SuperFondo dólares Diversificado (diversified - US dollars)*: This is an open-end (floating number of outstanding shares) money market fund with a variable income portfolio. Returns on the investment portfolio are not distributed until the customer requests partial or full redemption of shares.
- *BN CreciFondo dólares No Diversificado (non-diversified - US dollars)*: This is an open-end (floating number of outstanding shares) growth fund with a variable income portfolio. Returns on the investment portfolio are not distributed until the customer requests partial or full redemption of shares.
- *BN RediFondo Trimestral - US dólares No Diversificado (quarterly, non-diversified - US dollars)*: This is an open-end (floating number of outstanding shares) income fund with a fixed income portfolio. Returns on the investment portfolio are not distributed until the customer requests partial or full redemption of shares.
- *BN DinerFondo dólares No Diversificado (non-diversified - US dollars)*: This is an open-end (floating number of outstanding shares) money market fund with a fixed income portfolio. Returns on the investment portfolio are not distributed until the customer requests partial or full redemption of shares.

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- *BN FonDepósito dólares No Diversificado* (non-diversified - US dollars): This is an open-end (floating number of outstanding shares) money market fund with a fixed income portfolio. Returns on the investment portfolio are not distributed until the customer requests partial or full redemption of shares.
- *BN SuperFondo Dólares Plus No Diversificado (US dólares)* (non-diversified - US dollars): This fund is aimed at conservative investors looking for short-term investments and to manage capital or funds in transit, with a minimum recommended period of 5 days. The funds can be requested at any time and are deposited the next day, complying with the cutoff time and generating no withdrawal commissions. Benefits are calculated and applied on a daily basis but are effective when a partial or total withdrawal of the investment takes place. Account statements for this fund are sent monthly.
- *Fondo de Inversión de Desarrollo Inmobiliario BN-I*: (real estate development): This fund invests in the development and operation of buildings to be leased by Banco Nacional de Costa Rica for a defined term. As of June 30, 2021, this fund does not have operations
- *Fondo de Inversión de Desarrollo Inmobiliario de Infraestructura Pública – 1*: (real estate development - US dollars): This fund will invest in the construction of buildings to be used by the Maximum Deconcentration Organizations and other entities of BCCR. Once the works are completed, the buildings will be leased with a purchase option to BCCR or sold to BCCR or to a real estate fund managed by BN Fondos and investors thus realize their potential gains. If the buildings are sold to a real estate fund, such fund will lease the buildings to BCCR.
- *BN Internacional Valor No Diversificado (non-diversified - US dollars)*: This is an international, mixed portfolio investment fund, ideal for conservative customers who primarily seek to maintain their capital, even if it entails obtaining returns much lower than those of the market. It is addressed to the investor that would like to invest in a portfolio comprised of debt securities issued by the public or private sector and investment funds. As of June 30, 2021, this fund does not have operations.
- *BN Internacional Suma No Diversificado (non-diversified - US dollars)*: This is an international, mixed portfolio investment fund, addressed to investors with a balanced-risk profile, that is, they are willing to assume losses in the short- and medium-term to obtain returns higher than those of the market in the medium- and long-term. It is addressed to the investor that would like to invest in a portfolio comprised of debt securities issued by the public or private sector and in variable-return instruments and investment funds. As of June 30, 2021, this fund does not have operations.

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- *BN Internacional Crece No Diversificado (non-diversified - US dollars)*: This is a long-term, international, mixed-portfolio investment fund addressed to investors with an aggressive risk profile, i.e. willing to assume significant losses while aiming to obtain returns higher than those of the market. It is addressed to the investor that would like to invest in a portfolio composed of debt securities issued by the public or private sector and in variable-return instruments and investment funds. As of June 30, 2021, this fund does not have operations.
- *Fondo de Inversión BN Internacional Liquidez No Diversificado (non-diversified liquidity investment fund)*: This is an international investment fund aimed at conservative investors looking for short-term investments. It is a good alternative for meeting present or future liquidity needs. Since it is a long-term fund, it is aimed at investors looking to meet future liquidity needs. As of June 30, 2021, this fund does not have operations.
- *BN Internacional Liquidez No Diversificado (non-diversified liquidity investment fund)*: This is an international investment fund intended for conservative investors looking for short-term investments. It is a good alternative for meeting present or future liquidity needs. The Bank's international liquidity portfolio comprises debt securities issued by the international public or private sectors and investment funds. The securities in which the fund invests are denominated in US dollars and are registered in the international market. This fund does not require the investor to have ample experience in the securities market, though it requires awareness of potential volatilities, including a decrease in the value of their investment. Benefits are calculated and applied on a daily basis but are effective when a partial or total withdrawal of the investment takes place. The account statements for this fund are sent monthly.
- *BN Internacional Valor No Diversificado (non-diversified - US dollars)*: This is an international, mixed portfolio investment fund, ideal for conservative customers who primarily seek to maintain their capital, even if it entails obtaining returns much lower than those of the market. It is addressed to the investor that would like to invest in a portfolio comprised of debt securities issued by the public or private sectors and investment funds.
- *BN Internacional Suma No Diversificado (non-diversified - US dollars)*: This is an international, mixed portfolio investment fund, addressed to investors with a balanced-risk profile, that is, willing to assume losses in the short- and mid-term to obtain returns higher than those of the market in the mid- and long-term. It is addressed to the investor that would like to invest in a portfolio comprised of debt securities issued by the public or private sector and in variable-return instruments and investment funds.

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- *BN Internacional Crece No Diversificado (non-diversified - US dollars)*: This is a long term, international, mixed portfolio investment fund addressed to investors with an aggressive-risk profile, i.e. willing to assume significant losses while aiming to obtain returns higher than those of the market. It is addressed to the investor that would like to invest in a portfolio comprised of debt securities issued by the public or private sector and in variable-return instruments and investment funds.
- *BN Fondo de Inversión de Desarrollo de Proyectos BN I* (real estate development): This fund invests in the development and operation of several buildings that will be leased for a definite term. It is addressed to both local and foreign investors who wish to participate in a project development investment fund dedicated to the construction of 8 buildings on land owned by the Bank. For the development of this project, the land was assigned to the Fund through the assignment of usufruct rights, for subsequent leasing to the Bank or to third parties and, ultimately, sale of the buildings. Information on the main conditions of the agreement of assignment of usufruct rights and lease agreements, which were signed as of August 2018, is included in the prospectus. Furthermore, information is provided on the situations in which the usufruct rights may be revoked; conditions for use of the assets and limitations on their use, asset restrictions or commitments, administrative contract and appeals regimes applicable to the Fund. As of June 30, 2021 and 2020, this fund does not have operations.

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

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(32) Pension fund management agreements

As of June 30, the Pension Fund Manager's memoranda accounts are as follows:

	2021	2020
Mandatory Pension Fund (ROP)	¢ 1,767,461,301,661	1,470,218,562,257
Mandatory Pension Fund (ROP) - Erroneous	-	17,624,254,786
Mandatory Retirement Savings Account (FCL)	87,192,462,939	111,240,726,889
Mandatory Retirement Savings Account (FCL) - Erroneous	-	4,098,501,230
Voluntary Pension Fund in Colones A (FPC A)	132,940,649,209	86,810,409,195
Voluntary Pension Fund in Colones B (FPC B)	36,283,167,555	23,765,334,413
Voluntary Pension Fund in US dollars A (FPD A) (i)	22,479,862,226	14,205,995,726
Voluntary Pension Fund in US dollars B (FPD B) (ii)	12,807,315,456	9,184,064,892
ICT Employees Retirement Fund	6,201,836,190	-
Assets of managed funds (Note 29)	2,065,366,595,236	1,737,147,849,388
Securities and assets in own custody	14,685,293,327	13,353,031,525
Bid and performance bonds – colones	27,667,128	26,409,696
Bid and performance bonds – US dollars (iii)	103,748,166	97,675,281
Securities in DU	588,832,050	559,935,820
Memoranda accounts (Note 29)	¢ <u>2,080,772,135,907</u>	<u>1,751,184,901,710</u>

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- i. As of June 30, 2021, this fund amounts to US\$36,145,907 and is valued at the exchange rate of ¢621.92 per US\$1.00.
- ii. For the six months ended June 30, 2021, this fund amounts to US\$20,593,188 and is valued at the exchange rate of ¢621.92 per US\$1.00.
- iii. For the six months ended June 30, 2021, this fund amounts to US\$166,819 and is valued at the exchange rate of ¢621.92 per US\$1.00.

(33) Income from financial instruments

For the six months ended June 30, income from financial instruments are as follows:

		June		Quarter from April 1 to June 30	
		2021	2020	2021	2020
<u>Cash and due from banks:</u>					
Deposits in BCCR	¢	3,805,026	3,125,695	1,605,792	213,730
Checking accounts and demand deposits in local entities		15,658,352	19,149,082	7,438,637	8,180,169
Checking accounts and demand deposits in foreign entities		567,528,077	1,830,286,199	374,786,619	533,642,045
		586,991,455	1,852,560,976	383,831,048	542,035,944
<u>Financial instruments:</u>					
Investments at fair value through profit or loss		120,292,314	930,483,399	53,009,914	396,690,313
Investments at fair value through other comprehensive income		19,251,802,245	20,885,020,799	9,600,081,993	10,771,503,408
Investments at amortized cost		11,794,407,451	15,454,657,703	5,867,326,985	6,619,768,190
Investments in past due and restricted securities		340,685,870	234,150,421	229,125,567	172,135,140
		31,507,187,880	37,504,312,322	15,749,544,459	17,960,097,051
	¢	32,094,179,335	39,356,873,298	16,133,375,507	18,502,132,995

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(34) Income from loan portfolio

For the six months ended June 30, income from the loan portfolio is as follows:

	June		Quarter from	
	2021	2020	April 1 to June 30	2020
<u>Current loans:</u>				
Individuals	¢ 76,760,497,726	85,604,880,361	38,542,868,708	41,607,962,470
Development Banking System	2,561,828,644	3,068,300,644	1,268,911,250	1,402,851,697
Business	31,044,573,977	38,213,587,909	15,798,135,576	18,633,410,638
Corporate	35,705,067,798	36,426,899,326	17,803,419,332	16,639,585,398
Public sector	4,594,723,409	5,672,714,724	2,279,277,542	2,694,113,150
Financial sector	2,746,959,019	3,745,718,402	1,331,859,814	1,756,155,679
	<u>153,413,650,573</u>	<u>172,732,101,366</u>	<u>77,024,472,222</u>	<u>82,734,079,032</u>
<u>Past due loans and loans in legal collection:</u>				
Individuals	11,929,164,497	12,894,183,344	5,509,833,240	5,484,187,528
Development Banking System	295,353,874	363,724,715	127,608,457	157,582,958
Business	6,662,629,990	6,959,079,176	2,556,340,424	2,825,552,167
Corporate	1,124,624,216	2,077,157,788	643,391,512	1,064,105,958
Public sector	70,882,647	121,072,101	18,472,140	87,991,028
Financial sector	6,086,210	890,616	5,758,098	562,392
In legal collection	4,800,267,979	4,356,729,539	2,980,361,404	2,042,223,828
Amortization of net commission of incremental direct costs related to credits	670,680,104	577,587,834	408,715,441	315,928,081
	<u>25,559,689,517</u>	<u>27,350,425,113</u>	<u>12,250,480,716</u>	<u>11,978,133,940</u>
	<u>¢ 178,973,340,090</u>	<u>200,082,526,479</u>	<u>89,274,952,938</u>	<u>94,712,212,972</u>

(35) Other finance income

For the six months ended June 30, other finance income is as follows:

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		June		Quarter from April 1 to June 30	
		2021	2020	2021	2020
Fees and commissions on letters of credit	¢	6,482,527	6,958,348	2,807,057	3,217,707
Fees and commissions on guarantees granted		272,498,750	713,719,315	76,984,676	540,334,956
Gain on sale of financial instruments		217,645,244	-	107,195,116	-
Gain on fair value hedge for item measured at cost		2,967,218,698	4,876,804,841	884,299,370	3,502,788,556
Other sundry finance income		1,430,900,179	1,962,690,618	686,704,043	512,813,688
	¢	<u>4,894,745,397</u>	<u>7,560,173,122</u>	<u>1,757,990,262</u>	<u>4,559,154,907</u>

(36) Finance costs for obligations with the public

For the six months ended June 30, finance costs for obligations with the public are as follows:

		June		Quarter from April 1 to June 30	
		2021	2020	2021	2020
Demand deposits	¢	19,453,287,942	28,565,137,755	9,572,904,684	13,695,222,530
Term deposits		44,710,574,964	65,245,009,974	21,545,400,360	29,609,894,266
Third-party repurchase agreements and securities lending		15,293,926	204,220,797	-	103,001,145
Demand deposits	¢	<u>64,179,156,832</u>	<u>94,014,368,526</u>	<u>31,118,305,044</u>	<u>43,408,117,941</u>

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(37) Finance costs for obligations with financial entities

For the six months ended June 30, finance costs for obligations with financial entities are as follows:

	June		Quarter from April 1 to June 30	
	2021	2020	2021	2020
Demand obligations	¢ 720,515,145	1,109,284,769	338,772,352	487,860,253
Term obligations	18,201,797,019	23,414,140,607	8,014,086,305	10,638,753,416
	<u>¢ 18,922,312,164</u>	<u>24,523,425,376</u>	<u>8,352,858,657</u>	<u>11,126,613,669</u>

(38) Other finance costs

For the six months ended June 30, other finance costs are as follows:

	June		Quarter from April 1 to June 30	
	2021	2020	2021	2020
Fees and commissions on letters of credit obtained	¢ 91,057,768	75,968,072	36,465,323	38,133,207
Loss on hedged item measured at cost from fair value hedge on interest rate risk	843,915,255	18,768,771,412	628,910,652	4,770,072,810
Other sundry finance costs	<u>313,677,853</u>	<u>280,736,789</u>	<u>140,637,078</u>	<u>97,801,181</u>
	<u>¢ 1,248,650,876</u>	<u>19,125,476,273</u>	<u>806,013,053</u>	<u>4,906,007,198</u>

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Notes to the Consolidated Financial Statements

(39) Expenses for allowance for impairment of assets

For the six months ended June 30, expenses for allowance for impairment of assets are as follows:

	June		Quarter from April 1 to June 30	
	2021	2020	2021	2020
Allowance for loan losses (Note 12)	¢ 40,471,153,678	34,669,360,941	23,620,271,674	20,916,790,536
Allowance for impairment of other accounts receivable (Note 13)	463,657,025	633,088,773	252,977,244	323,523,111
Allowance for stand-by credit losses (Note 24)	120,000,001	401,000,000	20,000,000	400,000,000
General and counter-cyclical allowance for loan portfolio (Note 12)	1,920,000,000	2,048,928,954	1,820,000,000	839,459,466
General and counter-cyclical allowance for stand-by credit losses (Note 12 and 24)	-	54,025,566	-	29,999,998
Allowance for impairment of investments at fair value through other comprehensive income	2,673,325,840	328,978,742	1,673,598,038	22,479,544
Allowance for impairment of financial instruments at amortized cost	1,526,379,439	349,032,216	1,158,933,377	-
Allowance for impairment of operations with derivative financial instruments (Note 10)	2,069,719	59,641,253	-	252,661
Allowance for impairment of past due and restricted financial instruments	38,477	90,847	3,248	(19,596)
Other expenses for sundry assets	-	-	-	46,627
	¢ <u>47,176,624,179</u>	<u>38,544,147,292</u>	<u>28,545,783,581</u>	<u>22,532,532,347</u>

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

For the six months ended June 30, income from recovery of assets and decreases in allowances and provisions is as follows:

	June		Quarter from	
	2021	2020	April 1 to June 30	
	2021	2020	2021	2020
Recovery of loan write-offs	¢ 4,641,977,366	4,247,447,975	2,276,794,752	1,739,487,453
Recovery of accounts receivable write-offs	2,375,194	606,457	1,682,035	402,135
Decrease in allowance for impairment of other accounts receivable (Note 13)	323,547,984	455,439,941	99,616,319	150,834,272
Decrease in allowance for impairment of investments in financial instruments (Note 10)	<u>1,859,761,038</u>	<u>382,528,113</u>	<u>133,081,545</u>	<u>47,345,505</u>
	<u>¢ 6,827,661,582</u>	<u>5,086,022,486</u>	<u>2,511,174,651</u>	<u>1,938,069,365</u>

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Notes to the Consolidated Financial Statements

(41) Income from service fees and commissions

For the six months ended June 30, operating income from service fees and commissions is as follows:

	June		Quarter from April 1 to June 30	
	2021	2020	2021	2020
Drafts and transfers	¢ 4,771,155,615	4,182,116,818	2,410,831,834	1,972,888,405
Certified checks	1,477,070	1,207,078	565,756	428,585
Trusts	903,306,070	784,987,624	444,945,497	388,468,538
Custodial services	1,012,197,968	908,343,208	523,463,213	462,156,592
Banking mandates	92,224	86,431	78,010	44,560
Collections	10,315,228	7,945,349	5,367,663	2,633,872
Credit cards	25,702,371,934	27,313,840,789	12,163,782,307	11,315,642,448
Management services	2,115,222,421	1,827,975,507	1,067,845,168	874,699,145
Management of investment funds	3,783,694,630	3,206,068,000	1,965,383,196	1,584,571,615
Management of pension funds	5,668,781,038	4,301,435,851	3,013,585,373	2,028,291,228
Insurance underwriting	3,909,519,105	3,825,217,281	2,016,982,833	1,925,000,259
Brokerage operations (third parties in local market)	2,334,970,777	1,468,461,555	1,193,624,054	525,280,620
Brokerage operations (third parties in other markets)	120,199,564	165,698,436	52,689,211	94,068,717
Transactions with related parties	26,730,068	21,175,034	6,897,447	(11,270,488)
Commissions charged to other affiliates due to covenants	6,083,312,424	5,581,723,033	2,980,388,872	2,701,432,641
Servibanca local interchange	10,329,298,821	10,487,618,282	5,092,802,563	4,604,491,767
Other service fees and commissions	4,661,961,490	3,663,997,667	2,514,769,997	1,538,170,540
¢	<u>71,434,606,445</u>	<u>67,747,897,943</u>	<u>35,454,002,994</u>	<u>30,006,999,048</u>

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(42) Other operating income

For the six months ended June 30, other operating income is as follows:

	June		Quarter from April 1 to June 30	
	2021	2020	2021	2020
Recovery of expenses (1) ¢	1,714,012,539	2,516,931,189	530,563,102	769,562,907
Net valuation of other assets (Note 6)	34,952,704	389,910,815	24,971,783	272,518,127
Other income from accounts receivable	707,738	2,645,368	367,269	1,168,814
Savings accounts liquidation	-	103,958,194	(54,587,727)	48,507,443
Administrative charges - VISA	521,595,248	711,516,470	244,066,230	313,820,488
Liquidation of term certificate of deposit not claimed	430,151,539	248,334,244	199,762,698	162,982,395
Withholdings from vendors	-	119,742,826	-	40,424,703
Excess cash from human teller	-	74,891,604	-	-
Sundry operating income	869,196,394	564,047,887	403,815,887	287,509,549
Decrease in provisions	103,848,957	7,018,809,965	90,717,544	6,600,664,757
¢	<u>3,674,465,119</u>	<u>11,750,788,562</u>	<u>1,439,676,784</u>	<u>8,497,159,183</u>

(1) When the *Law of Public Administration's Salaries* (Law No. 9908) became effective, the provision for the payment of employee annuities was reversed.

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Notes to the Consolidated Financial Statements

(43) Expenses for foreclosed assets

For the six months ended June 30, expenses for foreclosed assets are as follows:

	June		Quarter from April 1 to June 30	
	2021	2020	2021	2020
Property and other assets acquired in lieu of payment	¢ 219,295,167	60,891,257	7,089,887	12,577,401
Loss on sale of assets awarded in judicial auctions	3,809,380,272	1,967,944,325	3,092,865,056	1,637,224,856
Management of assets received in lieu of payment	15,335,423	9,439,768	8,410,558	3,982,358
Management of assets awarded in judicial auctions	1,818,428,791	2,177,406,956	919,640,037	749,420,858
Property and other assets acquired in lieu of payment (Note 14)	26,797,261	29,050,876	-	-
Loss on allowance for impairment of foreclosed assets and per legal requirement (Note 14)	354,972,124	7,166,760,709	-	1,391,856,520
Other expenses for foreclosed assets	9,890,853	6,849,878	7,755,777	1,899,921
	¢ <u>6,254,099,891</u>	<u>11,418,343,769</u>	<u>4,035,761,315</u>	<u>3,796,961,914</u>

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Notes to the Consolidated Financial Statements

(44) Provision expenses

For the six months ended June 30, provision expenses are as follows:

	June		Quarter from April 1 to June 30	
	2021	2020	2021	2020
Severance benefits	61,951,580	59,379,830	41,944,449	7,423,275
Pending litigation	577,927,861	255,850,161	389,953,803	112,739,845
“BN Premios” points program	428,564,811	1,244,072,574	428,564,811	255,577,629
Case of the manager commissions with CCSS	342,059,526	541,956,889	342,059,526	270,978,444
Case of the RIVM contribution	-	600,920,714	-	-
Notice of deficiency	488,901,159	977,802,317	488,901,159	488,901,159
Other provisions	1,404,983,311	2,896,812	144,975,449	-
	<u>3,304,388,248</u>	<u>3,682,879,297</u>	<u>1,836,399,197</u>	<u>1,135,620,352</u>

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(45) Other operating expenses

For the six months ended June 30, other operating expenses are as follows:

	June		Quarter from April 1 to June 30	
	2021	2020	2021	2020
Penalties for noncompliance with regulatory legal provisions	¢ 1,122,108	-	978,826	-
Net valuation of other liabilities (Note 6)	57,730,633	486,093,940	55,054,336	148,185,431
Value-added tax expense	527,734,661	391,384,387	258,563,313	170,210,347
Income tax on foreign remittances	3,753,145	3,341,609	1,880,726	1,665,995
Income tax (8%) on interest on investments in financial instruments	-	-	-	(1,273,236,929)
Property tax	129,501,793	119,588,407	64,496,907	55,931,028
Patents	419,347,015	439,131,814	77,489,240	160,336,845
Other local taxes	48,904,510	51,791,912	20,989,660	17,812,530
Other foreign taxes	11,532	-	5,752	-
Transfer to FINADE	1,089,410,166	1,270,952,891	404,784,933	698,114,778
Local and international currency exchange	169,743,420	-	71,723,798	(853,646,245)
Costs of microfinance insurance policies	-	1,614,472,101	-	813,916,379
Amortization of deferred direct costs related to loans	-	168,264,676	-	78,771,479
Authorization abroad	-	961,696,464	-	220,154,987
Base I and II fund disbursements	8,191,292,942	7,516,949,133	4,273,224,389	3,377,734,465
Life insurance policy debit balance	-	4,192,157,719	-	2,136,643,298
Software maintenance and licenses	6,071,026,541	4,816,758,316	2,369,365,403	3,108,013,741
Sundry operating expenses	9,824,248,153	2,617,843,194	5,169,627,048	1,245,426,835
Other expenses for sundry assets	159,465	216,984	-	46,628
	<u>¢ 26,533,986,083</u>	<u>24,650,643,548</u>	<u>12,768,184,332</u>	<u>10,106,081,592</u>

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Notes to the Consolidated Financial Statements

(46) Personnel expenses

For the six months ended June 30, personnel expenses are as follows:

	June		Quarter from April 1 to June 30	
	2021	2021	2021	2021
Salaries and bonuses, permanent staff	¢ 34,716,108,178	35,394,331,910	17,647,663,517	17,433,260,122
Salaries and bonuses, contractors	385,983,246	710,616,909	156,181,392	331,741,016
Compensation for directors and statutory examiners	123,379,389	114,917,853	58,440,662	57,604,582
Overtime	224,748,938	323,197,990	111,029,134	117,250,964
Travel expenses	83,190,998	128,727,018	46,235,152	38,308,945
Statutory Christmas bonus	3,720,715,005	3,609,290,805	1,868,984,163	1,782,851,548
Vacation	2,995,251,191	2,859,673,675	1,307,587,700	1,352,228,569
Incentives	1,666,898,994	1,470,534,612	662,729,816	633,103,436
Other compensation	2,747,838,524	1,804,262,734	1,417,111,119	889,705,859
Severance benefits	2,129,046,514	2,103,492,765	1,081,124,406	1,040,667,480
Employer social security taxes	14,829,353,262	13,611,938,116	7,418,273,199	6,687,299,250
Refreshments	19,889,821	142,177,177	11,948,480	48,906,105
Uniforms	18,134,520	21,330,574	18,070,520	904,113
Training	140,995,668	134,761,351	87,287,471	68,833,226
Employee insurance	119,207,264	32,304,710	76,215,318	11,141,604
Back-to-school bonus	3,132,502,017	3,067,123,628	1,543,886,914	1,498,425,678
Mandatory retirement savings account	734,125,861	1,305,532,537	364,951,719	640,003,146
Other personnel expenses	451,889,698	396,257,025	291,611,037	123,546,189
¢	<u>68,239,259,088</u>	<u>67,230,471,389</u>	<u>34,169,331,719</u>	<u>32,755,781,832</u>

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Notes to the Consolidated Financial Statements

(47) Other administrative expenses

For the six months ended June 30, other administrative expenses are as follows

	June		Quarter from April 1 to June 30	
	2021	2020	2021	2020
Outsourcing	¢ 11,826,230,912	10,020,918,729	5,855,222,108	5,958,186,564
Transportation and communications	1,595,441,062	1,879,885,976	795,322,163	1,046,398,021
Infrastructure	12,826,985,915	12,891,447,464	6,381,335,964	6,275,525,587
Overhead	7,781,199,246	7,011,994,448	4,179,069,513	3,748,651,833
	¢ <u>34,029,857,135</u>	<u>31,804,246,617</u>	<u>17,210,949,748</u>	<u>17,028,762,005</u>

(48) Statutory allocations

For the six months ended June 30, statutory allocations are as follows:

	June		Quarter from April 1 to June 30	
	2021	2020	2021	2020
CONAPE - 5%	¢ 1,507,797,642	1,261,201,098	585,434,157	533,520,054
CNE - 3%	1,034,676,162	857,614,694	420,767,524	360,751,469
INFOCOOP - 10%	2,122,725,945	1,719,060,608	851,237,761	726,672,434
Public capital pension operators	970,205,484	755,375,494	517,805,473	183,421,149
RIVM - 15%	<u>1,958,536,143</u>	<u>1,575,429,171</u>	<u>683,316,940</u>	<u>649,916,513</u>
	¢ <u>7,593,941,376</u>	<u>6,168,681,065</u>	<u>3,058,561,855</u>	<u>2,454,281,619</u>

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Notes to the Consolidated Financial Statements

(49) Fair value of financial instruments

As of June 30, 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:

	2021	
	Carrying amount	Fair value
<i><u>Financial assets:</u></i>		
Cash and due from banks	¢ 1,254,808,263,819	1,254,808,263,819
Loan portfolio	4,355,926,400,412	4,228,504,160,288
	¢ <u>5,610,734,664,231</u>	<u>5,483,312,424,107</u>
<i><u>Financial liabilities:</u></i>		
Demand deposits from the public and financial entities	¢ 3,760,744,512,024	3,760,744,512,024
Term deposits from the public and financial entities	15,506,219,426	15,506,219,426
Obligations with entities	2,867,120,784,960	2,869,088,065,707
	¢ <u>6,643,371,516,410</u>	<u>6,645,338,797,157</u>
	2020	
	Carrying amount	Fair value
<i><u>Financial assets:</u></i>		
Cash and due from banks	¢ 1,332,795,564,412	1,332,795,564,412
Loan portfolio	4,275,526,803,393	4,086,891,961,834
	¢ <u>5,608,322,367,805</u>	<u>5,419,687,526,246</u>
<i><u>Financial liabilities:</u></i>		
Demand deposits from the public and financial entities	¢ 3,676,347,733,847	3,676,347,733,847
Other demand obligations with the public	15,844,285,738	15,844,285,738
Term deposits from the public and financial entities	2,893,561,732,823	2,872,477,716,659
Obligations with entities	13,379,322,344	13,379,322,344
	¢ <u>6,599,133,074,752</u>	<u>6,578,049,058,588</u>

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Notes to the Consolidated Financial Statements

Fair value estimates

The following assumptions were used by management to estimate the fair value of each class of financial instruments, both on and off the consolidated 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 due to the short-term nature of these instruments.

- (b) *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 date. Future expected cash flows for loans are discounted at the interest rates offered for similar loans to new borrowers as of June 30, 2021.

- (c) *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.

- (d) *Obligations with entities*

The fair value of obligations with entities is based on discounting cash flows at the interest rates in effect.

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 accuracy. Estimates could vary significantly if changes are made to those assumptions.

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Notes to the Consolidated Financial Statements

As of June 30, financial instruments measured at fair value by level in the fair value hierarchy are as follows:

	June 2021			Total
	Level 1	Level 2	Level 3	
Fair value through other comprehensive income	766,654,581,777	7,342,881,316	-	773,997,463,093
Amortized cost	884,094,522,330	1,500,000,000	-	885,594,522,330
Fair value through profit or loss	-	27,566,529,131	4,447,785,264	32,014,314,395
Derivative financial instruments	-	-	11,879,772,948	11,879,772,948
Term obligations with foreign financial entities	-	-	208,790,848,501	208,790,848,501

	June 2020			Total
	Level 1	Level 2	Level 3	
Fair value through other comprehensive income	¢ 718,983,280,330	3,953,796,099	-	722,937,076,429
Amortized cost	826,998,164,926	583,490,000	-	827,581,654,926
Fair value through profit or loss	2,770,537,550	36,192,273,031	4,131,353,825	43,094,164,407
Derivative financial instruments	-	-	24,682,870,914	24,682,870,914
Term obligations with foreign financial entities	-	-	479,515,276,140	479,515,276,140

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

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

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As of June 30, financial instruments categorized as Level 3 in the fair value hierarchy are measured as follows:

		2021			2020		
		Available for sale	Derivative financial instruments	Term obligations with foreign financial entities	Available for sale	Derivative financial instruments	Term obligations with foreign financial entities
Opening balance	¢	4,414,744,410	-	-	4,488,288,925	10,742,740,489	489,650,619,452
Valuation		1,575,710,929	15,035,064,595	10,263,083,953	1,478,538,733	13,687,621,530	14,802,959,711
Amortizations		-	-	1,285,664,202	-	-	129,383,637
Exchange differences		(1,542,670,075)	(145,202,387)	197,242,100,346	(1,835,473,833)	252,508,895	(25,067,686,660)
Closing balance	¢	<u>4,447,785,264</u>	<u>14,889,862,208</u>	<u>208,790,848,501</u>	<u>4,131,353,825</u>	<u>24,682,870,914</u>	<u>479,515,276,140</u>

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(50) Segments

The Conglomerate has defined its business segments based on the administrative and reporting structure and on the structure of banking, stock brokerage, investment and pension fund management and insurance brokerage services it provides. Profit or loss, assets and liabilities of each segment are as follows:

		June 2021							
		Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations and reclassifications	Consolidated
ASSETS									
Cash and due from banks	¢	1,251,654,568,086	3,138,227,064	250,478,450	942,480,063	45,347,410	1,256,031,101,073	1,222,837,253	1,254,808,263,820
Investments in financial instruments		1,661,447,996,695	32,433,392,378	10,071,381,612	11,133,389,828	7,005,957,388	1,722,092,117,901	372,212,000	1,721,719,905,901
Loan portfolio, net		4,201,655,074,721	-	-	-	-	4,201,655,074,721	-	4,201,655,074,721
Accounts and fees and commissions receivable, net		1,957,094,449	149,342,031	86,304,875	1,406,104,117	663,244,736	4,262,090,208	70,906,173	4,191,184,035
Fees and commissions		485,148,752	45,268,237	26,682,828	868,420,460	543,435,323	1,968,955,600	67,069,658	1,901,885,942
Accounts receivable for brokerage operations		-	1,865,761	-	-	-	1,865,761	-	1,865,761
Transactions with related parties		18,994,290	3,993,349	-	2,493,729	-	25,481,368	3,836,515	21,644,853
Deferred tax and income tax		1,372,640,924	93,227,627	57,829,776	528,323,625	118,082,307	2,170,104,259	-	2,170,104,259
Other		4,232,187,914	4,987,056	8,841,082	66,433,548	1,727,106	4,314,176,706	-	4,314,176,706
Accrued interest		3,033,784	-	-	-	-	3,033,784	-	3,033,784
Allowance for impairment		(4,154,911,214)	-	(7,048,811)	(59,567,244)	-	(4,221,527,269)	-	(4,221,527,269)
Foreclosed assets, net		29,135,775,865	-	-	-	-	29,135,775,865	-	29,135,775,865
Investments in other companies		117,842,204,085	30,000,000	-	-	-	117,872,204,085	44,401,829,212	73,470,374,873
Property and equipment, net		205,320,793,948	647,575,385	199,588,688	299,279,561	93,404,399	206,560,641,981	-	206,560,641,981
Other assets		69,391,505,425	640,633,404	715,026,176	469,804,954	674,483,159	71,891,453,118	-	71,891,453,118
TOTAL ASSETS	¢	7,538,405,013,274	37,039,170,262	11,322,779,801	14,251,058,523	8,482,437,092	7,609,500,458,952	46,067,784,638	7,563,432,674,314
LIABILITIES AND EQUITY									
LIABILITIES									
Obligations with the public	¢	5,721,648,790,060	-	-	-	-	5,721,648,790,060	-	5,721,648,790,060
Obligations with BCCR		168,690,573,856	-	-	-	-	168,690,573,856	-	168,690,573,856
Obligations with entities		739,471,785,143	18,287,327,914	-	-	-	757,759,113,057	1,572,879,331	756,186,233,726
Demand		69,314,573,100	-	-	-	-	69,314,573,100	1,200,667,331	68,113,905,769
Term		667,010,494,016	18,279,964,709	-	-	-	685,290,458,725	372,212,000	684,918,246,725
(Deferred expenses for own portfolio)		(128,516,173)	-	-	-	-	(128,516,173)	-	(128,516,173)
Finance charges payable		3,275,234,200	7,363,204	-	-	-	3,282,597,404	-	3,282,597,404
Accounts payable and provisions		101,698,991,532	2,665,248,907	1,551,586,234	2,902,653,550	1,281,435,323	110,099,915,546	65,541,634	110,034,373,912
Other liabilities		31,197,905,058	-	-	-	-	31,197,905,058	22,169,922	31,175,735,136
Subordinated obligations		54,084,341,593	-	-	-	-	54,084,341,593	-	54,084,341,593
TOTAL LIABILITIES	¢	6,816,792,387,242	20,952,576,821	1,551,586,234	2,902,653,550	1,281,435,323	6,843,480,639,170	1,660,590,887	6,841,820,048,283

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

June 2021								
	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations and reclassifications	Consolidated
EQUITY								
Share capital	¢ 172,237,030,102	6,600,000,000	5,000,000,000	6,662,544,895	369,700,000	190,869,274,997	18,632,244,895	172,237,030,102
Non-capitalized capital contributions	-	-	-	732,380,114	-	732,380,114	732,380,114	-
Equity adjustments	92,783,692,291	342,327,389	350,054,952	754,377,153	-	94,230,451,785	1,446,759,493	92,783,692,292
Capital reserves	364,564,592,548	1,320,000,000	600,000,000	300,000,000	73,940,000	366,858,532,548	2,293,940,000	364,564,592,548
Prior-period retained earnings	40,217,214,267	6,189,360,724	2,166,181,397	1,939,782,548	4,958,918,671	55,471,457,607	15,254,243,340	40,217,214,267
Income for the year	10,122,592,801	1,634,905,328	1,654,957,217	959,320,263	1,798,443,075	16,170,218,684	6,047,625,884	10,122,592,800
FOFIDE	41,687,504,022	-	-	-	-	41,687,504,022	-	41,687,504,022
TOTAL EQUITY	¢ 721,612,626,031	16,086,593,441	9,771,193,566	11,348,404,973	7,201,001,746	766,019,819,757	44,407,193,726	721,612,626,031
TOTAL LIABILITIES AND EQUITY	¢ 7,538,405,013,273	37,039,170,262	11,322,779,800	14,251,058,523	8,482,437,069	7,609,500,458,927	46,067,784,613	7,563,432,674,314
Debit memoranda accounts								
Debit memoranda accounts	¢ 493,108,476,147	83,665,501	100,000	31,918,461	2,840,000	493,227,000,109	-	493,227,000,109
Trust assets	¢ 2,736,430,569,919	1,086,317,429	-	-	-	2,737,516,887,348	-	2,737,516,887,348
Trust liabilities	¢ 134,786,713,409	386,523	-	-	-	134,787,099,932	-	134,787,099,932
Trust equity	¢ 2,601,643,856,510	1,085,930,906	-	-	-	2,602,729,787,416	-	2,602,729,787,416
Other debit memoranda accounts	¢ 24,880,553,963,289	1,209,373,562,369	675,837,203,918	2,080,772,135,906	-	28,846,536,865,482	-	28,846,536,865,482
Income Statement								
June 2021								
	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations and reclassifications	Consolidated
Finance income	¢ 220,986,972,378	1,618,324,620	551,775,093	690,159,924	103,343,074	223,950,575,089	15,259,041	223,935,316,048
Finance costs	86,144,001,935	159,168,452	48,131,538	1,896,024	4,954,067	86,358,152,016	15,259,042	86,342,892,974
Allowance expense	47,147,313,377	2,057,178	9,711,630	5,392,027	12,309,430	47,176,783,642	-	47,176,783,642
Income from recovery of assets	6,756,094,676	11,294,656	31,900,114	28,372,136	-	6,827,661,582	-	6,827,661,582
FINANCE INCOME	94,451,751,742	1,468,393,646	525,832,039	711,244,009	86,079,577	97,243,301,014	-	97,243,301,014
Other operating income	82,952,687,245	3,523,963,075	3,784,925,623	5,700,426,155	3,899,419,690	99,861,421,788	7,148,721,090	92,712,700,698
Other operating expenses	52,498,308,177	455,403,972	357,385,855	889,764,671	55,742,634	54,256,605,309	1,058,679,386	53,197,925,923
GROSS OPERATING INCOME	124,906,130,810	4,536,952,749	3,953,371,807	5,521,905,493	3,929,756,633	142,848,117,493	6,090,041,704	136,758,075,789
Personnel expenses	61,796,541,812	1,917,575,209	1,198,263,072	2,204,279,011	1,122,599,984	68,239,259,088	-	68,239,259,088
Other administrative expenses	32,953,636,156	250,654,730	288,017,483	457,404,370	122,560,212	34,072,272,951	42,415,816	34,029,857,135
Total administrative expenses	94,750,177,968	2,168,229,939	1,486,280,555	2,661,683,381	1,245,160,196	102,311,532,039	42,415,816	102,269,116,223
NET OPERATING INCOME BEFORE STATUTORY ALLOCATIONS AND TAXES	30,155,952,841	2,368,722,810	2,467,091,252	2,860,222,112	2,684,596,437	40,536,585,457	6,047,625,892	34,488,959,565
Income tax	14,487,192,871	733,486,922	763,291,758	884,528,152	821,905,798	17,690,405,501	-	17,690,405,501
Decrease in income tax	766,142,369	70,731,124	25,170,459	39,645,828	16,290,333	917,980,117	-	917,980,117
Statutory allocations	6,312,309,538	71,061,684	74,012,737	1,056,019,523	80,537,894	7,593,941,376	-	7,593,941,376
INCOME FOR THE YEAR	¢ 10,122,592,801	1,634,905,328	1,654,957,216	959,320,265	1,798,443,078	16,170,218,697	6,047,625,896	10,122,592,801

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As of June 30, 2020								
	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations and reclassifications	Consolidated
ASSETS								
Cash and due from banks	€ 1,329,508,702,178	2,941,949,216	201,312,680	728,804,369	55,353,568	1,333,436,122,011	640,557,600	1,332,795,564,411
Investments in financial instruments	1,555,925,248,367	56,076,491,893	9,957,229,306	9,371,061,754	5,209,492,226	1,636,539,523,546	11,400,000	1,636,528,123,546
Loan portfolio, net	4,134,003,567,874	-	-	-	-	4,134,003,567,874	-	4,134,003,567,874
Accounts and fees and commissions receivable, net	1,489,981,787	237,125,391	95,498,959	823,323,969	666,132,257	3,312,062,363	51,897,613	3,260,164,750
Fees and commissions	369,014,215	18,400,123	21,729,801	740,236,080	561,961,247	1,711,341,466	49,616,140	1,661,725,326
Accounts receivable for brokerage operations	-	7,503,012	-	-	-	7,503,012	-	7,503,012
Transactions with related parties	61,563,212	2,395,883	42,480	193,608	219,793	64,414,976	2,281,473	62,133,503
Deferred tax and income tax	1,013,010,970	201,587,656	63,541,357	76,116,297	97,799,735	1,452,056,015	-	1,452,056,015
Other	4,303,668,346	7,238,717	10,185,321	65,893,253	6,151,482	4,393,137,119	-	4,393,137,119
Accrued interest	8,979,815	-	-	-	-	8,979,815	-	8,979,815
Allowance for impairment	(4,266,254,771)	-	-	(59,115,269)	-	(4,325,370,040)	-	(4,325,370,040)
Foreclosed assets, net	26,360,442,062	-	-	-	-	26,360,442,062	-	26,360,442,062
Investments in other companies	111,895,922,899	30,000,000	-	-	-	111,925,922,899	43,439,856,643	68,486,066,256
Property and equipment, net	212,060,788,716	132,825,924	711,734,670	947,711,866	112,306,885	213,965,368,061	-	213,965,368,061
Other assets	72,011,448,559	330,168,664	637,698,083	522,941,425	542,243,385	74,044,500,116	-	74,044,500,116
TOTAL ASSETS	€ 7,443,256,102,442	59,748,561,088	11,603,473,698	12,393,843,383	6,585,528,321	7,533,587,508,932	44,143,711,856	7,489,443,797,076
LIABILITIES AND EQUITY								
LIABILITIES								
Obligations with the public	€ 5,583,110,097,700	13,426,266,423	-	-	-	5,596,536,364,123	-	5,596,536,364,123
Obligations with BCCR	125,644,412	-	-	-	-	125,644,412	-	125,644,412
Obligations with entities	982,852,809,717	25,227,152,821	440,418,134	562,707,465	-	1,009,083,088,137	651,957,600	1,008,431,130,537
Demand	63,367,433,005	-	-	-	-	63,367,433,005	640,557,600	62,726,875,405
Term	913,550,585,217	25,201,879,998	440,418,134	562,707,465	-	939,755,590,814	11,400,000	939,744,190,814
(Deferred expenses for own portfolio)	(76,912,729)	-	-	-	-	(76,912,729)	-	(76,912,729)
Finance charges payable	6,011,704,224	25,272,823	-	-	-	6,036,977,047	-	6,036,977,047
Accounts payable and provisions	93,973,893,641	2,621,346,418	1,154,178,148	2,232,836,798	1,226,643,652	101,208,898,657	51,897,628	101,157,001,029
Other liabilities	20,869,399,448	-	-	-	-	20,869,399,448	-	20,869,399,448
Subordinated obligations	64,693,123,865	-	-	-	-	64,693,123,865	-	64,693,123,865
TOTAL LIABILITIES	€ 6,745,624,968,783	41,274,765,662	1,594,596,282	2,795,544,263	1,226,643,652	6,792,516,518,642	703,855,228	6,791,812,663,414

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of June 30, 2020								
	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations and reclassifications	Consolidated
EQUITY								
Share capital	¢ 172,237,030,102	6,600,000,000	3,000,000,000	5,841,984,701	369,700,000	188,048,714,803	15,811,684,701	172,237,030,102
Non-capitalized capital contributions	¢ -	-	-	352,940,307	-	352,940,307	352,940,307	-
Equity adjustments	83,190,830,680	269,763,522	126,086,847	(282,993,647)	-	83,303,687,402	112,856,721	83,190,830,681
Capital reserves	377,901,490,319	1,320,000,000	600,000,000	300,000,000	73,940,000	380,195,430,319	2,293,940,000	377,901,490,319
Prior year retained earnings	18,187,249,907	9,010,604,411	5,062,731,381	2,630,992,265	3,195,422,505	38,087,000,469	19,899,750,561	18,187,249,908
Income for the year	7,071,167,530	1,273,427,493	1,220,059,188	755,375,477	1,719,822,166	12,039,851,854	4,968,684,325	7,071,167,529
FOFIDE	39,043,365,123	-	-	-	-	39,043,365,123	-	39,043,365,123
TOTAL EQUITY	¢ 697,631,133,661	18,473,795,426	10,008,877,416	9,598,299,103	5,358,884,671	741,070,990,277	43,439,856,615	697,631,133,662
TOTAL LIABILITIES AND EQUITY	¢ 7,443,256,102,444	59,748,561,088	11,603,473,698	12,393,843,366	6,585,528,323	7,533,587,508,919	44,143,711,843	7,489,443,797,076
Debit memoranda accounts	¢ 459,267,809,507	133,004,706	100,000	39,762,952	2,840,000	459,443,517,165	-	459,443,517,165
Trust assets	¢ 1,811,023,697,581	296,573,625	-	-	-	1,811,320,271,206	-	1,811,320,271,206
Trust liabilities	¢ 138,888,754,873	362,635	-	-	-	138,889,117,508	-	138,889,117,508
Trust equity	¢ 1,672,134,942,707	296,210,991	-	-	-	1,672,431,153,698	-	1,672,431,153,698
Other debit memoranda accounts	¢ 20,685,916,640,621	1,179,974,012,341	545,253,307,406	1,751,184,901,708	-	24,162,328,862,076	-	24,162,328,862,076
As of June 30, 2020								
	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations and reclassifications	Consolidated
Finance income	¢ 264,765,758,529	2,314,494,245	431,409,166	1,407,049,834	98,246,516	269,016,958,290	13,582,135	269,003,376,155
Finance costs	143,503,275,264	651,982,171	59,360,077	33,087,157	16,428,420	144,264,133,089	13,582,137	144,250,550,952
Allowance expense	38,473,270,138	59,641,253	7,388,845	3,733,920	330,120	38,544,364,276	-	38,544,364,276
Income from recovery of assets	5,074,241,279	10,428,452	1,208,177	-	144,578	5,086,022,486	-	5,086,022,486
FINANCE INCOME	87,863,454,406	1,613,299,273	365,868,421	1,370,228,757	81,632,556	91,294,483,413	-	91,294,483,413
Other operating income	85,372,267,891	2,394,830,349	3,208,451,463	4,324,069,157	3,706,723,944	99,006,342,804	5,900,844,786	93,105,498,018
Other operating expenses	56,227,892,550	387,867,953	273,321,497	703,401,053	54,892,562	57,647,375,615	869,268,644	56,778,106,971
GROSS OPERATING INCOME	117,007,829,747	3,620,261,669	3,300,998,387	4,990,896,861	3,733,463,938	132,653,450,602	5,031,576,142	127,621,874,460
Personnel expenses	61,281,465,214	1,559,418,386	1,130,947,286	2,201,554,660	1,057,085,843	67,230,471,389	-	67,230,471,389
Other administrative expenses	30,502,342,566	355,636,014	361,548,034	536,733,531	110,878,273	31,867,138,418	62,891,801	31,804,246,617
Total administrative expenses	91,783,807,780	1,915,054,400	1,492,495,320	2,738,288,191	1,167,964,116	99,097,609,807	62,891,801	99,034,718,006
NET OPERATING INCOME BEFORE STATUTORY ALLOCATIONS AND TAXES	25,224,021,966	1,705,207,269	1,808,503,067	2,252,608,670	2,565,499,822	33,555,840,794	4,968,684,340	28,587,156,454
Income tax	13,767,909,493	390,734,429	556,716,195	711,820,211	780,140,764	16,207,321,092	-	16,207,321,092
Decrease in income tax	778,406,062	10,110,871	22,527,409	37,540,789	11,428,107	860,013,238	-	860,013,238
Statutory allocations	5,163,351,004	51,156,218	54,255,094	822,953,754	76,964,995	6,168,681,065	-	6,168,681,065
INCOME FOR THE YEAR	¢ 7,071,167,531	1,273,427,493	1,220,059,187	755,375,494	1,719,822,170	12,039,851,875	4,968,684,344	7,071,167,531

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(51) Contingencies

As of June 30, Banco Nacional de Costa Rica (the Bank), BN Vital Operadora de Planes de Pensiones Complementarias, S.A. (the Pension Fund Manager), BN Valores Puesto de Bolsa, S.A. (the Brokerage Firm) and BN Sociedad Administradora de Fondos de Inversión, S.A. (the Investment Fund Manager) are defendants in ordinary, labor and criminal lawsuits, as follows:

	Number of cases		Phase	Total estimated amount	
	2021	2020		2021	2020
Banco Nacional de Costa Rica	382	341	First instance	¢ 129,626,530,356	121,691,881,528
	15	18	Second instance	20,400,900,035	19,261,072,068
	12	12	Appeal	6,235,960,930	5,365,710,825
	<u>409</u>	<u>371</u>		<u>156,263,391,321</u>	<u>146,318,664,421</u>
BN Vital	7	7	First instance	31,918,461	39,762,952
	2	-	Appeal	-	-
	<u>9</u>	<u>7</u>		<u>31,918,461</u>	<u>-</u>
BN Valores	<u>1</u>	<u>1</u>	First instance	<u>83,665,501</u>	<u>133,004,706</u>
BN SAFI	<u>1</u>	<u>1</u>		<u>100,000</u>	<u>100,000</u>
BN Corredora	<u>1</u>	<u>1</u>		<u>2,840,000</u>	<u>2,840,000</u>
	<u>421</u>	<u>381</u>	(Note 22)	¢ <u>156,381,915,283</u>	<u>146,494,372,079</u>

As of June 30, 2021, the legal actions filed against the Bank are booked in memoranda accounts under “Other contingencies - pending litigation and lawsuits”.

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of June 30, the Conglomerate is a claimant in ordinary, labor and criminal lawsuits for which the outcome is uncertain. These are not booked in the accounting records.

Number of cases		Phase	Total estimated amount	
2021	2020		June 2021	June 2020
328	291	First instance	¢ 79,297,622,692	56,274,435,959
1	1	Second instance	375,839,600	375,839,600
329	292		¢ 79,673,462,292	56,650,275,559

Additionally, the Bank is a defendant in one lawsuit related to the payment of SEDI. The file for such proceedings is File No. 5-008666-1027-CA of the Administrative Court, at 10:45 hours of November 20, 2015, received on December 15, 2015. As of June 30, 2021, the Bank booked a provision in the amount of ¢820,669,567 for that lawsuit.

The following lawsuits are also worth noting:

- File No.: 14-003379-1027-CA
- ✓ Statement of facts: The plaintiffs seek the payment of damages by the Bank to all the plaintiffs as well as compensation for pain and suffering caused due to the inability to acquire decent housing, as a result of apparent anomalies regarding the management of credits for Grupo Zion, S.A. to build the Bariloche Real condominium. Additionally, it has had media coverage.
- ✓ Current status: The resolution of April 10, 2018 at 17:15 ordered the separation of the case into separate files for each of the Bank members. This resolution was unsuccessfully appealed by the plaintiff's representatives. Currently, a number of separate lawsuits were presented to the Bank, which is in the process of filing the corresponding responses and some preliminary hearings have been summoned, while other summons for public trial are pending or issue of a resolution, having been declared a question of law.

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- File No.: 08-000388-0419-AG
 - ✓ Court: Agrarian Court of Corredores
 - ✓ Statement of facts: The proceedings seek to declare the liability of CORBANA, as Trustee of a banana plantation Management Trust, in which the Bank was the Trust Beneficiary. In resolution No. 92-2015 of first instance, the Agrarian Court ruled in favor of the Bank. The Agrarian Court accepted the objection of statute of limitations, since the lawsuit was filed four years after negative prescription, as per Article 968 of the Code of Commerce.
 - ✓ Current status: Vote No. 055-F-18 of January 31, 2018, at 11:55, denied the negative statute of limitations exception, in its commercial and decennial common modality. The judge of first instance must issue a ruling on the appeal concerning new facts and claims of the case, as applicable. Since the parties were not in conformity with the resolution, all parties filed appeals for review before the First Chamber. As of the date of this report, this case remains the same.
- File No.: 08-000232-0419-AG
 - ✓ Court: Agrarian Court of Corredores
 - ✓ Statement of facts: This process was filed by the Bank against Surcoop R.L. It seeks to nullify the auction, awarding, and registration of lots of the Agrarian Court of Corredores processed through file No. 97-010656-1701 AG.
 - ✓ Current status: The Bank appeared before the First Chamber in relation to the appeal for review filed by the plaintiff. A resolution by the First Chamber is pending.
- File No.: 11-001042-0612-PE,
 - ✓ Court: Office of Economic, Tax, and Customs Crimes
 - ✓ Statement of facts: Irregularities were reported regarding the company Zion and the process to grant credits to that company, misuse of resources, presentation of fake documents to the Bank to obtain credit approval, and the apparent participation of some of the employees of Bank.

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- ✓ Current status: The public prosecutor's office filed an accusation, but it was not communicated to the Bank since it is not considered a victim. A motion for declaration of procedural defects was filed, so that the accusation can be brought to the Bank's attention. In a hearing scheduled for September 12, 2019, the declaration of procedural defects filed by BNCR will be heard. There is a civil lawsuit against the Bank, but it does not hold because the accused (bank employees) were summoned to a testimony. Until the legal status of those individuals is defined, they cannot be part of a civil lawsuit.
- File No.: 14-00826-1027-CA,
 - ✓ Statement of facts: The plaintiffs seek the Bank to be declared liable for the payment of damages to all investors of the "Management Trust for the Real Estate Development and Private issue of Securities of Playa Coyote Project" (Fideicomiso de Administración de Desarrollo Inmobiliario y de Emisión Privada de Valores Proyecto Playa Coyote).
 - ✓ Current status: The judgment of first instance was appealed. It is currently at the First Chamber, pending resolution. The remedy was recently admitted and the plaintiffs were granted hearings.
- File No.: 15-002321-1027-CA,
 - ✓ Statement of facts: The Bank filed a suit against the Costa Rican Social Security Administration (CCSS) for additional payrolls presented for the collection of commissions from the employees of the Bank. Article 173 of the Internal Regulations of the National Banking System (IRNBS) sets forth that those commissions are exempt from employer and employee contributions.
 - ✓ Current status: The suit filed by the Bank was dismissed in every respect. Accordingly, the corresponding extraordinary appeal was filed in time and form. As of the date of this report, a resolution is pending from the First Chamber.

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(52) Emergency caused by COVID-19

In December 2019 the appearance of a new strain of coronavirus was identified, causing the COVID-19 global pandemic during the first quarter of 2020. The coronavirus has negatively affected the economic conditions of companies worldwide, generating a macroeconomic uncertainty that may significantly affect our operations as well as those of our customers and vendors. The general effect of the coronavirus outbreak is uncertain at this time. Consequently, we are still in the process of analyzing and forecasting the potential impact on our operations. The Conglomerate's management will continue to monitor and modify its operating and financial strategies to mitigate the potential risks to our business.

As part of the measures adopted to contain the crisis caused by the pandemic, the Bank evaluated the loans of borrowers who requested it since their payment capacity was affected, providing a temporary modification to help them face the Covid-19 crisis.

As a result, as of June 30, 2021, the loan portfolio that required at least one modification to the originally agreed conditions amounts to ¢239,192,634,238, representing 5.61% of the total loan portfolio (December and June 2020: ¢1,838,897,871,649, representing 42.19% and ¢1,558,965,918,676,31, representing 36.85% of the total loan portfolio.

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The loan portfolio, restructured at least once due to COVID-19, by economic activity, is as follows:

		June 2021	December 2020	June 2020
Agriculture and forestry	¢	6,578,037,488	55,617,553,745	38,749,364,857
Trade		21,310,041,089	236,646,445,127	188,638,156,592
Construction		7,730,659,671	40,275,335,431	37,462,835,743,17
Consumer or personal loans		10,080,540,389	181,993,271,368	155,720,013,382,35
Electricity, water, sanitation and other related sectors		-	317,755,814	13,105,212,807,46
Mining		-	345,022,348	340,922,418,27
Livestock, hunting and fishing		2,231,321,054	31,765,420,846	28,502,508,509,24
Industry		9,801,098,916	77,047,719,294	73,405,622,332,60
Services		57,598,076,168	418,549,449,578	369,965,047,813,07
Financial service		85,784,810	2,632,942,189	2,377,310,746,53
Transportation, communication and storage		9,950,516,811	41,968,088,183	39,297,159,742,60
Tourism		85,770,610,439	172,964,482,499	155,477,836,978,70
Housing		28,055,947,404	578,774,385,227	455,923,926,753,01
Sub-total		239,192,634,238	1,838,897,871,649	1,558,965,918,676,31
Accounts and accrued interest receivable		283,103,295	60,587,005,579	2,058,350,800,37
Total loans restructured due to COVID-19		239,475,737,534	1,899,484,877,228	1,561,024,269,476,68
Allowance for doubtful accounts		(5,152,776,167)	(38,070,471,241)	20,650,874,399,44
Total loan portfolio, net	¢	234,322,961,367	1,861,414,405,987	1,540,373,395,077

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The loan portfolio, restructured at least once due to COVID-19, by arrears, is as follows:

	June 2021	December 2020	June 2020
Current	¢ 231,463,272,257,63	1,772,706,247,740	1,557,732,887,733
1 to 30 days	5,572,558,353,35	21,882,743,098	329,107,059
31 to 60 days	409,398,348,06	18,211,697,502	75,756,123
61 to 90 days	772,860,460,72	7,216,586,852	92,773,440,02
91 to 120 days	214,871,599,69	6,561,102,392	618,607,882,57
121 to 150 days	72,827,343,49	8,320,591,011	41,070,910,61
In legal collection	686,845,875,39	3,998,903,054	75,715,528,01
	239,192,634,238	1,838,897,871,649	1,558,965,918,676
Accounts and accrued interest receivable	283,103,295,4	60,587,005,579	2,058,350,800
Total loans restructured due to COVID-19	239,475,737,534	1,899,484,877,228	1,561,024,269,477
Allowance for loan losses	(515,277,616,7)	(38,070,471,241)	20,650,874,399,44
Total loan portfolio, net	¢ 234,322,961,367	1,861,414,405,987	1,540,373,395,077

The loan portfolio, restructured at least once due to COVID-19, by type of guarantee, is as follows:

	June 2021	December 2020	June 2020
Fiduciary (unsecured)	¢ 105,080,098,686	476,056,659,512	506,340,786,629
Mortgage	120,978,075,700	1,270,293,892,300	907,308,774,127
Chattel mortgage	13,134,459,852	92,547,319,837	145,316,357,919
	239,192,634,238	1,838,897,871,649	1,558,965,918,676
Accounts and accrued interest receivable	283,103,295	60,587,005,579	2,058,350,800
Total loans restructured due to COVID-19	239,475,737,534	1,899,484,877,228	1,561,024,269,477
Allowance for loan losses	(5,152,776,167)	(38,070,471,241)	(20,650,874,399)
Total loan portfolio, net	¢ 234,322,961,367	1,861,414,405,987	1,540,373,395,077

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of June 30, 2021, only 17.43% of a total of ¢239,192,634,238 maintains temporary credit conditions, which represents 5.61% of the entire loan portfolio (December 2020: only 9.8% of a total of ¢1,838,897,871,649 maintained temporary credit conditions, which represented 4% of the entire loan portfolio; and for June 2020: ¢1,558,965,918,676,33 maintained temporary conditions, representing 36.85% of the total loan portfolio).

a) Operating measures

- The Bank constantly encourages customers to use digital channels: BN MOVIL, SINPE MOVIL, webpage and Contact Center.
- Changes in schedules for all service offices:
 - i. Attention to the public was reduced by one hour, seeking to reduce the exposure for both employees and customers.
 - ii. The first hour and a half of the schedule was set aside for exclusive attention to the elderly, every day, and it is extended to two hours and a half during pension payment days, when offices will open one hour before the regular schedule.
 - iii. The elderly and disabled customers are given preferential attention during the entire workday.
 - iv. A decision was made to not provide the services offered within the service network during the weekends, except for ATMs.
- Hygiene measures were strengthened by installing portable handwash basins in high-transit offices and encouraging personnel and customers to wash their hands before and after their transactions, or at least once every hour.
- The maximum number of customers was established according to the physical capacity of each office and protection screens are used to avoid contact.
- Some of the autobanks that were not in operation were activated.
- The Bank's Emergency Institutional Commission meets continuously to implement the measures recommended by the Ministry of Health.

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

b) Measures to support customers with credits

On March 20, 2020, the Bank announced a program to support customers in different credit segments in order to help mitigate the negative effects caused by the COVID-19 pandemic. These segments are as follows:

- Individuals with housing, consumption or vehicle loans. Non-salaried, physical borrowers may dispense with loan installments for the next three months, with those installments being transferred to the final loan installment. As in the small- and medium-sized enterprise program, this adjustment is automatic. The customers that do not wish to take the benefit can continue to pay their installments normally by informing so through enabled channels.
- Credit card customers. Starting April 2020, non-salaried credit card borrowers will have the minimum payments of their installments for the following three months transferred to monthly installments payable after the fourth month.
- Corporate banking (large enterprises) and medium enterprises. Only customers from trade and tourist activities, with variable payments, may dispense with loan installments for a term between three and nine months, with installments being transferred to the final loan installment to provide those entities with a financial relief. The adjustment is not automatic or the same in all cases but analyzed individually. The Bank has assigned executive to contact customers qualifying for this benefit. For customers from other previously identified vulnerable economic sectors, the Bank has also assigned a team of executives to contact customers and look for alternatives to make their operations sustainable.

In all cases, to be eligible for the benefit, customers should not have two or more readjustments made in the last 24 months. Additionally, customers are required to not exceed arrears of more than 60 days.

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Moreover, we are complying with Official Letter SGF-1190-2020 dated April 1, 2020, which establishes:

The accounting recognition of income earned has its origin in the payment obligation underlying in the contractual relationship between the borrower and the regulated entity, even if the parties agree to modify the contractual relationship, the obligation does not extinguish, interest continue to be earned, irrespectively of the date they are earned. For recording, regulated entities must apply what is provided in the International Financial Reporting Standards (IFRS).

c) Liquidity measures

The situation caused by the COVID-19 pandemic has impacted the national and global economy leading to a reduction of risk positions and a search for a safe shelter before the increased volatility that has emerged. The Corporate Office of Finance has been monitoring the developments in order to prevent any events, based on a process of three stages with defined functions and responsibilities, where “Stage I” is mild, attention is paid to early warning signs and preventive measures are taken, up to “Stage III”, with more stressed conditions.

The Bank’s Treasury Office has daily reports that allow the Bank to know about the liquidity status to make timely decisions and monitor regulatory indicators, such as term matching and the liquidity coverage ratio (LCR), for which capacity, appetite and tolerance levels are defined, and for which the need for differentiated actions are established.

d) Measures in the portfolio of investments at amortized cost

Due to the COVID-19 pandemic, the Bank has directly followed up on the corporate bonds portfolio, which has been affected by the crisis, making timely and proactive decisions according to the different perspectives and analysis of international specialists. Locally, quotes and negotiations of securities in the primary and secondary market are monitored daily, by participating in real time in the brokerage sessions of the National Stock Exchange. As of June 30, 2021, recurring to the sale of securities measured at amortized cost is not considered necessary and is not expected in the short term.

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(53) Adjustment due to implementation of regulations

Transition Provision I of the *Regulation on Financial Information* (RFI) (SUGEF Directive 30-18) sets forth that all of the effects of the implementation of RFI must be made through adjustments to prior period retained earnings.

Adjustments to prior period retained earnings are as follows:

	<u>December 2020</u>
Opening balance of leases	¢ (2,439,435,636)
Impairment of investment portfolio	(1,176,751,301)
Deferred tax of useful life of buildings	(3,393,880,949)
	<u>¢ (7,010,067,886)</u>

Additionally, regulated entities must calculate the allowance for investments as indicated in IFRS 9, which sets forth that the entity must classify own investments or joint accounts in financial assets according to the following valuation categories:

- a. Amortized cost. If an entity, according to its business model and current regulation framework, classifies one part of its investment portfolio in this category, it will reveal:
 - i. The fair value of financial assets classified in this category in the quarterly, annual and audited financial statements.
 - ii. Gain or loss that would have had to be recognized in the income statement for the period for the financial statements indicated in the item above.
- b. Fair value through other comprehensive income
- c. Fair value through profit or loss: participations in open investments funds are booked in this category.

Regulated entities should have policies and procedures in place to determine the time when the recording of the accrual of commissions and interest on loan operations should be suspended. However, the accrual suspension term should not exceed 180 days.

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(54) Relevant Events

a) Tax audit process – Costa Rican Tax Administration Period 2017

As of June 30, 2021, Banco Nacional de Costa Rica is in a verification and investigation process by the National Large Taxpayer Audit Area, Costa Rican Tax Administration, in order to perform a review of the income tax for 2017.

This tax audit was notified through document DGCN-SF-PD-25-2021 on March 31, 2021 and is currently in a review process by the Tax Administration.

b) Term deferred operations

The country is undergoing a national emergency due to COVID-19. Therefore, the board of directors of the BCCR approved the creation of a medium-term special credit facility for SUGEF-regulated financial intermediaries.

As of June 30, 2021, 2,988 loan operations under this modality were placed, applying a discount to the interest rate on the loans in colones in the amount of ¢168,293 million, reaching an average rate of the operations already processed of 6.1%. The remaining average maturity term is 13 years.

c) Law for Creation of the Deposit Guarantee Fund and of the Resolution Mechanisms of Financial Intermediaries

According to the *Law for Creation of the Deposit Guarantee Fund and of the Resolution Mechanisms of Financial Intermediaries* (Law No. 9816), a deposit guarantee fund is created whose purpose is to strengthen the financial safety network of the national financial system through the creation of the Deposit Guarantee Fund and Resolution Mechanisms of Regulated Financial Intermediaries.

From the publication of the Regulation of the management of the Deposit Guarantee Fund and other guarantee funds on Wednesday, February 3, 2021, and its entrance into effect three months later, SUGEF-regulated financial intermediaries should contribute with no more than 15% of the deposits guaranteed by the entity. That is an annual contribution that will be paid quarterly within ten business days after the end of each quarter.

As of June 30, 2021, the Conglomerate recognizes in its financial statements the amount of ¢120,644,543,173 corresponding to the quarterly contribution.

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(55) Transition to International Financial Reporting Standards (IFRS)

On September 11, 2018, CONASSIF issued SUGEF Directive 30-18 *Regulation on Financial Information* (RFI), which seeks to regulate the application of IFRS and its interpretations (SIC and IFRIC) issued by the International Accounting Standards (IASB), considering prudential or regulatory accounting treatments, as well as the definition of a specific treatment or methodology when IFRS suggest two or more alternatives for application. Moreover, RFI establishes the content, preparation, referral, presentation, and publication of the financial statements of individual financial entities, groups and banks regulated by the four superintendencies. RFI is effective from January 1, 2020, with some exceptions.

A summary of some of the main differences between the accounting regulations issued by CONASSIF and IFRS, as well as IFRS or Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) yet to be adopted, is presented below:

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

CONASSIF requires that the financial statements of regulated entities be presented in Costa Rican colones as the functional currency.

Additionally, regulated entities must use the reference sell exchange rate set by BCCR that prevails at the time that the operation to record the translation of the foreign currency into the official currency, 'the Costa Rican colon', is made.

At each month close, the corresponding reference exchange rate will be used as indicated in the paragraph above, effective at the last day of each month, for the recognition of the adjustment due to foreign exchange differences in the monetary items in foreign currency.

According to this Standard, in preparing the financial statements, each entity will determine its functional currency. The entity will translate the items in foreign currency into the functional currency and will report on the effects of this translation. As indicated above, CONASSIF determined that both the presentation of financial information and the accounting records of foreign currency transactions should be translated into colones, irrespective of the functional currency.

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b) 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 statement of financial position. However, those expenses must be fully amortized using 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.

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

This Standard establishes that entities shall measure non-current assets (or disposal groups) classified as held for sale at the lower of the carrying amount and fair value less cost to sell. CONASSIF regulations adhere to this Standard.

CONASSIF requires booking an allowance of one-forty-eighth 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. IFRS 5 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.

d) IFRS 9: Financial Instruments

- a) For application of IFRS 9, particularly the measurement of ECL, the prudential regulations issued by CONASSIF will be maintained for the loan portfolio, accounts receivable and stand-by credits granted, until this Standard is modified.
- b) The application of the measurement of ECL on investment funds of the money market category, as provided under IFRS 9, required by Articles 3 and 18 of the RFI, will be effective on January 1, 2022.

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- c) Regulated entities should have policies and procedures in place to determine the amount of the suspension of the booking of the accrual of commissions and interest on loan operations. However, the accrual suspension term should not exceed 180 days.

e) IFRS 37: Provisions, Contingent Liabilities and Contingent Assets

Article 10 of IAS 12 *Income Taxes* and IFRIC 23 *Uncertainty over Income Tax Treatments*:

- i. The provisions of Article 10 of IAS 12 *Income Taxes* and IFRIC 23 *Uncertainty over Income Tax Treatments* will be effective beginning January 1, 2019. on initial application of IFRIC 23, entities must apply the transition established in item (b) of paragraph B2 of that Interpretation.
- ii. The amount of the provision for the tax treatments in dispute notified before December 31, 2018, corresponding to tax periods 2017 and previous periods, will be booked at the greater of the best estimate of the amount payable to the Tax Authorities regarding the notice of deficiency (principal, interest, and fines), according to IAS 12, and 50% of the principal from the correction of the self-assessment of the tax obligation.

The booking of the provision for tax treatments in dispute for the periods indicated in the paragraph above may be accounted for in any of the following ways:

- a. Booking against profit or loss for the period, in monthly installments, using the straight-line method, no later than June 30, 2021, or
- b. Booking a single adjustment to the opening balance of prior period retained earnings until reaching the provision amount. Adjustments derived from subsequent evaluations of the amounts in dispute will be treated as adjustments to allowances, for which IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* will be applied.
- c. If the provision amount is greater than the opening balance of prior-period retained earnings, the adjustment will be attributed first to the opening balance of prior-period retained earnings, and for complementing, the indications of item a. will be followed.

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On January 31, 2019 at the latest, the entity, with tax treatments in dispute for the periods indicated in this provision, should report with the respective superintendency the method (a), (b) or (c) above, based on SUGEF Directive 30-18, that will be used until the resolution or settlement of the tax obligation.

(56) Disclosure of economic impact of departure from IFRS

Since the basis of accounting used by the Bank's management described in Note 2 differs from IFRS, discrepancies may arise related to certain account balances.

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