

**BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES**

Financial Information required by the  
Superintendency General of Financial Entities

Consolidated Financial Statements

As of June 30, 2022  
*(With corresponding figures for 2021)*

**BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS OF JUNE 30, 2022 AND 2021 AND DECEMBER 31, 2021**  
(In colones)

	Note	June 2022	December 2021	June 2021
<b>ASSETS</b>				
<b>Cash and due from banks</b>	<b>9</b>	<b>1,590,149,028,820</b>	<b>1,355,841,181,326</b>	<b>1,254,808,263,819</b>
Cash		113,183,923,465	153,022,359,822	99,987,423,177
BCCR		809,071,281,980	748,869,850,603	718,840,054,883
Local financial entities		1,067,363,965	1,270,630,547	1,715,006,784
Foreign financial entities		531,692,127,819	323,019,677,543	307,448,525,907
Notes payable on demand		7,909,981,956	7,097,413,624	5,841,944,650
Restricted cash and due from banks		127,224,349,635	122,561,249,187	120,975,308,418
<b>Investments in financial instruments</b>	<b>10</b>	<b>1,605,523,589,507</b>	<b>1,789,748,289,965</b>	<b>1,721,719,905,901</b>
At fair value through profit or loss		35,400,118,840	40,139,798,613	32,014,314,395
At fair value through other comprehensive income		678,806,335,687	807,216,667,803	773,997,463,093
At amortized cost		876,191,502,477	917,505,890,841	885,594,522,389
Derivative financial instruments	<b>11</b>	55,612,409	7,723,704,438	11,882,581,308
Accrued interest receivable		18,012,332,955	19,963,735,244	20,801,411,607
(Allowance for impairment of investments in financial instruments)		(2,942,312,861)	(2,801,506,974)	(2,570,386,891)
<b>Loan portfolio</b>	<b>12</b>	<b>4,621,865,376,256</b>	<b>4,477,434,448,101</b>	<b>4,201,655,074,722</b>
Current		4,402,803,001,701	4,282,160,940,971	3,957,696,930,466
Past due		173,446,515,012	128,283,491,897	145,618,024,760
In legal collection		127,685,482,574	123,886,157,797	157,412,394,611
Direct incremental costs related to loans		4,853,317,522	3,675,079,715	3,589,157,504
(Deferred income on loan portfolio)		(38,653,020,286)	(35,117,407,652)	(32,964,070,406)
Accrued interest receivable		107,376,950,583	110,377,468,668	124,573,963,478
(Allowance for loan losses)		(155,646,870,850)	(135,831,283,295)	(154,271,325,691)
<b>Accounts and fees and commissions receivable</b>	<b>13</b>	<b>9,467,766,760</b>	<b>5,047,950,602</b>	<b>4,191,184,034</b>
Commissions receivable		2,026,712,312	1,956,296,857	1,901,885,942
Accounts receivable for brokerage operations		177,590	-	1,865,761
Accounts receivable for transactions with related parties		57,757,800	16,309,408	21,644,853
Deferred tax and income tax receivable		7,372,745,238	2,964,965,080	2,170,104,257
Other receivables		4,399,762,394	4,181,997,820	4,314,176,706
Accrued interest receivable		1,927,242	1,923,294	3,033,784
(Allowance for impairment of accounts and fees and commissions receivable)		(4,391,315,816)	(4,073,541,857)	(4,221,527,269)
<b>Assets held for sale</b>	<b>14</b>	<b>38,766,808,153</b>	<b>35,788,800,197</b>	<b>29,135,775,865</b>
Assets and securities acquired in lieu of payment		99,481,918,200	94,628,393,958	90,390,979,078
Other assets held for sale		55,884,629	55,884,629	55,884,629
(Allowance for impairment of assets held for sale and per legal requirements)		(60,770,994,676)	(58,895,478,390)	(61,311,087,842)
<b>Investments in other companies</b>	<b>15</b>	<b>83,201,334,765</b>	<b>76,812,766,045</b>	<b>73,470,374,878</b>
<b>Property, furniture, equipment and right-of-use assets, net</b>	<b>16</b>	<b>205,172,115,596</b>	<b>209,184,043,954</b>	<b>206,560,641,978</b>
<b>Other assets</b>	<b>17</b>	<b>65,124,543,027</b>	<b>75,462,269,988</b>	<b>71,891,453,117</b>
Deferred charges		21,520,037,786	28,728,197,092	35,994,036,201
Intangible assets		7,690,061,282	9,171,952,640	4,395,610,149
Other assets		35,914,443,959	37,562,120,256	31,501,806,767
<b>TOTAL ASSETS</b>		<b>8,219,270,562,884</b>	<b>8,025,319,750,178</b>	<b>7,563,432,674,314</b>

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

Continued...

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS OF JUNE 30, 2022 AND 2021 AND DECEMBER 31, 2021  
(In colones)

<b>LIABILITIES AND EQUITY</b>	<b>Note</b>	<b>June 2022</b>	<b>December 2021</b>	<b>June 2021</b>
<b>LIABILITIES</b>				
<b>Obligations with the public</b>	<b>18</b>	<b>6,246,967,794,014</b>	<b>6,097,748,047,773</b>	<b>5,721,648,790,060</b>
Demand obligations		4,428,874,504,664	4,369,258,152,185	3,676,747,890,355
Term obligations		1,792,711,628,873	1,701,120,048,148	2,013,511,964,379
Finance charges payable		25,381,660,477	27,369,847,440	31,388,935,326
<b>Obligations with BCCR</b>	<b>19</b>	<b>166,289,044,774</b>	<b>168,243,245,539</b>	<b>168,690,573,856</b>
Term obligations		164,696,408,078	167,292,072,120	168,418,644,412
Finance charges payable		1,592,636,696	951,173,419	271,929,444
<b>Obligations with entities</b>	<b>20</b>	<b>818,939,260,401</b>	<b>808,501,740,570</b>	<b>756,186,233,726</b>
Demand obligations		195,635,061,741	113,563,426,122	68,113,905,769
Term obligations		621,081,631,623	691,810,646,497	684,918,246,725
Other obligations with entities		(122,613,840)	(51,811,794)	(128,516,173)
Finance charges payable		2,345,180,877	3,179,479,745	3,282,597,405
<b>Accounts payable and provisions</b>		<b>133,262,983,331</b>	<b>133,970,062,332</b>	<b>110,034,373,912</b>
Provisions	<b>22</b>	20,093,964,830	21,510,154,585	21,259,954,702
Accounts payable for brokerage services		2,079,753,119	975,639,293	1,033,287,859
Deferred tax	<b>21-b</b>	14,688,472,480	17,389,485,477	16,983,185,458
Other sundry accounts payable	<b>23</b>	96,400,792,902	94,094,782,977	70,757,945,893
<b>Other liabilities</b>	<b>24</b>	<b>38,823,901,665</b>	<b>26,972,290,867</b>	<b>31,175,735,136</b>
Deferred income		114,475,008	88,200,061	66,506,141
Other liabilities		38,709,426,657	26,884,090,806	31,109,228,995
<b>Subordinated obligations</b>	<b>25</b>	<b>79,678,591,483</b>	<b>58,367,371,894</b>	<b>54,084,341,593</b>
Subordinated obligations		77,878,125,000	57,427,250,000	53,174,160,000
Finance charges payable		1,800,466,483	940,121,894	910,181,593
<b>TOTAL LIABILITIES</b>		<b>7,483,961,575,668</b>	<b>7,293,802,758,975</b>	<b>6,841,820,048,283</b>
<b>EQUITY</b>				
<b>Share capital</b>		<b>172,237,030,102</b>	<b>172,237,030,102</b>	<b>172,237,030,102</b>
Paid-in capital	<b>26-a</b>	172,237,030,102	172,237,030,102	172,237,030,102
<b>Equity adjustments - Other comprehensive income</b>		<b>79,942,863,824</b>	<b>93,316,808,915</b>	<b>92,783,692,291</b>
<b>Reserves</b>	<b>26-b</b>	<b>387,743,877,491</b>	<b>364,737,238,098</b>	<b>364,564,592,548</b>
Prior-period retained earnings		32,601,685,299	40,386,334,461	40,217,214,267
Income for the period		18,346,934,830	19,152,075,605	10,122,592,801
<b>Capital contributions or special funds</b>	<b>26-c</b>	<b>44,436,595,670</b>	<b>41,687,504,022</b>	<b>41,687,504,022</b>
<b>TOTAL EQUITY</b>		<b>735,308,987,216</b>	<b>731,516,991,203</b>	<b>721,612,626,031</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>8,219,270,562,884</b>	<b>8,025,319,750,178</b>	<b>7,563,432,674,314</b>
<b>DEBIT MEMORANDA ACCOUNTS</b>	<b>27</b>	<b>555,447,927,778</b>	<b>499,244,466,091</b>	<b>493,227,000,109</b>
<b>TRUST ASSETS</b>	<b>28</b>	<b>3,273,453,210,442</b>	<b>2,996,260,410,061</b>	<b>2,737,516,887,348</b>
<b>TRUST LIABILITIES</b>		<b>99,650,114,833</b>	<b>125,312,125,616</b>	<b>134,787,099,932</b>
<b>TRUST EQUITY</b>		<b>3,173,803,095,609</b>	<b>2,870,948,284,445</b>	<b>2,602,729,787,416</b>
<b>TRUST MEMORANDA ACCOUNTS</b>		<b>236,075,584,264</b>	<b>213,915,088,460</b>	<b>175,495,090,224</b>
<b>OTHER DEBIT MEMORANDA ACCOUNTS</b>	<b>29</b>	<b>41,888,443,104,664</b>	<b>31,077,261,703,346</b>	<b>28,846,536,865,482</b>
Own debit memoranda accounts		19,224,266,524,746	9,181,234,407,438	8,248,528,519,304
Third-party debit memoranda accounts		5,034,420,953,368	4,897,730,289,330	4,443,284,751,516
Own debit memoranda accounts for custodial activities		606,857,816,851	672,053,399,643	671,041,564,829
Third-party debit memoranda accounts for custodial activities		17,022,897,809,699	16,326,243,606,935	15,483,682,029,833

Bernardo Alfaro Araya  
General Manager

Alejandra Morales Centeno  
General Accountant  
CPI 21119

Ricardo Araya Jiménez  
General Auditor

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Céd. 4000001021

Banco Nacional de Costa Rica

Atención: SUGEF

Registro Profesional: 21119

Contador: MORALES CENTENO  
ALEJANDRA

Estado de Situación Financiera

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE SIX MONTHS AND THREE MONTHS ENDED JUNE 30, 2022 AND 2021  
(In colones)

	Note	For the six months ended June 30,		For the three months ended June 30,	
		2022	2021	2022	2021
<b>Finance income</b>					
Cash and due from banks	33	950,955,838	586,991,455	636,238,527	383,831,048
Investments in financial instruments	33	24,529,891,238	31,507,187,880	12,074,599,166	15,749,544,459
Loan portfolio	34	182,573,377,793	178,973,340,090	94,121,808,607	89,274,952,938
Gain on foreign exchange differences and DU, net	6-d	245,976,968	-	84,398,746	-
Gain on financial instruments at fair value through profit or loss		93,676,533	117,486,860	43,593,046	67,346,788
Gain on financial instruments at fair value through other comprehensive income		2,533,532,241	7,854,468,769	345,628,258	4,065,483,255
Other finance income	35	9,691,827,027	4,894,745,397	3,332,255,979	1,757,990,262
<b>Total finance income</b>		<b>220,619,237,638</b>	<b>223,934,220,451</b>	<b>110,638,522,329</b>	<b>111,299,148,750</b>
<b>Finance costs</b>					
Obligations with the public	36	48,714,617,214	64,179,156,832	24,600,099,544	31,118,305,044
Obligations with BCCR		720,925,181	273,541,319	384,219,197	222,543,955
Obligations with financial and non-financial entities	37	16,012,451,368	18,922,312,164	7,931,577,032	8,352,858,657
Subordinated, convertible and preferred obligations		2,507,726,170	1,516,107,481	1,388,783,144	709,323,959
Loss on foreign exchange differences and DU, net	6-d	-	12,620,179	-	2,111,412
Loss on financial instruments at fair value through profit or loss		106,322,666	2,186,351	84,018,476	1,121,914
Loss on financial instruments at fair value through other comprehensive income		1,809,156,514	75,148,690	1,183,631,094	53,512,942
Loss on derivative financial instruments, net	11	5,527,713,477	112,073,485	1,244,513,152	(535,412,746)
Other finance costs	38	6,075,897,409	1,248,650,876	5,816,406,508	806,013,053
<b>Total finance costs</b>		<b>81,474,809,999</b>	<b>86,341,797,377</b>	<b>42,633,248,147</b>	<b>40,730,378,190</b>
Allowance for impairment of assets	39	32,310,958,041	47,176,624,179	10,676,278,041	28,545,783,581
Recovery of assets and decrease in allowances	40	13,939,715,914	6,827,661,582	7,056,628,554	2,511,174,651
<b>FINANCE INCOME</b>		<b>120,773,185,512</b>	<b>97,243,460,477</b>	<b>64,385,624,695</b>	<b>44,534,161,630</b>
<b>Other operating income</b>					
Service fees and commissions	41	82,707,400,921	71,434,606,445	40,174,189,675	35,454,002,994
Assets held for sale		2,665,739,093	6,459,895,242	898,528,933	5,617,110,427
Gain on investments in other companies	8	948,731,778	459,036,012	595,697,658	274,345,260
Foreign currency exchange and arbitrage		13,777,429,486	10,682,634,554	7,028,683,124	5,465,839,766
Other income from related parties		-	2,063,325	-	-
Other operating income	42	4,029,451,246	3,674,465,119	2,679,621,316	1,439,676,784
<b>Total other operating income</b>		<b>104,128,752,524</b>	<b>92,712,700,697</b>	<b>51,376,720,706</b>	<b>48,250,975,231</b>

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

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**BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE SIX MONTHS AND THREE MONTHS ENDED JUNE 30, 2022 AND 2021**  
(In colones)

	Note	For the six months ended June 30,		For the three months ended June 30,	
		2022	2021	2022	2021
<b>Other operating expenses</b>					
Service fees and commissions		20,657,261,760	16,832,352,576	9,727,752,762	8,574,372,204
Assets held for sale	43	9,730,923,221	6,254,099,891	5,003,441,792	4,035,761,315
Provisions	44	2,650,047,918	3,304,388,248	1,545,301,684	1,836,399,197
Bonuses on fees and commissions of voluntary pension funds		119,252,212	264,514,049	27,331,749	159,828,840
Foreign currency exchange and arbitrage		7,896,287	627,493	4,621,393	626,053
Other expenses with related parties		12,050,702	8,117,046	6,668,176	4,345,162
Other operating expenses	45	30,535,706,049	26,533,986,083	15,479,797,642	12,768,184,332
<b>Total other operating expenses</b>		<b>63,713,138,149</b>	<b>53,198,085,386</b>	<b>31,794,915,198</b>	<b>27,379,517,103</b>
<b>GROSS OPERATING INCOME</b>		<b>161,188,799,887</b>	<b>136,758,075,788</b>	<b>83,967,430,203</b>	<b>65,405,619,758</b>
<b>Administrative expenses</b>					
Personnel expenses	46	72,656,865,608	68,239,259,088	37,421,472,032	34,169,331,719
Other administrative expenses	47	37,622,895,056	34,029,857,135	20,807,069,557	17,210,949,748
<b>Total administrative expenses</b>		<b>110,279,760,664</b>	<b>102,269,116,223</b>	<b>58,228,541,589</b>	<b>51,380,281,467</b>
<b>NET OPERATING INCOME BEFORE TAXES AND STATUTORY ALLOCATIONS</b>		<b>50,909,039,223</b>	<b>34,488,959,565</b>	<b>25,738,888,614</b>	<b>14,025,338,291</b>
Current tax	21-a	14,594,805,547	9,756,822,191	7,225,892,966	3,910,064,746
Prior period income tax	21-a	7,094,618,966	7,094,618,966	3,547,309,483	3,547,309,483
Deferred tax	21-a	333,630,335	838,964,344	51,458,463	420,088,748
Deferred tax income	21-a	1,036,989,744	917,980,113	467,585,352	433,909,912
Statutory allocations	48	11,576,039,289	7,593,941,376	5,763,262,109	3,058,561,855
<b>INCOME FOR THE PERIOD</b>		<b>18,346,934,830</b>	<b>10,122,592,801</b>	<b>9,618,550,945</b>	<b>3,523,223,371</b>
<b>OTHER COMPREHENSIVE INCOME, NET OF TAX</b>					
<b>Items that will not be reclassified to profit or loss</b>					
Surplus from revaluation of property		(61,042,247)	97,026,389	(116,035,384)	48,784,540
Other adjustments		3,178,332,609	1,869,728,507	2,344,724,207	1,671,819,323
<b>Items that are or may be reclassified to profit or loss</b>					
Adjustment for valuation of investments at fair value through other comprehensive income		(17,672,229,180)	3,246,189,838	(8,793,974,234)	2,496,777,897
Adjustment for valuation of restricted financial instruments		-	(2,869,322)	-	(512)
<b>OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX</b>		<b>(14,554,938,818)</b>	<b>5,210,075,412</b>	<b>(6,565,285,411)</b>	<b>4,217,381,248</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>3,791,996,012</b>	<b>15,332,668,213</b>	<b>3,053,265,534</b>	<b>7,740,604,619</b>

Bernardo Alfaro Araya  
General Manager

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Contador: MORALES CENTENO

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF CHANGES IN NET EQUITY  
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
<b>Balance at December 31, 2020</b>	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
<b>Balance at January 1, 2021</b>	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	-
Capital contributions in 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	-
<b>Comprehensive income for the period:</b>						
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	-
<b>Total comprehensive income for the period</b>	-	4,886,654,113	-	-	10,446,014,100	15,332,668,213
<b>Balance at June 30, 2021</b>	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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TIMBRE 300.0 COLONES



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**BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CHANGES IN NET EQUITY**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2022**  
(In colones)

		Equity adjustments - Other comprehensive income	Reserves	Capital contributions in special funds	Prior-period retained earnings	Total	
	Note	Share capital					
Balance at December 31, 2021		172,237,030,102	93,316,808,915	364,737,238,098	41,687,504,022	59,538,410,067	731,516,991,204
Transactions with owners booked directly in equity:							
Legal reserves		-	-	23,116,024,251	-	(23,116,024,251)	-
Other statutory reserves		-	-	(109,384,858)	-	109,384,858	-
Capital contributions in special funds		-	-	-	2,749,091,648	(2,749,091,648)	-
Total transactions with owners booked directly in equity		-	-	23,006,639,393	2,749,091,648	(25,755,731,041)	-
Comprehensive income for the period:							
Income for the period		-	-	-	-	18,346,934,830	18,346,934,830
Surplus from revaluation of property		-	(61,042,247)	-	-	-	(61,042,247)
Adjustment for valuation of investments at fair value through other comprehensive income	10	-	(17,672,229,180)	-	-	-	(17,672,229,180)
Other adjustments		-	3,178,332,609	-	-	-	3,178,332,609
Realization of surplus from revaluation of property		-	1,180,993,727	-	-	(1,180,993,727)	-
Total comprehensive income for the period		-	(13,373,945,091)	-	-	17,165,941,103	3,791,996,012
Balance at June 30, 2022	26	172,237,030,102	79,942,863,824	387,743,877,491	44,436,595,670	50,948,620,129	735,308,987,216

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.

Céd. 4000001021  
Banco Nacional de Costa Rica  
Atención: SUGEF  
Registro Profesional: 21119  
Contador: MORALES CENTENO  
ALEJANDRA  
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TIMBRE 300.0 COLONES

**BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2022 and 2022**  
(In colones)

	Note	June 2022	June 2021
<b>Cash flows from operating activities</b>			
Income for the period		18,346,934,830	10,122,592,801
<b>Items not requiring cash</b>			
Depreciation and amortization		11,186,651,790	10,724,899,117
Loss on foreign exchange differences and DU, net		59,891,139,682	3,098,955,327
Loss on sale of non-financial assets		3,417,010,828	4,028,675,439
Finance income		(207,103,269,031)	(210,480,527,970)
Finance costs		44,957,356,039	63,185,913,302
Allowance for investments, net		(542,545,817)	2,342,052,436
Allowance for loan losses (direct loans and stand-by credits), net		30,520,168,936	42,511,153,679
Allowance for other accounts receivable, net		688,575,330	137,733,847
Loss (gain) on allowance for assets held for sale, net		1,875,516,287	(5,223,425,245)
Severance provision, net		(20,187,570)	(6,910,774)
Other provisions		1,679,153,239	7,415,580,909
Share of profit of foreign associate, net		(948,731,785)	(459,036,012)
Statutory allocations, net		11,576,039,289	7,593,941,376
Income tax expense, net	21-a	21,689,424,513	16,851,441,157
Deferred tax, net	21-a	(703,359,409)	(79,015,769)
		<b>(3,490,122,849)</b>	<b>(48,235,976,380)</b>
<b>Cash flows from operating activities</b>			
Loan portfolio		(98,397,922,665)	55,735,396,344
Accounts and fees and commissions receivable		(11,623,457,850)	(2,649,297,061)
Assets held for sale		8,317,171,390	11,271,986,770
Other assets		10,445,768,582	26,596,221,770
Obligations with the public		(34,605,802,105)	69,552,278,295
Obligations with BCCR and other entities		14,267,036,664	(173,101,573,221)
Obligations for accounts payable, fees and commissions payable and provisions		18,224,534,880	(2,084,792,007)
Other liabilities		12,238,491,399	2,522,260,553
		<b>(81,134,179,705)</b>	<b>(12,157,518,557)</b>
Income tax paid		(23,993,762,069)	(21,259,920,846)
Interest received on loan portfolio and investments		212,055,189,405	207,495,873,826
Interest paid on term obligations with the public and financial entities		(47,138,378,593)	(69,995,469,407)
Statutory allocations paid		(14,965,512,391)	(12,320,255,489)
<b>Net cash from operating activities</b>		<b>41,333,233,798</b>	<b>43,526,733,147</b>
<b>Cash flows from investing activities</b>			
Increase in financial instruments		(693,331,313,916)	(733,041,144,085)
Decrease in financial instruments		725,697,632,354	504,776,815,000
Acquisition of property and equipment		(18,471,277,991)	(15,496,897,735)
Sale of property and equipment		69,952,200	603,538,339
Acquisition of intangible assets		(1,080,122,460)	(1,131,838,421)
<b>Net cash from (used in) investing activities</b>		<b>12,884,870,187</b>	<b>(244,289,526,902)</b>
<b>Cash flows from financing activities</b>			
Settlement of financial obligations		(4,507,106,253)	(21,874,894,493)
New financial obligations		-	192,985,000,000
Payment of lease liabilities		(1,083,775,741)	(923,419,037)
<b>Net cash used in (from) financing activities</b>		<b>(5,590,881,994)</b>	<b>170,186,686,470</b>
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>48,627,221,991</b>	<b>(30,576,107,285)</b>
<b>Cash and cash equivalents at beginning of period</b>		<b>1,611,376,144,164</b>	<b>1,483,188,630,362</b>
<b>Cash and cash equivalents at end of period</b>	9	<b>1,660,003,366,155</b>	<b>1,452,612,523,077</b>

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

Céd. 4000001021

Banco Nacional de Costa Rica

Atención: SUGEF

Registro Profesional: 21119

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## 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 most digitalized, leading financial conglomerate in Costa Rica by offering the best customer experience, obtaining sufficient profitability levels to grow and support the country's development, and ensuring excellent organizational health.

As of June 30, 2022, the Bank has 156 offices, 465 ATMs and along with its subsidiaries a total of 5,625 employees (2021: 156 offices, 464 ATMs and along with its subsidiaries a total of 5,519 employees). Employees are distributed as follows: Banco Nacional de Costa Rica – 5,162 employees (2021: 5,058); BN Valores Puesto de Bolsa, S.A. - 71 employees (2021: 72); BN Vital Operadora de Planes de Pensiones Complementarias, S.A. - 197 employees (2021: 199); BN Sociedad Administradora de Fondos de Inversión, S.A. - 90 employees (2021: 90); and BN Sociedad Corredora de Seguros, S.A. - 105 employees (2021: 100). The Bank's website is [www.bncr.fi.cr](http://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, street 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 2022					
	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.	BICSA
Assets	¢ 48,277,722,996	11,999,053,762	15,054,901,058	6,037,469,102	611,008,560,157
Liabilities	33,574,567,572	1,376,115,182	3,311,909,302	1,373,243,336	527,857,848,692
Equity	14,703,155,424	10,622,938,580	11,742,991,756	4,664,225,766	83,150,711,465
Income for the period	403,272,609	1,493,564,277	1,048,277,229	1,823,624,001	943,761,886
Memoranda accounts	1,132,116,674,091	756,878,843,022	2,274,468,067,876	-	-

December 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.	BICSA
Assets	¢ 39,254,438,467	12,914,187,525	16,214,635,072	6,863,970,667	569,124,143,476
Liabilities	22,096,638,301	1,389,352,389	3,226,920,461	847,368,902	492,363,082,655
Equity	17,157,800,166	11,524,835,136	12,987,714,611	6,016,601,765	76,761,060,821
Income for the period	2,747,706,893	3,279,222,899	1,833,170,370	3,614,043,094	1,167,991,445
Memoranda accounts	981,903,518,963	772,762,829,391	2,299,915,233,156	-	-

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.	BICSA
Assets	¢ 37,039,170,262	14,251,058,521	11,322,779,799	8,482,437,092	523,905,249,699
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	-	-

(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 assets held 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 (c) (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) (ii) – Lease term: Whether the Conglomerate is reasonably certain that it will exercise extension options.
- Note 5 (c) (iii) – 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 years ended June 30, 2022, 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.

(Continued)

## 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 the 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 on which 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, 2022, the Bank has 49% ownership 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.

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## 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 exchange gains and 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, 2022, assets and liabilities in US dollars are valued at the exchange rate of ¢692.25 to US\$1.00 (December and June 2021: ¢645.25 and ¢621.92 to US\$1.00, respectively), 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, 2022, assets and liabilities denominated in euro are valued at the exchange rate of ¢721.46 to €1.00 (2021: ¢732.17 and ¢738.28 to €1.00), which is obtained by multiplying the international Reuters 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, 2022, assets and liabilities denominated in Development Units (DU) were valued at the exchange rate of ¢1,003.01 to DU1.00 (2021: ¢948.36 and ¢927.05 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 its 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

#### *Assessment of whether contractual cash flows are solely payments of principal and interest (SPPI)*

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;
- terms that limit the Conglomerate's claim to cash flows from specified assets (e.g. non-recourse loans); and
- 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 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 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 (amortized cost and OCI)
- 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 it 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.

(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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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.

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.

(Continued)



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(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.

LIBOR will cease to be published in 2021; however, the 3-month and 6-month settings will continue to be published until 2023. Therefore, information will still be reflected with the LIBOR rate until new rates are negotiated for contracts effective as of that date.

✓ 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 Conglomerate 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.

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.

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

The Conglomerate 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*, which was approved by CONASSIF on November 24, 2005, was published in Official Gazette No. 238 dated December 9, 2005 and is effective from October 9, 2006. 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, 2022, 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.

(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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(o) Assets held for sale

Assets held for sale 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 assets held for sale).

Assets held for sale 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 assets held for sale 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 assets held for sale, reports should be prepared by the appraisers who performed the appraisals, and those reports must be updated at least annually.

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

From May 7, 2020, through notes No. 1573-09 and No. 1574-10, 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 assets held for sale 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 assets held for sale 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 date of 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 year.

*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.

(Continued)

## 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 2022, there is an arbitration process underway, which prevents the payment of the incentive for the 2020 and 2021 periods.

(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 Bank's net obligation related to defined benefit plans is calculated separately for each plan, calculating the amount of the future benefit that employees have earned in exchange for their services in the current and previous periods, discounting that amount and deducting the fair value of plan assets, if any.

The calculation of the defined benefit obligation is made annually by a qualified actuary using the projected unit credit method. When the calculation results in a possible asset for the Bank, the recognized asset is limited to the present value of the economic benefits available in the form of future reimbursements of the plan or reductions in future contributions to the plan. To calculate the present value of the economic benefits, any minimum financing requirement must be considered.

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

Remeasurements of the net defined benefit liability, which includes actuarial gains and losses, 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) for 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 benefit liability (asset), net defined benefits, considering any change in the liability (asset) for net defined benefits during the period as a result of contributions and benefit payments. The net interest expense and other expenses related to the defined benefit plans are recognized within the expenses for employees in results.

When a change or reduction in plan benefits occurs, the resulting change in benefit that relates to past service or the gain or loss on the reduction is immediately recognized in income. The Conglomerate recognizes gains and losses on the liquidation of a defined benefit plan when it 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.

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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 Conglomerate does not have to make any payments.

(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 6.00% (June 2021: 5.75%) 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.

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

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.

(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 assets held for sale	Agreement No. 003-2009
Statutory dynamic provision	Agreement No. 004-2013
	Agreement No. 007-2000 and
Country risk reserve	Agreement No. 001-2001

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(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 period 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 years.

*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.

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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.

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.

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

(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.

The Bank took extraordinary measures to help its customers and give flexibility with payments to borrowers affected by the economic crisis caused by the pandemic. The solutions offered included COVID-19 restructuring, which allowed the customer to suspend the payment for a specific number of installments, which were then restructured as follows:

- (1) The principal of the unpaid installments is prorated among the remaining installments of the payment plan, to be paid within the remaining term of the operation.
- (2) Interest corresponding to the restructured installments shall be payable at the end of the term of the operation, or it can be settled previously by the customer if they wish to do so.

These measures were adopted considering the cycle of economic activities, some of them exceed six months, which entailed the accrual of interest for more than 180 days.

Regarding accrual on the loan portfolio over 180 days, official letter CNS-1698/08 indicates that an allowance must be created with cutoff date as of October 2021. Of the balance booked in accrued interest receivable on the loan portfolio, the Bank must record ¢34,868 million, corresponding to accrued interest over 180 days. Allowances in the amount of ¢3,000 million have already been booked; therefore, the base balance to be recorded in the allowance plan is ¢31,868 million. The allowance plan must be carried out during the next 48 months, with bi-annual cutoffs. However, the balance must be updated at the beginning of each semester, considering the payments made, refinancing, default and other effects.

(Continued)



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

<u>Semester</u>	<u>Minimum allowance percentage of the balance of accrued interest receivable over 180 days</u>	<u>Minimum allowance required</u>
2022-06	9%	-
2022-12	18%	5,054
2023-06	30%	8,424
2023-12	42%	11,794
2024-06	56%	15,725
2024-12	70%	19,656
2025-06	85%	23,868
2025-12	100%	28,080

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.

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 year'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.

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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.

(aa) Development Financing Fund (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.

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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, renewable for equal periods. 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.

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.

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

- 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 Conglomerate'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.

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.

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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.
- The Bank has performed and reviewed the administrative loan follow-up procedures for branches and regional offices.
- The Bank is performing a comprehensive assessment of the credit granting process and the procedures performed in offices, shared service centers, commercial areas and corporate center.
- 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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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.

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

	Direct loans		Stand-by credits	
	June 2022	June 2021	June 2022	June 2021
<i>Loan portfolio</i>				
Principal	¢ 4,703,934,999,287	4,260,727,349,837	387,438,425,935	336,761,426,722
Accounts and accrued interest receivable	107,376,950,583	124,573,963,478	-	-
Gross carrying amount	4,811,311,949,870	4,385,301,313,315	387,438,425,935	336,761,426,722
Incremental direct costs related to loans	4,853,317,522	3,589,157,504	-	-
Deferred income from loan portfolio	(38,653,020,286)	(32,964,070,406)	-	-
Allowance for loan losses (accounting records)	(155,646,870,850)	(154,270,986,047)	(1,284,816,102)	(841,686,759)
Net carrying amount	¢ <u>4,621,865,376,256</u>	<u>4,201,655,414,366</u>	<u>386,153,609,833</u>	<u>335,919,739,963</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		Direct loans		Stand-by credits	
		June 2022	June 2021	June 2022	June 2021
Loan portfolio					
Total balances:					
0	¢	38,164,759,167	39,155,875,240	-	-
A1		3,678,039,949,259	3,352,547,961,118	355,915,459,620	327,819,066,694
A2		67,277,832,604	70,212,782,123	1,694,111,405	1,233,660,025
B1		496,926,406,932	404,352,232,690	25,296,218,774	3,435,273,399
B2		11,940,248,509	10,972,539,157	111,214,241	79,483,257
C1		166,924,647,235	122,910,402,601	1,773,252,553	1,118,356,543
C2		21,508,587,109	11,637,267,470	153,135,102	42,039,801
D		141,163,972,268	153,035,777,209	999,456,569	1,569,520,960
E		189,365,546,787	220,476,475,707	1,495,577,671	1,464,026,043
		<u>4,811,311,949,870</u>	<u>4,385,301,313,315</u>	<u>387,438,425,935</u>	<u>336,761,426,722</u>
Structural allowance (subledger – database)		<u>(106,436,291,083)</u>	<u>(110,993,480,417)</u>	<u>(112,428,737)</u>	<u>(169,491,233)</u>
Net carrying amount	¢	<u>4,704,875,658,787</u>	<u>4,274,307,832,898</u>	<u>387,325,997,198</u>	<u>336,591,935,489</u>
Individually assessed loans with allowance:					
0	¢	37,761,415,987	39,155,874,866	-	327,819,065,888
A1		3,676,629,618,035	3,352,547,961,118	23,482,681,957	1,233,660,025
A2		67,277,832,604	70,212,782,123	28,530,000	3,435,273,399
B1		496,920,406,932	404,352,232,690	17,121,984,557	79,483,257
B2		11,940,248,509	10,972,539,157	11,248,480	1,118,356,543
C1		166,924,647,235	122,910,402,601	2,500,000	42,040,574
C2		21,508,587,109	11,637,267,470	2,736,853	1,569,520,960
D		141,160,439,933	153,035,777,209	97,549,415	1,464,026,077
E		189,365,546,787	220,476,475,081	43,679,022	327,819,065,888
		<u>4,809,488,743,131</u>	<u>4,385,301,313,315</u>	<u>40,790,910,284</u>	<u>336,761,426,722</u>
Structural allowance (subledger – database)		<u>(106,436,291,083)</u>	<u>(110,993,480,417)</u>	<u>(112,428,737)</u>	<u>(169,491,233)</u>
Net carrying amount	¢	<u>4,703,052,452,048</u>	<u>4,274,307,832,898</u>	<u>40,678,481,547</u>	<u>336,591,935,489</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	Direct loans		Stand-by credits	
	June 2022	June 2021	June 2022	June 2021
Current loan portfolio, without allowance:				
0	403,343,181	-	-	-
A1	1,410,331,224	-	332,432,777,662	-
A2	-	-	1,665,581,405	-
B1	6,000,000	-	8,174,234,217	-
B2	-	-	99,965,761	-
C1	-	-	1,770,752,553	-
C2	-	-	150,398,249	-
D	3,532,334	-	901,907,155	-
E	-	-	1,451,898,649	-
Carrying amount	1,823,206,739	-	346,647,515,651	-
Gross carrying amount	¢ 4,811,311,949,870	4,385,301,313,315	387,438,425,935	336,761,426,722
Allowance for loan losses (database)	(106,436,291,083)	(110,993,480,043)	(112,428,737)	(169,491,267)
Excess of allowance over structural allowance	(49,210,579,767)	(43,277,506,004)	(1,172,387,365)	(672,195,492)
Incremental direct costs related to loans	4,853,317,522	3,589,157,504	-	-
Deferred income from loan portfolio	(38,653,020,286)	(32,964,070,406)	-	-
Net carrying amount	¢ 4,621,865,376,256	4,201,655,414,366	386,153,609,833	335,919,739,963
Restructured loans	¢ 47,744,284,059	32,160,443,475	-	-

(Continued)



# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

Set out below is an analysis of the Bank's loan portfolio balances as of June 30, gross and net of the allowance for loan losses, by risk rating according to SUGEF Directive 1-05 and SUGEF Directive 15-16 *Regulations on credit risk management and evaluation for the Development Banking System*:

		June 2022	
		Loans to customers	
		Gross	Net
0	¢	38,164,759,167	37,274,234,346
A1		3,678,039,949,259	3,657,051,255,864
A2		67,277,832,604	66,928,819,719
B1		496,926,406,932	491,242,363,142
B2		11,940,248,509	11,715,782,991
C1		166,924,647,235	160,489,989,527
C2		21,508,587,109	19,816,123,691
D		141,163,972,268	125,803,034,579
E		189,365,546,787	134,554,054,928
	¢	4,811,311,949,870	4,704,875,658,787

		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

As shown above, as of June 30, 2022, the gross portfolio amounts to ¢4.811 billion. Of that amount, 89.21% is classified in risk ratings "A+B" and 10.79% in risk ratings "C+D+E" (2021: ¢4.385 billion, of which 88.41% is classified in risk ratings "A+B" and 11.59% 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.

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### 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:

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, and Group 2, borrowers whose total outstanding balance is less than ¢100 million.

(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

The loan portfolio by borrower classification is as follows:

Borrower classification	Direct loans		Stand-by credits	
	June 2022	June 2021	June 2022	June 2021
Group 1	¢ 2,608,265,862,377	2,300,948,033,626	51,077,641,769	46,728,722,412
Group 2	2,203,046,087,493	2,084,353,279,689	336,360,784,166	290,032,704,310
	¢ 4,811,311,949,870	4,385,301,313,315	387,438,425,935	336,761,426,722

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

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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:

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

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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.

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.

(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

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>
Current	5%	0.50%	Level 1	Level 1
30 days or less	10%	0.50%	Level 1	Level 1
60 days or less	25%	0.50%	Level 1 or Level 2	Level 1 or Level 2
90 days or less	50%	0.50%	Level 1, Level 2, Level 3, or Level 4	Level 1, Level 2, Level 3, or Level 4
More than 90 days	100%	0.50%	Level 1, Level 2, Level 3, or Level 4	Level 1, Level 2, Level 3, or Level 4

Once Article 12 of these Regulations enters into effect and until December 31, 2022, the balance of the allowances recorded for borrowers in risk rating E whose historical payment behavior is classified in level 3 cannot be decreased due to this amendment. Decreased amounts may only be reassigned to increases in specific allowances for borrowers reclassified to risk ratings C1, C2, D and E, in conformity with Articles 10 and 11 of SUGEF Directive 1-05.

(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 2022</u>		
	<u>Allowance booked</u>	<u>Structural allowance</u>	<u>Excess of allowance</u>
Allowance for direct loans	¢ 151,361,715,104	(106,436,291,083)	44,925,424,021
Allowance for stand-by credits	1,284,816,102	(112,428,737)	1,172,387,365
CNS 1698 allowance plan	3,000,000,000	(3,000,000,000)	-
	155,646,531,206	(109,548,719,820)	46,097,811,386
Counter-cyclical allowance (per SUGEF Directive 19-16)	339,644	(339,644)	-
	¢ 155,646,870,850	(109,549,059,464)	46,097,811,386

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	June 2021		
	Allowance booked	Structural allowance	Excess of allowance
Allowance for direct loans	¢ 153,429,299,288	(110,993,480,417)	42,435,819,254
Allowance for stand-by credits	841,686,759	(169,491,233)	672,195,492
	154,270,986,047	(111,162,971,650)	43,108,014,746
Counter-cyclical allowance (per SUGEF Directive 19-16)	339,644	(339,295)	-
	¢ 154,271,325,691	(111,163,310,945)	43,108,014,746

*Counter-cyclical allowance*

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 No. 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%.

Through Agreement No. CNS 1617-2020 dated November 2, 2020, SUGEF suspended the application of the counter-cyclical regulation until December 31, 2021.

Moreover, according to Agreement No. CNS 1697-09 dated November 4, 2021, from January 1, 2022 to December 31, 2022, the accrual of counter-cyclical allowances was suspended and the balance accumulated in counter-cyclical allowances may only be reclassified to increases in specific allowances for borrowers reclassified to risk ratings 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.

(Continued)



# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

The amount of the portfolio impaired due to high risk is as follows:

Period		Principal	Estimate	Number of operations	Number of customers
December 2021	¢	192,868,048,902	48,171,191,799	11,149	6,209
March 2022	¢	176,840,758,479	51,255,222,310	9,018	6,083
June 2022	¢	199,354,902,788	61,468,095,782	11,299	7,756

On November 4, 2021, through transition provision III of CNS 1697-09, CONASSIF extended the suspension until December 31, 2022, as follows:

- i. Extend the application of these regulatory measures until December 31, 2022:
- ii. Transition Provision III, which suspended the accrual of counter-cyclical allowances and accepted that the balance accumulated in counter-cyclical allowances may be reclassified to increases in specific allowances for borrowers reclassified to risk ratings 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.”

### 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:

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

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

As of June 30, 2022, the carrying amount of the allowance for impairment of assets held for sale and per legal requirements amounts to ¢60,770,994,676 (2021: ¢61,311,087,842).

(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

The concentration of the loan portfolio by sector is as follows:

Sector		Direct loans		Stand-by credits	
		June 2022	June 2021	June 2022	June 2021
Trade	¢	355,156,781,373	360,022,050,658	-	3,194,602
Services		1,120,928,235,495	898,460,478,200	52,183,576,229	51,674,610,636
Financial services		82,511,823,332	76,046,061,249	-	-
Mining		435,734,690	690,970,355	-	-
Manufacturing and quarrying		180,758,956,274	154,014,317,520	-	-
Construction		82,781,027,736	96,034,310,135	-	-
Agriculture and forestry		115,600,032,915	114,856,443,810	-	-
Livestock, hunting and fishing		74,229,210,795	75,967,622,591	-	-
Electricity, water, sanitation and other related sectors		447,074,998,714	468,847,934,921	-	-
Transportation and telecommunications		45,816,378,011	47,351,393,181	-	-
Housing		1,455,045,592,720	1,353,086,013,343	-	2,787,854
Personal or consumer		536,942,699,906	520,304,828,919	335,130,016,358	284,954,134,728
Tourism		314,030,477,909	219,618,888,433	124,833,348	126,698,902
	¢	<u>4,811,311,949,870</u>	<u>4,385,301,313,315</u>	<u>387,438,425,935</u>	<u>336,761,426,722</u>

The concentration of financial assets by geographic location is as follows:

		Direct loans		Stand-by credits	
		June 2022	June 2021	June 2022	June 2021
Central America	¢	<u>4,811,311,949,870</u>	<u>4,385,301,313,315</u>	<u>387,438,425,935</u>	<u>336,761,426,722</u>

The loan portfolio by type of guarantee is as follows:

Type of guarantee		Direct loans		Stand-by credits	
		June 2022	June 2021	June 2022	June 2021
Back-to-back	¢	45,656,278,689	13,844,084,197	50,655,756	499,022
Mortgage bond		68,162,628	81,679,387	-	-
Assignment of loans		359,062,740,052	340,349,652,440	-	-
Mortgage		1,749,749,159,998	1,744,582,790,055	97,761,748	103,157,032
Surety		887,558,033,430	884,735,195,590	16,446,341,259	1,865,587
Trust		558,331,349,301	406,172,164,047	34,612,500	-
Securities		31,287,709,099	31,583,706,279	-	-
Chattel mortgage		225,694,564,654	223,361,878,574	-	-
Other		953,903,952,019	740,590,162,746	370,809,054,672	336,655,905,081
	¢	<u>4,811,311,949,870</u>	<u>4,385,301,313,315</u>	<u>387,438,425,935</u>	<u>336,761,426,722</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, 2022, 71.46% of the loan portfolio is secured by collateral guarantees (2021: 63.11%).

The concentration of the loan portfolio by individual borrower is as follows:

Loan portfolio concentration	Direct loans		Stand-by credits	
	June 2022	June 2021	June 2022	June 2021
¢1 to ¢3,000,000	¢ 136,260,429,056	136,264,289,403	95,809,667,053	90,620,874,443
¢3,000,001 to ¢15,000,000	545,404,014,757	555,557,821,803	228,920,291,880	190,639,362,060
¢15,000,001 to ¢30,000,000	456,542,165,407	448,302,251,504	13,891,747,437	8,542,216,688
¢30,000,001 to ¢50,000,000	487,927,128,768	477,046,611,902	3,953,511,427	3,167,686,090
¢50,000,001 to ¢75,000,000	473,756,016,266	433,283,627,536	2,551,407,100	2,489,350,377
¢75,000,001 to ¢100,000,000	257,002,941,740	211,557,529,857	1,007,929,405	608,616,083
¢100,000,001 to ¢200,000,000	250,099,408,913	240,814,836,655	3,550,550,693	2,082,249,031
More than ¢200,000,000	2,204,319,844,963	1,882,474,344,655	37,753,320,940	38,611,071,950
	¢ 4,811,311,949,870	4,385,301,313,315	387,438,425,935	336,761,426,722

As of June 30, 2022, the portion of the loan portfolio (direct and stand-by loans) corresponding to economic interest groups amounts to ¢666,256,132,015, equivalent to 13.85% of the loan portfolio (2021: ¢605,188,336,401, equivalent to 14.20% of the loan portfolio).

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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).

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.

The Bank's loan portfolio is composed of operations in various currencies, i.e. the Costa Rican colon, the US dollar and DU. Therefore, the consolidated expected loss (EL) analysis is applied by currency. Also, the methodological change of the VaR is made, aligned to the EL methodology according to the segments defined in the Bottom Up Stress Test (BUST), which is calculated in a consolidated manner and by segment, according to the BUST classification.

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, roll rates, write-off ratio and sensitivity analyses for new loans and/or follow-up. Accordingly, the Bank has developed specialized internal methodologies to model credit risk that quantify risk indicators and potential impacts on institutional development.

The year-on-year decrease observed in the EL of the entire loan portfolio (from 3.04% in June to 2.71% in June 2022) is mainly explained by a reduction in the arrears indicators. Arrears more than 90 days decreased from 3.94% in June 2021 to 2.93% in June 2022.

Compared to the results from June 2021, most economic activities showed decreases in the EL of the loan portfolio at the June 2022 close (except for livestock, industry, and financial services). The activities with a greater decrease are mining and trade.

For the result of the VaR of the loan portfolio, a year-on-year decrease from 8.21% to 7.56% was booked, which is an expected behavior given the EL evolution and the decrease in arrears indicators.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

Credit risk is considered to be minimal since the Investment Fund Manager's portfolio is 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 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 profit or loss.

(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

An allowance for ECL is booked for the managed portfolio, as follows:

Portfolio		June 2022	June 2021
Investments in financial instruments at FVOCI	¢	71,319,431	20,185,802

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

Credit risk is the risk of potential losses resulting from an issuer's failure to pay or from deterioration in the credit rating of the security or issuer.

To manage credit risk, the Brokerage Firm has identified risk factors, i.e. variables for which changes could affect the equity of the Brokerage Firm.

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

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

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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 2.75 years.

The Brokerage Firm's financial instruments are concentrated as follows:

For the June 2022 close, the accounting records showed investments in colones, investments in instruments issued by local issuers in US dollars (\$CR) and investments issued by foreign issuers in US dollars (\$USA). The Brokerage Firm holds no investments in DU. By currency, the largest portion continues to be concentrated in the portfolio in colones with 89.47% and 10.53% in US dollars.

With respect to the consolidated portfolio, investments in instruments issued by the Government of Costa Rica correspond to 88.27%; BCCR 1.17% and BNCR 0.03%. The sum of these issuers represents 89.47% of the consolidated portfolio in colones. The portfolio in US dollars is represented by SDHA issues 6.00%, IHYA 4.27% and BNSFI 0.27%, for a total of 10.53%.

(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

An allowance for ECL was booked for the managed portfolio, as follows:

Allowance for expected credit losses		
Portfolio	June 2022	June 2021
Investments measured at FVOCI	¢ 19,612,257	173,569,660
Amortized cost	238,909,978	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.

### Credit risk management

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.

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 profit or loss.

(Continued)



# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

An allowance for ECL was booked for the managed portfolio, as follows:

Allowance for expected credit losses		
Fund	June 2022	June 2021
Investments measured at FVOCI	¢ 108,473,623	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.

### Credit risk management

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.
- 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.

An allowance for ECL was booked for the managed portfolio, as follows:

Portfolio	June 2022	June 2021
Amortized cost	¢ 10,999,762	15,218,943

(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

### 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 Conglomerate's investments.

The Conglomerate 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.

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.

The classification of instruments by model is as follows:

		June 2022		
Month		Model 1	Model 2	Total estimated
		Amortized cost	FVOCI	losses
January	¢	7,573,424,497	3,435,687,361	6,464,063,397
February	¢	7,499,112,619	3,386,947,129	6,347,020,433
March	¢	6,435,002,890	3,338,514,680	6,242,391,720
April	¢	6,347,031,538	3,257,783,936	6,082,794,667
May	¢	6,589,172,399	3,162,922,451	6,053,423,858
June	¢	6,447,019,259	3,057,752,055	6,000,064,916

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		June 2021		
Month		Model 1 Amortized cost	Model 2 FVOCI	Total estimated losses
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.

		June 2022	
		Stage 1	Total
Investments at amortized cost	¢	911,042,323,917	911,042,323,917
Allowance		(2,931,313,099)	(2,931,313,099)
	¢	<u>908,111,010,818</u>	<u>908,111,010,818</u>

		December 2021	
		Stage	Total
Investments at amortized cost	¢	917,505,890,841	917,505,890,841
Allowance		(2,801,506,974)	(2,801,506,974)
	¢	<u>914,704,383,867</u>	<u>914,704,383,867</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	June 2021	
	Stage 1	Total
Investments at amortized cost	¢ 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>

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.

	June 2022	
	Stage 1	Total
Investments at FVOCI	¢ 644,227,326,120	644,227,326,120
Allowance	(3,057,752,055)	(3,057,752,055)
	¢ <u>641,169,574,065</u>	<u>641,169,574,065</u>

	December 2021	
	Stage 1	Total
Investments at FVOCI	¢ 807,216,667,803	807,216,667,803
Allowance	(3,587,340,131)	(3,587,340,131)
	¢ <u>803,629,327,672</u>	<u>803,629,327,672</u>

	June 2021	
	Stage 1	Total
Investments at FVOCI	¢ 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>

(Continued)

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 profit or loss (FVTPL). Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

		June 2022	
		Stage 1	Total
Investments in financial instruments	¢	4,493,440,390	4,493,440,390
	¢	4,493,440,390	4,493,440,390
		December 2021	
		Stage 1	Total
Investments in financial instruments	¢	40,139,798,613	40,139,798,613
	¢	40,139,798,613	40,139,798,613
		June 2021	
		Stage 1	Total
Investments in financial instruments	¢	30,450,286,242	30,450,286,242
	¢	30,450,286,242	30,450,286,242

Expected losses by currency are as follows:

		June 2022	
		Absolute	Relative
Colones	¢	5,530,737,648	40.45%
US dollars		469,327,268	0.03%
	¢	6,000,064,916	40.40%
		December 2021	
		Absolute	Relative
Colones	¢	6,060,429,297	0.62%
US dollars		481,963,107	0.07%
	¢	6,542,392,404	0.40%

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		June 2021	
		Absolute	Relative
Colones	¢	5,681,787,255	0.51%
US dollars		358,479,039	0.23%
	¢	6,040,266,294	0.74%

Investments by geographic location are as follows:

		June 2022		
Country		Principal	Interest	Total
Costa Rica	¢	909,301,446,819	15,792,165,507	925,093,612,327
Panama		13,151,096,526	34,163,500	13,185,260,026
Rest of the Caribbean		444,843,332	6,246,982	451,090,314
United States		561,386,091,757	1,387,211,128	562,773,302,885
Canada		14,422,928,491	104,517,795	14,527,446,286
Venezuela		11,920,289,892	97,314,491	12,017,604,383
Europe		58,101,523,303	400,712,035	58,502,235,338
Asia		12,570,240,890	98,620,538	12,668,861,428
Australia		7,483,721,031	88,506,218	7,572,227,249
New Zealand		380,029,114	2,874,761	382,903,875
	¢	1,589,162,211,155	18,012,332,955	1,607,174,544,111

		December 2021		
Country		Principal	Interest	Total
Costa Rica	¢	1,154,985,043,482	17,570,340,520	1,172,555,384,003
Panama		4,516,750,000	8,224,247	4,524,974,247
United States		478,179,153,517	1,470,989,911	479,650,143,427
Canada		16,317,609,479	87,800,652	16,405,410,131
Venezuela		17,955,177,801	103,166,061	18,058,343,862
Europe		68,649,367,384	541,221,995	69,190,589,379
Asia		14,534,459,413	95,667,972	14,630,127,385
Australia		7,302,819,989	83,644,306	7,386,464,295
New Zealand		378,324,103	2,679,581	381,003,684
	¢	1,762,818,705,168	19,963,735,245	1,782,782,440,413

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Country		June 2021		
		Principal	Interest	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
	¢	<u>1,631,173,143,243</u>	<u>21,297,394,091</u>	<u>1,652,470,537,334</u>

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.

(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

Using Moody's international ratings as reference, the Conglomerate uses the following table to determine whether there has been a significant increase in credit risk:

Instrument rating at the time of purchase	Instrument rating when analyzing whether there has been a significant increase in credit risk
Aaa	A3
Aa1	A3
Aa2	Baa1
Aa3	Baa2
A1	Baa3
A2	Ba1
A3	Ba2
Baa1	Ba2
Baa2	Ba3
Baa3	B1
Ba1	B1
Ba2	B1
Ba3	B1
B1	B3
B2	B3
B3	B3

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 Conglomerate 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.

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.

(Continued)



## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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.

(Continued)

## 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.

(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

- 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
<i><u>Investments in financial instruments</u></i>		
Balance as of January 1, 2022	¢ 2,976,501,745	2,976,501,745
Update of allowance	70,182	70,182
Allowance for new investments	473,870,353	473,870,353
Decrease in allowance	(508,129,418)	(508,129,418)
Balance as of June 30, 2022	¢ 2,942,312,861	2,942,312,861

	Stage 1	Total
<i><u>Investments in financial instruments</u></i>		
Balance as of December 31, 2020	¢ 2,672,040,269	2,672,040,269
Update of allowance	1,786,369	1,786,369
Allowance for new investments	1,950,363,835	1,950,363,835
Decrease in allowance	(1,647,688,729)	(1,647,688,729)
Balance as of December 31, 2021	¢ 2,976,501,744	2,976,501,744

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

### b) Liquidity risk

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

(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

### 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 dollars.

Below is the LCR indicator as of the year ended June 2022 and 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 reached 177% as of June 2022, which is 20% lower when compared to the previous year; this is related to a 6.0% decrease in the stock of liquid assets (HQLA) (-¢68,500 million, especially investments in the Integrated Liquidity Market), combined with the increase in net cash outflows of 5.0% (¢28,400 million, especially wholesale commitments). The indicator is considerably above the risk appetite level, at 125%, equivalent to ¢322,600 million.

At the June 30, 2022 close, the LCR indicator in US dollars was 196%, showing a year-on-year drop of 54% as a result of the increase in HQLA of 35% (-US\$391 million, mainly via recovery of the minimum legal deposit (EML) and cash and due from banks denominated in foreign currency), together with an increase in net outflows of 72% (US\$321 million, mainly due to the increase in wholesale and retail commitments, mainly term certificates of deposit). The LCR indicator is considerably below the appetite level at 125%, equivalent to US\$544 million.

The LCR's percentage indicator by currency is as follows:

<u>Indicator</u>	<u>June 2022</u>	<u>June 2021</u>	<u>Variation</u>	<u>Level</u>
LCR - colones	177%	197%	-20%	Appetite
LCR - US dollars	196%	250%	-54%	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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of June 30, 2022, 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	¢	-	168,797,888,540	-	-	-	-	-	-	168,797,888,540
Minimum legal deposit in BCCR		-	266,943,687,153	13,926,295,596	11,018,686,694	10,344,521,546	38,801,411,582	41,289,505,891	20,873,149,356	403,197,257,818
Investments		-	1,530,337,171	36,258,904,150	4,157,283,227	6,478,046,657	38,797,799,088	186,418,490,620	601,447,779,889	875,088,640,802
Loan portfolio		167,165,084,555	-	77,924,941,232	45,490,193,251	37,406,488,507	91,664,543,586	137,368,034,769	2,756,714,101,523	3,313,733,387,423
Recovery of assets	¢	167,165,084,555	437,271,912,864	128,110,140,978	60,666,163,172	54,229,056,710	169,263,754,256	365,076,031,280	3,379,035,030,768	4,760,817,174,583
Obligations with the public	¢	-	2,641,222,972,572	84,347,517,613	82,387,159,335	118,149,854,032	323,736,762,725	315,917,228,671	159,966,814,664	3,725,728,309,612
Obligations with BCCR		-	-	-	-	-	-	-	164,696,408,078	164,696,408,078
Obligations with financial entities		-	46,411,261,481	115,250,312,399	9,815,350,000	12,248,465,646	7,001,761,410	23,636,052,710	42,834,037,446	257,197,241,092
Charges payable		-	7,652,060,193	2,884,756,296	1,385,887,792	998,364,335	2,493,527,772	1,691,302,147	2,974,954,789	20,080,853,324
Maturity of liabilities	¢	-	2,695,286,294,246	202,482,586,308	93,588,397,127	131,396,684,013	333,232,051,907	341,244,583,528	370,472,214,977	4,167,702,812,106
Difference	¢	167,165,084,555	(2,258,014,381,382)	(74,372,445,330)	(32,922,233,955)	(77,167,627,303)	(163,968,297,651)	23,831,447,752	3,008,562,815,791	593,114,362,477

(Continued)

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							Total
		Past due	Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	
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	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	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	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	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	3,770,949,600,338
Obligations with BCCR		-	-	-	-	-	-	-	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	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	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	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)	595,890,244,934

As of June 30, 2022, 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	¢	-	612,132,730,323	-	-	-	-	-	612,279,858,300
Minimum legal deposit in BCCR		-	293,523,470,580	13,906,221,293	9,372,368,268	13,421,929,276	23,239,663,141	27,637,017,104	405,874,024,162
Investments		-	4,493,440,390	13,749,467,404	9,664,904,994	41,158,242,626	55,078,764,436	169,824,470,607	733,377,261,567
Loan portfolio		104,725,884,948	-	28,668,978,392	14,951,610,057	14,022,855,958	73,524,498,576	111,708,469,467	1,463,778,859,683
Recovery of assets	¢	104,725,884,948	910,149,641,293	56,324,667,089	33,988,883,319	68,603,027,860	151,842,926,153	309,169,957,178	3,215,310,003,712
Obligations with the public	¢	-	1,787,651,532,091	65,523,830,784	94,388,750,086	59,951,747,593	168,054,542,355	186,792,080,194	2,496,473,655,782
Obligations with financial entities		-	149,775,081,501	128,708,651,147	879,755,466	20,767,500	3,343,567,500	966,404,896	559,519,452,272
Charges payable		-	2,762,624,063	772,217,409	525,615,927	567,916,826	2,692,008,903	1,125,800,056	9,238,624,727
Maturity of liabilities	¢	-	1,940,189,237,655	195,004,699,340	95,794,121,479	60,540,431,919	174,090,118,758	188,884,285,146	3,065,231,732,781
Difference	¢	104,725,884,948	(1,030,039,596,362)	(138,680,032,251)	(61,805,238,160)	8,062,595,941	(22,247,192,605)	120,285,672,032	150,078,270,931

(Continued)

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

(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 be unable to settle its investments on a timely basis and for an amount that approximates fair value in order to meet its liquidity needs.

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 Division. 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.

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

Management of liquidity risk

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

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

(Continued)



## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

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

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

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

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

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

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.

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### 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.

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.

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

Liquidity risk is the risk that the Insurance 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 Insurance Brokerage Firm's operations and investments.

#### 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).

<u>Indicator</u>	<u>Limit</u>	<u>Level</u>
Consolidated VaR	2.00%	Appetite
Currency risk	3.50%	Appetite
Interest rate risk – colones	2.00%	Appetite
Interest rate risk – foreign currency	2.00%	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.

The portfolios by currency are as follows:

<u>Currency</u>	<u>Face value of investments by currency</u>		
	<u>June 2022</u>	<u>June 2021</u>	<u>Variation</u>
Colones	775,791,900,000	956,300,100,000	(180,508,200,000)
US dollars - local issuers	71,381,751	62,404,166	8,977,585
US dollars - international issuers	982,555,000	939,963,000	42,592,000

(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

The duration for each currency has presented variations according to strategic portfolio management, with an increase in colones, local US dollars and international US dollars.

<u>Currency</u>	<u>June 2022</u>	<u>June 2021</u>	<u>Variation</u>
Colones	0.96	1.08	-0.12
US dollars - local issuers	0.92	0.64	0.28
US dollars - international issuers	1.13	1.67	-0.54

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

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.

(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

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.

### 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 2022	December 2021	June 2021
VaR indicator (99%)	1.47	0.96%	0.85%

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

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

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### 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.

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 22-day holding period. As a complement to determine price risk exposure, the Brokerage Firm uses the consolidated VaR model, provided by the Bank's Risk Division, which assumes a 99% confidence level and a 30-day holding period, based on the 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.

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### 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.

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.

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.

#### 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.

(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

### 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

The Bank's consolidated VaR regarding the market value of investments increased during the last year. During the second quarter of 2022, this indicator continued to present a behavior with an upward trend, with an average VAR value of 0.53%, due to a higher volatility observed in the prices of the instruments in the investment portfolio.

<u>Type of risk</u>	<u>June 2022</u>	<u>June 2021</u>	<u>Variation</u>
Consolidated VaR	0.68%	0.42%	0.26%

Additionally, the Bank includes the results of the individual VaR by currency (in relation to the market value) and the variation with respect to the last year:

<u>Currency</u>	<u>VaR by currency</u>		<u>Variation</u>
	<u>June 2022</u>	<u>June 2021</u>	
Colones	1.01%	0.59%	0.42%
US dollars - local	0.46%	0.46%	0.00%
US dollars - international	0.61%	0.27%	0.34%

- 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.

(Continued)



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The Market Risk Division monitors this risk regularly through the indicators established by SUGEF Directive 24-00 *Regulations for Determining the Economic and Financial Position of Regulated Entities* and reports monthly on its performance to the Bank's Corporate Risk Committee. A detail is presented below:

<u>Type of risk</u>	<u>June 2022</u>	<u>June 2021</u>	<u>Variation</u>	<u>Level</u>
Interest rate risk - In colones	0.43%	0.19%	0.24%	Normal
Interest rate risk - In foreign currency	0.52%	0.002%	0.52%	Normal

For the Bank, both indicators closed considerably below SUGEF's regulatory limits.

The interest rate risk indicator in colones increased mainly due to the increase in the expected maximum variation of the base deposit rate, given the steady increase of the base deposit rate during the last quarter. In US dollars, the increase is also due to the increase in the expected variation of the 3-month LIBOR rate in the second quarter of 2022.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of June 30, 2022, 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	¢	1,029,270,495	41,184,817,610	10,519,173,141	38,757,625,137	151,243,782,583	309,087,669,972	326,927,024,474	878,749,363,412
Loan portfolio		-	2,833,698,308,058	114,010,853,114	108,748,570,536	15,462,322,141	16,164,037,238	96,559,928,049	3,184,644,019,136
Recovery of rate-sensitive assets LC (A)	¢	1,029,270,495	2,874,883,125,668	124,530,026,255	147,506,195,673	166,706,104,724	325,251,707,210	423,486,952,523	4,063,393,382,548
Obligations with the public	¢	-	180,088,496,546	224,128,051,630	333,232,051,907	339,367,041,585	92,288,327,353	81,693,030,934	1,250,796,999,955
Obligations with BCCR		-	23,001,000,000	1,100,000,000	-	-	-	166,289,044,774	190,390,044,774
Obligations with financial entities LC		-	111,726,161	-	-	-	-	32,743,864,980	32,855,591,141
Maturity of rate-sensitive liabilities LC (B)	¢	-	203,201,222,707	225,228,051,630	333,232,051,907	339,367,041,585	92,288,327,353	280,725,940,688	1,474,042,635,870
Difference in LC, recovery of assets less maturity of liabilities (A - B)	¢	1,029,270,495	2,671,681,902,961	(100,698,025,375)	(185,725,856,234)	(172,660,936,861)	232,963,379,857	142,761,011,835	2,589,350,746,678
<i>Foreign currency (FC)</i>									
Investments	¢	-	18,215,079,017	50,795,364,088	55,078,764,426	158,987,356,926	365,779,754,397	84,465,330,306	733,321,649,160
Loan portfolio		-	1,236,794,169,549	46,061,926,034	26,939,994,468	2,961,774,312	24,745,772,872	69,609,013,336	1,407,112,650,571
Recovery of rate-sensitive assets FC (C)	¢	-	1,255,009,248,566	96,857,290,122	82,018,758,894	161,949,131,238	390,525,527,269	154,074,343,642	2,140,434,299,731
Obligations with the public	¢	-	190,331,648,557	156,326,226,254	173,332,752,517	185,318,110,725	215,552,121,313	71,464,973,662	992,325,833,028
Obligations with BCCR		-	5,330,325,000	-	-	-	-	-	5,330,325,000
Obligations with entities		-	-	-	605,903,982	511,095	74,767,015,050	51,918,750,000	127,292,180,127
Maturity of rate-sensitive liabilities FC (D)	¢	-	195,661,973,557	156,326,226,254	173,938,656,499	185,318,621,820	290,319,136,363	123,383,723,662	1,124,948,338,155
Difference in FC, recovery of assets less maturity of liabilities (C - D)	¢	-	1,059,347,275,009	(59,468,936,132)	(91,919,897,605)	(23,369,490,582)	100,206,390,906	30,690,619,980	1,015,485,961,576
Recovery of rate-sensitive assets 1/ (A + C)	¢	1,029,270,495	4,129,892,374,234	221,387,316,377	229,524,954,567	328,655,235,962	715,777,234,479	577,561,296,165	6,203,827,682,279
Maturity of rate-sensitive liabilities 2/ (B + D)	¢	-	398,863,196,264	381,554,277,884	507,170,708,406	524,685,663,405	382,607,463,716	404,109,664,350	2,598,990,974,025
Difference in LC + FC, recovery of assets less maturity of liabilities (item 1 - item 2)	¢	1,029,270,495	3,731,029,177,970	(160,166,961,507)	(277,645,753,839)	(196,030,427,443)	333,169,770,763	173,451,631,815	3,604,836,708,254

(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

As of December 31, 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	¢	2,227,391,213	194,693,571,177	11,953,832,056	14,636,012,871	63,084,490,979	375,815,643,901	423,533,360,685	1,085,944,302,882
Loan portfolio		-	2,705,191,227,790	108,854,598,187	103,821,839,006	14,774,010,382	46,553,810,482	96,246,511,122	3,075,441,996,969
Recovery of rate-sensitive assets LC (A)	¢	2,227,391,213	2,899,884,798,967	120,808,430,243	118,457,851,877	77,858,501,361	422,369,454,383	519,779,871,807	4,161,386,299,851
Obligations with the public	¢	-	275,310,206,765	244,169,508,245	230,441,311,183	273,233,954,212	104,814,761,226	88,505,568,024	1,216,475,309,655
Obligations with BCCR		-	14,174,000,000	500,000,000	-	-	-	168,243,245,538	182,917,245,538
Obligations with financial entities LC		-	67,003,848	-	-	-	-	34,352,702,356	34,419,706,204
Maturity of rate-sensitive liabilities LC (B)	¢	-	289,551,210,613	244,669,508,245	230,441,311,183	273,233,954,212	104,814,761,226	291,101,515,918	1,433,812,261,397
Difference in LC, recovery of assets less maturity of liabilities (A - B)	¢	2,227,391,213	2,610,333,588,354	(123,861,078,002)	(111,983,459,306)	(195,375,452,851)	317,554,693,157	228,678,355,889	2,727,574,038,454
<i>Foreign currency (FC)</i>									
Investments	¢	-	12,115,557,349	51,872,813,974	17,100,363,502	72,914,654,087	335,186,210,074	177,834,310,040	667,023,909,026
Loan portfolio		-	1,204,199,665,568	44,848,008,902	26,230,017,191	2,883,719,639	24,093,622,164	67,952,603,036	1,370,207,636,500
Recovery of rate-sensitive assets FC (C)	¢	-	1,216,315,222,917	96,720,822,876	43,330,380,693	75,798,373,726	359,279,832,238	245,786,913,076	2,037,231,545,526
Obligations with the public	¢	-	172,491,092,816	139,557,064,120	160,676,665,595	176,753,860,348	273,343,894,813	100,157,006,766	1,022,979,584,458
Obligations with BCCR		-	5,226,525,000	-	-	-	-	-	5,226,525,000
Obligations with entities		-	-	-	517,224,380	635,197	64,525,000,000	55,281,406,600	120,324,266,177
Maturity of rate-sensitive liabilities FC (D)	¢	-	177,717,617,816	139,557,064,120	161,193,889,975	176,754,495,545	337,868,894,813	155,438,413,366	1,148,530,375,635
Difference in FC, recovery of assets less maturity of liabilities (C - D)	¢	-	1,038,597,605,101	(42,836,241,244)	(117,863,509,282)	(100,956,121,819)	21,410,937,425	90,348,499,710	888,701,169,891
Recovery of rate-sensitive assets 1/ (A + C)	¢	2,227,391,213	4,116,200,021,884	217,529,253,119	161,788,232,570	153,656,875,087	781,649,286,621	765,566,784,883	6,198,617,845,377
Maturity of rate-sensitive liabilities 2/ (B + D)	¢	-	467,268,828,429	384,226,572,365	391,635,201,158	449,988,449,757	442,683,656,039	446,539,929,284	2,582,342,637,032
Difference in LC + FC, recovery of assets less maturity of liabilities (item 1 - item 2)	¢	2,227,391,213	3,648,931,193,455	(166,697,319,246)	(229,846,968,588)	(296,331,574,670)	338,965,630,582	319,026,855,599	3,616,275,208,345

(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 LC		-	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

(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 slight decreasing trend, with a maximum of 2.32% and a minimum of 0.39% for an average of 1.27%, equivalent to ¢146.98 million. As of June 30, 2022, the indicator closed at 1.19% (2021: 1.81%), 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.

The Insurance Brokerage Firm has investments in open investment funds managed by BN Sociedad Administradora de Fondos de Inversiones S.A. which are financial assets measured at fair value through profit or loss and 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, in its role as manager of the portfolio of BN Corredora 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

### d) 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 remains at the appetite level from September 2018 until now. The indicator has increased, which is an expected behavior due to an increase in the exchange rate during the second quarter of 2022.

<u>Type of risk</u>	<u>June 2022</u>	<u>June 2021</u>	<u>Variation</u>	<u>Level</u>
Currency risk	1.19%	0.68%	0.51%	Normal

In addition to the regulatory currency risk indicator, the Bank's Market Risk Division calculates another currency risk indicator for management and monitoring purposes. A VaR of exchange rate is created based on the exposure level and foreign exchange rate stress scenarios.

The VaR of exchange rate measures the losses that a financial entity could have (using a certain probability and a 1-month time horizon) due to a mismatch of its assets and liabilities in foreign currency, in the event of exchange rate fluctuations.

(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

Inputs used to measure the VaR of exchange rate include the exchange rate at a specific time and time horizon, the net position in foreign currency (difference between assets and liabilities in foreign currency) and the percentage variation in the exchange rate at different time periods and the base capital.

The VaR of exchange rate assumes that the exchange rate risk exists only if there is a mismatch between assets and liabilities in foreign currency. The variation in the exchange rate corresponds to the 5<sup>th</sup> or 95<sup>th</sup> percentiles of the distribution of projected variations in exchange rates taken from an exchange rate model.

With the calibrated model and through Montecarlo simulations, exchange rate forecasts are created for different periods. The 5<sup>th</sup> or 95<sup>th</sup> percentiles of the distribution of those forecasts are used as the percentage variation of the exchange rate in order to calculate the indicator of the VaR of exchange rate. The result is as follows:

<u>Internal currency risk</u>	<u>June 2022</u>	<u>December 2021</u>	<u>Level</u>
5 <sup>th</sup> percentile	0.22%	0.11%	Normal
95 <sup>th</sup> percentile	0.32%	0.19%	Normal

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Assets and liabilities denominated in foreign currency are as follows:

		US dollars	
		June 2022	June 2021
<i><u>Assets:</u></i>			
Cash and due from banks	US\$	1,415,496,145	1,026,820,077
Investments in financial instruments		1,059,410,995	1,042,957,747
Loan portfolio		2,037,727,904	1,841,189,577
Accounts and accrued interest receivable		651,949	487,438
Investments in other companies		120,116,593	118,053,370
Property, furniture and equipment		528,779	-
Other assets		1,535,042	1,767,705
	US\$	<u>4,635,467,407</u>	<u>4,031,275,914</u>
<i><u>Liabilities:</u></i>			
Obligations with the public	US\$	3,563,175,337	3,048,906,291
Obligations with entities		809,708,687	776,107,266
Subordinated obligations		115,100,891	86,963,503
Accounts payable and provisions		15,480,613	11,328,620
Other liabilities		10,372,611	11,159,318
	US\$	<u>4,513,838,139</u>	<u>3,934,464,998</u>
Excess of assets over liabilities in US dollars	US\$	<u>121,629,268</u>	<u>96,810,916</u>

(Continued)



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		Euro	
		June 2022	June 2021
<u>Assets:</u>			
Cash and due from banks	€	53,054,468	40,943,531
		<u>53,054,468</u>	<u>40,943,531</u>
<u>Liabilities:</u>			
Obligations with the public	€	50,708,961	40,963,218
Obligations with entities		1,080,912	772,712
Accounts payable and provisions		36,174	88,410
Other liabilities		1,307,735	784,037
	€	<u>53,133,782</u>	<u>42,608,377</u>
Deficit of assets over liabilities in euro	€	(79,314)	(1,664,846)
		DU	
		June 2022	June 2021
<u>Assets:</u>			
Loan portfolio		602,733	1,558,199
	UD	<u>602,733</u>	<u>1,558,199</u>
<u>Liabilities:</u>			
Accounts payable and provisions	UD	37,777	147,721
	UD	<u>37,777</u>	<u>147,721</u>
Excess of assets over liabilities in DU	UD	<u>564,956</u>	<u>1,410,478</u>

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

(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

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

		June 2022	June 2021
Gain on foreign exchange differences	¢	218,324,496,366	34,488,350,729
Loss on foreign exchange differences		(218,078,519,398)	(34,500,970,908)
Net gain (loss)	¢	245,976,968	(12,620,179)

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

		June 2022	June 2021
Gain on net valuation of other assets (Note 42)	¢	148,206,600	34,952,704
Loss on net valuation of other liabilities		(151,483,655)	(57,730,633)
Net loss	¢	(3,277,055)	(22,777,929)

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

### 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%.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

i. 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 remains at an acceptable level by holding sufficient assets in US dollars to be able to settle its liabilities in that currency.

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

As of June 30, 2022, 10.46% 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 11.7% (¢1,467 million) compared to June 30, 2021, where it closed at 8.76%.

Sensitivity analysis

In managing interest rates and currency risks, the Pension Fund Manager seeks to reduce the impact of short-term fluctuations on its profit. However, over the long term permanent changes in foreign currency and interest rates may affect profit.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The Pension Fund Manager performed a sensitivity analysis to determine the effect on profit of interest rate variations of rate-sensitive assets and liabilities.

Management performs a base analysis to determine the impact on financial assets and liabilities of an increase or decrease of 1 and 2 basis points in the interest rates of rate-sensitive assets and liabilities, as follows:

Impact on profit or loss as of June 30, 2022			
1%	2%	(1)%	(2)%
57,500,000	115,000,000	(57,500,000)	(115,000,000)

As of June 30, 2022, an increase of 5% in the exchange rate of the functional currency with respect to the US dollar would generate a loss of ¢73.99 million. A decrease of 5% would generate the opposite effect.

iii. BN 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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

e) 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.

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 or mitigation measures in a timely manner, including insurance claims where applicable.

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:

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements



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

For legal risk, the Bank applies a model 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.

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

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

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

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

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

- 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.

Management of this risk is the responsibility of all business units within the Brokerage Firm and the following aspects are considered which allow the Brokerage Firm to manage and control the exposure to these risks:

- 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.

(Continued)



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

iv. BN 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.

Additionally, the General Risk Division of the Bank's Financial Conglomerate 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.

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

Capital risk: This is the risk that the Pension Fund Manager will not have sufficient capital to meet the minimum regulatory requirements in all jurisdictions where regulated activities are performed, so as to support its credit rating and its strategic and growth options.

The Pension Fund Manager is regulated by the Pensions Superintendency (SUPEN), which establishes the capital requirements.

#### Capital risk management

The General Risk Division (Dirección General del Riesgos, DGR) is responsible for guaranteeing the efficient capital risk management of the Pension Fund Manager. The specific levels of authority and responsibility regarding capital risk management have been assigned to the appropriate committees.

Capital risk is measured and monitored using limits set in relation to capital (Common Equity Tier 1 (CET1), Total Capital Level 1) and the debt to equity ratio, which is calculated according to the relevant regulatory requirements.

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

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

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

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.

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

Litigation risk: The General Risk Division 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 ECL and VaR.

As of June 30, 2022, the results of the VaR by legal risk for the Pension Fund Manager correspond to an estimate of the provision for pending litigation in the amount of ₡35,318,849 that covers the lawsuits against the Pension Fund Manager, out of seven pending lawsuits.

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

Operational risk is the risk of possible direct or indirect loss arising from operating 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 Insurance Brokerage Firm 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 reputational damages.

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.

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

At the financial conglomerate level, the Comprehensive Risk Management Unit (Unidad de Administración Integral del Riesgo, 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 Internal Audit. The results of such reviews are discussed with the personnel of the Insurance Brokerage Firm.

Capital risk: This is the risk that the Insurance Brokerage Firm will not have sufficient capital to meet the minimum regulatory requirements in all jurisdictions where regulated activities are performed, so as to support its credit rating and its strategic and growth options. The Insurance Brokerage Firm is regulated by the Superintendency General of Insurance (SUGESE), which establishes the capital requirements.

#### Capital risk management

The Corporate Risk Committee is responsible for guaranteeing the efficient capital risk management of the Insurance Brokerage Firm. The specific levels of authority and responsibility regarding capital risk management have been assigned to the appropriate committees.

Capital risk is measured and monitored using limits set in relation to capital (Common Equity Tier 1 (CET1), Total Equity Level 1) and the debt to equity ratio, which is calculated according to the relevant regulatory requirements.

Legal risk: Refers to legal contingencies that arise in the entity's operations and due to the nature of the industry in the application and interpretation of the law and the processing of customer claims.

Legal risk management covers three types of events:

- Contract risk: to the extent that the clauses included in the contracts adhere to the regulations in effect and guarantee compliance by the parties. Legal actions are coordinated and support is obtained from the Bank so that, from a legal perspective, all documents subscribed with third parties are reasonably secure.
- Risk of regulatory compliance: regarding the scope and the adoption of regulations in effect on the Insurance Brokerage Firm's operations, there is a Regulatory Compliance area. Its main functions include a systematic and comprehensive review of the elements of specific regulations in the event of a deviation.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- Litigation risk: UAIR follows up monthly on the lawsuits in which the Insurance Brokerage Firm is involved. These are duly communicated and registered by management in the database of the Bank's Legal Department. Mathematical models are applied to calculate the amounts of expected losses and value at risk.

The Bank's General Risk Division communicates monthly the results of the VaR due to legal risks for the Brokerage Firm and estimated losses. Currently there is only one proceeding against the entity, which is in first instance.

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.

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.

(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

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.

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."

The strengthening of the Conglomerate's capital includes defining internal appetites, focused on an adequate risk management and its risk profile. The current limits are as follows:

Internal limits on capital adequacy ratio as per SUGEF Directive 3-06			
Indicator	Appetite	Tolerance	Capacity
CAR	$x \geq 12\%$	$11\% \leq x \leq 12\%$	$x \leq 11\%$

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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of June 30, 2022 and 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, *Law on the Ordinary and Extraordinary Budget of the Republic for Tax Year 2008*, 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).

COVID 19 implications for the Conglomerate

According to the most recent statistics on infection and deaths due to the COVID 19 pandemic (declared as such by the World Health Organization at the beginning of 2020), there are over 310 million people infected and 5.3 million deaths. By mid-2021, the government reduced social isolation measures in order to gradually resume the different economic activities. However, in many countries, to avoid another wave of infection due to the appearance of new strains of the virus, confinement measures we applied once again, affecting different economic activities.

(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

In Costa Rica, as of the June 22 close there were 904,934 confirmed cases and more than 8,525 deaths. Regarding vaccination, CCSS informed that as of May 2 a total of 10,698,423 vaccines have been applied. Of the population aged 5 years and above, first dose rates are 85.5% (March: 84.8%), second dose 79.5% (March: 78.3%) and third dose 42.2% (March: 39.1%). This is the latest information available because the CCSS website was down due to cyberattacks.

### Economic outlook

A summary of the country's main indicators, as of the most recent cutoff, is provided below:

Indicator	Values
Unemployment	12%
Monthly index of economic activity (IMAE) year-on-year	7.5%
Fiscal deficit	5% of GDP
Trade balance (cumulative)	US\$(2,210)M
Central government debt	US\$42,463.83M
	1.78% per month
CPI June	10.06% year-on-year

### International context:

The World Bank's Global Economic Prospects report for June 2022 downgraded the global growth outlook for 2022 and 2023 by 1.2 and 0.2 percentage points (pp) in relation to the January report, down to 2.9% and 3.0%, respectively.

According to the report, this decrease in the outlook largely corresponds to the effects of the war between Russia and the Ukraine, which has put pressure on commodity prices and disrupted supply chains, as well as rising inflation caused by harsher global financial conditions.

(Continued)



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

On the other hand, in its recent report the Organization for Economic Cooperation and Development (OECD) projected that global economic growth may decelerate to around 3.0% in 2022 and 2.8% in 2023, below that projected in December (4.5% and 3.2%, respectively). Decreased trust in economic agents negatively affects economic activity. The consumer trust index for OECD countries was 97.3% in April, after registering levels above 100 between April and July of 2021 (values over 100 are associated with optimism).

Regarding global inflation, inflationary pressures are generalized and persistent. Inflation in the United States, measured by the consumer price index (CPI) reached a year-on-year increase of 8.6%, the highest rate in 40 years. This increase is related to the increase in the fuel and food prices. Inflation in the eurozone was 8.1% in May, with a year-on-year variation in core inflation of 3.8%. In Latin America inflation rates ranged from 7.7% to 11.7%.

In view of these inflationary pressures, central banks go through tightening cycles in their monetary policy rates (MPR). The U.S. Federal Reserve increased by 150 basis points the target range for its reference rate between March and June, for a range of 1.50% to 1.75%. Similarly, the Central Bank of Europe announced that it will increase reference interest rates by 25 basis points, the first increase in interest rates in over a decade.

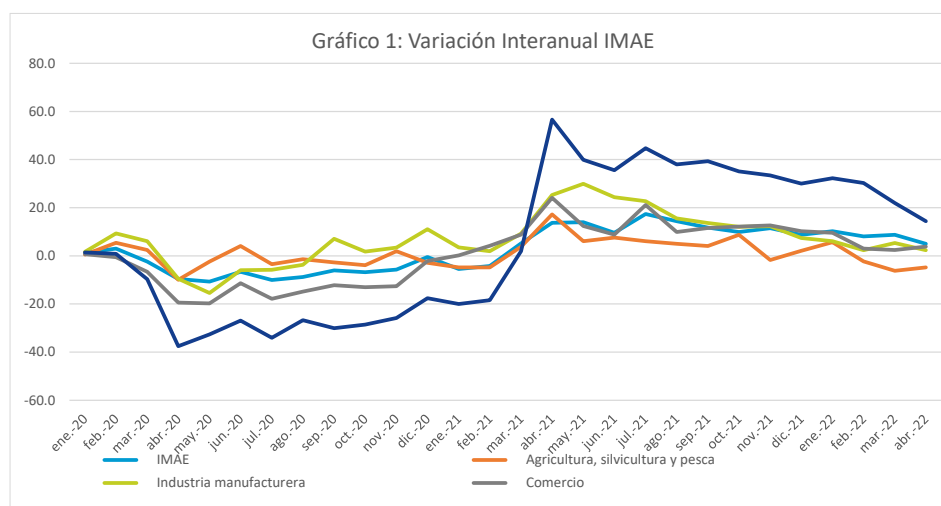
National context: local economic activity, though it maintains a high growth rate, continues to decelerate. National production, measured by trend-cycle series of the monthly index of economic activity, had a year-on-year variation of 7.5% as of April, which is 2.3 pp lower than last year, and 0.5 pp lower than March of this year.

The year-on-year growth for April (7.5%) is due to dynamism of hotel and restaurants services (54.9%) and growth of manufacturing activity (5.9%). Growth of professional and administrative services (7.6%) and transport and storage activities (17%) also contributed. These four activities account for 70% of the variation in the general index.

(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements



The unemployment rate was 12% as of May 2022 (5.7 pp lower than May 2021), while underemployment was 9.4% (6.3 pp lower than May 2021 and 3.7 pp lower than December 2021).

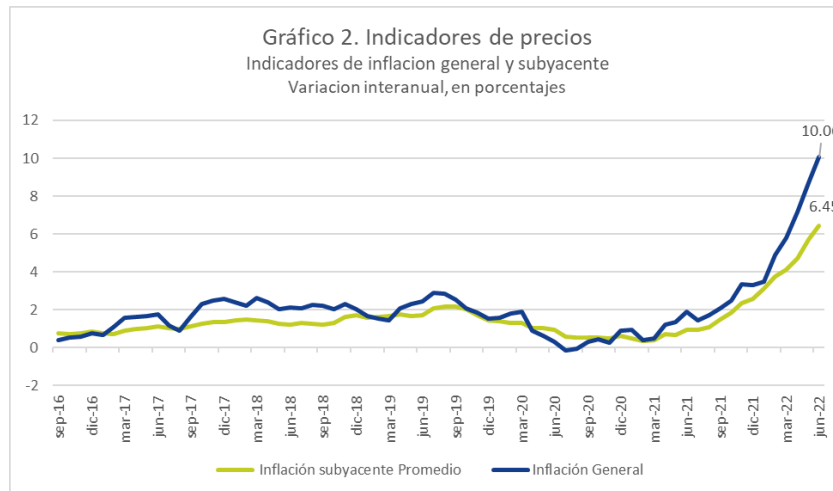
The country continues having a trade deficit due to higher commodity prices (raw materials). BCCR estimates that as of May the trade balance for goods had accumulated a negative gap of US\$2,210.3 million, equivalent to 3.4% of GDP (2021: 1.6%). Exports, on the other hand, had a positive year-on-year variation of 13.4% due to the increased demand for manufactured goods.

As a result of this increase in commodity prices, among other factors, in June the general inflation, measured through the year-on-year variation in the CPI, was 10.6%, and the average indicators of core inflation, year-on-year, reached 6.5%, which represents an acceleration with regard to the previous month.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements



Following the same line as other global economies, in order to mitigate inflationary pressures, between December 16, 2021 and June 24, 2022, the monetary policy rate (TPM) was raised five times, for an accrued increase of 475 basis points. Until June 24, 2022, there were increases in the rates of the financial system (SFN), though mainly in negotiated borrowing rates (TPN). The premium for saving in colones has recovered but remains negative, mainly due to higher expectations of exchange rate variations. This has caused the dollarization of savings, particularly liquidity.

BCCR intensified its exchange rate stabilization operations in MONEX. It has made purchases in the amount of US\$1,231.5 million. However, there have been pressures to increase the exchange rate, mainly due to higher demand of foreign currency, both in the private sector and the public non-banking sector (SPNB). In the private sector there is a visible demand from institutional savings entities, particularly pension funds, which have sought to rebuild their financial investment portfolios by favoring assets in foreign currency.

The Ministry of Finance continues working to restore its systems; therefore; it does not have statistics on public finances.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Actions taken by the Conglomerate (CFBNCR)

As indicated in previous reports, the Conglomerate has adopted a series of measures to offset the effects of the pandemic and protect the entities' capital. Those measures have been adapted as the pandemic evolves and to the adjustments in the health and regulatory measures taken by the authorities.

• *Credit risk*

For the loan portfolio, a number of strategies were implemented, including:

- i. Implementation of a plan to monitor repayment capacity (creditworthiness) from a quantitative point of view and with a greater qualitative focus,
- ii. Development of the "Juntos al Amanecer" program to provide affected customers with working capital,
- iii. Program to restructure principal and interest payments, for terms of three to nine months,
- iv. Restructuring strategy by profiles.

The following continue in progress:

- Ongoing monitoring of high-risk customers,
- Improvements in collection strategies and plans,
- Creation of an allowance "cushion" amounting to ¢46,097 million as of June.

• *Interest rate risk (balance)*

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

• *Liquidity risk*

- 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.
- Daily monitoring of the main liquidity indicators.
- Bi-weekly stress testing of liquidity indicators reported to the board of directors.
- Lines of credit with foreign entities are requested.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- *Price risk*
  - Ongoing monitoring of concentration of instruments in the investment portfolio by currency, sector, rating and other.
  - 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.
- *Currency risk*
  - Periodic monitoring of systemic indicators to analyze the exchange rate. It is presented to the board of directors weekly.

These measures are continuously reviewed so as to adapt to changing market conditions and 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 2022	December 2021	June 2021
<u>Cash and due from banks:</u>					
Checking account – colones (Note 9)	Minimum legal deposit	¢	461,160,708,502	486,421,991,516	473,915,403,257
Checking account – US dollars (Note 9)	Minimum legal deposit		407,040,970,330	333,197,818,556	293,989,783,791
Checking account – euro (Note 9)	Minimum legal deposit		5,511,221,902	4,919,236,524	4,552,645,561
Other cash and due from banks (Note 9)	Margin calls – derivative financial instruments		-	17,705,021	20,510,276
	Contingent guarantee of the deposit guarantee fund (FGD)		127,077,221,660	122,256,193,104	120,644,543,173
Other cash and due from banks (Note 9)	Contribution to FOGABONA		147,127,975	287,351,062	310,254,970
		¢	<u>1,000,937,250,369</u>	<u>947,100,295,783</u>	<u>893,433,141,028</u>
<u>Investments in financial instruments:</u>					
Investments in financial instruments	Liquidity market operations	¢	37,861,939,241	31,296,977,125	30,404,499,866
Securities issued by BCCR and the Government	Investments securing repurchase agreements		2,481,070,056	2,685,689,808	2,557,440,000
External debt bonds	Nomura Bank guarantee		100,539,373,658	68,236,937,961	59,437,936,210
External debt bonds	SINPE guarantee		230,539,145,095	215,666,380,475	208,630,265,124
Term Certificate of Deposit	Nomura Bank guarantee		-	25,810,000,000	24,876,800,000
Sovereign bond in USD	BOFA - SWAPS		505,405,860	-	-
		¢	<u>371,926,933,910</u>	<u>343,695,985,369</u>	<u>325,906,941,200</u>
<u>Other assets</u>					
Other assets (see Note 17)	Security deposits	¢	<u>627,160,423</u>	<u>1,023,835,140</u>	<u>606,367,994</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of June 30, 2022, the Brokerage Firm has restricted assets in the amount of ¢37,861,939,241 (December and June 2021: ¢31,311,875,880 and ¢30,418,884,563, respectively), corresponding to guarantees for tri-party repurchase agreements, operations in the liquidity market and contributions to the liquidation and compensation risk management fund.

As of June 30, 2022, the Pension Fund Manager has restricted assets in the amount of ¢2,481,070,056 corresponding to investments pledged to secure repurchase agreements.

(8) Balances and transactions with related parties

Balances and transactions with related parties are as follows:

	June 2022	December 2021	June 2021
<u>Assets:</u>			
Checking accounts in foreign financial entities (1) (Note 9)	¢ 30,144,934,939	21,945,597,789	20,238,934,546
Allowance for impairment of balances with related parties	-	-	(14,215,000)
Investments in financial instruments and accrued interest receivable (2)	23,800,937,375	32,238,842,735	24,481,880,769
Accounts receivable	36,920,486	228,512	-
Investments in other companies (2)	83,100,088,165	76,711,519,445	73,369,128,278
	¢ <u>137,082,880,965</u>	<u>130,896,188,481</u>	<u>118,075,728,593</u>
<u>Liabilities:</u>			
Demand obligations with entities (3)	10,118,422	107,286,096	1,008,237,180
Accounts due to related parties (4)	1,297,358	1,741,064	3,930,554
	¢ <u>11,415,780</u>	<u>109,027,160</u>	<u>1,012,167,734</u>
<u>Income:</u>			
Gain on investments in other foreign companies	948,731,778	1,172,039,559	459,036,012
	<u>948,731,778</u>	<u>1,172,039,559</u>	<u>459,036,012</u>
<u>Expenses:</u>			
Operating expenses (5)	12,269,671	47,464,807	8,117,046
	¢ <u>12,269,671</u>	<u>47,464,807</u>	<u>8,117,046</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., which bear interest at 2.25% per annum for both years
- (2) Investments in the share capital of entities over which the Bank exercises control or significant influence
- (3) Movements in transit of the subsidiaries' checking accounts with the Bank
- (4) Balance of the subsidiaries' term certificates of deposit with the Bank
- (5) 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 2022	December 2021	June 2021
Short-term benefits	¢ 1,087,614,135	2,112,224,059	1,071,831,127
Long-term benefits	141,389,838	274,589,128	139,338,047
Per diem – Board of directors	68,963,335	204,479,433	100,112,124
	¢ <u>1,297,967,308</u>	<u>2,591,292,620</u>	<u>1,311,281,298</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 2022	December 2021	June 2021
Cash and due from banks	¢ 1,590,149,028,820	1,355,841,181,326	1,254,808,263,819
Investments with maturities of less than two months	69,854,337,335	255,534,962,838	197,804,259,258
	¢ 1,660,003,366,155	1,611,376,144,164	1,452,612,523,077

Cash and due from banks is as follows:

	June 2022	December 2021	June 2021
Cash on hand and in vaults	¢ 64,255,450,541	94,766,425,499	70,293,943,149
Cash in transit	48,928,472,924	58,255,934,323	29,693,480,028
Checking account in BCCR (1)	85,309,848,532	65,849,314,821	58,454,211,282
Minimum legal deposits in BCCR (2)	723,761,433,448	683,020,535,782	660,385,843,601
Checking accounts and demand deposits in State-owned commercial banks and banks created under special laws	179,477,697	278,613,154	252,429,131
Checking accounts and other demand accounts in private financial entities	887,886,268	992,017,393	862,577,653
Overnight deposits in local financial entities	-	-	600,000,000
Checking accounts in foreign financial entities	498,174,027,450	300,162,110,106	280,665,479,727
Deposits and other demand accounts in foreign financial entities	1,031,971,839	33,536,854	103,341,209
Checking accounts and demand deposits in related parties (Note 8)	30,144,934,939	21,945,597,789	20,238,934,546
Overnight deposits in foreign financial entities	2,341,193,591	878,432,794	6,440,770,425
Transfers through the Interbank Electronic Payment System (SINPE)	3,107,734,075	1,360,638,705	2,202,509,773
Local notes receivable	3,736,420,690	4,373,095,594	2,908,522,576
Foreign notes receivable	1,065,827,191	1,363,679,325	730,912,301
Margin calls – derivative financial instruments (Note 7)	-	17,705,021	20,510,275
Fondo de Garantía de la Bolsa Nacional de Valores (FOGABONA)	147,127,975	287,351,062	310,254,970
Contingent guarantee of the deposit guarantee fund (Fondo de Garantía de Depósitos, FGD)	127,077,221,660	122,256,193,104	120,644,543,173
	¢ 1,590,149,028,820	1,355,841,181,326	1,254,808,263,819

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- (2) As of June 16, 2019, 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.

As per note BCCR JD-6066/08 dated June 17, 2022, for July the percentage for the minimum legal deposit in colones will be modified as follows:

Starting	Minimum legal deposit rates
First half of July 2022	13.5%
Second half of July 2022	15%

(10) Investments in financial instruments

Investments in financial instruments are as follows:

	June 2022	December 2021	June 2021
Investments at FVTPL	¢ 35,400,118,840	40,139,798,613	32,014,314,395
Investments at FVOCI	678,806,335,687	807,216,667,803	773,997,463,093
Investments at amortized cost	876,191,502,478	917,505,890,841	885,594,522,389
	¢ 1,590,397,957,005	1,764,862,357,257	1,691,606,299,877
Interest rate futures – Hedges	55,612,409	7,723,704,438	11,882,581,308
Allowance for impairment of investments	(2,942,312,861)	(2,801,506,974)	(2,570,386,891)
Accrued interest receivable on investments	18,012,332,954	19,963,735,244	20,801,411,607
	¢ 1,605,523,589,507	1,789,748,289,965	1,721,719,905,901

(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 2022	December 2021	June 2021
<u>Local issuers</u>			
Private banks	-	33,238,828,201	-
Private issuers	31,020,605,098	2,382,923,616	32,014,314,395
¢	<u>31,020,605,098</u>	<u>35,621,751,817</u>	<u>32,014,314,395</u>
	June 2022	December 2021	June 2021
<u>Foreign issuers</u>			
Private issuers	4,379,513,742	4,518,046,796	-
	4,379,513,742	4,518,046,796	-
¢	<u>35,400,118,840</u>	<u>40,139,798,613</u>	<u>32,014,314,395</u>

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

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

	June 2022	December 2021	June 2021
<u>Local issuers</u>			
Government of Costa Rica	¢ 422,467,192,296	521,907,049,285	461,577,336,238
BCCR	30,052,144,858	36,858,432,072	55,051,159,817
State-owned banks	1,771,723,362	3,632,560,534	6,992,781,145
Private banks	-	645,545,744	624,836,867
Private issuers	5,461,769,376	2,685,689,808	2,557,440,000
¢	<u>459,752,829,892</u>	<u>565,729,277,443</u>	<u>526,803,554,067</u>
	June 2022	December 2021	June 2021
<u>Foreign issuers</u>			
Governments	¢ 49,329,948,678	53,201,249,628	53,893,728,798
Private issuers	97,249,459,278	82,109,125,018	89,218,484,749
Private banks	72,474,097,839	106,177,015,714	104,081,695,479
	219,053,505,795	241,487,390,360	247,193,909,026
¢	<u>678,806,335,687</u>	<u>807,216,667,803</u>	<u>773,997,463,093</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 2022	December 2021	June 2021
<u>Local issuers</u>				
Government of Costa Rica	¢	296,470,618,635	261,424,353,274	531,056,591,223
BCCR		111,470,432,960	284,729,758,820	265,285,979,140
Private banks		8,307,000,000	5,807,250,000	1,865,760,000
Private issuers		3,515,706,160	3,716,304,135	6,931,986,499
	¢	<u>419,763,757,755</u>	<u>555,677,666,229</u>	<u>805,140,316,862</u>
<u>Foreign issuers</u>				
Governments	¢	431,912,201,790	320,363,678,407	41,651,848,940
Private issuers		20,940,304,518	6,264,129,696	6,114,834,781
Private banks		3,575,238,414	35,200,416,509	32,698,921,806
		<u>456,427,744,722</u>	<u>361,828,224,612</u>	<u>80,465,605,527</u>
	¢	<u>876,191,502,477</u>	<u>917,505,890,841</u>	<u>885,605,922,389</u>

As of June 30, 2022, the valuation of investments in financial instruments and restricted financial instruments gave rise to unrealized losses, net of deferred tax, in the amount of ¢17,672,229,180 (December and June 2021: unrealized gains in the amount of ¢432,598,599 and ¢3,243,320,517, respectively). The cumulative balance of equity adjustments arising from the valuation of those investments is equivalent to unrealized losses of ¢6,610,805,878 (December and June 2021: unrealized gains in the amount of ¢11,061,423,302 and ¢13,780,247,695, respectively).

(11) Derivative financial instruments

The Conglomerate holds the following types of derivative financial instruments:

✓ Derivatives as risk hedging instruments

The Conglomerate 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 2022		
Issuing bank		Notional amount	Valuation	Purpose
JP Morgan	US\$	45,833,000	(214,468)	Swaps to hedge 10-year issues (maturing in 2023)
Bank of America		128,631,000	(648,368)	
	US\$	174,464,000	(862,836)	
Amount in colones	¢	120,772,704,000	(597,297,986)	
Chicago Board of Trade	US\$	18,200,000	53,562	Standardized futures contracts (maturing in 2022)
Amount in colones	¢	12,598,950,000	37,078,537	
		December 2021		
Issuing bank		Notional amount	Valuation	Purpose
CitiBank	US\$	100,000,000	US\$ 3,739,241	Swaps to hedge 10-year issues (maturing in 2023)
JP Morgan		46,533,000	1,739,981	
Bank of America		173,588,000	6,490,874	
	US\$	320,121,000	US\$ 11,970,096	
Amount in colones	¢	206,558,075,250	¢ 7,723,704,438	
Chicago Board of Trade	US\$	15,300,000	US\$ (21,984)	Standardized futures contracts (maturing in 2022)
Amount in colones	¢	9,872,325,000	¢ (14,185,350)	

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		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	Standardized futures contracts (maturing in 2022)
Amount in colones	¢	199,089,652,320	¢ 11,879,772,948	
Chicago Board of Trade	US\$	13,200,000	US\$ (45,289)	
Amount in colones	¢	8,209,344,000	¢ (28,166,302)	

As of June 30, 2022, the total notional amount of US\$192,664,000, equivalent to ¢133,371,654,000 (December and June 2021: US\$335,421,000, equivalent to ¢216,430,400,250 and US\$333,321,000, equivalent to ¢207,298,996,320, respectively) is 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, 2022, the Conglomerate booked a decrease in the fair value of swaps in the amount of US\$862,836, equivalent to ¢597,297,986 (December and June 2021: increase in fair value of US\$11,970,096, equivalent to ¢7,723,704,438 and increase in fair value of US\$19,101,770, equivalent to ¢11,879,772,948, respectively)(see Note 10).

For purposes of the valuation the aforementioned interest rate swaps, the Conglomerate 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%.

(Continued)

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 2022	December 2021	June 2021
10-year issue (maturing in 2023)	109.22%	109.11%	108.18%

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

- a 10-year or 5-year LIBOR rate at the issue of the bond
- discount rates from Bloomberg
- zero rates corresponding to the swap curve as of June 30, 2022
- only a portion of the bond cash flows is hedged (corresponding to the 5-year and 10-year LIBOR rate in effect at the issue of the bond) rather than the total interest rate
- accrued and earned interest were segregated from the instruments to obtain variations in clean prices
- forward rate to calculate variable interest.

As of June 30, 2022, standardized futures contracts were negotiated as part of the management of the financial derivatives portfolio. The Conglomerate booked a notional amount of US\$18,200,000 equivalent to ¢12,598,950,000 (December and June 2021: US\$15,300,000 equivalent to ¢9,872,325,000, and US\$13,200,000 equivalent to ¢8,209,344,000, respectively) for the sale and purchase of these contracts.

As of June 30, 2022, the Conglomerate booked an increase in the fair value of futures contracts in the amount of US\$80,336, equivalent to ¢55,612,409 and a decrease in fair value of US\$26,773, equivalent to ¢18,533,872, under sundry accounts payable (December and June 2021: decrease in fair value of US\$21,984 equivalent to ¢14,185,350 and US\$4,516 equivalent to ¢2,808,361, respectively).

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

✓ Derivatives other than hedges

Currency forwards:

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 Bank can offer to its clients pursuant to the authorization provided by BCCR to operate exchange rate derivatives.

As of June 30, 2022, the Conglomerate has no futures contracts (December and June 2021: nil; and futures contracts with a notional amount of US\$13,200,000, equivalent to ₡8,209,344,000).

As of June 30, 2022, the Conglomerate has no FX futures booked in asset accounts (December and June 2021: increase in fair value of ₡0.00 and US\$4,516 equivalent to ₡2,808,361; and a decrease in fair value of ₡0.00 and US\$49,805 equivalent to ₡30,974,663, respectively) which were booked in liability accounts.

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

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

		<u>June 2022</u>	<u>December 2021</u>	<u>June 2021</u>
Gains on derivative financial instruments	₡	4,014,758,423	7,266,821,001	4,487,489,100
Losses on derivative financial instruments		<u>(9,542,471,900)</u>	<u>(9,275,414,200)</u>	<u>(4,599,562,585)</u>
Net losses	₡	<u>(5,527,713,477)</u>	<u>(2,008,593,199)</u>	<u>(112,073,485)</u>

(Continued)



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 2022	December 2021	June 2021
Trade	¢ 345,155,468,901	330,171,594,062	347,193,169,095
Services (1)	1,098,866,686,570	1,043,436,571,257	873,512,045,362
Financial services (1)	82,056,782,373	91,266,302,711	75,636,929,910
Mining	426,692,353	455,324,660	659,067,275
Manufacturing and quarrying	177,427,984,124	158,415,565,843	150,123,925,254
Construction	81,195,961,172	93,491,037,959	93,981,883,644
Agriculture and forestry	112,070,338,913	116,562,814,807	111,015,284,740
Livestock, hunting and fishing	71,856,117,332	72,831,830,903	73,353,452,277
Electricity, water, sanitation and other related sectors	445,304,711,438	465,323,785,148	467,001,207,614
Transportation and telecommunications	43,296,279,076	43,598,161,061	44,174,709,493
Housing	1,420,107,358,320	1,347,158,225,840	1,314,271,246,867
Personal or consumer loans	522,749,651,160	503,511,429,681	502,499,200,932
Tourism	303,420,967,555	268,107,946,733	207,305,227,374
Total direct loans	4,703,934,999,287	4,534,330,590,665	4,260,727,349,837
Incremental direct costs related to loans	4,853,317,522	3,675,079,715	3,589,157,504
(Deferred income from loan portfolio)	(38,653,020,286)	(35,117,407,652)	(32,964,070,406)
Accrued interest receivable	107,376,950,583	110,377,468,668	124,573,963,478
Allowance for loan losses	(155,646,870,850)	(135,831,283,295)	(154,271,325,691)
Loan portfolio	¢ 4,621,865,376,256	4,477,434,448,101	4,201,655,074,722

(1) As of December 31, 2021, the Bank purchased a loan portfolio in the amount of ¢134,802,767,221, distributed among the Services and Financial Services sectors.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Annual interest rates on loans receivable are as follows:

Currency	June 2022		December 2021		June 2021	
	Rates	Average (1)	Rates	Average (1)	Rates	Average (1)
Colones	0.55% to 45.00%	12.15%	0.55% to 45.00%	12.09%	1.20% to 45.00%	12.52%
US dollars	1.71% to 29.00%	7.95%	0.35% to 29.00%	7.55%	0.20% to 30.00%	7.50%
DU	3.85% to 10.00%	5.68%	3.85% to 10.00%	5.86%	3.85% to 10.00%	5.70%

(1) Simple average of the minimum and maximum values of the portfolio as of June 30, 2022 and 2021.

(b) Loan portfolio by arrears

The loan portfolio by arrears is as follows:

	June 2022	December 2021	June 2021
Current	¢ 4,403,052,947,278	4,282,530,208,271	3,958,705,645,522
1 to 30 days	115,724,697,509	53,971,542,316	88,384,276,424
31 to 60 days	25,963,621,902	53,341,812,649	25,415,846,817
61 to 90 days	22,563,341,367	20,491,714,014	23,075,660,949
91 to 120 days	16,148,889,878	10,017,004,923	13,597,242,005
121 to 180 days	12,264,668,968	11,376,887,610	36,322,999,074
More than 180 days	108,216,832,385	102,601,420,882	115,225,679,046
	<u>4,703,934,999,287</u>	<u>4,534,330,590,665</u>	<u>4,260,727,349,837</u>
Incremental direct costs related to loans	4,853,317,522	3,675,079,715	3,589,157,504
(Deferred income from loan portfolio)	(38,653,020,286)	(35,117,407,652)	(32,964,070,406)
Accrued interest receivable	107,376,950,583	110,377,468,668	124,573,963,478
Allowance for loan losses	(155,646,870,850)	(135,831,283,295)	(154,271,325,691)
	<u>¢ 4,621,865,376,256</u>	<u>4,477,434,448,101</u>	<u>4,201,655,074,722</u>

(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 2022	December 2021	June 2021
Opening balance	¢ 135,831,283,295	155,527,961,609	155,527,961,609
Allowance expense for the period (Note 39)	30,520,250,364	78,587,703,721	42,511,153,679
Write-offs	(14,362,082,893)	(100,201,837,988)	(44,102,606,587)
Decrease in allowance	(81,428)	-	-
Foreign exchange differences	3,657,501,512	1,917,455,953	334,816,990
Closing balance	¢ 155,646,870,850	135,831,283,295	154,271,325,691

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

(d) Allowance for stand-by credits

The allowance for stand-by credits is as follows:

	June 2022	December 2021	June 2021
Opening balance	¢ 862,169,136	717,444,504	717,444,504
Allowance expense for the year (Note 36)	360,000,000	120,000,000	120,000,000
Foreign exchange differences	62,646,966	24,724,632	4,242,255
Closing balance	¢ 1,284,816,102	862,169,136	841,686,759

(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 2022	December 2021	June 2021
Fees and commissions	¢ 2,026,712,312	1,956,296,857	1,901,885,942
Accounts receivable for brokerage operations	177,590	-	1,865,761
Accounts due from employees	57,757,800	16,309,408	21,644,853
Deferred tax (Note 21-b)	7,203,641,693	2,590,931,185	1,998,361,944
Income tax receivable (1)	155,964,153	354,997,957	160,374,728
Value added tax	13,139,392	19,035,938	11,367,585
Sundry accounts receivable related to credit cards	361,768,423	339,109,267	289,317,355
Other expenses receivable	23,421,951	23,082,305	26,211,509
Credit fraud	742,752,108	742,752,108	748,936,955
Other accounts receivable	1,494,331,183	1,553,072,175	1,613,529,750
Misappropriation and theft	1,506,352,209	1,523,981,965	1,636,181,137
Accrued interest receivable on other sundry accounts receivable	271,136,520	-	-
Allowance for impairment of accounts receivable	1,927,242	1,923,294	3,033,784
Fees and commissions	(4,391,315,816)	(4,073,541,857)	(4,221,527,269)
	¢ 9,467,766,760	5,047,950,602	4,191,184,034

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

	June 2022	December 2021	June 2021
Banco Nacional de Costa Rica	¢ 66,786,751	141,325,587	62,393,176
BN Vital Operadora de Planes de Pensiones Complementarias, S.A.	20,521	68,075	34,322
BN Sociedad Corredora de Seguros, S.A.	89,156,881	-	97,947,231
	¢ 155,964,153	141,393,662	160,374,729

(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 2022	December 2021	June 2021
Opening balance	¢ 4,073,541,909	4,217,937,702	4,217,937,702
Allowance expense (Note 39)	1,220,923,740	879,441,298	463,657,025
Decrease in allowance (Note 40)	(530,597,552)	(521,599,531)	(323,547,984)
Write-offs	(404,885,665)	(516,463,912)	(138,369,594)
Foreign exchange differences	32,333,384	14,226,300	1,850,120
Closing balance	¢ 4,391,315,816	4,073,541,857	4,221,527,269

(14) Assets held for sale

Assets held for sale are presented net of the allowance for impairment and per legal requirements are as follows:

	June 2022	December 2021	June 2021
Assets acquired in lieu of payment	¢ 99,481,918,200	94,628,393,958	90,390,979,078
Idle property, furniture and equipment	55,884,629	55,884,629	55,884,629
Allowance for impairment of assets held for sale and per legal requirements	(60,770,994,676)	(58,895,478,390)	(61,311,087,842)
	¢ 38,766,808,153	35,788,800,197	29,135,775,865

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

	June 2022	December 2021	June 2021
Opening balance	¢ 58,895,478,390	66,534,513,087	66,534,513,087
Allowance expense (Note 43)	3,925,320,370	1,732,758,628	381,769,384
Decrease in allowance	(2,049,804,084)	(9,371,793,325)	(5,605,194,629)
Closing balance	¢ 60,770,994,676	58,895,478,390	61,311,087,842

(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:

		<u>June 2022</u>	<u>December 2021</u>	<u>June 2021</u>
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) (2)		<u>83,150,711,465</u>	<u>76,762,142,745</u>	<u>73,419,751,578</u>
	¢	<u>83,201,334,765</u>	<u>76,812,766,045</u>	<u>73,470,374,878</u>

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

		<u>June 2022</u>	<u>December 2021</u>	<u>June 2021</u>	<u>Concept</u>
Bolsa Nacional de Valores	¢	15,000,000	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	15,000,000	To operate in the electronic custody of securities
Interclear Central de Valores		15,000,000	15,000,000	15,000,000	To operate in the electronic custody of securities
Depósito Libre Comercial Golfito Art 24 Ley 7131		5,200,000	5,200,000	5,200,000	Golfito Duty Free Shopping Center
Other financial entities (cooperatives)		<u>423,300</u>	<u>423,300</u>	<u>423,300</u>	Investments in various cooperatives
	¢	<u>50,623,300</u>	<u>50,623,300</u>	<u>50,623,300</u>	

(2) The Bank holds 49% ownership interest in BICSA, which for 2022 and 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, equipment and right-of-use assets, net

a) Historical cost and depreciation

Property, furniture and equipment is as follows:

		June 2022					
		Land	Buildings	Furniture and equipment	Computer hardware	Vehicles	Total
<u>Cost:</u>							
Historical cost at beginning of period	¢	4,281,149,677	72,438,846,477	72,850,199,952	52,323,902,442	405,181,156	202,299,279,704
Revalued cost at beginning of period		49,374,508,221	65,580,690,063	(10,462,254)	(34,287,876)	-	114,910,448,154
Additions		86,529,750	-	3,437,686,877	345,332,376	-	3,869,549,003
Revaluation		206,726,122	-	(690,000)	(1,792,862)	-	204,243,260
Disposals		-	-	(2,707,005,098)	(1,111,212,707)	-	(3,818,217,805)
Adjustments		-	-	875,206	-	-	875,206
Reclassifications		-	-	251,051	(251,051)	-	-
Closing balance		53,948,913,770	138,019,536,540	73,570,855,734	51,521,690,322	405,181,156	317,466,177,522
<u>Accumulated depreciation:</u>							
Opening balance		-	51,251,241,262	44,854,279,722	41,725,835,190	271,403,052	138,102,759,226
Depreciation expense on historical cost		-	806,566,834	3,595,492,122	2,059,845,628	8,088,917	6,469,993,501
Depreciation expense on revalued cost		-	441,000,068	-	-	-	441,000,068
Disposals		-	-	(2,689,556,790)	(1,109,628,315)	-	(3,799,185,105)
Reclassifications		-	-	251,051	(251,051)	-	-
Closing balance	¢	-	52,498,808,164	45,760,466,105	42,675,801,452	279,491,969	141,214,567,690
Net closing balance	¢	53,948,913,770	85,520,728,376	27,810,389,629	8,845,888,870	125,689,187	176,251,609,832

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		December 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)	(34,287,877)	-	114,910,611,561
Additions		-	1,765,734,026	8,851,496,957	3,410,652,640	64,027,113	14,091,910,736
Disposals		-	-	(1,978,526,222)	(3,218,631,088)	-	(5,197,157,310)
Sales		-	-	-	(193,561,935)	-	(193,561,935)
Adjustments		-	-	(163,408)	-	-	(163,408)
Reclassifications		-	-	12,769,707	(12,769,707)	-	-
Closing balance		53,655,657,898	138,019,536,540	72,839,737,699	52,289,614,567	405,181,156	317,209,727,860
<u>Accumulated depreciation:</u>							
Opening balance		-	48,747,685,316	39,861,872,242	40,281,237,135	252,905,265	129,143,699,958
Depreciation expense on historical cost		-	1,614,246,417	6,831,299,464	4,612,916,437	18,497,787	13,076,960,105
Depreciation expense on revalued cost		-	889,309,530	-	-	-	889,309,530
Disposals		-	-	(1,850,645,372)	(3,173,947,476)	-	(5,024,592,848)
Sales		-	-	-	(36,429,793)	-	(36,429,793)
Adjustments		-	-	477,965	53,334,307	-	53,812,272
Reclassifications		-	-	11,275,421	(11,275,421)	-	-
Closing balance	¢	-	51,251,241,263	44,854,279,720	41,725,835,189	271,403,052	138,102,759,224
Net closing balance	¢	53,655,657,898	86,768,295,277	27,985,457,979	10,563,779,378	133,778,104	179,106,968,636

(Continued)



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		June 2021					
		Land	Buildings	Furniture and equipment	Computer hardware	Vehicles	Total
Historical cost at beginning of period							
Revalued 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
Additions		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

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 assets comprise the lease of building and vehicles, as follows:

		June 2022		
		Right-of-use of building	Right-of-use of vehicles	Total
<u>Cost:</u>				
Historical cost at beginning of period	¢	38,662,163,871	107,630,182	38,769,794,053
Additions		40,301,472	-	40,301,472
Disposals		(244,019,212)	-	(244,019,212)
Adjustments		215,718,421	-	215,718,421
Closing balance		38,674,164,552	107,630,182	38,781,794,734
<u>Accumulated depreciation:</u>				
Opening balance		8,604,657,644	88,061,098	8,692,718,742
Depreciation expense on historical cost		1,431,861,724	14,676,850	1,446,538,574
Disposals		(193,099,712)	-	(193,099,712)
Adjustments		(84,868,634)	-	(84,868,634)
Closing balance		9,758,551,022	102,737,948	9,861,288,970
Net closing balance	¢	28,915,613,530	4,892,234	28,920,505,764

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		December 2021		
		Right-of-use of building	Right-of-use of vehicles	Total
<u>Cost:</u>				
Historical cost at beginning of period	¢	39,546,388,715	277,254,296	39,823,643,011
Additions		184,964,460	-	184,964,460
Disposals		(506,189,721)	(160,028,888)	(666,218,609)
Adjustments		(562,999,580)	(9,595,226)	(572,594,806)
Closing balance		38,662,163,874	107,630,182	38,769,794,056
<u>Accumulated depreciation:</u>				
Opening balance		5,776,635,561	192,006,032	5,968,641,593
Depreciation expense on historical cost		2,898,066,477	58,198,550	2,956,265,027
Disposals		(58,829,132)	(160,028,892)	(218,858,024)
Adjustments		(11,215,260)	(2,114,598)	(13,329,858)
Closing balance		8,604,657,646	88,061,092	8,692,718,738
Net closing balance	¢	30,057,506,228	19,569,090	30,077,075,318

		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
Net closing balance		-	31,201,818,933	34,245,958	31,236,064,891

(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 2022	December 2021	June 2021
Interest on lease liability	¢ <u>1,860,065,492</u>	<u>3,428,502,639</u>	<u>1,740,552,258</u>
Expenses for leases of low-value assets, excluding short-term assets	¢ <u>316,865,665</u>	<u>628,823,481</u>	<u>269,067,780</u>

ii. *Amounts recognized in the statement of cash flows*

The amounts recognized in the statement of cash flows are as follows:

	June 2022	December 2021	June 2021
Cash outflows for leases	¢ <u>(1,083,775,741)</u>	<u>2,005,812,157</u>	<u>(849,909,881)</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(17) Other assets

Other assets are as follows:

	June 2022	December 2021	June 2021
<i><u>Deferred charges:</u></i>			
Leasehold improvements (1)	¢ 6,985,482	9,757,224	39,174,168
Cost of issue of financial instruments, net (2)	185,187,667	233,534,136	281,947,552
Cost of subordinated debt project	36,802,398	97,783,459	189,732,174
Other deferred charges	21,291,062,239	28,387,122,273	35,483,182,307
	<u>21,520,037,786</u>	<u>28,728,197,092</u>	<u>35,994,036,201</u>
<i><u>Intangible assets:</u></i>			
Software (3)	7,690,061,282	9,163,553,845	4,378,157,946
Other intangible assets (3)	-	8,398,795	17,452,203
	<u>7,690,061,282</u>	<u>9,171,952,640</u>	<u>4,395,610,149</u>
<i><u>Other assets:</u></i>			
Prepaid taxes	12,121,769,671	22,494,965,119	11,544,793,438
Prepaid insurance policy	179,240,210	210,452,219	172,500,726
Other prepaid expenses	6,771,839,885	4,778,647,637	7,462,211,060
Stationery, office supplies and other materials	1,059,665,879	701,386,078	540,637,654
Leased assets	119,413,744	120,107,359	120,812,470
Library and artwork	404,704,948	404,704,948	404,704,948
Construction work in progress	1,613,200,397	1,380,986,124	2,048,846,962
Automated applications under development	179,783,156	170,702,974	127,010,031
Payments to welfare and trade associations	350,000	350,000	600,000
Other sundry assets	158,557,669	158,557,669	158,557,669
Operations pending settlement	12,565,128,153	6,036,577,570	8,209,073,427
Other operations pending application	113,629,824	80,847,419	105,690,388
Security deposits (Note 7)	441,179,955	823,104,907	382,497,500
Legal and administrative deposits (Note 7)	185,980,468	200,730,233	223,870,494
	<u>35,914,443,959</u>	<u>37,562,120,256</u>	<u>31,501,806,767</u>
¢	<u>65,124,543,027</u>	<u>75,462,269,988</u>	<u>71,891,453,117</u>

(1) As of June 30, 2022, the amortization expense for leasehold improvements amounts to ¢2,771,742 (December and June 2021: ¢77,644,222 and ¢48,227,276, respectively).

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(2) The costs of issue of financial instruments are as follows:

		June 2022		
		10-year issue (maturing in 2023)	5-year issue (maturing in 2021)	Total
Commission - structuring banks	€	346,125,000	346,125,000	692,250,000
Commission - Moody's Investors Service		173,062,500	173,062,500	346,125,000
Commission - Société de la Bourse de Luxembourg S.A.		8,459,987	8,459,988	16,919,975
RR Donnelley		7,578,033	7,578,061	15,156,094
BNY Mellon		2,736,464	2,736,465	5,472,929
Moody's issuer rating		22,913,475	22,913,475	45,826,950
Fitch Ratings		173,062,500	173,062,500	346,125,000
Milbank		101,871,510	101,871,510	203,743,020
Shearman & Sterling		102,003,730	102,003,730	204,007,460
External audit		131,527,500	131,527,500	263,055,000
		1,069,340,699	1,069,340,729	2,138,681,428
Amortization		(884,153,032)	(1,069,340,729)	(1,953,493,761)
	€	185,187,667	-	185,187,667

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 2021				
	5-year issue (maturing in 2018)	10-year issue (maturing in 2023)	5-year issue (maturing in 2021)	Total
Commission - structuring banks	¢ 322,625,000	322,625,000	548,462,500	1,193,712,500
Commission - Moody's Investors Service	161,312,500	161,312,500	-	322,625,000
Commission - Société de la Bourse de Luxembourg S.A.	7,885,600	7,885,600	-	15,771,200
RR Donnelley	7,063,552	7,063,526	4,228,501	18,355,579
BNY Mellon	2,550,673	2,550,673	3,721,157	8,822,503
Moody's issuer rating	21,357,775	21,357,775	161,312,500	204,028,050
Fitch Ratings	161,312,500	161,312,500	161,312,500	483,937,500
Milbank	94,954,990	94,954,990	127,127,549	317,037,529
Shearman & Sterling	95,078,233	95,078,233	141,434,993	331,591,459
External audit	122,597,500	122,597,500	149,698,000	394,893,000
Perkins Cole (Broker)	-	-	8,463,777	8,463,777
Printing of documents	-	-	10,204,603	10,204,603
	<u>996,738,323,00</u>	<u>996,738,297,00</u>	<u>1,315,966,080,00</u>	<u>3,309,442,700,00</u>
Amortization	<u>(996,738,323,00)</u>	<u>(763,204,161,00)</u>	<u>(1,315,966,080,00)</u>	<u>(3,075,908,564,00)</u>
¢	<u>-</u>	<u>233,534,136,00</u>	<u>-</u>	<u>233,534,136,00</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		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	7,600,485	-	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	3,586,612	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>(678,752,149)</u>	<u>(1,268,385,317)</u>	<u>(2,907,837,191)</u>
	¢	<u>-</u>	<u>281,947,552</u>	<u>-</u>	<u>281,947,552</u>

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

(Continued)



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

		June 2022		
		Software	Other intangible assets	Total
<u>Cost:</u>				
Opening balance	¢	35,209,164,296	50,494,354	35,259,658,650
Additions		1,071,723,665	8,398,795	1,080,122,460
Revaluations		(29,193,648)	-	(29,193,648)
Sales		-	(16,797,590)	(16,797,590)
Disposals		(12,830,405)	-	(12,830,405)
Closing balance		<u>36,238,863,908</u>	<u>42,095,559</u>	<u>36,280,959,467</u>
<u>Accumulated amortization:</u>				
Opening balance		26,045,610,450	42,095,559	26,087,706,009
Expense for the period		2,516,221,197	16,797,593	2,533,018,790
Sales		(13,029,021)	(16,797,593)	(29,826,614)
Closing balance		<u>28,548,802,626</u>	<u>42,095,559</u>	<u>28,590,898,185</u>
Net closing balance	¢	<u>7,690,061,282</u>	<u>-</u>	<u>7,690,061,282</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 2021			
	Software	Other intangible assets	Total
<i><u>Cost:</u></i>			
Opening balance	¢ 34,140,956,405	46,969,683	34,187,926,088
Additions	8,537,149,482	29,723,089	8,566,872,571
Disposals	(7,352,458,311)	-	(7,352,458,311)
Reclassifications	-	(26,198,417)	(26,198,417)
Adjustments	(116,483,280)	-	(116,483,280)
Closing balance	<u>35,209,164,296</u>	<u>50,494,355</u>	<u>35,259,658,651</u>
<i><u>Accumulated amortization:</u></i>			
Opening balance	28,845,429,057	42,095,559	28,887,524,616
Expense for the period	4,474,766,686	34,597,216	4,509,363,902
Disposals	(7,201,216,192)	-	(7,201,216,192)
Reclassifications	(72,685,752)	(34,597,216)	(107,282,968)
Adjustments	(683,347)	-	(683,347)
Closing balance	<u>26,045,610,452</u>	<u>42,095,559</u>	<u>26,087,706,011</u>
Net closing balance	¢ <u>9,163,553,844</u>	<u>8,398,796</u>	<u>9,171,952,640</u>
June 2021			
	Software	Other intangible assets	Total
<i><u>Cost:</u></i>			
Opening balance	¢ 34,140,956,406	46,969,683	34,187,926,089
Additions	1,110,514,127	21,324,294	1,131,838,421
Disposals	(84,548,691)	-	(84,548,691)
Reclassifications	-	(8,746,215)	(8,746,215)
Adjustments	(115,468,468)	-	(115,468,468)
Closing balance	<u>35,051,453,374</u>	<u>59,547,762</u>	<u>35,111,001,136</u>
<i><u>Accumulated amortization:</u></i>			
Opening balance	28,845,429,058	42,095,559	28,887,524,617
Expense for the period	1,878,943,349	-	1,878,943,349
Disposals	(11,024,130)	-	(11,024,130)
Reclassifications	(39,565,897)	-	(39,565,897)
Adjustments	(486,952)	-	(486,952)
Closing balance	<u>30,673,295,428</u>	<u>42,095,559</u>	<u>30,715,390,987</u>
Net closing balance	¢ <u>4,378,157,946</u>	<u>17,452,203</u>	<u>4,395,610,149</u>

(Continued)

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 2022	December 2021	June 2021
<i><u>Demand deposits:</u></i>			
Checking accounts	¢ 2,212,869,151,226	2,280,685,115,875	1,805,193,076,745
Certified checks	91,121,383	81,126,362	74,510,213
Savings deposits	2,171,810,384,468	2,049,250,666,697	1,829,166,322,820
Matured term deposits	25,198,169,606	23,072,595,759	26,685,524,200
Other demand deposits	117,518,963	122,843,952	122,236,952
Drafts and transfers payable	1,078,872,131	194,665,191	187,886,521
Cashier's checks	6,543,703,364	4,616,672,412	4,140,879,732
Advance collections from customers for credit cards	11,134,565,493	11,196,281,538	11,128,212,179
Trust fund obligation	31,018,030	38,184,399	49,240,993
	<u>4,428,874,504,664</u>	<u>4,369,258,152,185</u>	<u>3,676,747,890,355</u>
<i><u>Term deposits:</u></i>			
Deposits from the public	1,744,373,655,837	1,635,557,973,096	1,969,759,918,584
Other term deposits	48,337,973,036	65,562,075,052	43,752,045,795
	<u>1,792,711,628,873</u>	<u>1,701,120,048,148</u>	<u>2,013,511,964,379</u>
<i><u>Other obligations with the public:</u></i>			
Finance charges payable	25,381,660,477	27,369,847,440	31,388,935,326
	<u>¢ 6,246,967,794,014</u>	<u>6,097,748,047,773</u>	<u>5,721,648,790,060</u>

As of June 30, 2022, deposits in checking accounts in colones bear interest at a maximum rate of 2.35% per annum on full balances (both December and June 2021: 1.15% per annum) and at a minimum rate of 0.00% per annum on balances greater than or equal to ¢500,001 (both December and June 2021: 0.00% per annum). Deposits in checking accounts in US dollars bear interest at a maximum rate of 0.20% per annum on full balances (both December and June 2021: 0.20% per annum) and at a minimum rate of 0.00% per annum on balances greater than or equal to US\$1,000 (both December and June 2021: 0.00% per annum).

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

Currency	June 2022	December 2021	June 2021
Colones	2.01% to 6.24%	0.77% to 5.95%	1.00% to 6.25%
US dollars	0.10% to 3.80%	0.10% to 3.80%	0.10% to 3.80%

The Conglomerate has term certificates of deposit that are restricted to secure certain loan operations. As of June 30, 2022, the balance of those term certificates of deposit is ¢85,194,978,916 (December and June 2021: ¢80,694,825,700 and ¢80,582,023,236, respectively). 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 2022	December 2021	June 2021
Financing of loans using internal funds - BCCR (i)	¢ 164,570,763,666	167,166,427,708	168,293,000,000
Financing of loans using external funds (ii)	125,644,412	125,644,412	125,644,412
Finance charges payable	1,592,636,696	951,173,419	271,929,444
	¢ <u>166,289,044,774</u>	<u>168,243,245,539</u>	<u>168,690,573,856</u>

- i. Corresponds to the partial redemption of deferred term operations.
- ii. 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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(20) Obligations with financial entities

Obligations with financial entities are as follows:

	June 2022	December 2021	June 2021
<i><u>Demand:</u></i>			
Checking accounts with local financial entities	¢ 191,784,436,210	112,128,062,548	63,277,429,569
Savings deposits with local financial entities	37,640,260	46,270,767	27,832,304
Outstanding checks	3,746,415,349	1,278,976,636	3,353,584,527
Matured term deposits	56,451,500	2,830,075	446,822,189
Checking accounts and obligations with related parties (Note 8)	10,118,422	107,286,096	1,008,237,180
	<u>195,635,061,741</u>	<u>113,563,426,122</u>	<u>68,113,905,769</u>
<i><u>Term:</u></i>			
Term deposits with local financial entities	78,284,441,894	82,937,788,340	111,879,256,428
Term obligations with foreign financial entities (2)	119,935,809,235	212,580,207,605	208,790,848,339
Obligations for funds from the liquidity market	29,431,324,999	19,900,525,001	17,821,919,998
Loans from local financial entities (3)	-	34,352,702,356	28,762,056,464
Loans from foreign financial entities (3) (4)	126,685,765,050	119,806,406,600	127,499,611,895
Lease liabilities (1)	36,880,451,353	35,470,104,910	35,114,479,025
Obligations with funds from FINADE	32,743,864,980	-	-
Obligations with funds from the Development Credit Fund	197,119,974,112	186,762,911,685	155,050,074,576
	<u>621,081,631,623</u>	<u>691,810,646,497</u>	<u>684,918,246,725</u>
(Deferred fees and commissions on own loan portfolio)	(122,613,840)	(51,811,794)	(128,516,173)
	<u>(122,613,840)</u>	<u>(51,811,794)</u>	<u>(128,516,173)</u>
Charges payable for other demand and term obligations with financial entities – foreign currency	36,627,211	46,267,755	39,033,770
Charges payable for other demand and term obligations with financial entities – local currency	399,530,327	421,507,265	571,390,847
Charges payable for loans with foreign financial entities (3)(4)	606,415,209	517,859,705	537,416,465
Charges payable for loans with local financial entities (3)	44,559,070	42,198,364	60,905,741
Charges payable for term deposits with foreign financial entities (2)	1,258,049,060	2,151,646,656	2,073,850,582
	<u>2,345,180,877</u>	<u>3,179,479,745</u>	<u>3,282,597,405</u>
¢	<u>818,939,260,401</u>	<u>808,501,740,570</u>	<u>756,186,233,726</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(1) Lease liabilities

As of June 30, 2022, long-term lease liabilities and their current portion amount to ¢7,175,739,205 and US\$42,322,509, for a total in colones of ¢36,473,496,060, using an exchange rate of ¢692.25 (December 2021: ¢6,112,557,693 and US\$45,497,942, for a total in colones of ¢35,470,104,910, using an exchange rate of ¢645.25; June 2021: ¢6,004,550,398 and US\$46,927,525, for a total in colones of ¢34,902,989,654, using an exchange rate of ¢621.92).

Lease operations are as follows:

	June 2022			June 2021		
	No. of operations	Interest rates	Maturity dates	No. of operations	Interest rates	Maturity dates
In colones	18	5.56% and 15.00% per annum	2022 and 2041	16	8.82% and 13.63% per annum	2022 and 2042
In US dollars	57	3.57% and 8.85% per annum	2022 and 2041	59	6.48% and 8.85% per annum	2021 and 2041
	75			75		

Future minimum lease payments are as follows:

	June 2022		
	<u>Future minimum lease payments</u>	<u>Interest</u>	<u>Present value of minimum lease payments</u>
Less than one year	¢ 5,653,891,602	3,401,851,379	2,252,044,874
Between one and five years	26,155,293,745	13,691,584,148	12,463,732,857
More than five years	31,511,688,375	9,347,052,840	22,164,671,276
	¢ <u>63,320,873,722</u>	<u>26,440,488,367</u>	<u>36,880,449,007</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 2021			
	<u>Future minimum</u>		<u>Present value of minimum</u>
	<u>lease payments</u>	<u>Interest</u>	<u>lease payments</u>
Less than one year	¢ 5,428,099,149	3,331,645,084	2,096,458,402
Between one and five years	24,938,808,081	13,407,018,018	11,531,790,063
More than five years	31,295,162,764	9,453,301,983	21,841,860,781
	¢ <u>61,662,069,994</u>	<u>26,191,965,084</u>	<u>35,470,104,910</u>

June 2021			
	<u>Future minimum</u>		<u>Present value of minimum</u>
	<u>lease payments</u>	<u>Interest</u>	<u>lease payments</u>
Less than one year	¢ 5,260,711,387	3,280,538,162	1,980,177,401
Between one and five years	24,285,203,720	13,438,568,006	10,846,656,642
More than five years	32,489,274,059	10,164,830,300	22,324,480,102
	¢ <u>62,035,189,166</u>	<u>26,883,936,468</u>	<u>35,151,314,145</u>

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

	<u>June 2022</u>	<u>December 2021</u>	<u>June 2021</u>
Opening balance	¢ 35,470,104,910	37,044,902,529	36,527,027,411
New financial obligations	-	187,604,732	18,916,950
Settlements or withdrawals	(43,502,327)	(467,870,645)	(457,570,020)
Adjustments	453,084,805	(556,573,858)	(721,594,073)
Payment of obligations	(1,034,255,427)	(2,005,812,157)	(923,419,037)
Interest expense	-	-	1,720,371,374
Foreign exchange differences	2,035,017,046	1,267,854,309	213,073,083
Closing balance	¢ <u>36,880,449,007</u>	<u>35,470,104,910</u>	<u>34,656,434,314</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

<u>Date of issue</u>	<u>Face value</u>	<u>Characteristics</u>
10/19/2007	US\$20	Traded amount: 100% Term: 16 years Interest rate: 6.20 per coupon
09/04/2007	US\$20	Traded amount: 100% Term: 16 years Interest rate: 6.20 per coupon
05/07/2007	US\$10	Traded amount: 100% Term: 17 years Interest rate: 6.20 per coupon
12/03/2007	US\$75	Traded amount: 100% Term: 22 years Interest rate: 6.65 per coupon
11/24/2020	US\$10	Traded amount: 100% Term: 3 years Interest rate: 2.84 per coupon
01/05/2021	US\$40	Traded amount: 100% Term: 3 years Interest rate: 2.84 per coupon
07/21/2016	US\$8.1	Traded amount: 100% Term: 7 years Interest rate: 3.32 per coupon
04/27/2016	US\$1.6	Traded amount: 100% Term: 8 years Interest rate: 3.32 per coupon
04/27/2016	US\$15.8	Traded amount: 100% Term: 8 years Interest rate: 3.32 per coupon
11/30/2015	US\$2.8	Traded amount: 100% Term: 8 years Interest rate: 3.32 per coupon
05/13/2015	US\$5.4	Traded amount: 100% Term: 9 years Interest rate: 3.32 per coupon
02/09/2015	US\$2.8	Traded amount: 100% Term: 9 years Interest rate: 3.32 per coupon
01/30/2015	US\$3.1	Traded amount: 100% Term: 9 years Interest rate: 3.32 per coupon

(Continued)



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Obligations with international issuers

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

June 2022		
	10-year issue (maturing in 2023)	Total
Issue	¢ 119,651,933,307	119,651,933,307
Adjustment to fair value of hedged item measured at cost of international issues	(630,634,752)	(630,634,752)
Amortization of discount in traded amount of issues	914,510,680	914,510,680
	119,935,809,235	119,935,809,235
Finance charges payable	1,258,049,060	1,258,049,060
	¢ 121,193,858,295	121,193,858,295
December 2021		
	10-year issue (maturing in 2023)	Total
Issue	¢ 204,641,216,311	204,641,216,311
Adjustment to fair value of hedged item measured at cost of international issues	6,491,805,120	6,491,805,120
Amortization of discount in traded amount of issues	1,447,186,174	1,447,186,174
	212,580,207,605	212,580,207,605
Finance charges payable	2,151,646,656	2,151,646,656
	¢ 214,731,854,261	214,731,854,261
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	1,285,664,040	1,285,664,040
	208,790,848,339	208,790,848,339
Finance charges payable	2,073,850,582	2,073,850,582
	¢ 210,864,698,921	210,864,698,921

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

		June 2022		
		Local	Foreign	Total
One to two years	¢	44,559,070	75,104,894,944	75,149,454,014
Three to five years		3,570,541,285	-	3,570,541,285
More than five years		29,173,323,695	52,187,285,315	81,360,609,010
	¢	<u>32,788,424,050</u>	<u>127,292,180,259</u>	<u>160,080,604,309</u>
		December 2021		
		Local	Foreign	Total
One to two years	¢	42,198,364	71,930,516,305	71,972,714,669
Three to five years		2,815,619,439	-	2,815,619,439
More than five years		31,537,082,917	48,393,750,000	79,930,832,917
	¢	<u>34,394,900,720</u>	<u>120,324,266,305</u>	<u>154,719,167,025</u>
		June 2021		
		Local	Foreign	Total
One to two years	¢	-	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>

(4) As of June 30, 2022, loans due to foreign financial entities bear interest at rates ranging from 3.32% to 6.65% per annum (2021: from 2.60% to 6.65% per annum).

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

		June 2022	December 2021	June 2021
Opening balance	¢	119,806,406,600	144,435,457,141	144,435,457,141
New financial obligations		-	32,192,000,006	25,956,430,961
Settlement of financial obligations		(1,840,640,164)	(62,240,257,851)	(13,795,945,792)
Foreign exchange differences		<u>8,719,998,614</u>	<u>5,419,207,304</u>	<u>(334,273,951)</u>
Cash flows from financing activities		<u>6,879,358,450</u>	<u>(24,629,050,541)</u>	<u>11,826,211,219</u>
Closing balance	¢	<u>126,685,765,050</u>	<u>119,806,406,600</u>	<u>156,261,668,359</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(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, income tax is as follows:

a) Income tax for the year

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

	June		Quarter from April 1 to June 30	
	2022	2021	2022	2021
<u>Current tax:</u>				
Current tax expense for the period	¢ 14,594,805,547	9,756,822,191	7,225,892,966	3,910,064,746
Prior-period income tax expense	7,094,618,966	7,094,618,966	3,547,309,483	3,547,309,483
	21,689,424,513	16,851,441,157	10,773,202,449	7,457,374,229
<u>Deferred tax:</u>				
Deferred tax expense	333,630,335	838,964,344	51,458,463	420,088,748
Deferred tax income	(1,036,989,744)	(917,980,113)	(467,585,352)	(433,9098,912)
Total deferred tax expense, net	(703,359,409)	(79,015,769)	(416,126,889)	(13,821,164)
Income tax expense, net	¢ 20,986,065,104	16,772,425,388	10,357,075,560	7,443,553,065

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:

	June 2022		June 2021	
Profit before tax	¢ 50,909,039,223		34,488,959,565	
<u>Plus (less) tax effect of:</u>				
Non-deductible expenses	19,409,625,354	40%	8,061,485,180	25%
Deductible expenses	(6,294,325,908)	13%	(5,715,928,485)	18%
Non-taxable income	(15,509,617,715)	32%	(4,310,118,471)	13%
Taxable income	134,630,861		-	
Tax base	48,649,351,815		32,524,397,789	
Tax rate	30%		30%	
Income tax expense	14,594,805,547		9,756,822,191	
Prior-period income tax expense	7,094,618,966		7,094,618,966	
Deferred tax expense	333,630,335		838,964,344	
Deferred tax income	(1,036,989,744)		(917,980,113)	
Deferred tax expense, net	(703,359,409)		(79,015,769)	
Net income tax expense	¢ 20,986,065,104		16,772,425,388	

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

b) Deferred tax

Deferred tax assets and liabilities are as follows:

		June 2022		
		Assets	Liabilities	Net
Unrealized losses on valuation of investments	¢	4,959,598,213	-	4,959,598,213
Provisions		(162,151,984)	-	(162,151,984)
Right-of-use assets		2,381,132,741	-	2,381,132,741
Impairment of investments		12,686,297	-	12,686,297
Depreciation of assets		12,376,426	-	12,376,426
Lease liabilities		-	(1,221,832)	(1,221,832)
Unrealized gains on valuation of investments		-	(634,928,128)	(634,928,128)
Revaluation of property		-	(9,202,891,432)	(9,202,891,432)
Tax base of property and equipment		-	(4,849,431,088)	(4,849,431,088)
	¢	<u>7,203,641,693</u>	<u>(14,688,472,480)</u>	<u>(7,484,830,787)</u>
		December 2021		
		Assets	Liabilities	Net
Unrealized losses on valuation of investments	¢	1,085,414,530	-	1,085,414,530
Provisions		(102,817,740)	-	(102,817,740)
Right-of-use assets		1,608,334,395	-	1,608,334,395
Lease liabilities		-	(1,221,832)	(1,221,832)
Unrealized gains on valuation of investments		-	(3,712,707,527)	(3,712,707,527)
Revaluation of property		-	(8,848,593,314)	(8,848,593,314)
Tax base of property and equipment		-	(4,826,962,804)	(4,826,962,804)
	¢	<u>2,590,931,185</u>	<u>(17,389,485,477)</u>	<u>(14,798,554,292)</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		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		-	(3,872,906,272)	(3,872,906,272)
	¢	<u>1,998,361,944</u>	<u>(16,983,185,458)</u>	<u>(14,984,823,514)</u>

Deferred tax assets and liabilities are as follows:

		December 2021	Included in the income statement	Included in equity	June 2022
Unrealized losses on valuation of investments	¢	1,107,598,481	-	3,851,999,732	4,959,598,213
Provisions		(151,396,094)	(10,755,890)	-	(162,151,984)
Right-of-use assets		1,619,240,561	223,274,806	538,617,374	2,381,132,741
Impairment of investments		12,686,297	-	-	12,686,297
Depreciation of assets		12,376,426	-	-	12,376,426
Lease liabilities		(1,221,832)	-	-	(1,221,832)
Unrealized gains on valuation of investments		(3,712,707,527)	(34,883,083)	3,112,662,482	(634,928,128)
Revaluation of property		(8,848,593,314)	-	(354,298,118)	(9,202,891,432)
Tax base of property and equipment		(4,826,962,804)	(288,866,299)	266,398,015	(4,849,431,088)
	¢	<u>(14,788,979,806)</u>	<u>(111,230,466)</u>	<u>7,415,379,485</u>	<u>(7,484,830,787)</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		December 2020	Included in the income statement	Included in equity	December 2021
Unrealized losses on					
valuation of investments	¢	518,956,287	(84,763,319)	673,405,513	1,107,598,481
Provisions		200,148,114	(351,544,208)	-	(151,396,094)
Right-of-use assets		953,132,437	-	666,108,124	1,619,240,561
Impairment of investments		12,686,297	-	-	12,686,297
Depreciation of assets		12,376,426	-	-	12,376,426
Lease liabilities		(1,221,832)	-	-	(1,221,832)
Unrealized gains on					
valuation of investments		(2,904,593,685)	547,627,514	(1,355,741,360)	(3,712,707,527)
Revaluation of property		(9,048,149,427)	(12,030,296)	211,586,409	(8,848,593,314)
Tax base of property and equipment		<u>(3,827,430,506)</u>	<u>(345,275,292)</u>	<u>(654,257,006)</u>	<u>(4,826,962,804)</u>
	¢	<u>(14,084,095,885)</u>	<u>(245,985,601)</u>	<u>(458,898,320)</u>	<u>(14,788,979,806)</u>
		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 on					
valuation of investments		(3,006,120,072)	71,551,737	(1,236,618,106)	(4,171,186,441)
Revaluation of property		(17,530,316,973)	-	8,591,224,229	(8,939,092,744)
Tax base of property and equipment		<u>(3,739,156,241)</u>	<u>(345,275,292)</u>	<u>211,525,260</u>	<u>(3,872,906,273)</u>
	¢	<u>(22,589,528,740)</u>	<u>(335,723,677)</u>	<u>7,940,428,903</u>	<u>(14,984,823,514)</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

As of June 30, 2022, the Bank has not recognized a deferred tax liability in the amount of ¢4,079,928,406 (2021: ¢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, 2021 and the tax return that will be filed for the year ended December 31, 2022 are open to review by the Tax Authorities.

(22) Provisions

Provisions are as follows:

	June 2022	December 2021	June 2021
Severance benefits	¢ 353,571,842	371,601,957	319,332,082
Litigation	7,097,464,504	8,034,225,228	7,332,682,535
Inactive checking and savings accounts liquidated	824,779,454	777,866,680	757,705,081
Manager commissions	5,915,212,707	6,428,676,967	7,416,159,710
Variation in RIVM methodology	490,003,103	490,003,103	490,003,103
Notice of deficiency	4,714,347,682	4,714,347,682	4,714,347,682
Other	698,585,538	693,432,968	229,724,509
	¢ 20,093,964,830	21,510,154,585	21,259,954,702

Movement in provisions is as follows:

	June 2022			
	Severance benefits	Litigation	Other	Total
Balance as of December 31, 2021	¢ 314,133,990	6,952,427,372	21,375,324,034	28,641,885,396
Increase in provision	34,758,352	320,196,775	2,295,092,791	2,650,047,918
Used	59,625,421	1,051,949,653	(10,954,992,740)	(9,843,417,666)
Decrease in provision	(54,945,921)	(1,227,109,296)	(72,495,601)	(1,354,550,818)
Balance as of June 30, 2022	¢ 353,571,842	7,097,464,504	12,642,928,484	20,093,964,830

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 2021				
	Severance benefits	Litigation	Other	Total
Balance as of December 31, 2020	¢ 314,133,990	6,952,427,372	21,375,324,033	28,641,885,395
Increase in provision	132,108,604	1,374,172,666	5,092,180,705	6,598,461,975
Used	17,540,254	(283,107,925)	(13,310,198,017)	(13,575,765,688)
Decrease in provision	(92,180,891)	(9,266,885)	(52,979,321)	(154,427,097)
Balance as of December 31, 2021	¢ 371,601,957	8,034,225,228	13,104,327,400	21,510,154,585

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)	(27,177,722)	(103,848,959)
Balance as of June 30, 2021	¢ 319,332,082	7,332,682,535	13,607,940,085	21,259,954,702

The Bank and its subsidiaries are defendants in pending lawsuits, for which the potential outflow of economic benefits is considered. As of June 30, the Bank has estimated future outflows and made the following provisions:

Type	Claimed amount			Provision		
	June 2022	December 2021	June 2021	June 2022	December 2021	June 2021
Ordinary - in colones	18,666,500,573	18,689,257,903	18,672,832,552	3,634,306,950	4,454,089,608	4,618,493,561
Ordinary - in US dollars	147,312,515,963	135,030,173,609	135,813,128,966	3,272,679,045	2,920,760,287	2,204,326,900
Criminal - in colones	1,020,877,223	1,020,877,223	1,020,877,223	-	-	-
Labor - in colones	925,306,815	955,498,846	879,064,573	190,478,509	659,375,333	509,862,074
	<u>167,925,200,574</u>	<u>155,695,807,581</u>	<u>156,385,903,314</u>	<u>7,097,464,504</u>	<u>8,034,225,228</u>	<u>7,332,682,535</u>

(Continued)



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 2022	December 2021	June 2021
Professional fees	¢ 9,199,339	8,845,876	1,428,250
Creditors - goods and services	5,304,434,753	5,677,747,171	4,631,688,696
Income tax	14,594,805,547	18,567,386,331	9,756,822,191
Value added tax	297,183,029	339,302,747	257,043,645
Employer contributions	9,879,200,970	10,271,862,174	7,286,942,708
Court-ordered withholdings	4,062,993,450	3,863,355,272	3,957,738,306
Tax withholdings	1,777,076,237	2,281,670,067	1,880,534,387
Employee withholdings	820,611,721	812,634,933	734,797,939
Other third-party withholdings	182,025,946	9,747,627	241,725,359
Compensation	15,195,347,927	16,341,390,269	9,093,006,959
Statutory allocations	18,706,919,791	18,174,951,496	10,803,380,481
Obligations on loans with related parties	-	-	956,468
Clearing house operations	780,133,150	339,051,671	293,916,670
Accrued vacation	5,631,937,964	5,159,944,007	5,012,716,071
Accrued statutory Christmas bonus	5,834,312,055	1,906,421,522	5,203,852,757
Contribution to the superintendencies' budget	1,578,931	6,111,241	6,111,241
Assets held for sale	186,594,488	142,060,903	217,189,848
Provisional deposits for the payment of premiums	2,224,399,533	2,106,711,540	2,301,940,217
Property	816,703,502	433,710,054	1,134,044,394
Direct contracts with the Government Purchases department - various	-	669,279,588	849,822,700
Accounts due to customers (1)	-	21,165,923	-
SICOP guarantees	1,513,489,001	1,598,166,821	1,533,478,398
International organizations	1,050,450,000	-	901,000,000
Amounts received for partial sales of assets held for sale	-	525,977,790	503,428,180
Master Card and Visa payments	1,955,765,301	1,706,268,154	1,323,030,093
Allocation for petty cash differences	624,320,545	574,083,215	574,036,798
Various creditors	4,335,477,864	2,542,751,235	2,226,338,474
Interest rate futures - Hedges (Note 9)	615,831,858	14,185,350	30,974,663
	¢ <u>96,400,792,902</u>	<u>94,094,782,977</u>	<u>70,757,945,893</u>

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(24) Other liabilities

Other liabilities are as follows:

		June 2022	December 2021	June 2021
<u>Deferred income:</u>				
Deferred fees and commissions for trust management	¢	114,475,008	88,200,061	66,506,141
		<u>114,475,008</u>	<u>88,200,061</u>	<u>66,506,141</u>
<u>Operations pending settlement:</u>				
Operations pending settlement		9,666,109,691	16,748,386,396	9,130,963,180
Other operations pending settlement		<u>29,043,316,966</u>	<u>10,135,704,410</u>	<u>21,978,265,815</u>
		<u>38,709,426,657</u>	<u>26,884,090,806</u>	<u>31,109,228,995</u>
	¢	<u>38,823,901,665</u>	<u>26,972,290,867</u>	<u>31,175,735,136</u>

(25) Subordinated obligations

The Conglomerate's subordinated obligations are as follows:

Entity	Annual interest rate	Term	Maturity		June 2022	December 2021	June 2021
IDB	6-month LIBOR + 6.30% in the first 5 years and 6-month LIBOR + 6.80% thereafter	10	27/05/2024	US\$	45,000,000	50,000,000	60,000,000
	6-month LIBOR + 5.25% in the first 5 years and 6-month LIBOR + 5.75% thereafter	15	23/10/2029		<u>22,500,000</u>	<u>24,000,000</u>	<u>26,250,000</u>
AFD	8.28% per annum (1)	10	29/09/2031		<u>15,000,000</u>	<u>15,000,000</u>	<u>-</u>
FINDEV	6-month LIBOR + 6.30% in the first 5 years and 6-month LIBOR + 6.80% thereafter	10	18/02/2032		<u>30,000,000</u>	<u>-</u>	<u>-</u>
				US\$	<u>112,500,000</u>	<u>89,000,000</u>	<u>86,250,000</u>
	Equivalent in colones			¢	<u>77,878,125,000</u>	<u>57,427,250,000</u>	<u>53,174,160,000</u>
	Finance charges payable				<u>1,800,466,483</u>	<u>940,121,894</u>	<u>910,181,593</u>
				¢	<u>79,678,591,483</u>	<u>58,367,371,894</u>	<u>54,084,341,593</u>

(1) Credit facility agreement CCR1006 02 subscribed by Banco Nacional de Costa Rica and the French Development Agency, authorized by SUGEF on December 23, 2021.

(Continued)

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 2022	December 2021	June 2021
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 2022	December 2021	June 2021
Legal reserve	¢	366,289,849,201	343,173,824,949	343,172,110,194
Statutory reserve for assets held for sale		4,499,377,001	3,248,004,049	2,462,175,235
Excess of statutory reserve for loans		4,740,823,037	7,124,739,246	7,094,751,626
Statutory dynamic provision		12,213,828,252	11,190,669,854	11,835,555,493
	¢	<u>387,743,877,491</u>	<u>364,737,238,098</u>	<u>364,564,592,548</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(c) Equity of the Development Financing Fund

As of June 30, 2022, the allocation of the Bank's earnings for the creation of the Development Financing Fund (FOFIDE) amounts to ¢44,436,595,670 (December and June 2021: ¢41,687,504,022).

(27) Commitments and contingencies

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 2022	December 2021	June 2021
Performance bonds	¢ 45,654,544,446	42,618,377,673	44,382,041,945
Bid bonds	1,537,451,398	2,180,865,597	2,894,956,532
Other guarantees	5,180,000	445,367,225	429,264,292
Letters of credit	4,986,400,385	4,124,817,367	3,968,347,061
Credits pending disbursement	124,833,348	124,833,348	132,682,164
	<u>52,308,409,577</u>	<u>49,494,261,210</u>	<u>51,807,291,994</u>
Pre-approved lines of credit	335,130,016,358	293,974,025,045	284,954,134,728
Other contingencies not related to credits	83,658,102	83,658,102	83,658,104
Other contingencies - Pending litigation and lawsuits (Note 51)	<u>167,925,843,741</u>	<u>155,692,521,734</u>	<u>156,381,915,283</u>
	<u>503,139,518,201</u>	<u>449,750,204,881</u>	<u>441,419,708,115</u>
	¢ <u><u>555,447,927,778</u></u>	<u><u>499,244,466,091</u></u>	<u><u>493,227,000,109</u></u>

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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of June 30, 2022, 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 manageme nt	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	¢ 342,071,526	7,032,941	14,736,247	-	1,357	-	-	16,482	-	21,436,475,371	5,593	21,800,339,517
Investments in financial instruments	195,969,377,684	9,368,240,528	255,781,035	2,649,092,322,472	4,066,196,928	-	2,540,650	70,911,611	-	41,706,607	707,549	2,858,867,785,064
Loan portfolio	3,944,095,793	-	1,028,536,437	-	-	-	-	-	-	-	-	4,972,632,230
Accounts and accrued interest receivable	155,136,118,023	29,078,389,353	2,031,526,042	86,005,675	12,430,236	-	-	195,307,574	-	-	482,232	186,540,259,135
Assets held for sale	81,603,394	-	5,011,311	-	-	-	-	-	-	-	-	86,614,705
Investments in other companies	-	-	-	4,595,000,000	24,311,225	164,000	-	-	25,206,000	632,400,786	2,740,000	5,279,822,011
Property and equipment	729,451,078	29,771,924,389	-	121,051,595,564	1,069,780,959	-	-	8,719,375,327	-	-	3,004,248,009	164,346,375,326
Other assets	23,427,357,384	1,113,423,478	1,262	-	8,066,658	-	-	728,546	-	5,335,299,808	1,674,505,318	31,559,382,454
¢	379,630,074,882	69,339,010,689	3,335,592,334	2,774,824,923,711	5,180,787,363	164,000	2,540,650	8,986,339,540	25,206,000	27,445,882,572	4,682,688,701	3,273,453,210,442

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of December 31, 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 managemen t	Guaranties and cash management	Custody of stock	Management, custody and guaranty	Pre-sale management	Guaranty and custody of stock	Total
<i>Trust assets</i>													
Cash and due from banks	¢ 180,811,647	9,725,684	13,547,026	-	18,544	-	-	758,785	-	20,022,675,423	1,290,500	5,593	20,228,833,202
Investments in financial instruments	248,428,363,414	8,574,990,950	1,490,971,747	2,328,906,164,576	4,005,247,820	-	2,520,765	104,641,328	-	245,395,006	-	657,852	2,591,758,953,458
Loan portfolio	3,376,455,012	-	1,102,694,752	-	-	-	-	-	-	-	-	-	4,479,149,764
Accounts and accrued interest receivable	149,198,351,969	29,135,410,270	1,978,836,411	67,511,266	183,780	-	-	176,186,093	-	-	-	241,116	180,556,720,905
Assets held for sale	115,090,752	-	6,779,434	-	-	-	-	-	-	-	-	-	121,870,186
Investments in other companies	-	-	-	4,595,000,000	24,306,525	164,000	-	-	25,206,000	589,464,221	-	4,740,000	5,238,880,746
Property and equipment	752,822,519	27,113,866,007	-	122,026,030,187	662,837,677	-	-	8,719,375,327	-	-	-	3,004,248,009	162,279,179,726
<i>Trust assets</i>	22,370,111,737	2,796,050,506	1,262	235,000,000	6,847,664	-	-	799,362	-	4,513,506,224	-	1,674,505,319	31,596,822,074
¢	424,422,007,050	67,630,043,417	4,592,830,632	2,455,829,706,029	4,699,442,010	164,000	2,520,765	9,001,760,895	25,206,000	25,371,040,874	1,290,500	4,684,397,889	2,996,260,410,061

(Continued)

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
Assets held for sale	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

(Continued)



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.

(Continued)

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 2022	December 2021	June 2021
Pension Fund Manager's own investments in custody – Face value of principal (unaudited) ¢	11,368,359,997	11,256,590,000	9,958,496,000
Pension Fund Manager's own investments in custody – Coupons (unaudited)	2,998,441,825	4,837,091,300	4,726,797,304
Pension Fund Manager's own investments in custody – Number of shares (unaudited)	23	23	23
Guarantees received in the Bank's custody	1,402,634,782	943,997,162	387,101,206
Guarantees on financial instruments	17,566,178,437,454	7,425,266,129,616	6,689,330,792,501
Other guarantees received in the Bank's custody	403,332,963,863	397,631,709,645	395,463,570,554
Lines of credit granted but unused	139,966,965,266	147,964,508,341	157,237,584,652
Loans pending disbursement	-	-	61,214,654
Unused overdrafts	36,043,296	60,701,458	-
Loans settled	468,179,951,842	415,127,217,926	373,086,497,174
Other accounts receivable settled	22,726,766,611	20,675,349,825	17,897,586,890
Accrued interest receivable settled	41,367,662,639	38,305,871,616	34,032,761,368
Interest income on non-accrual loans of loan portfolio	36,019,797,513	35,790,789,103	29,543,438,141
Supporting documentation received in the Bank's custody	9,003,348	9,004,104	9,002,615
Securities issued pending placement	46,226,000,000	34,444,000,000	6,248,000,000
Lines of credit or overdrafts obtained but unused	6,922,500,002	6,452,500,001	6,219,199,998
Notified letters of credit	5,611,071,340	5,257,203,839	4,801,168,398
Notional value subject to interest rate futures (Note 11)	133,371,654,000	216,430,400,250	207,298,996,320
Reversals made to income accounts for the year	16,974,504,327	50,805,600,120	27,776,760,923
Reversals made to expense accounts for the year	53,212,755,435	89,622,428,300	44,626,590,692
Non-deductible expenses	23,231,315,038	23,231,315,038	12,389,918,809
Non-taxable income	28,031,902,872	28,031,902,872	13,624,603,217
Other memoranda accounts	217,097,793,273	229,090,096,899	213,808,437,865
	<u>19,224,266,524,746</u>	<u>9,181,234,407,438</u>	<u>8,248,528,519,304</u>
Third-party debit memoranda accounts (1)	5,034,420,953,368	4,897,730,289,330	4,443,284,751,516
Own debit memoranda accounts for custodial activities	606,857,816,851	672,053,399,643	671,041,564,829
Third-party debit memoranda accounts for custodial activities	17,022,897,809,699	16,326,243,606,935	15,483,682,029,833
	<u>22,664,176,579,918</u>	<u>21,896,027,295,908</u>	<u>20,598,008,346,178</u>
¢	<u>41,888,443,104,664</u>	<u>31,077,261,703,346</u>	<u>28,846,536,865,482</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

	June 2022	December 2021	June 2021
Management of banking mandates	¢ 1,920,190,904,331	1,742,711,823,628	1,600,061,317,890
“TUDES” securities received in custody from affiliates under Article 75 of Law No. 7531	722,623,072	617,389,318	588,832,050
Pension funds (Note 32)	2,259,270,829,897	2,283,096,382,911	2,065,366,595,236
Investment funds (Note 31)	756,841,521,973	772,762,830,934	675,786,694,970
Portfolio management	97,395,074,095	98,541,862,539	101,481,311,370
	¢ <u>5,034,420,953,368</u>	<u>4,897,730,289,330</u>	<u>4,443,284,751,516</u>

Other memoranda accounts by entity are as follows:

	June 2022	December 2021	June 2021
Banco Nacional de Costa Rica	¢ 37,724,979,519,672	26,924,093,940,397	24,880,553,963,289
BN Valores Puesto de Bolsa, S.A. (Note 30)	1,132,116,674,092	1,080,445,381,521	1,209,373,562,369
BN Sociedad Administradora de Fondos de Inversión, S.A. (Note 31)	756,878,843,023	772,807,168,583	675,837,203,918
BN Vital Operadora de Planes de Pensiones Complementarias, S.A. (Note 32)	2,274,468,067,877	2,299,915,212,845	2,080,772,135,907
	¢ <u>41,888,443,104,664</u>	<u>31,077,261,703,346</u>	<u>28,846,536,865,483</u>

(Continued)

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:

	June 2022	December 2021	June 2021
<i>Own</i>			
Futures contracts pending settlement	30,039,721,620	19,922,658,293	19,336,334,270
Own trading securities (Note 30-a)	4,394,513,744	4,543,858,793	25,812,002
Other own memoranda accounts	6,955,181,596	6,484,248,455	6,243,737,029
	<u>41,389,416,960</u>	<u>30,950,765,541</u>	<u>25,605,883,301</u>
<i>Third party</i>			
Trading securities received as guarantees	43,122,629,502	42,697,285,222	40,543,613,521
Trading securities pending receipt	10,401,203,624	-	761,787,435
Signed contracts pending settlement	11,654,737,296	-	1,143,876,519
Futures contracts pending settlement	82,767,812,325	93,572,152,796	90,236,892,913
Third-party trading securities (Note 30-a)	843,305,869,809	813,707,676,314	948,565,043,864
Cash and accounts receivable	2,079,930,481	975,639,109	1,035,153,445
Portfolio management	97,395,074,095	98,541,862,539	101,481,311,370
	<u>1,090,727,257,132</u>	<u>1,049,494,615,980</u>	<u>1,183,767,679,067</u>
Memoranda accounts (Note 29)	¢ <u>1,132,116,674,092</u>	<u>1,080,445,381,521</u>	<u>1,209,373,562,368</u>

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

a) Securities held in custody are as follows:

Location	Type of custody	June 2022	December 2021	June 2021
<u>Own custodial activities</u>				
Local	CEVAL – public	4,379,513,742	4,518,046,793	-
	International custody -			
Local	Vault	15,000,002	25,812,000	25,812,002
Local	Vault	4,394,513,744	4,543,858,793	25,812,002
<u>Custodial activities on behalf of third parties</u>				
		133,405,106,357	125,354,746,394	126,784,013,392
Local	CEVAL - private	80,580,696,843	42,765,105,609	44,630,831,543
Foreign	CEVAL - private	568,449,326,463	603,913,323,634	742,907,948,013
Local	CEVAL - public	60,686,339,329	41,486,925,664	33,438,500,139
Foreign	International custody	8,024,829	8,024,829	8,024,829
Local	Vault	176,375,988	179,550,184	795,725,946
		843,305,869,809	813,707,676,314	948,565,043,862
	¢	847,700,383,553	818,251,535,107	948,590,855,864

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

b) Term buyer and seller positions in tri-party repurchase agreements involving the Brokerage Firm are as follows:

June 2022								
Term buyer					Term seller			
	Colones	US dollars	US dollars expressed in colones	Total	Colones	US dollars	US dollars expressed in colones	Total
Own	24,202,733,126	7,709,531	5,336,922,522	29,539,655,648	500,065,972	-	-	500,065,972
Third								
parties	7,580,982,734	62,026,564	42,937,889,160	50,518,871,894	6,441,418,289	37,280,639	25,807,522,142	32,248,940,431
	<u>31,783,715,860</u>	<u>69,736,095</u>	<u>48,274,811,682</u>	<u>80,058,527,542</u>	<u>6,941,484,261</u>	<u>37,280,639</u>	<u>25,807,522,142</u>	<u>32,749,006,403</u>
December 2021								
Term buyer					Term seller			
	Colones	US dollars	US dollars expressed in colones	Total	Colones	US dollars	US dollars expressed in colones	Total
Own	14,691,214,333	8,107,623	5,231,443,960	19,922,658,293	-	-	-	-
Third								
parties	7,030,887,273	82,703,050	53,364,143,009	60,395,030,282	3,834,102,065	45,475,429	29,343,020,449	33,177,122,514
	<u>21,722,101,606</u>	<u>90,810,673</u>	<u>58,595,586,969</u>	<u>80,317,688,575</u>	<u>3,834,102,065</u>	<u>45,475,429</u>	<u>29,343,020,449</u>	<u>33,177,122,514</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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>83,712,218</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>

As of June 30, 2022, term buyer and seller positions in tri-party repurchase agreements in US dollars were valued at the exchange rate of ¢692.25 to US\$1.00 (2021: ¢621.92 to US\$1.00).

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

June 2022					
Term buyer			Term seller		
Colones		US dollars	Colones		US dollars
<u>Own</u>					
1 to 30 days	¢	23,091,170,626	7,709,531	500,065,972	-
31 to 60 days		1,111,562,500	-	-	-
		24,202,733,126	7,709,531	500,065,972	-
<u>Third-party</u>					
1 to 30 days		491,761,764	6,126,066	-	2,054,983
31 to 60 days		2,401,990,663	31,991,977	1,608,033,854	17,081,610
61 to 90 days		879,710,195	23,430,496	1,025,864,323	17,666,021
More than 91 days		3,807,520,112	478,025	3,807,520,112	478,025
		7,580,982,734	62,026,564	6,441,418,289	37,280,639
	¢	31,783,715,860	69,736,095	6,941,484,261	37,280,639
December 2021					
Term buyer			Term seller		
Colones		US dollars	Colones		US dollars
<u>Own</u>					
1 to 30 days	¢	3,852,958,333	2,001,445	-	-
31 to 60 days		10,838,256,000	6,106,178	-	-
		14,691,214,333	8,107,623	-	-
<u>Third-party</u>					
1 to 30 days		200,256,438	726,503	200,256,438	926,717
31 to 60 days		3,345,275,971	4,990,524	825,216,687	4,712,084
61 to 90 days		2,255,254,698	73,831,858	1,180,928,776	36,682,462
More than 91 days		1,230,100,166	3,154,165	1,627,700,164	3,154,166
		7,030,887,273	82,703,050	3,834,102,065	45,475,429
	¢	21,722,101,606	90,810,673	3,834,102,065	45,475,429

(Continued)



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		June 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	-
		17,213,888,889	1,000,779	1,500,041,667	-
<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		1,278,076,450	641,146	1,027,729,358	641,146
		7,805,906,877	82,711,440	4,417,341,848	42,728,560
	¢	25,019,795,766	83,712,219	5,917,383,515	42,728,560

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(31) Investment fund management agreements

The Investment Fund Manager's memoranda accounts are as follows:

	June 2022		
Fund	Net value	Shares	Value per share
<i>Funds in colones:</i>			
Súper Fondo colones	¢ 155,079,327,618	34,657,330,372	4.47
Fon Depósito colones	57,416,017,068	35,597,920,406	1.61
Creci Fondo colones	16,329,049,861	2,441,487,805	6.69
Redi Fondo colones	43,825,317,476	9,310,876,647	4.71
Diner Fondo colones	59,436,483,655	19,878,895,870	2.99
	¢ <u>332,086,195,678</u>	<u>101,886,511,100</u>	
<i>Funds in US dollars:</i>			
Creci Fondo <i>US dollars</i>	25,226,516	11,275,615	2.24
Redi Fondo <i>US dollars</i>	50,689,491	27,782,624	1.82
Diner Fondo <i>US dollars</i>	157,568,100	115,192,600	1.37
Fon Depósito <i>US dollars</i>	71,309,589	61,934,041	1.15
Súper Fondo Plus US dollar	253,496,264	222,539,909	1.14
Fondo Hipotecario US dollars	31,322,828	21,750	1,440.13
Fondo Internacional - liquidity	327,806	340,808	0.96
BN internacional Valor	3,553,221	3,806,715	0.93
BN internacional Suma	2,839,201	3,099,378	0.92
BN internacional Crece	2,381,786	2,375,244	1.00
BN Infraestructura Pública -1	14,871,802	15,000	991.45
	US\$ <u>613,586,604</u>	<u>448,383,684</u>	
	¢ <u>424,755,326,295</u>	<u>310,393,605,249</u>	
Assets of managed funds	¢ <u>756,841,521,973</u>	<u>412,280,116,349</u>	
<i>Guarantees:</i>			
Performance bonds	35,345,746		
Outstanding checks	<u>1,975,304</u>		
	<u>37,321,050</u>		
Memoranda accounts (Note 29)	¢ <u>756,878,843,023</u>		

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Fund	December 2021		
	Net value	Shares	Value per share
<i>Funds in colones:</i>			
Súper Fondo colones	¢ 155,840,578,411	34,978,944,271	4.45
Fon Depósito colones	65,876,006,462	40,971,564,113	1.61
Creci Fondo colones	18,097,863,673	2,690,093,423	6.72
Redi Fondo colones	58,406,812,071	12,380,554,666	4.70
Diner Fondo colones	89,060,189,790	29,889,525,599	2.98
	¢ <u>387,281,450,407</u>	<u>120,910,682,072</u>	
<i>Funds in US dollars:</i>			
Creci Fondo US dollars	24,919,805	11,122,701	0.00
Redi Fondo US dollars	57,218,500	31,325,053	2.21
Diner Fondo US dollars	168,031,240	123,135,967	1.81
Fon Depósito US dollars	62,616,598	54,447,099	1.36
Súper Fondo Plus US dollars	244,162,299	214,866,302	1.15
Fondo Hipotecario US dollars	31,000,837	21,750	1,417.38
Fondo Internacional liquidez	323,143	325,732	1.00
BN internacional Valor	3,515,217	3,429,494	1.00
BN internacional Suma	2,580,115	2,452,183	1.01
BN internacional Crece	3,046,241	3,043,150	1.00
BN Infraestructura Pública -1	US\$ 597,413,995	444,169,431	
	¢ <u>385,481,380,528</u>	<u>286,600,325,353</u>	
	¢ <u>772,762,830,934</u>	<u>407,511,007,425</u>	
Assets of managed funds			
<i>Guarantees:</i>			
Performance bonds	42,362,347		
	<u>1,975,305</u>		
	<u>44,337,651</u>		
Memoranda accounts (Note 29)	¢ <u>772,807,168,586</u>		

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	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>			
Creci Fondo <i>US dollars</i>	US\$ 14,902,874	6,746,599	2.21
Redi Fondo <i>US dollars</i>	41,022,495	22,720,421	1.81
Diner Fondo <i>US dollars</i>	140,374,137	103,232,649	1.36
Fon Depósito <i>US dollars</i>	61,795,885	53,783,973	1.15
Súper Fondo Plus <i>US dollars</i>	222,773,111	196,731,684	1.13
Fondo Hipotecario <i>US dollars</i>	29,291,413	21,750	1,346.73
Fondo Internacional liquidez	101,998	101,998	1.00
BN internacional Valor	632,229	627,697	1.01
BN internacional Suma	44,381	44,179	1.00
BN internacional Crece	3,000,773	3,000,000	1.00
BN Infraestructura Pública -1	US\$ <u>513,939,296</u>	<u>387,010,950</u>	
	¢ <u>319,629,127,576</u>	<u>240,689,850,024</u>	
	¢ <u>675,786,694,970</u>	<u>353,405,404,397</u>	
Assets of managed funds			
<i>Guarantees:</i>	48,533,644		
Performance bonds	<u>1,975,304</u>		
	<u>50,508,948</u>		
Memoranda accounts (Note 29)	¢ <u>675,837,203,918</u>		

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.

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## 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.

(Continued)

## 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 who are 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 on 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. The fund has monthly statements of account.
- *Fondo de Inversión de Desarrollo Inmobiliario BN-1*: (real estate development): This fund invests in the development and subsequent operation of buildings, to be leased by Banco Nacional de Costa Rica for a definite term.
- *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 occupied by the Maximum Deconcentration Organizations and other entities of BCCR. Once the works are completed, the buildings will be leased with a purchase option to BCCR or sold to BCCR or to a real estate fund managed by BN Fondos and investors thus realize their potential gains. If the buildings are sold to a real estate fund, such fund will lease the buildings to BCCR.
- *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.
- *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.

(Continued)

## 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.
- *Fondo de Inversión BN Internacional Liquidez No Diversificado (non-diversified liquidity investment fund)*: This is fund is an international investment fund aimed at conservative investors looking or short-term investments. It is a good alternative for meeting present or future liquidity needs. The long-term fund is aimed at investors looking for meeting future liquidity needs.
- *BN Internacional Liquidez No Diversificado (non-diversified liquidity investment fund – US dollars)*: 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 (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 (US dollars)*: This is an international, mixed portfolio investment fund, addressed to investors with a balanced risk profile, i.e. 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 for investors who would like to invest in a portfolio comprising public and private debt securities, variable rate instruments and investment funds.

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

- *BN Internacional Crece (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 eight 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.

(Continued)



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(32) Pension fund management agreements

The Pension Fund Manager's memoranda accounts are as follows:

	June 2022	December 2021	June 2021
Mandatory Pension Fund (ROP) ¢	1,935,751,315,445	1,937,484,746,302	1,767,461,301,661
Mandatory Retirement Savings Account (FCL)	95,391,726,232	96,494,039,246	87,192,462,939
Voluntary Pension Fund in Colones A (FPC A)	132,084,202,742	149,725,096,177	132,940,649,209
Voluntary Pension Fund in Colones B (FPC B)	42,280,723,690	44,590,216,879	36,283,167,555
Voluntary Pension Fund in US dollars A (FPD A) (i)	26,886,077,428	27,355,613,131	22,479,862,226
Voluntary Pension Fund in US dollars B (FPD B) (ii)	20,245,114,014	20,918,277,764	12,807,315,456
ICT employee pension fund	6,631,670,346	6,528,393,412	6,201,836,190
Assets of managed funds (Note 29)	2,259,270,829,897	2,283,096,382,911	2,065,366,595,236
Securities and assets in own custody	14,366,801,845	16,093,681,323	14,685,293,327
Bid and performance bonds – colones	31,383,464	26,556,671	27,667,128
Bid and performance bonds – US dollars (iii)	76,429,599	81,202,623	103,748,166
Securities in DU	722,623,072	617,389,317	588,832,050
Memoranda accounts (Note 29) ¢	2,274,468,067,877	2,299,915,212,845	2,080,772,135,907

- i. As of June 30, 2022, this fund amounts to US\$38,838,682 (2021: US\$36,145,907) and is valued at the exchange rate of ¢692.25 to US\$1.00 (2021: ¢621.92 to US\$1.00).
- ii. As of June 30, 2022, this fund amounts to US\$29,245,380 (2021: US\$20,593,188) and is valued at the exchange rate of ¢692.25 to US\$1.00 (2021: ¢621.92 to US\$1.00).
- iii. As of June 30, 2022, this fund amounts to US\$110,408 (2021: US\$166,819) and is valued at the exchange rate of ¢692.25 to US\$1.00 (2021: ¢621.92 to US\$1.00).

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(33) Income from financial instruments

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

	June		Quarter from April 1 to June 30	
	2022	2021	2022	2021
<u><i>Cash and due from banks:</i></u>				
Deposits in BCCR	¢ 9,368,521	3,805,026	7,932,500	1,605,792
Checking accounts and demand deposits in local entities	16,020,541	15,658,352	5,508,688	7,438,637
Checking accounts and demand deposits in foreign entities	925,566,776	567,528,077	622,797,339	374,786,619
	<u>950,955,838</u>	<u>586,991,455</u>	<u>636,238,527</u>	<u>383,831,048</u>
<u><i>Financial instruments:</i></u>				
Investments at fair value through profit or loss	105,421,057	120,292,314	54,139,785	53,009,914
Investments at fair value through other comprehensive income	13,828,427,943	19,251,802,245	6,762,659,602	9,600,081,993
Investments at amortized cost	9,795,376,225	11,794,407,451	4,667,123,046	5,867,326,985
Investments in past due and restricted securities	800,666,013	340,685,870	590,676,733	229,125,567
	<u>24,529,891,238</u>	<u>31,507,187,880</u>	<u>12,074,599,166</u>	<u>15,749,544,459</u>
¢	<u>25,480,847,076</u>	<u>32,094,179,335</u>	<u>12,710,837,693</u>	<u>16,133,375,507</u>

(Continued)

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, finance income from the loan portfolio is as follows:

	June		Quarter from April 1 to June 30	
	2022	2021	2022	2021
<i><u>Current loans:</u></i>				
Individuals	¢ 63,469,753,690	76,760,497,726	32,669,422,564	38,542,868,708
Development Banking System	1,742,315,345	2,561,828,644	924,451,777	1,268,911,250
Business	19,460,437,577	31,044,573,977	10,285,977,039	15,798,135,576
Corporate	35,631,871,436	35,705,067,798	18,569,671,251	17,803,419,332
Public sector	6,146,765,630	4,594,723,409	3,085,447,632	2,279,277,542
Financial sector	1,800,881,440	2,746,959,019	810,241,655	1,331,859,814
	<u>128,252,025,118</u>	<u>153,413,650,573</u>	<u>66,345,211,918</u>	<u>77,024,472,222</u>
<i><u>Past due loans and loans in legal collection:</u></i>				
Individuals	5,431,790,135	11,929,164,497	2,674,722,140	5,509,833,240
Development Banking System	101,111,693	295,353,874	31,946,771	127,608,457
Business	1,334,137,201	6,662,629,990	631,462,786	2,556,340,424
Corporate	1,352,795,404	1,124,624,216	629,841,545	643,391,512
Public sector	17,969,103	70,882,647	9,647,729	18,472,140
Financial sector	502,531	6,086,210	500,144	5,758,098
In legal collection	45,567,554,073	4,800,267,979	23,541,633,367	2,980,361,404
Amortization of net commission of incremental direct costs related to credits	<u>515,492,535</u>	<u>670,680,104</u>	<u>256,842,207</u>	<u>408,715,441</u>
	<u>54,321,352,675</u>	<u>25,559,689,517</u>	<u>27,776,596,689</u>	<u>12,250,480,716</u>
¢	<u><u>182,573,377,793</u></u>	<u><u>178,973,340,090</u></u>	<u><u>94,121,808,607</u></u>	<u><u>89,274,952,938</u></u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(35) Other finance income

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

	June		Quarter from	
	2022	2021	April 1 to June 30	
			2022	2021
Fees and commissions on letters of credit	¢ 7,943,734	6,482,527	3,895,515	2,807,057
Fees and commissions on guarantees granted	182,643,022	272,498,750	86,768,430	76,984,676
Gain on sale of financial instruments	2,188	217,645,244	-	107,195,116
Fees and commissions on lines of credit	193,437,178	-	150,626,262	-
Gain on fair value hedge for item measured at cost	7,940,592,797	2,967,218,698	2,414,744,863	884,299,370
Other sundry finance income	194,106,952	1,430,900,178	95,966,145	686,704,043
Late fees	261,391,634	-	118,120,792	-
Sundry finance income from late fees	911,709,522	-	462,133,972	-
	¢ <u>9,691,827,027</u>	<u>4,894,745,397</u>	<u>3,332,255,979</u>	<u>1,757,990,262</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(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	
		2022	2021	2022	2021
Demand deposits	¢	19,620,594,001	19,453,287,942	9,880,637,385	9,572,904,684
Term deposits		29,094,023,213	44,710,574,964	14,719,462,159	21,545,400,360
Tri-party repurchase agreements and security agreements		-	15,293,926	-	-
	¢	<u>48,714,617,214</u>	<u>64,179,156,832</u>	<u>24,600,099,544</u>	<u>31,118,305,044</u>

(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	
		2022	2021	2022	2021
Demand obligations	¢	870,043,723	720,515,145	411,786,689	338,772,352
Term obligations		15,142,407,645	18,201,797,019	7,519,790,343	8,014,086,305
	¢	<u>16,012,451,368</u>	<u>18,922,312,164</u>	<u>7,931,577,032</u>	<u>8,352,858,657</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(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	
	2022	2021	2022	2021
Fees and commissions on letters of credit obtained	¢ 154,160,896	91,057,768	96,926,652	36,465,323
Loss on financial instruments measured at amortized cost	59,890	-	-	-
Loss on hedged item measured at cost from fair value hedge on interest rate risk	5,580,535,964	843,915,255	5,580,535,964	628,910,652
Other sundry finance costs	341,140,659	313,677,853	138,943,892	140,637,078
	¢ 6,075,897,409	1,248,650,876	5,816,406,508	806,013,053

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

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	
	2022	2021	2022	2021
Allowance for loan losses (Note 12)	¢ 26,740,250,364	40,471,153,678	7,203,167,619	23,620,271,674
Allowance for impairment of other accounts receivable (Note 13)	1,220,923,740	463,657,025	1,002,516,927	252,977,244
Allowance for stand-by credit losses (Note 24)	360,000,000	120,000,001	60,000,000	20,000,000
General and counter-cyclical allowance for loan losses (Note 12)	3,420,000,000	1,920,000,000	2,220,000,000	1,820,000,000
Allowance for impairment of investments at fair value through other comprehensive income (FVOCI)	143,666,130	2,673,325,840	2,866,036	1,673,598,038
Allowance for impairment of financial instruments at amortized cost	357,259,121	1,526,379,439	149,917,448	1,158,933,377
Allowance for impairment of operations with derivative financial instruments	68,858,686	2,069,719	37,810,011	-
Allowance for impairment of mature and restricted financial instruments	-	38,477	-	3,248
	¢ <u>32,310,958,041</u>	<u>47,176,624,179</u>	<u>10,676,278,041</u>	<u>28,545,783,581</u>

(Continued)

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 April 1 to June 30	
	2022	2021	2022	2021
Recovery of loan write-offs	¢ 12,294,956,322	4,641,977,366	6,227,234,119	2,276,794,752
Recovery of accounts receivable write-offs	1,750,857	2,375,194	909,355	1,682,035
Decrease in allowance for loan losses (Note 6)	81,428	-	-	-
Decrease in allowance for impairment of other accounts receivable (Note 13)	530,597,552	323,547,984	395,503,678	99,616,319
Decrease in allowance for impairment of investments in financial instruments (Note 10)	<u>1,112,329,755</u>	<u>1,859,761,038</u>	<u>432,981,402</u>	<u>133,081,545</u>
	<u>¢ 13,939,715,914</u>	<u>6,827,661,582</u>	<u>7,056,628,554</u>	<u>2,511,174,651</u>

(Continued)



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

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	
	2022	2021	2022	2021
Drafts and transfers	¢ 5,711,256,752	4,771,155,615	2,882,722,804	2,410,831,834
Certified checks	965,578	1,477,070	436,226	565,756
Trusts	1,181,762,550	903,306,070	644,370,265	444,945,497
Custodial services	1,147,906,916	1,012,197,968	584,673,616	523,463,213
Banking mandates	206,370	92,224	200,130	78,010
Collections	10,449,511	10,315,228	4,858,822	5,367,663
Credit cards	32,969,137,133	25,702,371,934	15,792,807,345	12,163,782,307
Management services	2,443,734,318	2,115,222,421	1,212,080,497	1,067,845,168
Management of investment funds	3,716,936,624	3,783,694,630	1,844,137,098	1,965,383,196
Management of pension funds	5,296,405,755	5,668,781,038	2,472,495,889	3,013,585,373
Insurance underwriting	4,307,562,941	3,909,519,105	2,326,561,734	2,016,982,833
Brokerage operations (third parties in local market)	988,288,877	2,334,970,777	440,512,242	1,193,624,054
Brokerage operations (third parties in other markets)	294,372,105	120,199,564	216,418,346	52,689,211
Transactions with related parties	39,304,243	26,730,068	22,023,324	6,897,447
Commissions charged to other affiliates due to covenants	6,381,080,446	6,083,312,424	3,025,167,443	2,980,388,872
Servibanca local interchange	12,365,009,525	10,329,298,819	5,914,099,146	5,092,802,563
Other service fees and commissions	5,853,021,277	4,661,961,490	2,790,624,748	2,514,769,997
¢	<u>82,707,400,921</u>	<u>71,434,606,445</u>	<u>40,174,189,675</u>	<u>35,454,002,994</u>

(Continued)

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	
	2022	2021	2022	2021
Recovery of expenses (1) ¢	672,797,283	1,714,012,539	218,652,045	530,563,102
Net valuation of other assets (Note 6)	148,206,600	34,952,704	107,811,745	24,971,783
Other income from accounts receivable	553,550	707,738	340,913	367,269
Liquidation of savings accounts	89,358,879	-	44,162,662	(54,587,727)
PMEP administrative charges	113,961,788	521,595,248	62,483,910	244,066,230
Liquidation of term certificate of deposit not claimed	288,098,330	430,151,539	149,186,590	199,762,698
Fines applied to vendors	182,468,344	-	90,555,610	-
Excess cash from human teller	103,730,163	-	50,168,746	-
Other operating income	1,075,725,490	869,196,394	635,437,646	403,815,887
Decrease in provisions (2)	1,354,550,819	103,848,957	1,320,821,449	90,717,542
¢	<u>4,029,451,246</u>	<u>3,674,465,119</u>	<u>2,679,621,316</u>	<u>1,439,676,784</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.
- (2) During April 2022, the Bank liquidated the provision related to the payment of SEDI, which was processed under file number 15-008666-1027-CA of the Administrative Court, given that the ruling was in favor of the Bank.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(43) Expenses for assets held for sale

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

	June		Quarter from April 1 to June 30,	
	2022	2021	2022	2021
Property and other assets acquired in lieu of payment	¢ 7,496,325	219,295,167	-	7,089,887
Loss on sale of assets awarded in judicial auctions	3,409,514,504	3,809,380,272	1,304,381,152	3,092,865,056
Management of assets received in lieu of payment	23,860,693	15,335,424	17,794,780	8,410,558
Management of assets awarded in judicial auctions	2,359,644,756	1,818,428,791	1,316,423,779	919,640,037
Loss on impairment of assets held for sale (Note 14)	6,325,263	26,797,260	5,991,724	-
Loss on allowance for impairment of assets held for sale and per legal requirement (Note 14)	3,918,995,107	354,972,124	2,355,785,685	-
Other expenses for assets held for sale	5,086,573	9,890,853	3,064,672	7,755,777
	¢ <u>9,730,923,221</u>	<u>6,254,099,891</u>	<u>5,003,441,792</u>	<u>4,035,761,315</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

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,	
	2022	2021	2022	2021
Severance benefits	¢ 34,758,352	61,951,580	29,374,376	41,944,449
Pending litigation	320,196,775	577,927,861	187,834,910	389,953,803
“BN Premios” points program	1,566,783,132	428,564,811	966,921,096	428,564,811
Case of the manager commissions with CCSS	-	342,059,526	-	342,059,526
Notice of deficiency	-	488,901,159	-	488,901,159
Other provision	728,309,659	1,404,983,311	361,171,302	144,975,449
	¢ <u>2,650,047,918</u>	<u>3,304,388,248</u>	<u>1,545,301,684</u>	<u>1,836,399,197</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(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,	
	2022	2021	2022	2021
Penalties for noncompliance with regulatory legal provisions	¢ 594,181	1,122,108	-	978,826
Net valuation of other liabilities (Note 6)	151,483,655	57,730,633	97,505,282	55,054,336
Value-added tax expense	652,057,739	527,734,661	320,480,900	258,563,313
Income tax on foreign remittances	3,937,727	3,753,145	1,982,968	1,880,726
Income tax (8% and 15%) on interest from investments in financial instruments	250,956,814	-	119,734,808	-
Property tax	129,352,990	129,501,793	62,905,488	64,496,907
Patents	295,801,049	419,347,015	136,912,207	77,489,240
Other local taxes	17,836,053	48,904,510	9,753,451	20,989,660
Other foreign taxes	15,381	11,532	7,496	5,752
Transfer to FINADE	230,922,404	1,089,410,166	74,010,403	404,784,933
Local and international exchange	-	169,743,420	-	71,723,798
Costs of microfinance insurance policies	1,803,305,930	-	923,664,973	-
Amortization of deferred direct costs related to loans	200,212,450	-	94,176,667	-
Authorization abroad	1,479,635,001	-	713,691,311	-
Base I and II fund disbursements	11,537,045,984	8,191,292,942	5,876,960,080	4,273,224,389
Life insurance policy – debit balance	5,670,118,283	-	2,839,140,849	-
Software maintenance and licenses	-	6,071,026,541	-	2,369,365,403
Sundry operating expenses	8,112,430,408	9,824,248,152	4,208,870,759	5,169,627,049
Other expenses for sundry assets	-	159,465	-	-
	¢ 30,535,706,049	26,533,986,083	15,479,797,642	12,768,184,332

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

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,	
	2022	2021	2022	2021
Salaries and bonuses, permanent staff	¢ 36,237,931,545	34,716,108,178	18,508,146,154	17,647,663,517
Salaries and bonuses, contractors	426,777,573	385,983,246	240,313,376	156,181,392
Compensation for directors and statutory examiners	88,247,915	123,379,389	38,359,545	58,440,662
Overtime	249,535,269	224,748,938	141,190,146	111,029,134
Travel expenses	121,443,670	83,190,998	77,277,950	46,235,152
Statutory Christmas bonus	3,981,228,171	3,720,715,005	2,051,003,389	1,868,984,163
Vacation	3,108,995,548	2,995,251,191	1,547,423,998	1,307,587,700
Incentives	2,315,818,370	1,666,898,994	1,144,024,331	662,729,816
Other compensation	3,151,991,729	2,747,838,524	1,762,511,587	1,417,111,119
Severance benefits	2,337,688,805	2,129,046,514	1,188,577,042	1,081,124,406
Employer social security taxes	15,765,166,485	14,829,353,262	8,105,145,430	7,418,273,199
Refreshments	29,927,201	19,889,821	19,998,600	11,948,480
Uniforms	60,000	18,134,520	60,000	18,070,520
Training	232,165,485	140,995,668	164,147,479	87,287,471
Employee insurance	134,415,099	119,207,264	66,948,492	76,215,318
Back-to-school bonus	3,350,156,133	3,132,502,017	1,721,754,767	1,543,886,914
Mandatory retirement savings account	775,032,049	734,125,861	398,470,163	364,951,719
Other personnel expenses	350,284,561	451,889,698	246,119,583	291,611,037
	¢ <u>72,656,865,608</u>	<u>68,239,259,088</u>	<u>37,421,472,032</u>	<u>34,169,331,719</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

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,	
	2022	2021	2022	2021
Outsourcing	¢ 14,075,137,434	11,826,230,912	8,483,818,440	5,855,222,108
Transportation and communications	1,963,682,371	1,595,441,062	1,023,282,215	795,322,163
Infrastructure	12,664,756,088	12,826,985,915	6,591,637,652	6,381,335,964
Overhead	8,919,319,163	7,781,199,246	4,708,331,250	4,179,069,513
	¢ <u>37,622,895,056</u>	<u>34,029,857,135</u>	<u>20,807,069,557</u>	<u>17,210,949,748</u>

(48) Statutory allocations

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

	June		Quarter from April 1 to June 30,	
	2022	2021	2022	2021
CONAPE - 5%	¢ 2,350,242,761	1,507,797,642	1,212,448,396	585,434,157
CNE - 3%	1,527,271,177	1,034,676,162	772,166,658	420,767,524
INFOCOOP - 10%	3,134,280,352	2,122,725,945	1,611,271,362	851,237,761
Public capital pension operators	1,048,277,239	970,205,484	305,295,532	517,805,473
RIVM - 15%	<u>3,515,967,760</u>	<u>1,958,536,143</u>	<u>1,862,080,161</u>	<u>683,316,940</u>
	¢ <u>11,576,039,289</u>	<u>7,593,941,376</u>	<u>5,763,262,109</u>	<u>3,058,561,855</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(49) Fair value of financial instruments

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:

		June 2022			
		Carrying amount	Level	Fair value	Level
<u>Financial assets:</u>					
Cash and due from banks	¢	1,590,149,028,820		1,590,149,028,820	
Loan portfolio	¢	4,777,512,247,106	(3)	4,575,196,032,161	(3)
	¢	<u>6,367,661,275,926</u>		<u>6,165,345,060,981</u>	
<u>Financial liabilities:</u>					
Demand deposits from the public and financial entities	¢	4,631,103,067,865	(3)	4,631,103,067,865	(3)
Other demand obligations with the public		18,788,159,017		18,788,159,017	
Term deposits from the public and financial entities	¢	2,580,082,305,270	(3)	2,551,416,637,825	(3)
	¢	<u>7,229,973,532,152</u>		<u>7,201,307,864,707</u>	
		December 2021			
		Carrying amount	Level	Fair value	Level
<u>Financial assets:</u>					
Cash and due from banks	¢	1,355,841,181,326		1,355,841,181,326	
Loan portfolio	¢	4,613,265,731,396	(3)	4,313,851,040,344	(3)
	¢	<u>5,969,106,912,722</u>		<u>5,669,692,221,670</u>	
<u>Financial liabilities:</u>					
Demand deposits from the public and financial entities	¢	4,494,145,622,206	(3)	4,494,145,622,206	(3)
Other demand obligations with the public		16,045,803,541		16,045,803,541	
Term deposits from the public and financial entities	¢	2,561,173,940,184	(3)	2,527,806,130,895	(3)
	¢	<u>7,071,365,365,931</u>		<u>7,037,997,556,642</u>	

(Continued)



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	June 2021			
	Carrying amount	Level	Fair value	Level
<i><u>Financial assets:</u></i>				
Cash and due from banks	¢ 1,254,808,263,819		1,254,808,263,819	
Loan portfolio	<u>4,355,926,400,413</u>	(3)	<u>4,228,504,160,288</u>	(3)
	¢ <u>5,610,734,664,232</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)	3,760,744,512,024	(3)
Term deposits from the public and financial entities	15,506,219,426	(3)	15,506,219,426	(3)
Obligations with entities	<u>2,867,120,784,960</u>		<u>2,869,088,065,707</u>	
	¢ <u>6,643,371,516,410</u>		<u>6,645,338,797,157</u>	

*Fair value estimates*

*i. Valuation techniques and significant unobservable inputs*

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, 2022 and 2021.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Financial instruments measured at fair value by level in the fair value hierarchy are as follows:

June 2022				
	Level 1	Level 2	Level 3	Total
Fair value through profit or loss	4,493,440,390	25,955,914,125	4,950,764,325	35,400,118,840
Fair value through other comprehensive income	673,314,939,161	5,491,396,526	-	678,806,335,687
Amortized cost	876,191,502,477	-	-	876,191,502,477
Derivative financial instruments	-	-	37,078,537	37,078,537
Term obligations with foreign financial entities	-	-	119,935,809,235	119,935,809,235
December 2021				
	Level 1	Level 2	Level 3	Total
Fair value through profit or loss	4,627,572,873	30,897,591,315	4,614,634,425	40,139,798,613
Fair value through other comprehensive income	803,324,087,665	3,892,580,138	-	807,216,667,803
Amortized cost	917,505,890,841	-	-	917,505,890,841
Derivative financial instruments	-	-	7,723,704,438	7,723,704,438
Term obligations with foreign financial entities	-	-	212,580,207,607	212,580,207,607
June 2021				
	Level 1	Level 2	Level 3	Total
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

(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

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).

### ii. *Recurring level 3 fair values*

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

	June 2022			June 2021		
	Fair value through profit or loss	Derivative financial instruments	Term obligations with foreign financial entities	Fair value through profit or loss	Derivative financial instruments	Term obligations with foreign financial entities
Opening balance	¢ 4,614,634,425	7,723,704,438	212,580,207,606	4,414,744,410	-	-
Valuation	(2,113,809)	(8,249,220,412)	(7,122,439,872)	1,575,710,929	15,035,064,595	10,263,083,791
Amortizations	-	-	(532,675,494)	-	-	1,285,664,202
Exchange differences	338,243,709	562,594,511	(84,989,283,005)	(1,542,670,075)	(145,202,387)	197,242,100,346
Closing balance	¢ 4,950,764,325	37,078,537	119,935,809,235	4,447,785,264	14,889,862,208	208,790,848,339

(Continued)

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:

As of June 30, 2022								
	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations and reclassifications	Consolidated
<b>ASSETS</b>								
Cash and due from banks	1,585,903,895,582	3,582,675,692	227,990,082	932,329,819	53,418,888	1,590,700,310,063	551,281,244	1,590,149,028,819
Investments in financial instruments	1,535,379,653,258	43,291,103,572	10,667,396,906	11,848,232,202	4,609,015,569	1,605,795,401,507	271,812,000	1,605,523,589,507
Loan portfolio, net	4,621,865,376,256	-	-	-	-	4,621,865,376,256	-	4,621,865,376,256
Fees and commissions receivable	822,480,137	27,734,245	32,335,647	772,037,547	439,287,595	2,093,875,171	67,162,859	2,026,712,312
Accounts due from related parties	56,278,728	4,245,376	-	-	200,446	60,724,550	2,966,752	57,757,798
Deferred tax and income tax receivable	6,504,796,114	110,807,813	96,742,891	555,478,649	104,919,772	7,372,745,239	-	7,372,745,239
Other accounts receivable	4,229,927,806	78,546,180	7,179,392	72,633,096	11,475,920	4,399,762,394	-	4,399,762,394
Accrued interest receivable	1,927,242	-	-	-	-	1,927,242	-	1,927,242
Allowance for impairment	(4,324,372,906)	-	(6,548,514)	(60,394,396)	-	(4,391,315,816)	-	(4,391,315,816)
Assets held for sale, net	38,766,808,153	-	-	-	-	38,766,808,153	-	38,766,808,153
Investments in other companies	124,904,646,305	30,000,000	-	-	-	124,934,646,305	41,733,311,539	83,201,334,766
Property, furniture and equipment, net	203,910,583,693	545,729,779	228,309,560	361,053,393	126,439,172	205,172,115,597	-	205,172,115,597
Other assets	62,505,949,991	606,880,339	745,647,798	573,530,749	692,711,740	65,124,720,617	-	65,124,720,617
<b>TOTAL ASSETS</b>	<b>8,180,527,950,359</b>	<b>48,277,722,996</b>	<b>11,999,053,762</b>	<b>15,054,901,059</b>	<b>6,037,469,102</b>	<b>8,261,897,097,278</b>	<b>42,626,534,394</b>	<b>8,219,270,562,884</b>
<b>LIABILITIES AND EQUITY</b>								
<b>LIABILITIES</b>								
Obligations with the public	6,246,967,794,014	-	-	-	-	6,246,967,794,014	-	6,246,967,794,014
Obligations with BCCR	166,289,044,774	-	-	-	-	166,289,044,774	-	166,289,044,774
Obligations with entities	789,869,040,619	29,893,313,023	-	-	-	819,762,353,642	823,093,242	818,939,260,400
Accounts payable and provisions	123,590,590,584	3,681,254,549	1,376,115,182	3,311,909,303	1,373,243,336	133,333,112,954	70,129,626	133,262,983,328
Other liabilities	38,823,901,669	-	-	-	-	38,823,901,669	-	38,823,901,669
Subordinated obligations	79,678,591,483	-	-	-	-	79,678,591,483	-	79,678,591,483
<b>TOTAL LIABILITIES</b>	<b>7,445,218,963,143</b>	<b>33,574,567,572</b>	<b>1,376,115,182</b>	<b>3,311,909,303</b>	<b>1,373,243,336</b>	<b>7,484,854,798,536</b>	<b>893,222,868</b>	<b>7,483,961,575,668</b>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of June 30, 2022								
	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations	Consolidated
<b>EQUITY</b>								
Share capital	172,237,030,102	6,600,000,000	5,000,000,000	7,147,305,481	369,700,000	191,354,035,583	19,117,005,481	172,237,030,102
Non-capitalized capital contributions	-	-	-	1,747,619,527	-	1,747,619,527	1,747,619,527	-
Equity adjustments	79,942,863,824	148,893,854	91,455,714	(198,139,377)	-	79,985,074,015	42,210,191	79,942,863,824
Capital reserves	387,743,877,491	1,320,000,000	764,036,859	300,000,000	73,940,000	390,201,854,350	2,457,976,859	387,743,877,491
Prior year retained earnings	32,601,685,299	6,230,988,961	3,273,881,730	1,697,928,896	2,396,961,765	46,201,446,651	13,599,761,351	32,601,685,300
Income for the period	18,346,934,830	403,272,609	1,493,564,277	1,048,277,229	1,823,624,001	23,115,672,946	4,768,738,117	18,346,934,829
FOFIDE	44,436,595,670	-	-	-	-	44,436,595,670	-	44,436,595,670
<b>TOTAL EQUITY</b>	<b>735,308,987,216</b>	<b>14,703,155,424</b>	<b>10,622,938,580</b>	<b>11,742,991,756</b>	<b>4,664,225,766</b>	<b>777,042,298,742</b>	<b>41,733,311,526</b>	<b>735,308,987,216</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>8,180,527,950,359</b>	<b>48,277,722,996</b>	<b>11,999,053,762</b>	<b>15,054,901,059</b>	<b>6,037,469,102</b>	<b>8,261,897,097,278</b>	<b>42,626,534,394</b>	<b>8,219,270,562,884</b>
<b>Debit memoranda accounts</b>	<b>555,331,846,621</b>	<b>76,434,274</b>	<b>-</b>	<b>36,146,883</b>	<b>3,500,000</b>	<b>555,447,927,778</b>	<b>-</b>	<b>555,447,927,778</b>
Income from cash and due from banks and financial instruments	3,273,189,990,670	263,219,772	-	-	-	3,273,453,210,442	-	3,273,453,210,442
Trust liabilities	99,645,230,744	4,884,089	-	-	-	99,650,114,833	-	99,650,114,833
Trust equity	3,173,544,759,926	258,335,683	-	-	-	3,173,803,095,609	-	3,173,803,095,609
Other debit memoranda accounts	37,724,979,519,672	1,132,116,674,092	756,878,843,023	2,274,468,067,877	-	41,888,443,104,664	-	41,888,443,104,664
As of June 30, 2022								
	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations and reclassifications	Consolidated
Finance income	217,791,337,868	693,730,460	535,575,983	1,546,641,368	61,683,456	220,628,969,135	9,731,497	220,619,237,638
Finance costs	81,077,521,900	344,115,094	57,776,641	4,880,650	247,211	81,484,541,496	9,731,497	81,474,809,999
Allowance expense	32,094,654,909	68,852,451	7,191,726	136,474,404	3,784,551	32,310,958,041	-	32,310,958,041
Income from recovery of assets	13,787,491,935	22,332,129	12,863,275	106,610,644	10,417,931	13,939,715,914	-	13,939,715,914
<b>FINANCE INCOME</b>	<b>118,406,652,994</b>	<b>303,095,044</b>	<b>483,470,891</b>	<b>1,511,896,958</b>	<b>68,069,625</b>	<b>120,773,185,512</b>	<b>-</b>	<b>120,773,185,512</b>
Other operating income	94,421,499,144	2,445,005,138	3,729,438,153	5,316,670,551	4,295,329,282	110,207,942,268	6,079,189,744	104,128,752,524
Other operating expenses	63,247,362,783	406,317,717	407,709,179	797,680,750	94,300,035	64,953,370,464	1,240,232,315	63,713,138,149
<b>GROSS OPERATING INCOME</b>	<b>149,580,789,355</b>	<b>2,341,782,465</b>	<b>3,805,199,865</b>	<b>6,030,886,759</b>	<b>4,269,098,872</b>	<b>166,027,757,316</b>	<b>4,838,957,429</b>	<b>161,188,799,887</b>
Personnel expenses	66,083,201,414	1,529,715,246	1,304,426,891	2,399,528,355	1,339,993,702	72,656,865,608	-	72,656,865,608
Other administrative expenses	36,492,732,724	225,621,186	271,512,770	509,454,373	193,793,314	37,693,114,367	70,219,311	37,622,895,056
Total administrative expenses	102,575,934,138	1,755,336,432	1,575,939,661	2,908,982,728	1,533,787,016	110,349,979,975	70,219,311	110,279,760,664
<b>NET OPERATING INCOME BEFORE STATUTORY ALLOCATIONS AND TAXES</b>	<b>47,004,855,216</b>	<b>586,446,033</b>	<b>2,229,260,204</b>	<b>3,121,904,031</b>	<b>2,735,311,857</b>	<b>55,677,777,341</b>	<b>4,768,738,118</b>	<b>50,909,039,223</b>
Income tax	19,308,384,470	202,204,549	696,151,617	974,421,188	841,893,024	22,023,054,848	-	22,023,054,848
Decrease in income tax	918,038,471	36,624,507	27,333,494	42,728,746	12,264,525	1,036,989,743	-	1,036,989,743
Statutory allocations	10,267,574,387	17,593,381	66,877,806	1,141,934,360	82,059,355	11,576,039,289	-	11,576,039,289
<b>INCOME FOR THE YEAR</b>	<b>18,346,934,830</b>	<b>403,272,610</b>	<b>1,493,564,275</b>	<b>1,048,277,229</b>	<b>1,823,624,004</b>	<b>23,115,672,948</b>	<b>4,768,738,118</b>	<b>18,346,934,830</b>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		As of June 30, 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
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 receivable		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
Accounts due from 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 receivable		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 accounts receivable		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)
Assets held for sale, 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, furniture 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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of June 30, 2021								
	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations	Consolidated
<b>EQUITY</b>								
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 year 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 period	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
<b>TOTAL EQUITY</b>	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
<b>TOTAL LIABILITIES AND EQUITY</b>	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
<b>Debit memoranda accounts</b>	493,108,476,147	83,665,501	100,000	31,918,461	2,840,000	493,227,000,109	-	493,227,000,109
Income from cash and due from banks and financial instruments	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
As of June 30, 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	16,354,638	223,934,220,451
Finance costs	86,144,001,935	159,168,452	48,131,538	1,896,024	4,954,067	86,358,152,016	16,354,639	86,341,797,377
Allowance expense	47,147,313,377	2,057,178	9,711,630	5,392,027	12,309,430	47,176,783,642	159,463	47,176,624,179
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
<b>FINANCE INCOME</b>	94,451,751,742	1,468,393,646	525,832,039	711,244,009	86,079,577	97,243,301,014	(159,463)	97,243,460,477
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	7,148,721,091	92,712,700,697
Other operating expenses	52,498,308,177	455,403,972	357,385,855	889,764,671	55,742,634	54,256,605,309	1,058,519,923	53,198,085,386
<b>GROSS OPERATING INCOME</b>	124,906,130,810	4,536,952,749	3,953,371,807	5,521,905,493	3,929,756,633	142,848,117,493	6,090,041,705	136,758,075,788
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
<b>NET OPERATING INCOME BEFORE STATUTORY ALLOCATIONS AND TAXES</b>	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
<b>INCOME FOR THE PERIOD</b>	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

(Continued)



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(51) Contingencies

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		Stage	Total estimated amount	
	June 2022	June 2021		June 2022	June 2021
Banco Nacional de Costa Rica	310	382	First instance	¢ 83,328,803,400	129,626,530,356
	17	15	Second instance	32,925,633,291	20,400,900,035
	55	12	Appeal	51,555,325,893	6,235,960,930
	<u>382</u>	<u>409</u>		<u>167,809,762,584</u>	<u>156,263,391,321</u>
BN Vital	7	7	First instance	36,146,883	31,918,461
	2	2	Appeal	-	-
	<u>9</u>	<u>9</u>		<u>36,146,883</u>	<u>31,918,461</u>
BN Valores	1	1	First instance	76,434,274	83,665,501
BN SAFI	-	1		-	100,000
BN Corredora	1	1		3,500,000	2,840,000
	<u>393</u>	<u>421</u>	(Note 22)	¢ <u>167,925,843,741</u>	<u>156,381,915,283</u>

The legal actions filed against the entities in the Conglomerate are booked in memoranda accounts under “Other contingencies - pending litigation and lawsuits.”

The entities in the Conglomerate are claimants in ordinary, labor and criminal lawsuits for which the outcome is uncertain. These are not booked in the accounting records.

Number of cases		Stage	Total estimated amount	
June 2022	June 2021		June 2022	June 2021
308	328	First instance	¢ 81,578,102,890	79,297,622,692
1	1	Second instance	375,839,600	375,839,600
2	-	Appeal	2,844,233,566	-
<u>311</u>	<u>329</u>		¢ <u>84,798,176,056</u>	<u>79,673,462,292</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Additionally, the Bank was a defendant in one lawsuit related to the payment of SEDI, the file for such proceedings is File No. 15-008666-1027-CA of the Administrative Court of November 20, 2015, received on December 15, 2015. As of June 30, 2022, the Bank settled the provision since the sentence for that lawsuit was in favor of the Bank.

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: On November 15, 2021, a hearing for the correction of procedural errors was held, in which the Court made a series of findings and reviewed the new evidence filed by the plaintiff. The Court decided to return the proceedings to the processing stage so that the corresponding corrections can be made and to include the legal entity PROSUM.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- File No. 08-000232-0419-AG
  - ✓ Court: Agrarian Court of Corredores
  - ✓ Statement of facts: This process was filed by Banco Nacional de Costa Rica 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: Through Vote 1859-F-S1-2021, the First Chamber confirmed the resolution challenged.
- File No. 11-001042-0612-PE
  - ✓ Court: Office of Economic, Tax and Customs Crimes
  - ✓ Statement of facts: Irregularities were reported with respect to the company Zion and the process to grant credits to that company, misuse of resources, presentation of fake documents to Banco Nacional de Costa Rica to obtain credit approval and the apparent participation of some of the employees of Banco Nacional de Costa Rica.
  - ✓ Current status: Through resolution of February 23, 2021 at 07:30, the Criminal Court of Grecia declared its lack of jurisdiction and forwarded the case to the Criminal Court of Finance. Through ruling dated November 2, 2021, at 16:11 hours, the Criminal Court of Finance provided the date for the preliminary hearing, from April 5 to June 30, 2022, from 8:30 hours to 16:30 hours.
- File No. 14-008626-1027-CA
  - ✓ Statement of facts: The plaintiffs seek Banco Nacional de Costa Rica 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: In light of new errors in the calculation of the indemnification in favor of the trust’s title holders, a new appeal was filed, whose admissibility is being studied in the First Chamber.

(Continued)

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 Bank'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, 2022, the loan portfolio that required at least one modification to the originally agreed conditions amounts to ¢1,831,701,069,925 representing 38.94% of the total loan portfolio (2021: ¢239,192,634,238, representing 5.61% of the total loan portfolio).

(Continued)

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 2022	December 2021	June 2021
Agriculture and forestry	¢ 45,173,601,326	50,679,602,088	6,578,037,488
Trade	159,127,407,106	177,668,570,650	21,310,041,089
Construction	47,555,408,835	57,079,493,093	7,730,659,671
Consumer or personal loans	122,561,022,963	140,315,345,556	10,080,540,389
Electricity, water, sanitation and other related sectors	153,527,011,967	170,683,996,232	-
Mining	292,674,011	315,774,759	-
Livestock, hunting and fishing	30,172,849,034	33,336,273,387	2,231,321,054
Industry	86,946,979,386	87,566,129,712	9,801,098,916
Services	497,221,039,921	528,078,318,447	57,598,076,168
Financial services	32,805,698,800	31,625,084,816	85,784,810
Transportation, communication and storage	36,441,342,357	38,823,600,256	9,950,516,811
Tourism	133,614,431,233	163,210,454,349	85,770,610,439
Housing	486,261,602,985	505,469,909,927	28,055,947,403
Sub-total	1,831,701,069,925	1,984,852,553,272	239,192,634,238
Accounts and accrued interest receivable	2,534,059,595	2,176,885,953	283,103,296
Loans restructured due to COVID-19	1,834,235,129,520	1,987,029,439,225	239,475,737,534
Allowance for doubtful accounts	(53,909,690,389)	(48,608,619,661)	(5,152,776,167)
¢	<u>1,780,325,439,131</u>	<u>1,938,420,819,564</u>	<u>234,322,961,367</u>

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

	June 2022	December 2021	June 2021
Current	¢ 1,654,131,891,970	1,846,458,129,874	231,463,272,257
1 to 30 days	82,386,444,229	34,458,315,104	5,572,558,353
31 to 60 days	16,211,018,109	39,761,510,557	409,398,348
61 to 90 days	16,001,961,190	15,106,421,740	772,860,460
91 to 120 days	13,132,738,889	7,235,778,972	214,871,599
121 to 150 days	5,537,029,619	4,449,181,727	72,827,343
In legal collection	44,299,985,919	37,383,215,298	686,845,878
	1,831,701,069,925	1,984,852,553,272	239,192,634,238
Accounts and accrued interest receivable	2,534,059,595	2,176,885,953	283,103,296
Total loans restructured due to COVID-19	1,834,235,129,520	1,987,029,439,225	239,475,737,534
Allowance for loan losses	(53,909,690,389)	(48,608,619,661)	(5,152,776,167)
Loan portfolio, net	¢ <u>1,780,325,439,131</u>	<u>1,938,420,819,564</u>	<u>234,322,961,367</u>

(Continued)

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 guarantee, is as follows:

	June 2022	December 2021	June 2021
Collateral	47,223,256,733	58,294,189,127	120,978,075,700
Surety	17,749,357,430	20,670,755,440	105,080,098,686
Assignment of loans	62,446,535,343	87,299,935,436	-
Back-to-back	3,118,942,262	3,884,342,685	-
Mortgage	743,494,262,727	794,772,089,972	13,134,459,852
Trust	182,938,003,752	190,541,750,232	-
Surety - Mortgage	178,324,249,437	189,921,758,678	-
Surety - Trust	243,390,375,804	278,784,020,584	-
Other	283,667,745,016	290,166,392,276	-
Not assigned	2,912,699,587	3,212,232,131	-
Surety - Collateral	8,157,747,284	9,249,816,018	-
Collateral - Mortgage	1,124,093,633	1,153,368,479	-
Collateral - Securities	9,537,615	16,574,399	-
Surety - Collateral - Mortgage	3,104,169,389	3,634,064,223	-
Securities	30,511,250,992	29,191,295,063	-
Mortgage - Trust	187,939,223	199,507,307	-
Collateral - Back-to-back	-	8,753,998	-
Surety - Securities	57,791,151	73,099,529	-
Bond guaranteed by mortgage	8,973,295	8,973,296	-
Collateral - Trust	23,274,139,252	23,769,634,399	-
	<u>1,831,701,069,925</u>	<u>1,984,852,553,272</u>	<u>239,192,634,238</u>
Accounts and accrued interest receivable	<u>2,534,059,595</u>	<u>2,176,885,953</u>	<u>283,103,296</u>
Loans restructured due to COVID-19	<u>1,834,235,129,520</u>	<u>1,987,029,439,225</u>	<u>239,475,737,534</u>
Allowance for loan losses	<u>(53,909,690,389)</u>	<u>(48,608,619,661)</u>	<u>(5,152,776,167)</u>
Loan portfolio, net	<u>1,780,325,439,131</u>	<u>1,938,420,819,564</u>	<u>234,322,961,367</u>

As of June 30, 2022, an amount of ₡1,831,701,069,924 maintains temporary credit conditions, which represents 38.94% of the total loan portfolio (2021: ₡239,192,634,238 representing 5.61% of the total loan portfolio).

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

a) Operating measures

- The Bank constantly encourages customers to use digital channels: BN MOVIL, SINPE MOVIL, webpage and Contact Center.
- The Bank promoted COVID-19 vaccination; currently 90% of the Bank's employees have at least two doses of the vaccine.
- Hygiene measures were strengthened by installing portable handwash basins in high-transit offices (29 offices) and encouraging personnel and customers to wash their hands before and after their transactions, or at least once every hour.
- As of the date of this report, the Bank has 3,255 employees working from home, representing 57% of total employees. All positions that permit work from home have been implemented.
- 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 reopened.
- Of the bank's employees, 462 were identified as having health conditions that put them at a higher risk according to the Ministry of Health. That population was separated from processes involving attention to the public and most of them are working from home.
- The Bank's Emergency Institutional Commission meets continuously to implement the measures recommended by the Ministry of Health.

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:

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

- 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.
- Small- and medium-sized enterprise: All borrowers (irrespective of the sector) with variable payments, may dispense with loan instalments for the next four months, with the installments being transferred to the final loan installment. The measure is automatic, so no further step will be required by the customer. The customers that do not wish to take the benefit can continue to pay their installments normally by informing so by telephone or through our website chat enabled for such purposes.
- 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.

(Continued)



## 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 that:

*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, 2022, recurring to the sale of securities measured at amortized cost is not considered necessary and is not expected in the short term.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(53) Relevant events

a) Tax audit process – Costa Rican Tax Administration Fiscal Year 2017

As of December 31, 2021, Banco Nacional de Costa Rica is in a verification and investigation process by the National Large Taxpayer Audit Area of the Costa Rican Tax Administration, in order to perform a review of the income tax for fiscal year 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) Deferred term operations

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

As of June 30, 2022, 2,991 loan operations were placed under this modality, applying a discount to the interest rate on the loans in colones in the amount of ¢168,575,627,175, reaching an average rate of the operations already processed of 6%, The remaining average maturity term is 12.08 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 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 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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(54) Reclassification of the loan portfolio in legal collection

As of the end of 2021, a portion of the loan portfolio in legal collection was reclassified to the past due loans account, in conformity with the chart of accounts of SUGEF Directive 30-18, as follows:

*Loans must be transferred to this account when the entity has complied with its administrative collection proceedings and has filed the lawsuit that begins judicial collection.*

In compliance with the foregoing, As of December 31, 2021, the amount of ¢81,671,053,225 was reclassified (2020: ¢84,108,448,022).

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

On December 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 conglomerates 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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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.

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 requires an allowance for impairment to be booked as one-forty-eighth of the value of the asset, until reaching 100% of its carrying amount.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

During the term of 24 months from the date when the asset is awarded or received, the entity may request from the Superintendency an extension of 2 years to sell the asset, The Superintendency may deny the request for an extension (providing reasonable grounds) and require the creation of an allowance for 100% of the asset's carrying amount during the first 24 months, if an extension is provided, the allowance can be created over the term approved by the Superintendency.

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.
- 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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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 year, in monthly installments, using the straight-line method, no later than December 31, 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.

On January 31, 2019 at the latest, the entity, with tax treatments in dispute for the years 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.