

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Financial Information required by the
Superintendency General of Financial Entities

Consolidated Financial Statements

As of March 31, 2022
(With corresponding figures for 2021)

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

	Note	March 2022	December 2021	March 2021
ASSETS				
Cash and due from banks	9	1,462,759,162,039	1,355,841,181,326	1,351,896,042,338
Cash		127,251,663,788	153,022,359,822	117,204,465,424
BCCR		773,857,985,263	748,869,850,603	844,460,001,291
Local financial entities		812,896,941	1,270,630,547	858,023,222
Foreign financial entities		426,551,036,276	323,019,677,543	383,552,781,408
Notes payable on demand		8,111,431,897	7,097,413,624	5,621,779,742
Restricted cash and due from banks		126,174,147,874	122,561,249,187	198,991,251
Investments in financial instruments	10	1,550,777,250,009	1,789,748,289,965	1,723,341,420,108
At fair value through profit or loss		38,982,742,698	40,139,798,613	28,123,927,636
At fair value through other comprehensive income		733,715,184,265	807,216,667,803	873,339,474,631
At amortized cost		764,782,580,762	917,505,890,841	792,898,035,613
Derivative financial instruments	11	3,440,013,450	7,723,704,438	14,893,124,197
Accrued interest receivable		12,760,605,874	19,963,735,244	15,505,448,459
(Allowance for impairment of investments in financial instruments)		(2,903,877,040)	(2,801,506,974)	(1,418,590,428)
Loan portfolio	12	4,569,471,250,784	4,477,434,448,101	4,241,994,561,532
Current		4,358,242,560,230	4,282,160,940,971	3,949,608,701,110
Past due		162,462,498,566	128,283,491,897	209,854,430,023
In legal collection		121,893,952,585	123,886,157,797	148,789,966,029
Direct incremental costs related to loans		4,141,747,933	3,675,079,715	3,657,662,021
(Deferred income on loan portfolio)		(36,548,974,253)	(35,117,407,652)	(33,230,117,422)
Accrued interest receivable		110,866,530,065	110,377,468,668	126,111,930,250
(Allowance for loan losses)		(151,587,064,342)	(135,831,283,295)	(162,798,010,479)
Accounts and fees and commissions receivable	13	5,732,628,333	5,047,950,602	4,157,336,923
Commissions receivable		2,296,823,392	1,956,296,857	1,615,822,407
Accounts receivable for brokerage operations		-	-	2,596,779
Accounts receivable for transactions with related parties		23,041,905	16,309,408	17,573,873
Deferred tax and income tax receivable		2,850,492,248	2,964,965,080	1,893,154,575
Other receivables		4,661,493,330	4,181,997,820	4,780,074,354
Accrued interest receivable		1,994,645	1,923,294	2,992,171
(Allowance for impairment of accounts and fees and commissions receivable)		(4,101,217,187)	(4,073,541,857)	(4,154,877,236)
Assets held for sale	14	35,275,542,980	35,788,800,197	32,615,486,722
Assets and securities acquired in lieu of payment		94,194,414,101	94,628,393,958	98,963,202,112
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)		(58,974,755,750)	(58,895,478,390)	(66,403,600,019)
Investments in other companies	15	79,700,155,756	76,812,766,045	72,356,624,615
Property, furniture, equipment and right-of-use assets, net	16	205,476,974,551	209,184,043,954	209,297,110,337
Other assets	17	58,070,524,794	75,462,269,988	69,584,622,804
Deferred charges		25,095,003,855	28,728,197,092	39,575,455,272
Intangible assets		8,507,170,107	9,171,952,640	4,775,429,958
Other assets		24,468,350,832	37,562,120,256	25,233,737,574
TOTAL ASSETS		7,967,263,489,246	8,025,319,750,178	7,705,243,205,379

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

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

LIABILITIES AND EQUITY	Note	March 2022	December 2021	March 2021
LIABILITIES				
Obligations with the public	18	6,005,415,624,491	6,097,748,047,773	5,791,047,848,509
Demand obligations		4,325,729,565,033	4,369,258,152,185	3,629,323,149,867
Term obligations		1,655,179,022,988	1,701,120,048,148	2,129,196,453,707
Finance charges payable		24,507,036,470	27,369,847,440	32,528,244,935
Obligations with BCCR	19	195,558,918,341	168,243,245,539	70,273,029,901
Term obligations		194,296,408,078	167,292,072,120	70,223,644,412
Finance charges payable		1,262,510,263	951,173,419	49,385,489
Obligations with entities	20	828,478,931,906	808,501,740,570	962,030,952,466
Demand obligations		111,410,794,347	113,563,426,122	58,546,717,233
Term obligations		709,016,252,126	691,810,646,497	890,948,861,227
Other obligations with entities		(177,238,757)	(51,811,794)	(163,611,738)
Finance charges payable		8,229,124,190	3,179,479,745	12,698,985,744
Accounts payable and provisions		113,479,314,368	133,970,062,332	99,726,478,452
Provisions	22	21,601,221,093	21,510,154,585	23,050,364,329
Accounts payable for brokerage services		1,549,626,840	975,639,293	1,378,390,575
Deferred tax	21-b	16,019,390,919	17,389,485,477	16,589,908,561
Other sundry accounts payable	23	74,309,075,516	94,094,782,977	58,707,814,987
Other liabilities	24	15,916,604,271	26,972,290,867	14,766,698,141
Deferred income		110,256,453	88,200,061	79,422,254
Other liabilities		15,806,347,818	26,884,090,806	14,687,275,887
Subordinated obligations	25	76,158,374,187	58,367,371,894	53,526,176,497
Subordinated obligations		75,549,075,000	57,427,250,000	53,113,612,500
Finance charges payable		609,299,187	940,121,894	412,563,997
TOTAL LIABILITIES		7,235,007,767,564	7,293,802,758,975	6,991,371,183,966
EQUITY				
Share capital		172,237,030,102	172,237,030,102	172,237,030,102
Paid-in capital	26-a	172,237,030,102	172,237,030,102	172,237,030,102
Equity adjustments - Other comprehensive income		85,143,845,051	93,316,808,915	88,728,926,183
Reserves	26-b	387,864,850,024	364,737,238,098	365,326,869,312
Prior-period retained earnings		33,845,016,950	40,386,334,461	39,292,322,364
Income for the period		8,728,383,885	19,152,075,605	6,599,369,430
Capital contributions or special funds	26-c	44,436,595,670	41,687,504,022	41,687,504,022
TOTAL EQUITY		732,255,721,682	731,516,991,203	713,872,021,413
TOTAL LIABILITIES AND EQUITY		7,967,263,489,246	8,025,319,750,178	7,705,243,205,379
DEBIT MEMORANDA ACCOUNTS	27	525,200,214,253	499,244,466,091	486,332,881,632
TRUST ASSETS	28	2,998,597,824,726	2,996,260,410,061	2,317,507,871,924
TRUST LIABILITIES		95,544,149,639	125,312,125,616	132,171,231,373
TRUST EQUITY		2,903,053,675,087	2,870,948,284,445	2,185,336,640,551
TRUST MEMORANDA ACCOUNTS		195,600,333,965	213,915,088,460	165,222,188,395
OTHER DEBIT MEMORANDA ACCOUNTS	29	32,052,330,144,658	31,077,261,703,346	27,439,925,866,053
Own debit memoranda accounts		9,407,999,628,402	9,181,234,407,438	8,070,286,683,910
Third-party debit memoranda accounts		4,932,408,012,922	4,897,730,289,330	4,244,159,792,220
Own debit memoranda accounts for custodial activities		660,259,392,646	672,053,399,643	760,339,379,626
Third-party debit memoranda accounts for custodial activities		17,051,663,110,688	16,326,243,606,935	14,365,140,010,297

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.

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TIMBRE 300.0 COLONES

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2022 AND 2021
(In colones)

	Note	March 2022	March 2021
Finance income			
Cash and due from banks	33	314,717,311	203,160,407
Investments in financial instruments	33	12,455,292,072	15,757,643,421
Loan portfolio	34	88,451,569,186	89,698,387,152
Gain on foreign exchange differences and DU, net	6-d	161,578,222	-
Gain on financial instruments at fair value through profit or loss		50,083,487	50,140,072
Gain on financial instruments at fair value through other comprehensive income		2,187,903,983	3,788,985,514
Other finance income	35	6,359,571,048	3,136,755,135
Total finance income		109,980,715,309	112,635,071,701
Finance costs			
Obligations with the public	36	24,114,517,670	33,060,851,788
Obligations with BCCR		336,705,984	50,997,364
Obligations with financial and non-financial entities	37	8,080,874,336	10,569,453,507
Subordinated, convertible and preferred obligations		1,118,943,026	806,783,522
Loss on foreign exchange differences and DU, net	6-d	-	10,508,767
Loss on financial instruments at fair value through profit or loss		22,304,190	1,064,437
Loss on financial instruments at fair value through other comprehensive income		625,525,420	21,635,748
Loss on derivative financial instruments, net	11	4,283,200,325	647,486,231
Other finance costs	38	259,490,901	442,637,823
Total finance costs		38,841,561,852	45,611,419,187
Allowance for impairment of assets	39	21,634,680,000	18,630,840,598
Recovery of assets and decrease in allowances	40	6,883,087,360	4,316,486,931
FINANCE INCOME		56,387,560,817	52,709,298,847
Other operating income			
Service fees and commissions	41	42,533,211,246	35,980,603,451
Assets held for sale		1,767,210,160	842,784,815
Gain on investments in other companies	8	353,034,120	184,690,752
Foreign currency exchange and arbitrage		6,748,746,362	5,216,794,788
Other income from related parties		-	2,063,325
Other operating income	42	1,349,829,930	2,234,788,335
Total other operating income		52,752,031,818	44,461,725,466

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

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BANCO NACIONAL DE COSTA RICA Y SUBSIDIARIAS
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2022 AND 2021
(In colones)

	Note	March 2022	March 2021
Other operating expenses			
Service fees and commissions		10,929,508,998	8,257,980,372
Assets held for sale	43	4,727,481,429	2,218,338,576
Provisions	44	1,104,746,234	1,467,989,051
Bonuses on fees and commissions of voluntary pension funds		91,920,463	104,685,209
Foreign currency exchange and arbitrage		3,274,894	1,440
Other expenses with related parties		5,382,526	3,771,884
Other operating expenses	45	15,055,908,407	13,765,801,751
Total other operating expenses		31,918,222,951	25,818,568,283
GROSS OPERATING INCOME		77,221,369,684	71,352,456,030
Administrative expenses			
Personnel expenses	46	35,235,393,576	34,069,927,369
Other administrative expenses	47	16,815,825,499	16,818,907,387
Total administrative expenses		52,051,219,075	50,888,834,756
NET OPERATING INCOME BEFORE TAXES AND STATUTORY ALLOCATIONS		25,170,150,609	20,463,621,274
Current tax	21-a	7,368,912,581	5,846,757,445
Prior period income tax	21-a	3,547,309,483	3,547,309,483
Deferred tax	21-a	282,171,872	418,875,596
Deferred tax income	21-a	569,404,392	484,070,201
Statutory allocations	48	5,812,777,180	4,535,379,521
INCOME FOR THE PERIOD		8,728,383,885	6,599,369,430
OTHER COMPREHENSIVE INCOME, NET OF TAX			
Items that will not be reclassified to profit or loss			
Surplus from revaluation of property		54,993,137	48,241,849
Other adjustments		833,608,402	197,909,184
Items that are or may be reclassified to profit or loss			
Adjustment for valuation of investments at fair value through other comprehensive income		(8,878,254,946)	749,411,941
Adjustment for valuation of restricted financial instruments		-	(2,868,810)
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX		(7,989,653,407)	992,694,164
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		738,730,478	7,592,063,594

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY, NET
FOR THE THREE MONTHS ENDED MARCH 31, 2022 AND 2021
(In colones)

	Note	Share capital	Equity adjustments - Other comprehensive income	Reserves	Capital contributions in special funds	Prior-period retained earnings	Total
Balance at December 31, 2020		172,237,030,102	79,402,840,338	381,362,590,326	39,043,365,123	25,739,934,089	697,785,759,978
Changes in accounting policies		-	8,494,197,840	-	-	-	8,494,197,840
Balance at January 1, 2021		172,237,030,102	87,897,038,178	381,362,590,326	39,043,365,123	25,739,934,089	706,279,957,818
<i>Transactions with owners booked directly in equity:</i>							
Legal reserves		-	-	(16,063,811,692)	-	16,063,811,692	-
Other statutory reserves		-	-	28,090,678	-	(28,090,678)	-
Capital contributions in special funds		-	-	-	2,644,138,899	(2,644,138,899)	-
Total transactions with owners booked directly in equity		-	-	(16,035,721,014)	2,644,138,899	13,391,582,115	-
Comprehensive income for the period:							
Income for the period		-	-	-	-	6,599,369,430	6,599,369,430
Surplus from revaluation of property		-	48,241,849	-	-	-	48,241,849
Adjustment for valuation of investments at fair value through other comprehensive income	10	-	749,411,941	-	-	-	749,411,941
Adjustment for valuation of restricted financial instruments	10	-	(2,868,810)	-	-	-	(2,868,810)
Other adjustments		-	197,909,184	-	-	-	197,909,184
Realization of surplus from revaluation of property		-	(160,806,160)	-	-	160,806,160	-
Total comprehensive income for the period		-	831,888,004	-	-	6,760,175,590	7,592,063,594
Balance at March 31, 2021	26	172,237,030,102	88,728,926,183	365,326,869,312	41,687,504,022	45,891,691,794	713,872,021,413

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY, NET
FOR THE THREE MONTHS ENDED MARCH 31, 2022 AND 2021
(In colones)

Note	Share capital	Equity adjustments - Other comprehensive income	Reserves	Capital contributions in special funds	Prior-period retained earnings	Total
Balance at December 31, 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
<i>Transactions with owners booked directly in equity:</i>						
Legal reserves	-	-	23,117,090,506	-	(23,117,090,506)	-
Other statutory reserves	-	-	10,521,420	-	(10,521,420)	-
Capital contributions in special funds	-	-	-	2,749,091,648	(2,749,091,648)	-
Total transactions with owners booked directly in equity	-	-	23,127,611,926	2,749,091,648	(25,876,703,574)	-
Comprehensive income for the period:						
Income for the period	-	-	-	-	8,728,383,885	8,728,383,885
Surplus from revaluation of property	-	54,993,137	-	-	-	54,993,137
Adjustment for valuation of investments at fair value through other comprehensive income	10	(8,878,254,946)	-	-	-	(8,878,254,946)
Other adjustments	-	833,608,402	-	-	-	833,608,402
Realization of surplus from revaluation of property	-	(183,310,457)	-	-	183,310,457	-
Total comprehensive income for the period	-	(8,172,963,864)	-	-	8,911,694,342	738,730,478
Balance at March 31, 2022	172,237,030,102	85,143,845,051	387,864,850,024	44,436,595,670	42,573,400,835	732,255,721,682

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2022 AND 2021
(In colones)

	Note	March 2022	March 2021
Cash flows from operating activities			
Income for the period		8,728,383,885	6,599,369,430
Items not requiring cash			
Depreciation and amortization		5,499,678,635	5,386,302,812
Loss (gain) on foreign exchange differences and DU, net		28,027,351,282	(3,362,471,568)
Loss on sale of non-financial assets		2,112,629,676	928,720,495
Finance income		(100,906,861,258)	(105,456,030,573)
Finance costs		22,333,884,340	33,403,882,682
Allowance for investments, net		(300,157,909)	(357,400,682)
Allowance for loan losses (direct loans and stand-by credits), net		21,037,001,317	17,050,882,005
Allowance for other accounts receivable, net		82,471,437	(13,945,043)
Loss (gain) on allowance for assets held for sale, net		79,277,361	(130,913,067)
Severance provision		(28,093,962)	20,007,132
Other provisions		(19,679,625)	5,577,783,121
Share of profit of foreign associate, net		(353,034,134)	(184,690,752)
Statutory allocations, net		5,812,777,180	4,535,379,521
Income tax expense, net	21-a	10,916,222,064	9,394,066,928
Deferred tax, net	21-a	(287,232,520)	(65,194,605)
		2,734,617,769	(26,674,252,164)
Cash flows from operating activities			
Loan portfolio		(72,603,389,023)	34,206,897,736
Accounts and fees and commissions receivable		(3,445,659,152)	(2,436,731,374)
Assets held for sale		3,859,379,214	2,906,315,731
Other assets		17,734,134,937	29,108,116,526
Obligations with the public		(167,619,055,228)	161,984,546,530
Obligations with BCCR and other entities		15,572,638,592	10,323,818,536
Obligations for accounts payable, fees and commissions payable and provisions		12,764,658,919	(4,345,852,553)
Other liabilities		(11,393,481,457)	(14,392,846,712)
		(205,130,773,198)	217,354,264,420
Income tax paid		(18,906,689,078)	(17,327,984,862)
Interest received on loan portfolio and investments		107,620,929,231	106,229,372,805
Interest paid on term obligations with the public and financial entities		(19,835,714,021)	(29,880,284,794)
Statutory allocations paid		(14,965,512,391)	(12,320,255,489)
Net cash used in (from) operating activities		(148,483,141,688)	237,380,859,916
Cash flows from investing activities			
Increase in financial instruments		(248,556,447,162)	(413,072,955,291)
Decrease in financial instruments		269,765,983,001	234,455,550,971
Acquisition of property and equipment		(14,345,334,588)	(13,835,791,047)
Sale of property and equipment		50,949,155	549,509,042
Acquisition of intangible assets		(571,404,437)	(505,518,743)
Net cash from (used in) investing activities		6,343,745,969	(192,409,205,068)
Cash flows from financing activities			
Settlement of financial obligations		(2,721,091,006)	(9,339,300,715)
New financial obligations		29,600,000,000	94,790,000,000
Payment of lease liabilities		(519,664,732)	(456,074,171)
Net cash from financing activities		26,359,244,262	84,994,625,114
Net (decrease) increase in cash and cash equivalents		(115,780,151,457)	129,966,279,962
Cash and cash equivalents at beginning of period		1,611,376,144,164	1,483,188,630,362
Cash and cash equivalents at end of period	9	1,495,595,992,707	1,613,154,910,324

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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
Estado de Flujos de Efectivo
2022-04-27 22:49:25 +0000



VERIFICACIÓN: 0W6ouvOW
<https://timbres.contador.co.cr>

TIMBRE 300.0 COLONES

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of March 31, 2022

(With corresponding figures for 2021)

(1) Reporting entity

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

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

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

Currently, due to innovations in information technology and telecommunications and especially because of the competition in the national and international financial sectors, the Bank has become a universal bank that offers services in all sectors of the Costa Rican market. Those services include personal, business, corporate and institutional banking, stock market, pension fund management, investment funds, insurance brokerage, international banking services and electronic banking services. It seeks to become the leading conglomerate in Costa Rica by strengthening its decisive role in the country's development and wellbeing; significantly promoting profitability; offering superior services to the customer at prices aligned with the market; and having exemplary organizational health and financial strength.

As of March 31, 2022, the Bank has 156 offices, 464 ATMs and along with its subsidiaries a total of 5,569 employees (2021: 156 offices, 462 ATMs and along with its subsidiaries a total of 5,532 employees). Employees are distributed as follows: Banco Nacional de Costa Rica – 5,117 employees (2021: 5,095); BN Valores Puesto de Bolsa, S.A. - 71 employees (2021: 69); BN Vital Operadora de Planes de Pensiones Complementarias, S.A. - 191 employees (2021: 182); BN Sociedad Administradora de Fondos de Inversión, S.A. - 88 employees (2021: 86); and BN Sociedad Corredora de Seguros, S.A. - 102 employees (2021: 100). The Bank's website is www.bncr.fi.cr.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The following subsidiaries are wholly owned by the Bank:

BN Valores Puesto de Bolsa, S.A. (the Brokerage Firm) was organized as a corporation in 1998 under the laws of the Republic of Costa Rica. Its main activity is performing securities transactions in the Costa Rican National Stock Exchange (Bolsa Nacional de Valores, S.A.) on behalf of third parties. Such transactions are regulated by the Costa Rican National Stock Exchange, the regulations and provisions issued by the Superintendency General of Securities (SUGEVAL) and the *Securities Market Regulatory Law*.

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

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

BN Sociedad Corredora de Seguros, S.A. (the Insurance Brokerage Firm) was organized as a corporation on May 19, 2009, under the laws of the Republic of Costa Rica. Its main activity is insurance brokerage for policies issued by insurance companies authorized to operate in Costa Rica. Its activities are governed by the *Insurance Market Regulatory Law* (Law No. 8653) and the regulations and provisions issued by the Superintendency General of Insurance (SUGESE).

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

Banco Internacional de Costa Rica, S.A. and Subsidiary (BICSA), which was organized under the laws of the Republic of Panama in 1976, BICSA operates under a general license granted by the Superintendency of Banks of Panama to engage in banking operations in Panama or abroad, BICSA's registered office is located in Panama City, Republic of Panama, 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

As of March 31, the main components of the financial statements of the entities in which the Bank holds ownership interest are as follows:

March 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	¢ 44,151,651,182	13,345,124,129	14,956,990,206	7,679,135,256	604,444,160,969
Liabilities	28,216,962,834	1,166,078,636	2,750,415,579	836,150,045	524,794,628,507
Equity	15,934,688,348	12,179,045,493	12,206,574,627	6,842,985,211	79,649,532,462
Income for the period	345,893,674	765,904,768	742,981,701	826,383,446	353,034,120
Memoranda accounts	1,081,453,307,974	775,702,870,063	2,320,296,115,540	-	-

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	-	-

March 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	¢ 38,599,656,573	12,318,542,531	11,826,418,455	8,865,873,785	523,805,058,649
Liabilities	21,288,296,331	1,878,892,281	1,118,834,005	824,747,428	451,499,057,310
Equity	17,311,360,242	10,439,650,250	10,707,584,450	8,041,126,357	72,306,001,339
Income for the period	855,969,233	452,400,011	766,995,405	866,567,686	180,642,638
Memoranda accounts	1,145,894,038,696	1,958,946,706,968	652,526,148,001	-	-

(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.

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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 March 31, 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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(5) Significant accounting policies

The Conglomerate has consistently applied the following accounting policies to 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 March 31, 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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

v. *Transactions eliminated on consolidation*

Intra-group balances and transactions and any unrealized income and expenses (except for foreign 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 March 31, 2022, assets and liabilities in US dollars are valued at the exchange rate of ¢667.10 to US\$1.00 (2021: ¢617.30 to US\$1.00), which is the reference selling rate established by BCCR.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of March 31, 2022, assets and liabilities denominated in euro are valued at the exchange rate of ¢739.68 to €1.00 (2021: ¢732.17 and ¢669.26 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 March 31, 2022, assets and liabilities denominated in Development Units (DU) were valued at the exchange rate of ¢966.09 to DU1.00 (2021: ¢948.36 and ¢924.97 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 March 31, 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.

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

SUGEF Directive 34-02 requires that the allowance for impairment of assets held for sale acquired after May 2010 be established gradually by booking one-twenty-fourth of the value of such assets each month during two years until the allowance is equivalent to 100% of the assets' carrying amount. Through notes No. 1573-09 and No. 1574-10 dated May 7, 2020, CONASSIF communicated by means of Article 72 of IRNBS (Law No. 1644) the extension of the term from 24 months to 48 months, whereby the total (100%) allowance for impairment of 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.

(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 Bank 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 Bank 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% 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.

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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

(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 year and credited to a liability account in the consolidated statement of financial position.

i. *Current tax*

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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 ¢1,908 million have already been booked; therefore, the base balance to be recorded in the allowance plan is ¢32,960 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%	2.966
2022-12	18%	5.933
2023-06	30%	9.888
2023-12	42%	13.843
2024-06	56%	18.458
2024-12	70%	23.072
2025-06	85%	28.017
2025-12	100%	32.961

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.

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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 Bank's equity and, therefore, are not included in the consolidated financial statements. Fee and commission income derived from trust management is recognized on an accrual basis.

(6) Risk management

The Conglomerate has exposure to the following risks:

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

The Conglomerate manages the above risks as follows:

a) Credit risk

i. Banco Nacional de Costa Rica

This is the risk that the borrower or issuer of a financial asset fails to meet its contractual obligations, fully and on time, in accordance with the terms and conditions agreed upon at the time the financial asset was acquired. Credit risk is mainly related to the loan portfolio and investment securities. The exposure to credit risk on those assets is represented by the carrying amount of the assets in the consolidated statement of financial position. The Bank also has exposure to credit risk for off-balance sheet credits, such as commitments, letters of credit, sureties and guarantees.

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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.

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

As of March 31, the Bank's financial instruments with exposure to credit risk are as follows:

	Direct loans		Stand-by credits	
	March 2022	March 2021	March 2022	March 2021
<i>Loan portfolio</i>				
Principal	¢ 4,642,599,011,381	4,308,253,097,162	365,041,102,627	330,488,190,549
Accounts and accrued interest receivable	110,866,530,065	126,111,930,250	-	-
Gross carrying amount	4,753,465,541,446	4,434,365,027,412	365,041,102,627	330,488,190,549
Incremental direct costs related to loans	4,141,747,933	3,657,662,021	-	-
Deferred income from loan portfolio	(36,548,974,253)	(33,230,117,422)	-	-
Allowance for loan losses (accounting records)	(151,587,064,342)	(154,629,848,598)	(1,191,054,108)	(816,323,995)
Net carrying amount	¢ <u>4,569,471,250,784</u>	<u>4,250,162,723,413</u>	<u>363,850,048,519</u>	<u>329,671,866,554</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		Direct loans		Stand-by credits	
		March 2022	March 2021	March 2022	March 2021
Loan portfolio					
Total balances:					
0	¢	37,926,068,480	40,214,429,685	-	-
A1		3,625,937,803,345	3,287,441,643,891	332,272,667,885	321,587,588,310
A2		61,755,681,733	63,169,389,628	1,496,553,221	1,056,296,273
B1		506,185,290,673	494,518,517,841	27,409,915,415	3,825,822,525
B2		25,667,512,910	21,407,783,156	118,766,660	189,476,987
C1		166,985,641,402	156,739,879,709	1,250,408,396	1,412,578,002
C2		15,171,241,293	13,176,532,555	160,389,207	42,090,078
D		131,598,685,969	150,592,473,116	880,339,830	1,093,655,584
E		182,237,615,641	207,104,377,831	1,452,062,013	1,280,682,790
		4,753,465,541,446	4,434,365,027,412	365,041,102,627	330,488,190,549
Structural allowance (subledger – database)		(98,402,028,821)	(111,755,828,400)	(110,788,326)	(182,314,542)
Net carrying amount	¢	4,655,063,512,625	4,322,609,199,012	364,930,314,301	330,305,876,007
Individually assessed loans with allowance:					
0	¢	37,552,476,283	39,968,554,765	-	-
A1		3,624,584,763,615	3,286,203,398,624	22,947,138,552	40,982,963,053
A2		61,755,681,733	63,169,389,628	30,187,079	46,855,689
B1		506,181,790,673	494,518,517,841	16,686,912,343	835,667,777
B2		25,667,512,910	21,407,783,156	9,248,480	-
C1		166,985,641,402	156,724,863,270	10,105,195	35,093,991
C2		15,171,241,293	13,176,532,555	3,674,428	-
D		131,598,685,969	150,592,473,116	94,408,263	175,124,678
E		182,237,615,641	207,104,377,831	45,679,022	6,352,840
		4,751,735,409,519	4,432,865,890,787	39,827,353,362	42,082,058,028
Structural allowance (subledger – database)		(98,402,028,821)	(111,755,828,400)	(110,788,326)	(182,314,542)
Net carrying amount	¢	4,653,333,380,698	4,321,110,062,387	39,716,565,036	41,899,743,486
		Direct loans		Stand-by credits	
		March 2022	March 2021	March 2022	March 2021
Current loan portfolio, without allowance:					
0		373,592,197	245,874,920	-	-
A1		1,353,039,730	1,238,245,267	309,325,529,333	280,604,624,484
A2		-	-	1,466,366,142	1,009,440,584
B1		3,500,000	-	10,723,003,072	2,990,154,748
B2		-	-	109,518,180	189,476,987
C1		-	15,016,438	1,240,303,201	1,377,484,011
C2		-	-	156,714,779	42,090,851
D		-	-	785,931,567	918,530,906
E		-	-	1,406,382,991	1,274,329,950
Carrying amount		1,730,131,927	1,499,136,625	325,213,749,265	288,406,132,521
Gross carrying amount	¢	4,753,465,541,446	4,434,365,027,412	365,041,102,627	330,488,190,549
Allowance for loan losses (database)		(98,402,028,821)	(111,755,828,400)	(110,788,326)	(182,314,542)
Excess of allowance over structural allowance		(53,185,035,521)	(42,874,020,198)	(1,080,265,782)	(634,009,453)
Incremental direct costs related to loans		4,141,747,933	3,657,662,021	-	-
Deferred income from loan portfolio		(36,548,974,253)	(33,230,117,422)	-	-
Net carrying amount	¢	4,569,471,250,784	4,250,162,723,413	-	-
Restructured loans	¢	27,572,247,012	22,086,665,748	363,850,048,519	329,671,866,554

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

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Set out below is an analysis of the Bank's loan portfolio balances As of March 31, gross and net of the allowance for loan losses, by risk rating according to SUGEF Directive 1-05 and SUGEF Directive 15-16:

		March 2022	
		Loans to customers	
		Gross	Net
0	¢	37,926,068,480	36,927,991,936
A1		3,625,937,803,345	3,605,135,591,583
A2		61,755,681,733	61,433,685,780
B1		506,185,290,673	500,315,635,425
B2		25,667,512,910	25,325,391,292
C1		166,985,641,402	161,391,780,812
C2		15,171,241,293	13,174,464,070
D		131,598,685,969	117,591,580,059
E		182,237,615,641	133,767,391,668
	¢	4,753,465,541,446	4,655,063,512,625

		March 2021	
		Loans to customers	
		Gross	Net
0	¢	40,214,429,685	38,533,488,319
A1		3,287,441,643,891	3,226,864,916,985
A2		63,169,389,628	62,820,322,937
B1		494,518,517,841	489,968,656,035
B2		21,407,783,156	21,064,800,956
C1		156,739,879,709	151,633,821,112
C2		13,176,532,555	12,085,980,598
D		150,592,473,116	137,173,121,669
E		207,104,377,831	139,590,070,203
	¢	4,434,365,027,412	4,279,735,178,814

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As shown above, as of March 31, 2022, the gross portfolio amounts to ₡4.753 billion. Of that amount, 89.57% is classified in risk ratings “A+B” and 10.43% in risk ratings “C+D+E” (2021: ₡4.434 billion, of which 88.10% is classified in risk ratings “A+B” and 11.90% in risk ratings “C+D+E”).

Individually assessed loans with allowance:

Pursuant to SUGEF Directives 1-05 and 15-16, a risk rating is assigned to all borrowers. Applicable allowance percentages are determined based on that risk rating. Individually assessed loans with allowance are loan operations for which, after considering the guarantee for the loan, there is still a balance to which the applicable allowance percentage will be applied.

Past due loans without allowance:

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

Restructured loans:

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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

Loan write-off policy:

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

Borrower classification

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

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As of March 31, the loan portfolio by borrower classification is as follows:

Borrower classification	Direct loans		Stand-by credits	
	March 2022	March 2021	March 2022	March 2021
Group 1	¢ 2,596,619,174,731	2,301,059,087,940	48,785,679,631	46,991,292,239
Group 2	2,156,846,366,715	2,133,305,939,472	316,255,422,996	283,496,898,310
	¢ 4,753,465,541,446	4,434,365,027,412	365,041,102,627	330,488,190,549

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%

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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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

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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.

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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.

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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>March 2022</u>		
	<u>Allowance booked</u>	<u>Structural allowance</u>	<u>Excess of allowance</u>
Allowance for direct loans	¢ 147,395,670,590	(98,402,028,821)	48,993,641,769
Allowance for stand-by credits	1,191,054,108	(110,788,326)	1,080,265,782
CNS 1698 allowance plan	3,000,000,000	(3,000,000,000)	-
	151,586,724,698	(101,512,817,147)	50,073,907,551
Counter-cyclical allowance (per SUGEF Directive 19-16)	339,644	(339,644)	-
	¢ 151,587,064,342	(101,513,156,791)	50,073,907,551

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	March 2021		
	Allowance booked	Structural allowance	Excess of allowance
Allowance for direct loans	¢ 153,813,524,603	(111,755,828,400)	42,057,696,203
Allowance for stand-by credits	816,323,995	(182,314,542)	634,009,453
	154,629,848,598	(111,938,142,942)	42,691,705,656
Counter-cyclical allowance (per SUGEF Directive 19-16)	8,168,161,881	(8,168,161,881)	-
	¢ 162,798,010,479	(120,106,304,823)	42,691,705,656

Counter-cyclical allowance

As of March 31, 2022, 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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

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Moreover, according to Agreement No. CNS 1697-09 dated November 4, 2021, from December 1, 2020 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.

As of March 31, 2022, the impairment of the portfolio due to high risk is calculated at ¢176,840,758,479, which corresponds to 9,018 loan operations for 6,083 customers.

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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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:

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

As of March 31, 2022, the carrying amount of the allowance for impairment of assets held for sale and per legal requirements amounts to ¢58,974,755,750 (2021: ¢66,403,600,019).

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

Sector		Direct loans		Stand-by credits	
		March 2022	March 2021	March 2022	March 2021
Trade	¢	365,536,394,290	373,565,406,857	-	3,105,093
Services		1,102,836,555,578	893,691,603,548	50,882,874,670	52,182,003,613
Financial services		87,822,386,435	82,427,281,384	-	-
Mining		446,732,841	728,147,254	-	-
Manufacturing and quarrying		173,118,465,625	164,298,589,632	-	-
Construction		90,848,605,580	96,519,299,677	-	-
Agriculture and forestry		117,260,521,562	117,122,584,069	-	1,606,312
Livestock, hunting and fishing		74,044,480,743	75,871,857,961	-	-
Electricity, water, sanitation and other related sectors		468,155,627,578	477,083,777,549	-	-
Transportation and telecommunications		46,330,967,517	49,259,342,594	-	-
Housing		1,417,495,148,612	1,349,546,854,399	-	2,691,556
Personal or consumer		519,002,707,354	538,747,108,937	314,033,394,609	278,175,266,470
Tourism		290,566,947,731	215,503,173,551	124,833,348	123,517,505
	¢	<u>4,753,465,541,446</u>	<u>4,434,365,027,412</u>	<u>365,041,102,627</u>	<u>330,488,190,549</u>

As of March 31, the concentration of financial assets by geographic location is as follows:

		Direct loans		Stand-by credits	
		March 2022	March 2021	March 2022	March 2021
Central America	¢	<u>4,753,465,541,446</u>	<u>4,434,365,027,412</u>	<u>365,041,102,627</u>	<u>330,488,190,549</u>

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

Type of guarantee		Direct loans		Stand-by credits	
		March 2022	March 2021	March 2022	March 2021
Back-to-back	¢	45,453,040,902	13,326,086,856	60,618,367	85,773,774
Mortgage bond		-	81,657,021	-	-
Assignment of loans		67,014,484	354,683,379,163	-	-
Mortgage		2,089,712,652,719	1,751,313,090,363	132,912,610	9,952,202
Surety		411,069,829,778	883,327,622,894	-	2,173,818
Trust		577,861,891,105	388,765,194,449	33,355,000	-
Securities		30,467,849,752	756,090,950	-	-
Chattel mortgage		660,884,573,995	245,606,059,404	15,848,832,436	-
Other		937,948,688,711	796,505,846,312	348,965,384,214	330,390,290,755
	¢	<u>4,753,465,541,446</u>	<u>4,434,365,027,412</u>	<u>365,041,102,627</u>	<u>330,488,190,549</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

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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 March 31, 2022, 72.29% of the loan portfolio is secured by collateral guarantees (2021: 61.99%).

As of March 31, the concentration of the loan portfolio by individual borrower is as follows:

Loan portfolio concentration	Direct loans		Stand-by credits	
	March 2022	March 2021	March 2022	March 2021
¢1 to ¢3,000,000	¢ 134,600,550,803	137,965,381,883	94,350,860,333	89,033,376,882
¢3,000,001 to ¢15,000,000	538,245,165,649	574,415,460,761	212,479,852,083	185,824,054,162
¢15,000,001 to ¢30,000,000	447,291,365,865	455,762,959,087	11,838,874,096	8,024,613,995
¢30,000,001 to ¢50,000,000	483,751,949,624	478,991,355,115	3,510,511,887	3,035,636,118
¢50,000,001 to ¢75,000,000	459,533,995,414	431,531,797,033	2,539,107,192	2,241,239,366
¢75,000,001 to ¢100,000,000	238,416,575,553	208,352,593,177	828,749,424	880,668,555
¢100,000,001 to ¢200,000,000	243,395,589,630	242,777,913,416	3,714,745,118	2,789,976,473
More than ¢200,000,000	2,208,230,348,908	1,904,567,566,940	35,778,402,494	38,658,624,998
	¢ 4,753,465,541,446	4,434,365,027,412	365,041,102,627	330,488,190,549

As of March 31, 2022, the portion of the loan portfolio (direct and stand-by loans) corresponding to economic interest groups amounts to ¢700,179,492,005, equivalent to 15.08% of the loan portfolio (March 2021: ¢732,461,233,028 equivalent to 16.52% of the loan portfolio).

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

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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 (for comparison purposes, loan portfolio information is available for 2003 and thereafter).

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

Various technical tools are used to provide other angles for the analysis. Other types of estimates are made in addition to those obtained using the VaR methodology, such as the performance of the portfolio in legal collection, concentration of the portfolio by economic activity, vintage analysis, stress testing, transition matrixes, 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.

As of March 31, 2022 and 2021, all economic activities showed increases in the VaR of the loan portfolio, especially in activities such as livestock, transport, industry, consumer and trade. These increases are the result of higher levels of arrears in the loan portfolios for those activities, due to the difficult economic situation faced by the country in relation to the COVID-19 pandemic.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of March 31, an allowance for ECL is booked for the managed portfolio, as follows:

Portfolio	Allowance for expected credit losses	
	March 2022	March 2021
Investments in financial instruments at FVOCI	¢ 76,832,070	43,599,904

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.

The Brokerage Firm may acquire the following instruments:

- fixed income external debt securities issued by the Government of Costa Rica, BCCR and other Costa Rican public institutions.
- fixed income securities issued by the government or the central bank of countries that have been assigned an investment grade rating.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- investment grade corporate bonds and fixed income securities issued by supranational entities.
- structured notes issued by investment grade banks, provided that the underlying instrument is not related to commodities, stock indexes or shares; has a risk rating that is not below the risk rating assigned to Costa Rica; and is available for public offering on a national or international stock exchange, subject to prior approval of General Management.

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 duration for which investments are held corresponds to the liquidity needs and interest rate forecasts of the Brokerage Firm. For the bonds portfolio, the average Macaulay's duration shall not exceed five years.

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 March 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 88.34% and 11.66% in US dollars.

With respect to the consolidated portfolio, investments in instruments issued by the Government of Costa Rica correspond to 86.56%; BCCR 1.75% and BNCR 0.03%. The sum of these issuers represents 88.34% of the consolidated portfolio in colones. The portfolio in US dollars is represented by SDHA issues 6.54%, IHYA 4.85% and BNSFI 0.28%, for a total of 11.66%.

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Notes to the Consolidated Financial Statements

As of March 31, an allowance for ECL was booked for the managed portfolio, as follows:

Allowance for expected credit losses		
Portfolio	March 2022	March 2021
Investments measured at FVOCI	¢ 19,612,257	22,129,991
Amortized cost	216,627,994	173,569,660

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

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

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

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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

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As of March 31, an allowance for ECL was booked for the managed portfolio, as follows:

Allowance for expected credit losses			
Fund		March 2022	March 2021
Investments measured at FVOCI	¢	108,219,405	14,431,223

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.

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As of March 31, an allowance for ECL was booked for the managed portfolio, as follows:

Portfolio	Allowance for expected credit losses	
	March 2022	March 2021
Amortized cost	¢ 16,906,953	2,909,513

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.

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As of March 31, 2022, the classification of instruments by model is as follows:

Month		Model 1 Amortized cost	Model 2 FVOCI	Total estimated 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

As of March 31, 2021, the classification of instruments by model is as follows:

Month		Model 1 Amortized cost	Model 2 FVOCI	Total estimated losses
January	¢	2,645,232,799	907,120,180	3,552,352,979
February		1,313,682,672	1,716,957,677	3,030,640,349
March		1,418,577,887	1,912,633,323	3,331,211,210

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

			March 2022	
	12-month PD range		Stage 1	Total
Investments at amortized cost	%	¢	796,184,731,540	796,184,731,540
Allowance			(2,886,970,087)	(2,886,970,087)
		¢	<u>793,297,761,453</u>	<u>793,297,761,453</u>
			December 2021	
	12-month PD range		Stage 1	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>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	12-month PD range		March 2021	
			Stage 1	Total
Investments at amortized cost	%	¢	792,898,035,613	792,898,035,613
Allowance			(1,418,686,791)	(1,418,686,791)
		¢	<u>791,479,348,822</u>	<u>791,479,348,822</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. Explanation of the terms ‘Stage 1’ and ‘Stage 2’ is included in Note 5(c)(iii).

	12-month PD range		March 2022	
			Stage 1	Total
Investments at FVOCI	%	¢	702,368,217,330	702,368,217,330
Allowance			(3,184,850,540)	(3,184,850,540)
		¢	<u>699,183,366,790</u>	<u>699,183,366,790</u>

	12-month PD range		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>

			March 2021		
			Stage 1	Stage 2	Total
Investments at FVOCI	¢		873,170,742,583	190,944,047	873,339,474,631
Allowance			(1,911,127,722)	(1,505,927)	(1,912,633,649)
	¢		<u>871,259,614,861</u>	<u>189,438,120</u>	<u>871,426,840,982</u>

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The following table sets out information about the credit quality of financial assets measured at fair value through profit or loss (FVTPL) for December 2021 and March 2022 and 2021. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. Explanation of the term 'Stage 1' is included in Note 5(c)(iii).

		March 2022	
		Stage 1	Total
Investments in financial instruments	¢	4,644,713,763	4,644,713,763
	¢	4,644,713,763	4,644,713,763
		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
		March 2021	
		Stage 1	Total
Investments in financial instruments	¢	28,123,927,636	28,123,927,636
	¢	28,123,927,636	28,123,927,636

As of March 31, 2022, expected losses by currency are as follows:

		March 2022	
		Absolute	Relative
Colones	¢	5,768,443,977	40.45%
US dollars		473,947,743	0.03%
	¢	6,242,391,720	40.41%
		December 2021	
		Absolute	Relative
Colones	¢	6,060,429,297	0.62%
US dollars		481,963,107	0.07%
	¢	6,542,392,404	0.40%

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Notes to the Consolidated Financial Statements

		March 2021	
		Absolute	Relative
Colones	¢	2,849,007,171	0.27%
US dollars		482,313,270	0.08%
	¢	<u>3,331,320,441</u>	<u>0.35%</u>

Investments by geographic location are as follows:

		March 2022		
Country		Principal	Interest	Total
Costa Rica	¢	989,516,693,481	11,088,983,465	1,000,605,676,947
Panama		13,338,470,541	23,162,266	13,361,632,806
Rest of the Caribbean		463,812,969	2,036,183	465,849,152
United States		485,148,055,474	1,501,023,438	486,649,078,912
Canada		16,159,436,864	84,254,930	16,243,691,794
Venezuela		18,261,907,169	190,974,753	18,452,881,922
Europe		58,359,144,298	307,624,419	58,666,768,718
Asia		13,973,163,570	50,764,842	14,023,928,412
Australia		7,394,301,134	46,840,833	7,441,141,967
New Zealand		372,129,100	852,407	372,981,507
	¢	<u>1,602,987,114,600</u>	<u>13,296,517,536</u>	<u>1,616,283,632,137</u>

		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
	¢	<u>1,762,818,705,168</u>	<u>19,963,735,245</u>	<u>1,782,782,440,413</u>

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Notes to the Consolidated Financial Statements

Country	March 2021		
	Principal	Interest	Total
Costa Rica	¢ 1,083,780,929,072	12,988,498,262	1,096,769,427,334
Panama	6,142,803,937	-	6,142,803,937
United States	419,086,579,344	2,098,898,774	421,185,478,118
Mexico	192,917,281	2,652,464	195,569,745
Canada	12,812,416,361	97,418,761	12,909,835,122
Venezuela	9,904,044,511	1,200,303	9,905,244,814
Europe	71,838,020,526	550,368,328	72,388,388,854
Asia	7,383,941,737	57,019,099	7,440,960,836
Australia	8,305,922,418	88,708,745	8,394,631,163
New Zealand	372,513,753	2,563,510	375,077,263
	¢ 1,619,820,088,940	15,887,328,246	1,635,707,417,186

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 Bank considers a financial asset to be in default when:

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

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
<u><i>Investments in financial instruments</i></u>		
Balance as of January 1, 2022	¢ 2,976,501,745	2,976,501,745
Update of allowance	33,627	33,627
Allowance for new investments	343,620,231	343,620,231
Decrease in allowance	(416,278,562)	(416,278,562)
Balance as of March 31, 2022	¢ 2,903,877,040	2,903,877,040
	Stage 1	Total
<u><i>Investments in financial instruments</i></u>		
Balance as of December 31, 2020	¢ 2,672,040,269	2,672,040,269
Allowance for new investments	1,786,369	1,786,369
Decrease in allowance	(1,647,688,729)	(1,647,688,729)
Balance as of December 31, 2021	¢ 1,950,363,835	1,950,363,835
	Stage 1	Total
<u><i>Investment securities</i></u>		
Balance as of January 1, 2021	¢ 3,695,720,586	3,695,720,586
Update of allowance	5,048,682	5,048,682
Allowance for new investments	1,338,660,761	1,338,660,761
Decrease in allowance	(1,708,218,819)	(1,708,218,819)
Balance as of March 31, 2021	¢ 3,331,211,210	3,331,211,210

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

b) Liquidity risk

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

i. Banco Nacional de Costa Rica

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

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

Below is the LCR indicator as of the year ended March 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 has largely remained above 200%, closing at 183% as of March 2022, which is 54% below than the previous year, this is related to a 9.3% decrease in the stock of liquid assets (HQLA) (-€117.2 million, especially investments in the MIL), combined with the increase in net cash outflows of 17.5% (€93.3 billion, specially wholesale commitments).

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

At the March 31, 2022 close, the LCR indicator in US dollars located at 212%, showing a significant increase of 12% as a result of the payment made for the commitment of the international issue the foregoing was reflected in a decrease of HQLA of 16.8% (-US\$242 million, mainly in investments and cash and due from banks abroad, Level 1A), together with an increase in net outflows of 21.6% (US\$156 million, mainly due to the increase in wholesale and retail commitments). The LCR indicator is considerably below the appetite level at 125%, equivalent to US\$492 million.

As of March 31, the LCR's percentage indicator by currency is as follows:

<u>Indicator</u>	<u>March 2022</u>	<u>March 2021</u>	<u>Variation</u>	<u>Level</u>
LCR – colones	183%	237%	-54%	Appetite
LCR - US dollars	212%	200%	12%	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 March 31, 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	¢	-	175,980,652,800	-	-	-	-	-	-	175,980,652,800
Minimum legal deposit in BCCR		-	274,963,017,263	11,561,386,584	10,032,732,272	10,662,400,246	28,348,891,534	43,382,349,805	20,541,267,599	399,492,045,303
Investments		-	3,818,518,253	3,466,955,511	10,827,258,849	2,437,828,218	8,371,604,816	160,900,584,907	695,008,904,563	884,831,655,117
Loan portfolio		189,152,278,505	-	76,487,685,809	56,352,323,165	49,217,096,353	96,753,213,446	135,374,753,491	2,648,029,531,173	3,251,366,881,942
Recovery of assets	¢	189,152,278,505	454,762,188,316	91,516,027,904	77,212,314,286	62,317,324,817	133,473,709,796	339,657,688,203	3,363,579,703,335	4,711,671,235,162
Obligations with the public	¢	-	2,674,136,002,213	84,864,457,701	81,512,167,583	97,237,333,043	229,857,631,307	311,724,750,947	169,774,013,629	3,649,106,356,423
Obligations with BCCR		-	-	29,600,000,000	-	-	-	-	164,696,408,078	194,296,408,078
Obligations with financial entities		-	63,298,465,949	107,755,805,609	12,174,400,000	8,766,288,315	33,506,172,580	10,252,885,866	41,280,198,021	277,034,216,340
Charges payable		-	7,419,864,034	2,671,345,378	1,734,258,381	1,232,498,067	1,678,385,576	1,558,907,375	2,628,974,829	18,924,233,640
Maturity of liabilities	¢	-	2,744,854,332,196	224,891,608,688	95,420,825,964	107,236,119,425	265,042,189,463	323,536,544,188	378,379,594,557	4,139,361,214,481
Difference	¢	189,152,278,505	(2,290,092,143,880)	(133,375,580,784)	(18,208,511,678)	(44,918,794,608)	(131,568,479,667)	16,121,144,015	2,985,200,108,778	572,310,020,681

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of March 31, 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	¢	-	91,197,048,989	-	-	-	-	-	91,197,048,989
Minimum legal deposit in BCCR		-	299,676,245,712	13,509,632,355	16,177,774,849	18,501,107,438	69,414,653,520	63,843,606,879	498,046,998,856
Investments		-	3,417,272,173	207,822,324,069	813,146,337	2,668,105,336	17,592,595,330	112,856,469,626	1,061,839,786,181
Loan portfolio		283,047,230,811	-	84,565,243,443	51,851,713,282	39,979,479,371	93,271,947,475	130,593,186,801	2,514,659,928,643
Recovery of assets	¢	283,047,230,811	394,290,566,874	305,897,199,867	68,842,634,468	61,148,692,145	180,279,196,325	307,293,263,306	4,849,052,563,852
Obligations with the public	¢	-	2,377,980,408,589	142,676,030,083	166,447,843,656	166,521,227,478	462,086,191,942	508,521,575,499	3,937,435,928,832
Obligations with BCCR		-	-	-	-	-	-	70,223,644,412	70,223,644,412
Obligations with financial entities		-	45,669,172,443	86,599,426,506	14,612,306,257	17,179,824,598	51,867,423,300	10,004,025,258	262,589,154,147
Charges payable		-	9,336,382,661	5,340,824,899	2,988,879,853	1,999,763,750	3,199,683,426	1,105,835,653	1,537,714,674
Maturity of liabilities		-	2,432,985,963,693	234,616,281,488	184,049,029,766	185,700,815,826	517,153,298,668	519,631,436,410	4,295,757,812,307
Difference	¢	283,047,230,811	(2,038,695,396,819)	71,280,918,379	(115,206,395,298)	(124,552,123,681)	(336,874,102,343)	(212,338,173,104)	3,026,632,793,600

As of March 31, 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	¢	-	512,471,048,581	-	-	-	-	-	512,920,523,977
Minimum legal deposit in BCCR		-	268,180,385,880	12,163,394,295	8,362,953,952	9,002,923,151	27,446,649,902	25,490,081,849	374,365,939,960
Investments		-	4,644,713,763	3,899,339,753	6,180,044,539	18,917,657,446	59,361,862,740	130,220,204,986	668,849,471,931
Loan portfolio		146,282,328,626	-	36,419,531,492	22,093,365,318	28,577,823,520	59,927,084,028	103,605,827,237	1,469,691,433,185
Recovery of assets	¢	146,282,328,626	785,296,148,224	52,482,265,540	36,636,363,809	56,498,404,117	146,735,596,670	259,316,114,072	3,025,827,369,053
Obligations with the public	¢	-	1,651,593,562,819	60,239,585,044	68,285,897,798	77,207,806,067	162,718,559,476	179,246,760,697	2,331,855,021,042
Obligations with financial entities		-	49,524,577,739	115,632,940,842	2,026,397,636	213,472,000	5,062,230,599	3,364,983,265	367,568,228,052
Charges payable		-	2,302,715,111	943,628,155	6,511,761,782	2,763,136,659	858,595,798	873,857,452	820,742,326
Maturity of liabilities	¢	-	1,703,420,855,669	176,816,154,041	76,824,057,216	80,184,414,726	168,639,385,873	183,485,601,414	500,951,819,519
Difference	¢	146,282,328,626	(918,124,707,445)	(124,333,888,501)	(40,187,693,407)	(23,686,010,609)	(21,903,789,203)	75,830,512,658	1,041,628,328,476

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of March 31, 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	¢	-	416,040,001,072	-	-	-	-	-	416,238,992,057
Minimum legal deposit in BCCR		-	222,463,170,509	10,327,387,067	35,831,926,898	12,457,106,753	23,328,082,762	26,377,789,558	346,413,002,435
Investments		-	-	14,581,075,049	34,625,050,358	15,198,007,221	54,509,343,340	111,196,026,831	662,920,224,354
Loan portfolio		188,255,956,386	-	27,890,885,853	16,133,395,830	16,431,949,305	41,065,286,932	55,263,270,722	1,206,823,842,185
Recovery of assets	¢	188,255,956,386	638,503,171,581	52,799,347,969	86,590,373,086	44,087,063,279	118,902,713,034	192,837,087,111	2,632,396,061,031
Obligations with the public	¢	-	1,251,342,741,278	83,315,775,507	52,394,683,731	73,726,549,149	115,709,985,048	163,911,844,889	1,821,086,936,730
Obligations with financial entities		-	14,256,459,712	286,003,999,887	-	3,378,464,828	9,290,468,172	20,790,995,781	686,906,424,313
Charges payable		-	2,817,380,393	5,866,937,836	6,007,464,653	2,452,555,980	821,175,516	850,019,114	19,767,531,252
Maturity of liabilities	¢	-	1,268,416,581,383	375,186,713,230	58,402,148,384	79,557,569,957	125,821,628,736	185,552,859,784	2,527,760,892,295
Difference	¢	188,255,956,386	(629,913,409,802)	(322,387,365,261)	28,188,224,702	(35,470,506,678)	(6,918,915,702)	7,284,227,327	104,635,168,736

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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 Department. It approves the Investment Fund Manager's liquidity policies and procedures. The Treasury department manages the liquidity position on a day-to-day basis and reviews daily reports on the liquidity position.

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.

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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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.

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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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.

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

Management of liquidity risk

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

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

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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.

As of March 31, the portfolios by currency are as follows:

<u>Currency</u>	<u>Face value of investments by currency</u>		
	<u>March 2022</u>	<u>March 2021</u>	<u>Variation</u>
Colones	772,022,950,000	957,405,750,000	(185,382,800,000)
US dollars - local issuers	71,717,861	49,890,735	21,827,126
US dollars - international issuers	910,762,000	972,010,000	(61,248,000)

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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>March 2022</u>	<u>December 2021</u>	<u>Variation</u>
Colones	1.22	1.08	0.14
US dollars - local issuers	1.09	1.30	(0.22)
US dollars - international issuers	1.24	1.40	(0.16)

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

Management of market risks

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

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Market risk exposure – trading portfolio:

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

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

	March 2022	December 2021	March 2021
VaR indicator (99%)	0.71%	0.96%	0.43%

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

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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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.

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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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.

Market risk management

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

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

- *Market risk of investments*

i. *Banco Nacional de Costa Rica*

As of March 31, the Bank's consolidated VaR regarding the market value of investments is within the risk appetite level. In 2021, there was a decrease of 0.42%, mainly due to the downward trend of the curves.

<u>Type of risk</u>	<u>March 2022</u>	<u>March 2021</u>	<u>Variation</u>
Consolidated VaR	0.44%	0.41%	0.05%

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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>March 2022</u>	<u>December 2021</u>	
Colones	0.55%	0.61%	-0.06%
US dollars - local	0.48%	0.56%	-0.08%
US dollars - international	0.49%	0.29%	0.20%

- 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.

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

<u>Type of risk</u>	<u>March 2022</u>	<u>March 2021</u>	<u>Variation</u>	<u>Level</u>
Interest rate risk - In colones	0.18%	0.28%	-0.10%	Normal
Interest rate risk - In foreign currency	0.11%	0.01%	-0.10%	Normal

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

The interest rate risk indicator in colones decreased mainly due to the decrease in the duration of equity from 0.30 to 0.23 in local currency. In US dollars, the growth of the indicator corresponds to an increase in the 3-month Libor rate from 0.21% to 0.96% in the first quarter of the year, accompanied by a greater expected variation of the 3-month Libor rate (which has also been reduced in the last twelve months).

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of March 31, 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	¢	3,118,469,642	4,166,955,511	13,234,555,381	8,314,916,475	160,899,259,025	357,332,926,383	337,476,416,737	884,543,499,154
Loan portfolio		-	2,755,456,884,515	110,864,276,818	105,747,993,764	15,040,804,299	15,725,368,838	95,843,258,952	3,098,678,587,186
Recovery of rate-sensitive assets LC (A)	¢	3,118,469,642	2,759,623,840,026	124,098,832,199	114,062,910,239	175,940,063,324	373,058,295,221	433,319,675,689	3,983,222,086,340
Obligations with the public	¢	-	171,611,345,758	199,905,134,629	265,061,630,140	320,007,578,070	98,483,233,505	85,473,883,300	1,140,542,805,402
Obligations with BCCR		-	46,379,672,222	3,000,000,000	-	-	-	165,956,246,119	215,335,918,341
Obligations with financial entities LC		-	7,563,678,945	-	-	-	-	33,549,764,294	41,113,443,239
Maturity of rate-sensitive liabilities LC (B)	¢	-	225,554,696,925	202,905,134,629	265,061,630,140	320,007,578,070	98,483,233,505	284,979,893,713	1,396,992,166,982
Difference in LC, recovery of assets less maturity of liabilities (A - B)	¢	3,118,469,642	2,534,069,143,101	(78,806,302,430)	(150,998,719,901)	(144,067,514,746)	274,575,061,716	148,339,781,976	2,586,229,919,358
<i>Foreign currency (FC)</i>									
Investments	¢	-	8,474,357,881	18,278,148,028	66,037,237,878	92,029,731,132	387,241,878,885	93,348,104,683	665,409,458,487
Loan portfolio		-	1,236,031,106,783	46,033,507,287	26,923,373,346	2,959,946,991	24,730,505,515	69,617,958,529	1,406,296,398,451
Recovery of rate-sensitive assets FC (C)	¢	-	1,244,505,464,664	64,311,655,315	92,960,611,224	94,989,678,123	411,972,384,400	162,966,063,212	2,071,705,856,938
Obligations with the public	¢	-	171,780,762,847	154,835,004,733	168,579,625,761	181,665,450,740	276,561,186,284	102,124,105,109	1,055,546,135,474
Obligations with BCCR		-	5,403,510,000	-	-	-	-	-	5,403,510,000
Obligations with entities		-	-	2,120,677,592	59,760,112	-	73,830,892,240	50,032,500,000	126,043,829,944
Maturity of rate-sensitive liabilities FC (D)	¢	-	177,184,272,847	156,955,682,325	168,639,385,873	181,665,450,740	350,392,078,524	152,156,605,109	1,186,993,475,418
Difference in FC, recovery of assets less maturity of liabilities (C - D)	¢	-	1,067,321,191,817	(92,644,027,010)	(75,678,774,649)	(86,675,772,617)	61,580,305,876	10,809,458,103	884,712,381,520
Recovery of rate-sensitive assets 1/ (A + C)	¢	3,118,469,642	4,004,129,304,690	188,410,487,514	207,023,521,463	270,929,741,447	785,030,679,621	596,285,738,901	6,054,927,943,278
Maturity of rate-sensitive liabilities 2/ (B + D)	¢	-	402,738,969,772	359,860,816,954	433,701,016,013	501,673,028,810	448,875,312,029	437,136,498,822	2,583,985,642,400
Difference in LC + FC, recovery of assets less maturity of liabilities (item 1 - item 2)	¢	3,118,469,642	3,601,390,334,918	(171,450,329,440)	(226,677,494,550)	(230,743,287,363)	336,155,367,592	159,149,240,079	3,470,942,300,878

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of March 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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of March 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	¢	3,417,272,173	207,819,815,744	3,457,536,524	17,517,701,711	112,787,195,350	223,558,305,186	493,195,765,721	1,061,753,592,409
Loan portfolio		-	2,666,640,440,744	107,319,426,017	102,382,577,478	14,667,927,166	15,376,423,409	94,539,159,748	3,000,925,954,562
Recovery of rate-sensitive assets LC (A)	¢	3,417,272,173	2,874,460,256,488	110,776,962,541	119,900,279,189	127,455,122,516	238,934,728,595	587,734,925,469	4,062,679,546,971
Obligations with the public	¢	-	221,887,417,097	369,998,584,833	517,153,298,668	518,135,353,635	70,460,431,449	54,414,842,386	1,752,049,928,068
Obligations with BCCR		-	-	-	-	-	-	70,273,029,901	70,273,029,901
Obligations with financial entities LC		-	14,126,803,476	-	-	-	-	29,414,073,347	43,540,876,823
Maturity of rate-sensitive liabilities LC (B)	¢	-	236,014,220,573	369,998,584,833	517,153,298,668	518,135,353,635	70,460,431,449	154,101,945,634	1,865,863,834,792
Difference in LC, recovery of assets less maturity of liabilities (A - B)	¢	3,417,272,173	2,638,446,035,915	(259,221,622,292)	(397,253,019,479)	(390,680,231,119)	168,474,297,146	433,632,979,835	2,196,815,712,179
<i>Foreign currency (FC)</i>									
Investments	¢	-	13,425,580,813	49,293,797,027	54,513,230,048	103,196,989,413	104,211,007,196	323,303,369,481	647,943,973,978
Loan portfolio		-	978,683,496,950	36,449,110,092	21,317,797,773	2,343,671,819	19,581,495,551	55,567,928,407	1,113,943,500,592
Recovery of rate-sensitive assets FC (C)	¢	-	992,109,077,763	85,742,907,119	75,831,027,821	105,540,661,232	123,792,502,747	378,871,297,888	1,761,887,474,570
Obligations with the public	¢	-	371,346,676,008	136,079,640,292	125,738,880,561	164,024,436,750	74,973,957,173	243,622,640,517	1,115,786,231,301
Obligations with entities		-	4,185,901,844	1,876,816,059	82,748,176	20,526,999,998	-	117,626,853,396	144,299,319,473
Maturity of rate-sensitive liabilities FC (D)	¢	-	375,532,577,852	137,956,456,351	125,821,628,737	184,551,436,748	74,973,957,173	361,249,493,913	1,260,085,550,774
Difference in FC, recovery of assets less maturity of liabilities (C - D)	¢	-	616,576,499,911	(52,213,549,232)	(49,990,600,916)	(79,010,775,516)	48,818,545,574	17,621,803,975	501,801,923,796
Recovery of rate-sensitive assets 1/ (A + C)	¢	3,417,272,173	3,866,569,334,251	196,519,869,660	195,731,307,010	232,995,783,748	362,727,231,342	966,606,223,357	5,824,567,021,541
Maturity of rate-sensitive liabilities 2/ (B + D)	¢	-	611,546,798,425	507,955,041,184	642,974,927,405	702,686,790,383	145,434,388,622	515,351,439,547	3,125,949,385,566
Difference in LC + FC, recovery of assets less maturity of liabilities (item 1 - item 2)	¢	3,417,272,173	3,255,022,535,826	(311,435,171,524)	(447,243,620,395)	(469,691,006,635)	217,292,842,720	451,254,783,810	2,698,617,635,975

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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 0.57% for an average of 1.52%, equivalent to ₡179.07 million. As of March 31, 2022, the indicator closed at 0.6% (2021: 0.9%), 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.

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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 in both years. The indicator has increased due to an increase in the foreign currency position and a greater volatility of the exchange rate, which is reflected in an increase in the expected variation of the US dollar. As of March 31, the result is as follows:

<u>Type of risk</u>	<u>March 2022</u>	<u>March 2021</u>	<u>Variation</u>	<u>Level</u>
Currency risk	0.71%	1.78%	-1.07%	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.

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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 5th and 95th 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 5th and 95th 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. As of March 31, the result is as follows:

<u>Internal currency risk</u>	<u>March 2022</u>	<u>December 2021</u>	<u>Level</u>
5 th percentile	0.43%	0.11%	Normal
95 th percentile	0.52%	0.19%	Normal

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

		US dollars	
		March 2022	March 2021
<i><u>Assets:</u></i>			
Cash and due from banks	US\$	1,279,756,424	-
Investments in financial instruments		1,002,622,503	141,995,561
Loan portfolio		2,124,983,447	355,969,844
Accounts and accrued interest receivable		1,142,641	-
Investments in other companies		119,396,691	-
Property, furniture and equipment		571,653	-
Other assets		1,691,494	30,780
	US\$	<u>4,530,164,853</u>	<u>497,996,185</u>
<i><u>Liabilities:</u></i>			
Obligations with the public	US\$	3,457,040,622	-
Obligations with entities		824,851,981	146,370,158
Accounts payable and provisions		13,243,861	430,365
Other liabilities		2,291,141	6
Subordinated obligations		114,163,355	-
	US\$	<u>4,411,590,960</u>	<u>146,800,529</u>
Excess of assets over liabilities in US dollars	US\$	<u>118,573,893</u>	<u>351,195,656</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		Euro	
		March 2022	March 2021
<u>Assets:</u>			
Cash and due from banks	€	45,372,260	40,224,592
Other assets	€	-	30,165
		<u>45,372,260</u>	<u>40,254,757</u>
<u>Liabilities:</u>			
Obligations with the public	€	44,465,516	-
Obligations with entities		1,015,915	-
Accounts payable and provisions		<u>68,067</u>	<u>660,531</u>
	€	<u>45,549,498</u>	<u>660,531</u>
Deficit (excess) of assets over liabilities in euro	€	<u>(177.238)</u>	<u>39.594.226</u>
		DU	
		March 2022	March 2021
<u>Assets:</u>			
Loan portfolio		<u>756,260</u>	<u>1,847,611</u>
	UD	<u>756,260</u>	<u>1,847,611</u>
<u>Liabilities:</u>			
Accounts payable and provisions	UD	<u>40,153</u>	<u>164,140</u>
	UD	<u>40,153</u>	<u>164,140</u>
Excess of assets over liabilities in DU	UD	<u>716,107</u>	<u>1,683,471</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.

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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:

	March 2022	March 2021
Gain on foreign exchange differences	¢ 99,984,057,799	7,952,490,464
Loss on foreign exchange differences	(99,822,479,577)	(7,962,999,231)
Net gain (loss)	¢ 161,578,222	(10,508,767)

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

	March 2022	March 2021
Gain on net valuation of other assets (Note 42)	¢ 40,394,855	9,980,921
Loss on net valuation of other liabilities	(53,978,373)	(2,676,297)
Net (gain) loss	¢ (13,583,518)	7,304,624

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

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

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

The Brokerage Firm 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.

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

As of March 31, 2022, 10.31% 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 11.17% (¢1,388,26 million) compared to March 31, 2021, where it closed at 8.59%.

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, in the long term permanent changes in foreign exchange fluctuations and interest rates may have an impact on profit.

The Pension Fund Manager performed a sensitivity 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 March 31, 2022			
1%	2%	(1)%	(2)%
<u>57,500,000</u>	<u>115,000,000</u>	<u>(57,500,000)</u>	<u>(115,000,000)</u>

As of March 31, 2022, an increase of 5% in the exchange rate of the functional currency with respect to the US dollar would generate a loss of ¢71.78 million. A decrease of 5% would generate the opposite effect.

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

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

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

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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 and mitigation measures in a timely manner, including insurance where this is effective.

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

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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.

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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.

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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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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.

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 March 31, 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 ₡35,440,501 that covers the lawsuits against the Pension Fund Manager, out of seven pending lawsuits.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

v. BN Sociedad 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.

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

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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Management periodically monitors these requirements and reports to the board of directors on compliance. As of March 31, 2022 and 2021, the Bank is above the minimum level required by applicable regulations.

The Bank's capital, including the capital of its statutorily created departments, may be increased by law or by capitalization of earnings. In the latter case, the capitalization must be approved by the board of directors of BCCR based on a report issued by SUGEF.

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

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

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

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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."

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

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

As of March 31, 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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Moreover, in applying Law No. 8627 published in the Official Gazette on December 23, 2008, effective immediately, the Government of Costa Rica capitalized State-owned banks. As part of that capitalization, the Bank received Central Bank bonds in DU for a total of DU42,165,060, equivalent to ₡27,618,957,837, which was credited against the “Paid-in capital” account (account No. 311) (see Note 26).

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 and were still in place during the fourth quarter of 2021, affecting different economic activities.

For Costa Rica, at the December 2021 close, there were 570,556 cases confirmed and more than 7,353 deaths, COVID-19 cases increased, with approximately 156 cases per day, with up to 1,696 cases in one day (12/28/2021) as a result of the Christmas celebrations and flexibility regarding urban mobility restrictions.

The Costa Rican Institute of Research and Training in Nutrition and Health (INCIENSA) confirmed on December 19 the first case of the Omicron variant of the SARS-CoV-2 in Costa Rica. Despite this first case detection, there were no changes in the health measures. On Christmas Eve and December 31, car restrictions were not applied, which triggered a significant increase in cases compared to the first weeks of December.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As an additional strategy to control the spread of the virus, the Ministry of Health authorized the import and use of COVID-19 self-test kits. The Ministry of Health indicated that the tests must have a sensitivity of 80% or higher (probability of a positive test result if the person has the disease) and a specificity of 95% or higher (probability of a negative test result if the person does not have the disease). If positive, the individual must self-quarantine and go to a health service center to verify the result through an RT-PCR test.

Economic outlook

The local economic activity continues to increase; most industries have exceeded pre-pandemic levels. Manufacturing stands out, followed by IT & communication services, professional services, administrative activities and support services. Transportation and storage services, mining and quarrying, construction and real estate activities have levels very similar to those from February 2020; therefore, recovery is less strong compared to other industries, explained partly due to the fact that these activities were strongly affected by the restrictions regarding the mobility of individuals and goods. In addition, the activities that still have production levels lower than those recorded in February 2020 are public administration, hotels and restaurants.

The Costa Rican Tourism Institute (ICT) indicated that during 2021 the country recovered all of the airlines that flew to Costa Rica before the pandemic. However, the challenge for the authorities in the future is to increase the number of seats. During 2021, more than 1,300,000 tourists entered Costa Rica, which represents 40% of the foreign tourism recorded before the pandemic according to ICT. Pre-pandemic levels are expected to be recovered until 2024 or after.

The unemployment rate increased due to less participation in the labor market, closing at 14.4% in November.

Moreover, the increase in the export of goods was mainly related to the behavior of companies that operate under special regimes (31.9% year on year), although the exports of companies under a definitive system also showed a significant growth (16.7%). By type of good, the sale of manufactured goods stands out, mainly medical implements, soft-drink concentrates and pineapple.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

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There are risk factors that may affect the economic activity in the following months, such as external factors (i.e. the international prices of raw materials); the increase in prices for producers and the potential transfer of this inflation to consumers; the strong performance of the local economy and the expected closing of the product gap; and the recovery of average salaries to pre-pandemic levels.

Changes in standards and regulations

During 2020 and 2021, there have been changes in regulations to counteract the negative effects on the country's financial systems. Below is a summary of the most important adjustments made to local regulations during the last quarter:

Amendment to the General Guidelines for the Regulations on the Calculation of Allowances for Loans.

The guidelines include minimum aspects to analyze the creditworthiness of borrowers classified in segments 1- Business and 2- Public sector entities and preparation of internal methodologies. It sets forth minimum provisions to determine the adjusted value of guarantees as risk mitigators and adds criteria to classify loan portfolio operations into different stages.

Effectiveness of regulations: January 1, 2024.

Actions taken by the Conglomerate

Due to the different situations caused by COVID-19 and the accelerated changes in market conditions. Conglomerate has implemented a series of measures to mitigate and counteract the effects of the pandemic on the Conglomerate's operations.

- Credit risk

- i. Loan portfolio recovery plan

Through External Letter No. SGF-2584-2020 dated August 4, 2020, SUGEF requested financial intermediaries to submit a Loan Portfolio Management Plan in conformity with several requirements that are detailed in that document.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

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Specifically, SUGEF requested that it cover four big objectives:

- Segmentation of the loan portfolio by risk
- Strategies and mechanisms for recovery
- Strategies to identify the potential impairment of the loan portfolio
- Financial statement and cash flows forecast

The plan was approved by the board of directors and submitted to SUGEF by the end of September. The plan is updated monthly and submitted to that entity. It includes the following:

- Ongoing monitoring of the internal policies and guidelines, in order to promote effective payment arrangements with customers,
- Monitoring market conditions to identify potential impacts, given the country's economic, political and health conditions,
- Strengthening of collection management.

The Conglomerate has adopted a number 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 to health and regulatory measures taken by the authorities.

For the loan portfolio, a number of strategies have been implemented, including the following:

- Ongoing monitoring of high-risk customers,
- Implementation of a plan to monitor creditworthiness from a quantitative point of view and with a greater qualitative focus,
- Improvements in collection strategies and plans,
- Development of the "Juntos al Amanecer" program (Together at Dawn) to provide affected customers with working capital,
- Program to restructure principal and interest payments, for terms of three to nine months,
- Restructuring strategy by profiles,
- Creation of an allowance "cushion" amounting to ¢55 billion as of the September close.

For 2021, a large number of restructured loans complied with the maturity term. However, the Bank has a process to review the cases of customers who request an extension of their already extended terms to establish an optimal treatment for each case.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

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- *Interest rate risk*
 - 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 tests 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.
- *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.
 - A review is performed to adjust foreign exchange to changing market conditions and to foresee risks.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

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(7) Collateralized or restricted assets

Collateralized or restricted assets are as follows:

Restricted asset	Cause of restriction		March 2022	December 2021	March 2021
<i>Cash and due from banks:</i>					
Checking account – colones (Note 9)	Minimum legal deposit	¢	454,434,294,492	486,421,991,516	493,744,827,267
Checking account – US dollars (Note 9)	Minimum legal deposit		367,589,334,408	333,197,818,556	308,312,209,726
Checking account – euro (Note 9)	Minimum legal deposit		4,962,593,989	4,919,236,524	4,727,030,660
Other cash and due from banks (Note 9)	Custody of BCAC liabilities		-	-	368
	Margin calls – derivative				
Other cash and due from banks (Note 9)	financial instruments		19,449,240	17,705,021	-
	Contingent guarantee of the				
	deposits guarantee fund				
Other cash and due from banks (Note 9)	(FGD)		125,705,223,234	287,351,062	198,990,883
	Contribution to				
Other cash and due from banks (Note 9)	FOGABONA		449,475,400	122,256,193,104	-
		¢	<u>953,160,370,763</u>	<u>947,100,295,783</u>	<u>806,983,058,904</u>
<i>Investments in financial instruments:</i>					
Investments in financial instruments	Liquidity market operations	¢	34,746,502,291	31,296,977,125	31,473,983,712
Securities issued by BCCR and the	Investments securing				
Government	repurchase agreements		2,566,929,024	2,685,689,808	2,370,720,000
External debt bonds	Nomura Bank guarantee		97,038,726,492	68,236,937,961	54,546,340,117
Central Bank bond (global bond)	SINPE guarantee		-	-	86,489,324,039
External debt bonds	SINPE guarantee		256,280,090,926	215,666,380,475	-
Term Certificate of Deposit	Nomura Bank guarantee		-	25,810,000,000	24,632,400,000
Monetary stabilization bond - colones	SINPE Guarantee		9,918,552,239	-	-
		¢	<u>400,550,800,972</u>	<u>343,695,985,369</u>	<u>199,512,767,868</u>
<i>Other assets</i>					
Other assets (Note 17)	Security deposits	¢	<u>730,590,889</u>	<u>1,023,835,140</u>	<u>844,931,028</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of March 31, 2022, the Brokerage Firm has restricted assets in the amount of ¢34,746,502,291 (December and March 2021: ¢31,311,875,880 and ¢31,488,233,780, 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 March 31, 2022, the Pension Fund Manager has restricted assets in the amount of ¢2,566,929,024 corresponding to investments pledged to secure repurchase agreements.

(8) Balances and transactions with related parties

Balances and transactions with related parties are as follows:

		March 2022	December 2021	March 2021
<u>Assets:</u>				
Checking accounts in foreign financial entities (1) (Note 9)	¢	38,104,189,955	21,945,597,789	19,781,176,508
Investments in financial instruments and accrued interest receivable (2)		23,161,267,271	32,238,842,735	18,713,544,156
Others commissions receivable		-	-	45,054,687
Accounts receivable		228,512	228,512	9,669,298
Investments in other companies (4)		79,598,909,156	76,711,519,445	118,805,722,637
	¢	<u>140,864,594,894</u>	<u>130,896,188,481</u>	<u>157,339,652,286</u>
<u>Liabilities:</u>				
Demand obligations with entities (3)		21,857,553	107,286,096	1,385,929,690
Accounts due to related parties (4)		1,222,998	1,741,064	3,587,189
Term obligations with entities (3)		-	-	372,212,000
	¢	<u>23,080,551</u>	<u>109,027,160</u>	<u>1,761,728,879</u>
<u>Income:</u>				
Gain on investments in other foreign companies		353,034,120	1,172,039,559	184,690,752
		<u>353,034,120</u>	<u>1,172,039,559</u>	<u>370,167,987</u>
<u>Expenses:</u>				
Finance costs		-	-	3,042,248
Operating expenses (5)		5,498,752	47,464,807	185,477,235
	¢	<u>5,498,752</u>	<u>47,464,807</u>	<u>188,519,483</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:

		March 2022	December 2021	March 2021
Short-term benefits	¢	508,599,044	2,112,224,059	264,835,134
Long-term benefits		66,117,876	274,589,128	34,428,567
Per diem – Board of directors		39,407,620	204,479,433	37,479,162
	¢	<u>614,124,540</u>	<u>2,591,292,620</u>	<u>336,742,863</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.

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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:

	March 2022	December 2021	March 2021
Cash and due from banks	¢ 1,462,759,162,039	1,355,841,181,326	1,351,896,042,338
Investments with maturities of less than two months	32,836,830,668	255,534,962,838	261,258,867,986
	¢ <u>1,495,595,992,707</u>	<u>1,611,376,144,164</u>	<u>1,613,154,910,324</u>

Cash and due from banks is as follows:

	March 2022	December 2021	March 2021
Cash on hand and in vaults	¢ 72,825,418,562	94,766,425,499	70,385,991,688
Cash in transit	54,426,245,226	58,255,934,323	46,818,473,736
Checking account in BCCR (1)	58,419,793,151	65,849,314,821	31,917,351,594
Minimum legal deposits in BCCR (2)	715,438,192,112	683,020,535,782	812,542,649,697
Checking accounts and demand deposits in State-owned commercial banks and banks created under special laws	264,084,114	278,613,154	135,733,152
Checking accounts and other demand accounts in private financial entities	548,812,827	992,017,393	722,290,070
Checking accounts in foreign financial entities	386,505,200,442	300,162,110,106	354,822,966,623
Deposits and other demand accounts in foreign financial entities	176,665,347	33,536,854	33,304,961
Checking accounts and demand deposits in related parties (Note 8)	38,104,189,955	21,945,597,789	19,781,176,508
Overnight deposits in foreign financial entities	1,764,980,532	878,432,794	8,915,333,316
Transfers through the Interbank Electronic Payment System (SINPE)	2,838,915,575	1,360,638,705	1,414,661,397
Local notes receivable	4,090,677,439	4,373,095,594	3,439,032,683
Foreign notes receivable	1,181,838,883	1,363,679,325	768,085,662
Margin calls – derivative financial instruments (Note 7)	19,449,240	17,705,021	-
Fondo de Garantía de la Bolsa Nacional de Valores (FOGABONA)	449,475,400	287,351,062	-
Contingent guarantee of the deposits guarantee fund (Fondo de Garantía de Depósitos, FGD)	125,705,223,234	122,256,193,104	198,990,882
Other restricted cash and due from banks (3)	-	-	369
	¢ <u>1,462,759,162,039</u>	<u>1,355,841,181,326</u>	<u>1,351,896,042,338</u>

(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.
- (3) Other restricted cash and due from Banks include the Commission Agreement for the custody of liabilities, checking accounts, savings accounts and term certificates of deposit of Banco Crédito Agrícola de Cartago (see Note 7).

(10) Investments in financial instruments

Investments in financial instruments are as follows:

	March 2022	December 2021	March 2021
Investments at FVTPL	¢ 38,982,742,698	40,139,798,613	28,123,927,636
Investments at FVOCI	733,715,184,265	807,216,667,803	873,339,474,631
Investments at amortized cost	764,782,580,762	917,505,890,841	792,898,035,613
	¢ 1,537,480,507,725	1,764,862,357,257	1,694,361,437,880
Interest rate futures – Hedges	3,440,013,450	7,723,704,438	14,890,615,874
Sale of FX futures – Other than hedges	-	-	2,508,323
Allowance for impairment of investments	(2,903,877,040)	(2,801,506,974)	(1,418,577,886)
Allowance for impairment of derivative instruments other than hedges	-	-	(12,542)
Accrued interest receivable on investments	12,760,605,874	19,963,735,244	15,505,448,459
	¢ 1,550,777,250,009	1,789,748,289,965	1,723,341,420,108

(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:

	March 2022	December 2021	March 2021
<u>Local issuers</u>			
Private banks	31,282,934,627	33,238,828,201	-
Private issuers	3,166,033,872	2,382,923,616	28,123,927,636
¢	<u>34,448,968,499</u>	<u>35,621,751,817</u>	<u>28,123,927,636</u>
	March 2022	December 2021	March 2021
<u>Foreign issuers</u>			
Private issuers	4,533,774,199	4,518,046,796	-
	4,533,774,199	4,518,046,796	-
¢	<u>38,982,742,698</u>	<u>40,139,798,613</u>	<u>28,123,927,636</u>

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

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

	March 2022	December 2021	March 2021
<u>Local issuers</u>			
Government of Costa Rica	455,364,626,679	521,907,049,285	531,065,863,813
BCCR	34,816,039,808	36,858,432,072	64,298,217,175
State-owned banks	1,802,901,677	3,632,560,534	5,138,963,046
Private banks	3,667,955,479	645,545,744	-
Private issuers	2,566,929,024	2,685,689,808	2,370,720,000
¢	<u>498,218,452,667</u>	<u>565,729,277,443</u>	<u>602,873,764,034</u>
	March 2022	December 2021	March 2021
<u>Foreign issuers</u>			
Governments	54,985,651,364	53,201,249,628	66,779,007,463
Private issuers	105,934,025,269	82,109,125,018	96,760,615,939
Private banks	74,577,054,965	106,177,015,714	106,926,087,195
	235,496,731,598	241,487,390,360	270,465,710,597
¢	<u>733,715,184,265</u>	<u>807,216,667,803</u>	<u>873,339,474,631</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:

	March 2022	December 2021	March 2021
<u>Local issuers</u>			
Government of Costa Rica	¢ 290,712,097,421	261,424,353,274	198,098,479,305
BCCR	89,746,371,154	284,729,758,820	247,755,843,367
Private banks	7,338,100,000	5,807,250,000	615,810,000
Private issuers	3,548,032,803	3,716,304,135	1,995,478,803
	¢ 391,344,601,378	555,677,666,229	448,465,611,475
<u>Foreign issuers</u>			
Governments	¢ 358,641,578,065	320,363,678,407	307,226,751,650
Private issuers	8,361,667,373	6,264,129,696	4,823,040,952
Private banks	6,434,733,946	35,200,416,509	7,750,231,536
Foreign issuers	-	-	24,632,400,000
	373,437,979,384	361,828,224,612	344,432,424,138
	¢ 764,782,580,762	917,505,890,841	792,898,035,613

As of March 31, 2022, the valuation of investments in financial instruments and restricted financial instruments gave rise to unrealized gains, net of deferred tax, in the amount of ¢8,878,254,946 (December and March 2021: unrealized gains in the amount of ¢432,598,599 and ¢11,283,470,309, respectively). The cumulative balance of equity adjustments arising from the valuation of those investments is equivalent to unrealized gains of ¢2,183,168,356 (December and March 2021: unrealized gains in the amount of ¢11,061,423,302 and ¢11,283,470,309, 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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Derivative financial instruments are as follows:

March 2022				
Issuing bank		Notional amount	Valuation	Purpose
Citibank	US\$	100,000,000	US\$ 1,596,048	Swaps to hedge 10-year issues (maturing in 2023)
JP Morgan		46,533,000	742,689	
Bank of America		173,588,000	2,770,549	
	US\$	320,121,000	US\$ 5,109,286	
Amount in colones o	¢	213,552,719,100	¢ 3,408,404,918	
Chicago Board of Trade	US\$	8,700,000	US\$ (31,750)	Standardized futures contracts (maturing in 2022)
Amount in colones	¢	5,803,770,000	¢ (21,180,425)	

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

Issuing bank	March 2021				Purpose
		Notional amount		Valuation	
Citibank	US\$	100,000,000	US\$	6,928,204	Swaps to hedge 10-year issues (maturing in 2023)
JP Morgan		46,533,000		3,223,901	
Bank of America		173,588,000		12,026,531	
	US\$	320,121,000	US\$	22,178,636	
Amount in colones	¢	<u>197,610,693,300</u>	¢	<u>13,657,825,841</u>	
Bank of America	US\$	60,200,000	US\$	351,566	S Swaps to hedge 5-year issues (maturing in 2021)
JP Morgan		250,000,000		1,459,990	
	US\$	310,200,000	US\$	1,811,556	
Amount in colones	¢	<u>191,024,262,000</u>	¢	<u>1,115,574,411</u>	
Chicago Board of Trade	US\$	24,900,000	US\$	185,047	Standardized futures contracts (maturing in 2021)
Amount in colones	¢	<u>15,333,669,000</u>	¢	<u>113,953,633</u>	

As of March 31, 2022, the total notional amount of US\$328,821,000, equivalent to ¢219,356,489,100 (December and March 2021: US\$335,421,000, equivalent to ¢216,430,400,250 and US\$655,221,000, equivalent to ¢396,628,213,300, 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 March 31, 2022, the Conglomerate booked an increase in the fair value of swaps in the amount of US\$5,109,286, equivalent to ¢3,408,404,918 (December and March 2021: increase in fair value of US\$11,970,096, equivalent to ¢7,723,704,438 and increase in fair value of US\$23,990,192, equivalent to ¢14,773,400,252, 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%.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

	Rate of effectiveness		
	March 2022	December 2021	March 2021
10-year issue (maturing in 2023)	104.25%	109.11%	92.90%
5-year issue (maturing in 2021)	-	-	96.35%

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 March 31, 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 March 31, 2022, standardized futures contracts were negotiated as part of the management of the financial derivatives portfolio. The Conglomerate booked a notional amount of US\$8,700,000 equivalent to ₡5,803,770,000 (December and March 2021: US\$15,300,000 equivalent to ₡9,872,325,000, and US\$24,900,000 equivalent to ₡15,333,669,000, respectively) for the sale and purchase of these contracts.

As of March 31, 2022, the Conglomerate booked a decrease in the fair value of futures contracts in the amount of US\$31,750, equivalent to ₡21,180,425 (December and March 2021: decrease in the fair value of futures contracts in the amount of US\$21,984, equivalent to ₡14,185,350, and US\$190,343 equivalent to ₡117,215,622, respectively).

✓ 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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of March 31, 2022, the Conglomerate has no futures contracts (March 2021: futures contracts with a notional amount of US\$24,900,000 equivalent to ¢15,333,669,000).

As of March 31, 2022, the Conglomerate has no FX futures (March 2021: FX futures with a notional amount of US\$1,810,000 equivalent to ¢1,114,616,100).

As of March 31, 2021, the Conglomerate booked an increase in the fair value of these forwards in the amount of ¢2,508,323 under asset accounts. It did not book a decrease in the fair value of these forwards, which would have been booked under a liability account.

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>March 2022</u>	<u>December 2021</u>	<u>March 2021</u>
Gains on derivative financial instruments	¢ 2,022,994,595	7,266,821,001	2,415,457,837
Losses on derivative financial instruments	<u>(6,306,194,920)</u>	<u>(9,275,414,200)</u>	<u>(3,062,944,068)</u>
Net (losses) gains	¢ <u>(4,283,200,325)</u>	<u>(2,008,593,199)</u>	<u>(647,486,231)</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(12) Loan portfolio

(a) Loan portfolio by sector

The loan portfolio by sector is as follows:

	March 2022	December 2021	March 2021
Trade	¢ 355,433,400,881	330,171,594,062	360,522,155,790
Services (1)	1,079,651,260,747	1,043,436,571,257	869,474,124,898
Financial services (1)	87,434,340,058	91,266,302,711	81,912,751,879
Mining	437,669,385	455,324,660	696,237,785
Manufacturing and quarrying	169,939,856,613	158,415,565,843	160,512,749,601
Construction	88,885,194,458	93,491,037,959	94,609,082,093
Agriculture and forestry	113,948,665,681	116,562,814,807	113,420,488,666
Livestock, hunting and fishing	71,706,079,302	72,831,830,903	73,287,530,281
Electricity, water, sanitation and other related sectors	464,169,724,787	465,323,785,148	472,745,289,645
Transportation and telecommunications	43,650,961,048	43,598,161,061	45,911,200,853
Housing	1,383,461,588,859	1,347,158,225,840	1,311,240,222,690
Personal or consumer loans	505,004,016,771	503,511,429,681	519,177,258,966
Tourism	278,876,252,791	268,107,946,733	204,744,004,015
Total direct loans	4,642,599,011,381	4,534,330,590,665	4,308,253,097,162
Incremental direct costs related to loans	4,141,747,933	3,675,079,715	3,657,662,021
(Deferred income from loan portfolio)	(36,548,974,253)	(35,117,407,652)	(33,230,117,422)
Accrued interest receivable	110,866,530,065	110,377,468,668	126,111,930,250
Allowance for loan losses	(151,587,064,342)	(135,831,283,295)	(162,798,010,479)
Loan portfolio	¢ 4,569,471,250,784	4,477,434,448,101	4,241,994,561,532

(1) As of March 31, 2022, the Bank purchased a loan portfolio in the amount of ¢134,802,767,221, distributed among the Services and Financial Services sectors.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Annual interest rates on loans receivable are as follows:

Currency	March 2022		December 2021		March 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%	13.06%
US dollars	0.80% to 29.00%	7.95%	0.35% to 29.00%	7.55%	0.20% to 30.00%	7.48%
DU	3.85% to 10.00%	5.68%	3.85% to 10.00%	5.86%	3.85% to 10.00%	5.81%

(1) Simple average of the minimum and maximum values of the portfolio as of March 31, 2022 and 2021.

(b) Loan portfolio by arrears

The loan portfolio by arrears is as follows:

	March 2022	December 2021	March 2021
Current	¢ 4,358,513,044,196	4,282,530,208,271	3,951,551,651,391
1 to 30 days	68,517,864,112	53,971,542,316	66,403,346,085
31 to 60 days	69,842,182,595	53,341,812,649	88,554,724,739
61 to 90 days	23,930,237,898	20,491,714,014	56,166,829,286
91 to 120 days	7,859,142,153	10,017,004,923	4,496,933,076
121 to 180 days	10,147,782,075	11,376,887,610	7,885,106,351
More than 180 days	103,788,758,352	102,601,420,882	133,194,506,234
	4,642,599,011,381	4,534,330,590,665	4,308,253,097,162
Incremental direct costs related to loans	4,141,747,933	3,675,079,715	3,657,662,021
(Deferred income from loan portfolio)	(36,548,974,253)	(35,117,407,652)	(33,230,117,422)
Accrued interest receivable	110,866,530,065	110,377,468,668	126,111,930,250
Allowance for loan losses	(151,587,064,342)	(135,831,283,295)	(162,798,010,479)
	¢ 4,569,471,250,784	4,477,434,448,101	4,241,994,561,532

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(c) Allowance for loan losses

For the three months ended March 31, movement in the allowance for loan losses is as follows:

	March 2022	March 2021
Opening balance	¢ 135,831,283,295	155,527,961,609
Allowance expense for the period (Note 39)	21,037,082,745	17,050,882,006
Write-offs	(6,948,491,131)	(9,665,976,260)
Decrease in allowance	(81,428)	-
Foreign exchange differences	1,667,270,861	(114,856,876)
Closing balance	¢ <u>151,587,064,342</u>	<u>162,798,010,479</u>

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

For the three months ended March 31, the allowance for stand-by credits is as follows:

	March 2022	March 2021
Opening balance	¢ 862,169,136	717,444,503
Allowance expense for the year (Note 36)	300,000,000	100,000,001
Foreign exchange differences	28,884,972	(1,120,510)
Closing balance	¢ <u>1,191,054,108</u>	<u>816,323,994</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(13) Accounts and fees and commissions receivable

Accounts and fees and commissions receivable are as follows:

	March 2022	December 2021	March 2021
Fees and commissions	¢ 2,296,823,392	1,956,296,857	1,615,822,407
Accounts receivable for brokerage operations	-	-	2,596,779
Accounts due from employees	23,041,905	16,309,408	17,573,873
Deferred tax (Note 21-b)	2,760,981,421	2,590,931,185	1,819,643,368
Income tax receivable (1)	75,006,951	354,997,957	63,684,703
Value added tax	14,503,876	19,035,938	9,826,504
Sundry accounts receivable related to credit cards	406,985,161	339,109,267	304,539,955
Other expenses receivable	23,240,204	23,082,305	485,934,014
Credit fraud	742,752,108	742,752,108	748,936,955
Other accounts receivable	1,965,524,990	1,553,072,175	1,538,825,147
Misappropriation and theft	1,522,990,867	1,523,981,965	1,701,838,283
Accrued interest receivable on other sundry accounts receivable	1,994,645	1,923,295	2,992,171
Allowance for impairment of accounts receivable	(4,101,217,187)	(4,073,541,857)	(4,154,877,236)
	¢ <u>5,732,628,333</u>	<u>5,047,950,602</u>	<u>4,157,336,923</u>

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

	March 2022	December 2021	March 2021
Banco Nacional de Costa Rica	¢ 32,134,308	141,325,587	29,327,041
BN Vital Operadora de Planes de Pensiones Complementarias, S.A.	11,014	68,075	17,535
BN Sociedad Corredora de Seguros, S.A.	42,861,629	-	34,340,127
	¢ <u>75,006,951</u>	<u>141,393,662</u>	<u>63,684,703</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

	March 2022	December 2021	March 2021
Opening balance	¢ 4,073,541,909	4,217,937,702	4,217,937,702
Allowance expense (Note 39)	218,406,814	879,441,298	210,679,781
Decrease in allowance (Note 40)	(135,093,874)	(521,599,531)	(223,931,665)
Write-offs	(69,802,337)	(516,463,912)	(49,381,354)
Foreign exchange differences	14,164,675	14,226,301	(427,228)
Closing balance	¢ 4,101,217,187	4,073,541,858	4,154,877,236

(14) Assets held for sale

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

	March 2022	December 2021	March 2021
Assets acquired in lieu of payment	¢ 94,194,414,101	94,628,393,958	98,963,202,112
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	(58,974,755,750)	(58,895,478,390)	(66,403,600,019)
	¢ 35,275,542,980	35,788,800,197	32,615,486,722

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

	March 2022	December 2021	March 2021
Opening balance	¢ 58,895,478,390	66,534,513,087	66,534,513,087
Allowance expense (Note 43)	1,563,542,962	1,732,758,628	381,769,385
Decrease in allowance	(1,484,265,602)	(9,371,793,325)	(512,682,453)
Closing balance	¢ 58,974,755,750	58,895,478,390	66,403,600,019

(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>March 2022</u>	<u>December 2021</u>	<u>March 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>79,649,532,456</u>	<u>76,762,142,745</u>	<u>72,306,001,315</u>
	¢	<u>79,700,155,756</u>	<u>76,812,766,045</u>	<u>72,356,624,615</u>

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

		<u>March 2022</u>	<u>December 2021</u>	<u>March 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
Interclar 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:

		March 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)	(34,287,874)	-	114,910,448,156
Additions		-	-	693,738,901	39,320,373	-	733,059,274
Disposals		-	-	(1,799,431,048)	(38,792,317)	-	(1,838,223,365)
Adjustments		-	-	875,206	-	-	875,206
Closing balance		53,655,657,898	138,019,536,540	71,734,920,757	52,290,142,624	405,181,156	316,105,438,975
<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		-	401,794,262	1,774,761,410	1,038,011,067	4,023,821	3,218,590,560
Depreciation expense on revalued cost		-	219,281,804	-	-	-	219,281,804
Disposals		-	-	(1,791,504,804)	(38,792,317)	-	(1,830,297,121)
Closing balance	¢	-	51,872,317,328	44,837,536,328	42,725,053,940	275,426,873	139,710,334,469
Net closing balance	¢	53,655,657,898	86,147,219,212	26,897,384,429	9,565,088,684	129,754,283	176,395,104,506

(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

		March 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)	(34,287,875)	-	114,910,611,563
Additions		-	-	676,469,715	324,488,662	-	1,000,958,377
Disposals		-	-	(291,344,069)	(1,828,340,507)	-	(2,119,684,576)
Reclassifications		-	-	-	339,924	-	339,924
Closing balance		53,655,657,898	136,253,802,514	66,339,286,311	50,800,412,738	341,154,043	307,390,313,504
<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		-	395,669,577	1,671,980,789	1,211,391,570	4,837,201	3,283,879,137
Depreciation expense on revalued cost		-	219,281,802	-	-	-	219,281,802
Disposals		-	-	(251,799,914)	(1,750,001,672)	-	(2,001,801,586)
Closing balance	¢	-	49,362,636,695	41,282,053,117	39,742,627,033	257,742,466	130,645,059,311
Net closing balance	¢	53,655,657,898	86,891,165,819	25,057,233,194	11,057,785,705	83,411,577	176,745,254,193

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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:

		March 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		18,735,897	-	18,735,897
Disposals		(42,700,172)	-	(42,700,172)
Adjustments		(263,548,012)	-	(263,548,012)
Reclassifications		(201,319,041)	-	(201,319,041)
Closing balance		38,173,332,543	107,630,182	38,280,962,725
<u>Accumulated depreciation:</u>				
Opening balance		8,604,657,644	88,061,093	8,692,718,737
Depreciation expense on historical cost		700,048,214	7,338,425	707,386,639
Disposals		322,739	-	322,739
Adjustments		(16,394)	-	(16,394)
Reclassifications		(201,319,041)	-	(201,319,041)
Closing balance	¢	9,103,693,162	95,399,518	9,199,092,680
Net closing balance		29,069,639,381	12,230,664	29,081,870,045

(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

		March 2021			
		Right of use of land	Right of use of vehicles	Right of use of building	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		-	12,610,990	-	12,610,990
Disposals		-	(494,347,167)	-	(494,347,167)
Adjustments		(5,571,583)	(127,005,816)	(9,595,209)	(142,172,608)
Closing balance		-	38,932,075,139	267,659,087	39,199,734,226
<u>Accumulated depreciation:</u>					
Opening balance		-	5,776,635,561	192,006,038	5,968,641,599
Depreciation expense on historical cost		-	733,526,593	21,760,850	755,287,443
Disposals		-	(62,721,114)	-	(62,721,114)
Adjustments		-	(11,215,236)	(2,114,610)	(13,329,846)
Closing balance	¢	-	6,436,225,804	211,652,278	6,647,878,082
Net closing balance	¢	-	32,495,849,335	56,006,809	32,551,856,144

(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:

		March 2022	December 2021	March 2021
Interest on lease liability	¢	<u>818,679,217</u>	<u>3,428,502,639</u>	<u>879,298,180</u>
Expenses for leases of low-value assets, excluding short-term assets	¢	<u>117,817,272</u>	<u>628,823,481</u>	<u>123,693,039</u>

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

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

		March 2022	December 2021	March 2021
Cash outflows for leases	¢	<u>485,453,024</u>	<u>2,005,812,157</u>	<u>492,683,016</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(17) Other assets

Other assets are as follows:

	March 2022	December 2021	March 2021
<i><u>Deferred charges:</u></i>			
Leasehold improvements (1)	¢ 8,068,372	9,757,224	60,216,045
Cost of issue of financial instruments, net (2)	210,117,408	233,534,136	257,863,774
Cost of subordinated debt project	37,725,819	97,783,459	209,193,449
Other deferred charges	24,839,092,256	28,387,122,273	39,048,182,004
	<u>25,095,003,855</u>	<u>28,728,197,092</u>	<u>39,575,455,272</u>
<i><u>Intangible assets:</u></i>			
Software (3)	8,498,771,306	9,163,553,845	4,771,557,867
Other intangible assets (3)	8,398,801	8,398,795	3,872,091
	<u>8,507,170,107</u>	<u>9,171,952,640</u>	<u>4,775,429,958</u>
<i><u>Other assets:</u></i>			
Prepaid taxes	7,375,798,341	22,494,965,119	5,448,139,424
Prepaid insurance policy	301,284,382	210,452,219	282,030,299
Other prepaid expenses	7,374,721,739	4,778,647,637	7,448,591,140
Stationery, office supplies and other materials	772,508,973	701,386,078	675,414,013
Leased assets	119,762,467	120,107,359	121,161,194
Library and artwork	404,704,948	404,704,948	404,704,948
Construction work in progress	1,594,243,517	1,380,986,124	1,587,760,075
Automated applications under development	170,702,974	170,702,974	92,052,283
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	5,340,833,094	6,036,577,570	7,919,983,403
Other operations pending application	124,291,838	80,847,419	249,812,098
Security deposits (Note 7)	563,769,159	823,104,907	603,684,576
Legal and administrative deposits (Note 7)	166,821,731	200,730,233	241,246,452
	<u>24,468,350,832</u>	<u>37,562,120,256</u>	<u>25,233,737,574</u>
¢	<u>58,070,524,794</u>	<u>75,462,269,988</u>	<u>69,584,622,804</u>

- (1) As of March 31, 2022, the amortization expense for leasehold improvements amounts to ¢1,688,851 (December and March 2021: ¢77,644,222 and ¢48,813,824, respectively).

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(2) As of March 31, the costs of issue of financial instruments are as follows:

	March 2022		
	10-year issue (maturing in 2023)	5-year issue (maturing in 2021)	Total
Commission - structuring banks	¢ 333,550,000	333,550,000	667,100,000
Commission - Moody's Investors Service	166,775,000	166,775,000	333,550,000
Commission - Société de la Bourse de Luxembourg S.A.	8,152,629	8,152,629	16,305,258
RR Donnelley	7,302,717	7,302,744	14,605,461
BNY Mellon	2,637,046	2,637,046	5,274,093
Moody's issuer rating	22,081,010	22,081,010	44,162,020
Fitch Ratings	166,775,000	166,775,000	333,550,000
Milbank	98,170,436	98,170,436	196,340,872
Shearman & Sterling	98,297,852	98,297,852	196,595,704
External audit	126,749,000	126,749,000	253,498,000
	<u>1,030,490,717</u>	<u>1,030,490,691</u>	<u>2,060,981,408</u>
Amortization	<u>(1,030,490,717)</u>	<u>(820,373,283)</u>	<u>(1,850,864,000)</u>
¢	<u>-</u>	<u>210,117,408</u>	<u>210,117,408</u>

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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	-	15,771,201
RR Donnelley	7,063,552	7,063,526	4,228,501	18,355,578
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</u>	<u>996,738,297</u>	<u>1,315,966,080</u>	<u>3,309,442,700</u>
Amortization	<u>(996,738,323)</u>	<u>(763,204,161)</u>	<u>(1,315,966,080)</u>	<u>(3,075,908,564)</u>
¢	<u>-</u>	<u>233,534,136</u>	<u>-</u>	<u>233,534,136</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

March 2021				
	5-year issue (maturing in 2018)	10-year issue (maturing in 2023)	5-year issue (maturing in 2021)	Total
Commission - structuring banks	¢ 307,905,000	307,905,000	523,438,500	1,139,248,500
Commission - Moody's Investors Service	153,952,500	153,952,500	-	307,905,000
Commission - Société de la Bourse de Luxembourg S.A.	7,525,814	7,525,814	-	15,051,628
RR Donnelley	6,741,272	6,741,247	4,035,572	17,518,091
BNY Mellon	2,434,297	2,434,297	3,551,376	8,419,970
Moody's issuer rating	20,383,311	20,383,311	153,952,500	194,719,122
Fitch Ratings	153,952,500	153,952,500	153,952,500	461,857,500
Milbank	90,622,600	90,622,600	121,327,262	302,572,462
Shearman & Sterling	90,740,219	90,740,219	134,981,919	316,462,357
External audit	117,003,900	117,003,900	142,867,920	376,875,720
Perkins Cole (Broker)	-	-	8,077,611	8,077,611
Printing of documents	-	-	9,738,939	9,738,939
	951,261,413	951,261,388	1,255,924,099	3,158,446,900
Amortization	(951,261,413)	(712,993,901)	(1,236,327,812)	(2,900,583,126)
¢	-	238,267,487	19,596,287	257,863,773

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

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

March 2022			
	Software	Other intangible assets	Total
<u>Cost:</u>			
Opening balance	¢ 35,209,164,296	50,494,352	35,259,658,648
Additions	563,005,642	8,398,795	571,404,437
Disposals	(10,659,270)	-	(10,659,270)
Reclassifications	-	(8,398,789)	(8,398,789)
Closing balance	35,761,510,668	50,494,358	35,812,005,026
<u>Accumulated amortization:</u>			
Opening balance	26,045,610,450	42,095,559	26,087,706,009
Expense for the period	1,227,788,180	8,398,792	1,236,186,972
Reclassifications	(10,659,270)	(8,398,792)	(19,058,062)
Closing balance	27,262,739,360	42,095,559	27,304,834,919
Net closing balance	¢ 8,498,771,308	8,398,799	8,507,170,107

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		December 2021		
		Software	Other intangible assets	Total
<u>Cost:</u>				
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>
<u>Accumulated amortization:</u>				
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>
		March 2021		
		Software	Other intangible assets	Total
<u>Cost:</u>				
Opening balance	¢	34,140,956,406	46,969,683	34,187,926,089
Additions		501,646,652	3,872,091	505,518,743
Disposals		(55,689,347)	-	(55,689,347)
Reclassifications		-	(4,874,124)	(4,874,124)
Adjustments		(115,468,468)	-	(115,468,468)
Closing balance		<u>34,471,445,243</u>	<u>45,967,650</u>	<u>34,517,412,893</u>
<u>Accumulated amortization:</u>				
Opening balance		28,845,429,058	42,095,559	28,887,524,617
Expense for the period		904,164,935	-	904,164,935
Disposals		(11,024,130)	-	(11,024,130)
Reclassifications		(38,195,536)	-	(38,195,536)
Adjustments		(486,951)	-	(486,951)
Closing balance		<u>29,699,887,376</u>	<u>42,095,559</u>	<u>29,741,982,935</u>
Net closing balance	¢	<u>4,771,557,867</u>	<u>3,872,091</u>	<u>4,775,429,958</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:

	March 2022	December 2021	March 2021
<u><i>Demand deposits:</i></u>			
Checking accounts	¢ 2,159,042,237,491	2,280,685,115,875	1,788,279,308,545
Certified checks	36,531,118	81,126,362	109,727,704
Savings deposits	2,126,904,893,080	2,049,250,666,697	1,805,516,088,403
Matured term deposits	19,140,487,754	23,072,595,759	20,059,605,692
Other demand deposits	121,822,385	122,843,952	125,994,621
Drafts and transfers payable	33,562,137	194,665,191	294,693,106
Cashier's checks	9,277,865,400	4,616,672,412	4,072,936,029
Advance collections from customers for credit cards	11,153,516,261	11,196,281,538	10,760,064,754
Trust fund obligation	18,649,407	38,184,399	104,731,013
	<u>4,325,729,565,033</u>	<u>4,369,258,152,185</u>	<u>3,629,323,149,867</u>
<u><i>Term deposits:</i></u>			
Deposits from the public	1,624,616,481,610	1,635,557,973,096	2,055,444,408,902
Other term deposits	30,562,541,378	65,562,075,052	73,752,044,805
	<u>1,655,179,022,988</u>	<u>1,701,120,048,148</u>	<u>2,129,196,453,707</u>
<u><i>Other obligations with the public:</i></u>			
Obligations for tri-party repurchase agreements	24,507,036,470	27,369,847,440	32,528,244,935
	<u>¢ 6,005,415,624,491</u>	<u>6,097,748,047,773</u>	<u>5,791,047,848,509</u>

As of March 31, 2022, deposits in checking accounts in colones bear interest at a maximum rate of 1.15% per annum on full balances (both December and March 2021: 1.15% per annum) and at a minimum rate of 0.00% per annum on balances greater than or equal to ¢500,001 (December and March 2021: 0.00% per annum and 0.65% per annum, respectively). Deposits in checking accounts in US dollars bear interest at a maximum rate of 0.20% per annum on full balances (December and March 2021: 0.20% per annum and 0.25% per annum, respectively) and at a minimum rate of 0.00% per annum on balances greater than or equal to US\$1,000 (December and March 2021: 0.00% per annum and 0.10% per annum, respectively).

(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 March 31, term certificates bear annual interest at the following rates:

Currency	March 2022	December 2021	March 2021
Colones	0.77% to 5.95%	0.77% to 5.95%	1.25% to 6.75%
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 March 31, 2022, the balance of those term certificates of deposit is ¢82,630,109,637 (December and March 2021: ¢80,694,825,700 and ¢76,107,298,099, 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:

	March 2022	December 2021	March 2021
Financing of loans using internal funds - BCCR (i)	164,570,763,666	167,166,427,708	70,098,000,000
Financing of loans using external funds (ii)	¢ 125,644,412	125,644,412	125,644,412
Other term obligations with BCCR	29,600,000,000	-	-
Finance charges payable	1,262,510,263	951,173,419	49,385,489
	¢ <u>195,558,918,341</u>	<u>168,243,245,539</u>	<u>70,273,029,901</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.

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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:

	March 2022	December 2021	March 2021
<i><u>Demand:</u></i>			
Checking accounts with local financial entities	¢ 108,023,888,876	112,128,062,548	57,267,542,103
Savings deposits with local financial entities	52,224,030	46,270,767	41,498,961
Outstanding checks	3,145,323,888	1,278,976,636	1,054,372,168
Matured term deposits	167,500,000	2,830,075	176,289,233
Checking accounts and obligations with related parties (Note 8)	21,857,553	107,286,096	7,014,768
	<u>111,410,794,347</u>	<u>113,563,426,122</u>	<u>58,546,717,233</u>
<i><u>Term:</u></i>			
Term deposits with local financial entities	83,547,138,796	82,937,788,340	113,730,138,596
Term obligations with foreign financial entities (2)	214,145,567,328	212,580,207,605	397,950,248,289
Obligations for funds from the liquidity market	25,180,509,996	19,900,525,001	18,079,741,250
Loans from local financial entities (3)	-	34,352,702,356	29,414,073,347
Loans from foreign financial entities (3) (4)	123,863,392,240	119,806,406,600	138,153,853,394
Lease liabilities (1)	35,632,595,123	35,470,104,910	35,891,350,837
Obligations for deferred liquidity operations	7,445,000,000	-	-
Notes payable for BNCR financing	33,549,764,294	-	-
Obligations with funds from the Development Credit Fund	185,652,284,349	186,762,911,685	157,729,455,514
	<u>709,016,252,126</u>	<u>691,810,646,497</u>	<u>890,948,861,227</u>
(Deferred fees and commissions on own loan portfolio)	(177,238,757)	(51,811,794)	(163,611,738)
	<u>(177,238,757)</u>	<u>(51,811,794)</u>	<u>(163,611,738)</u>
Charges payable for other demand and term obligations with financial entities – foreign currency	50,060,992	46,267,755	37,787,493
Charges payable for other demand and term obligations with financial entities – local currency	393,655,880	421,507,265	536,503,832
Charges payable for loans with foreign financial entities (3)(4)	2,180,437,837	517,859,705	2,065,724,952
Charges payable for loans with local financial entities (3)	43,700,711	42,198,364	62,119,647
Charges payable for term deposits with foreign financial entities (2)	5,561,268,770	2,151,646,656	9,996,849,820
	<u>8,229,124,190</u>	<u>3,179,479,745</u>	<u>12,698,985,744</u>
¢	<u>828,478,931,906</u>	<u>808,501,740,570</u>	<u>962,030,952,466</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(1) *Lease liabilities*

As of March 31, 2022, long-term lease liabilities and their current portion amount to ¢5,768,061,909 and US\$44,141,374, for a total in colones of ¢35,214,772,504, using an exchange rate of ¢667.10 (2021: ¢6,655,398,28 and US\$47,562,666, for a total in colones of ¢35,944,963,723, using an exchange rate of ¢615,81).

Lease operations are as follows:

	March 2022			March 2021		
	No. of operations	Interest rates	Maturity dates	No. of operations	Interest rates	Maturity dates
In colones	17	5.56 % and 15.00% per annum	Between 2022 and 2041	15	11.80% and 13.63% per annum	Between 2022 and 2042
In US dollars	58	3.57% and 8.85% per annum	Between 2022 and 2040	60	8.80% and 8.85% per annum	Between 2021 and 2041
	<u>75</u>			<u>75</u>		

Future minimum lease payments are as follows:

March 2022			
	<u>Future minimum lease payments</u>	<u>Interest</u>	<u>Present value of minimum lease payments</u>
Less than one year	¢ 5,347,895,528	3,273,658,027	2,074,241,984
Between one and five years	24,811,445,130	13,302,130,834	11,509,336,711
More than five years	30,770,242,672	9,145,125,742	21,625,152,493
	<u>¢ 60,929,583,330</u>	<u>25,720,914,603</u>	<u>35,208,731,188</u>
December 2021			
	<u>Future minimum lease payments</u>	<u>Interest</u>	<u>Present value of minimum 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>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		March 2021	
		<u>Future minimum lease payments</u>	<u>Present value of minimum lease payments</u>
Less than one year	¢	5,326,063,508	1,947,731,155
Between one and five years		24,587,495,256	10,609,669,369
More than five years		34,505,867,790	23,354,404,968
	¢	<u>64,419,426,554</u>	<u>35,911,805,492</u>

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

		March 2022	December 2021	March 2021
Balance at beginning of period	¢	35,041,666,758	37,044,902,529	36,527,027,411
New financial obligations		-	187,604,732	540,654,548
Settlements or withdrawals		(43,502,329)	(467,870,645)	(457,570,020)
Adjustments		(263,187,029)	(556,573,858)	(138,945,443)
Payment of obligations		(485,453,024)	(2,005,812,157)	(486,735,671)
Interest expense		-	-	10,206,669
Foreign exchange differences		959,206,812	1,267,854,309	(70,128,169)
Related to liabilities		-	-	(59,921,500)
Balance at end of period	¢	<u>35,208,731,188</u>	<u>35,470,104,910</u>	<u>35,924,509,325</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:

Date of issue	Face value	Characteristics
11/01/2013	US\$500 million	<ul style="list-style-type: none"> • Traded amount: 99.072% • Term: 10 years • Interest rate: 6.250% per coupon payment
04/25/2016	US\$500 million	<ul style="list-style-type: none"> • Traded amount: 99.68% • Term: 5 years • Interest rate: 5.875% per coupon
11/25/2020	US\$10 million	<ul style="list-style-type: none"> • Traded amount: 100% • Term: 3 years • Interest rate: 2.85% per coupon
01/05/2021	US\$40 million	<ul style="list-style-type: none"> • Traded amount: 100% • Term: 3 years • Interest rate: 2.85% 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:

March 2022			
	10-year issue (maturing in 2023)	Total	
Issue	₺ 211,570,949,867	211,570,949,867	
Adjustment to fair value of hedged item measured at cost of international issues	1,009,831,511	1,009,831,511	
Amortization of discount in traded amount of issues	1,564,785,950	1,564,785,950	
	214,145,567,328	214,145,567,328	
Finance charges payable	5,561,268,770	5,561,268,770	
	₺ 219,706,836,098	219,706,836,098	
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	
March 2021			
	10-year issue (maturing in 2023)	5-year issue (maturing 2021)	Total
Issue	₺ 195,304,312,153	190,412,984,362	385,717,296,515
Adjustment to fair value of hedged item measured at cost of international issues	10,610,314,772	(197,911,376)	10,412,403,396
Amortization of discount in traded amount of issues	1,228,202,815	592,345,563	1,820,548,378
	207,142,829,740	190,807,418,549	397,950,248,289
Finance charges payable	5,133,690,483	4,863,159,337	9,996,849,820
	₺ 212,276,520,223	195,670,577,886	407,947,098,109

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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:

		March 2022		
		Local	Foreign	Total
One to two years	¢	43,700,712	74,911,518,444	74,955,219,156
Three to five years		2,673,333,961	-	2,673,333,961
More than five years		30,876,430,332	51,132,311,633	82,008,741,965
	¢	<u>33,593,465,005</u>	<u>126,043,830,077</u>	<u>159,637,295,082</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>
		March 2021		
		Local	Foreign	Total
Less than one year	¢	-	20,633,160,715	20,633,160,715
Three to five years		-	72,385,415,042	72,385,415,042
More than five years		29,601,837,406	47,201,002,589	76,802,839,995
	¢	<u>29,601,837,406</u>	<u>140,219,578,346</u>	<u>169,821,415,752</u>

(4) As of March 31, 2022, loans due to foreign financial entities bear interest at rates ranging from 2.84% 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:

		March 2022	December 2021	March 2021
Opening balance	¢	119,806,406,600	144,435,457,141	144,435,457,141
New financial obligations		-	32,192,000,006	24,692,000,000
Settlement of financial obligations		-	(62,240,257,851)	(1,225,256,449)
Foreign exchange differences		4,056,985,640	5,419,207,304	(334,273,951)
Cash flows from financing activities		<u>4,056,985,640</u>	<u>(24,629,050,541)</u>	<u>23,132,469,600</u>
Closing balance	¢	<u>123,863,392,240</u>	<u>119,806,406,600</u>	<u>167,567,926,741</u>

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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 March 31, income tax is as follows:

a) Income tax for the year

For the three months ended March 31, the income tax expense is as follows:

		March 2022	March 2021
<u>Current tax:</u>			
Current tax expense for the period	¢	7,368,912,581	5,846,757,445
Prior-period income tax expense		3,547,309,483	3,547,309,483
		10,916,222,064	9,394,066,928
<u>Deferred tax:</u>			
Deferred tax expense		282,171,872	418,875,596
Deferred tax income		(569,404,392)	(484,070,201)
Total deferred tax expense, net		(287,232,520)	(65,194,605)
Income tax expense, net	¢	10,628,989,544	9,328,872,323

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:

		March 2022	March 2021
Profit before tax	¢	25,170,150,609	20,463,621,274
<u>Plus (less) tax effect of:</u>			
Non-deductible expenses		9,696,807,620 39%	3,831,054,066 19%
Deductible expenses		(3,011,434,789) 12%	(2,843,203,944) 14%
Non-taxable income		(7,314,919,989) 30%	(1,962,279,920) 10%
Taxable income		22,438,477	- 0%
Tax base		24,563,041,928	19,489,191,476
Tax rate		30%	30%
Income tax expense		7,368,912,581	5,846,757,445
Prior-year income tax expense		3,547,309,483	3,547,309,483
Deferred tax expense		282,171,872	418,875,596
Deferred tax income		(569,404,392)	(484,070,201)
Deferred tax expense, net		(287,232,520)	(65,194,603)
Net income tax expense	¢	10,628,989,544	9,328,872,323

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

b) Deferred tax

Deferred tax assets and liabilities are as follows:

		March 2022		
		Assets	Liabilities	Net
Unrealized losses on valuation of investments	¢	887,360,481	-	887,360,481
Provisions		(107,048,989)	-	(107,048,989)
Right-of-use assets		1,955,607,206	-	1,955,607,206
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		-	(2,274,165,031)	(2,274,165,031)
Revaluation of property		-	(8,793,600,177)	(8,793,600,177)
Tax base of property and equipment		-	(4,950,403,879)	(4,950,403,879)
	¢	<u>2,760,981,421</u>	<u>(16,019,390,919)</u>	<u>(13,258,409,498)</u>
		December 2021		
		Assets	Liabilities	Net
Unrealized losses on valuation of investments	¢	1,134,371,534	-	1,134,371,534
Provisions		(178,169,147)	-	(178,169,147)
Right-of-use assets		1,619,240,561	-	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		-	(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		-	(4,826,962,805)	(4,826,962,804)
	¢	<u>2,600,505,671</u>	<u>(17,389,485,478)</u>	<u>(14,788,979,806)</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		March 2021		
		Assets	Liabilities	Net
Unrealized losses on valuation of investments	¢	424,540,593	-	424,540,593
Provisions		398,292,020	-	398,292,020
Right-of-use assets		996,810,755	-	996,810,755
Unrealized gains on valuation of investments		-	(3,796,369,493)	(3,796,369,493)
Revaluation of property		-	(8,987,877,286)	(8,987,877,286)
Tax base of property and equipment		-	(3,805,661,782)	(3,805,661,782)
	¢	<u>1,819,643,368</u>	<u>(16,589,908,561)</u>	<u>(14,770,265,193)</u>

Deferred tax assets and liabilities are as follows:

	December 2021	Included in the income statement	Included in equity	March 2022
Unrealized losses on valuation of investments	¢ 1,107,598,481	-	(220,238,000)	887,360,481
Provisions	(151,396,094)	44,347,105	-	(107,048,989)
Right-of-use assets	1,619,240,561	(158,432,166)	494,798,811	1,955,607,206
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)	(394,387)	1,438,936,883	(2,274,165,031)
Revaluation of property	(8,848,593,314)	-	54,993,137	(8,793,600,177)
Tax base of property and equipment	(4,826,962,804)	(123,441,075)	-	(4,950,403,879)
	¢ <u>(14,788,979,806)</u>	<u>(237,920,523)</u>	<u>1,768,490,831</u>	<u>(13,258,409,498)</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		(9,136,423,689)	(12,030,296)	211,586,409	(8,848,593,314)
Tax base of property and equipment		(3,739,156,241)	(345,275,292)	(654,257,006)	(4,826,962,804)
	¢	<u>(14,084,095,886)</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	March 2021
Unrealized losses on valuation of investments	¢	446,733,973	(84,763,319)	62,569,939	424,540,593
Provisions		287,529,817	110,762,203	-	398,292,020
Right-of-use assets		951,800,756		45,009,999	996,810,755
Unrealized gains		(3,006,120,072)	63,770,736	(854,020,157)	(3,796,369,493)
Revaluation of assets		(17,530,316,973)	-	8,542,439,687	(8,987,877,286)
Tax base of property and equipment		(3,739,156,241)	(345,275,292)	278,769,751	(3,805,661,782)
	¢	<u>(22,589,528,740)</u>	<u>(255,505,672)</u>	<u>8,074,769,219</u>	<u>(14,770,265,193)</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 March 31, 2022, the Bank has not recognized a deferred tax liability in the amount of ¢6165,477,295 (2021: ¢6,387,073,002), 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:

	March 2022	December 2021	March 2021
Severance benefits	¢ 341,763,155	371,601,957	334,141,121
Litigation	8,153,170,330	8,034,225,228	7,020,664,087
Inactive checking and savings accounts liquidated	799,520,378	777,866,680	754,019,347
Manager commissions	6,428,676,967	6,428,676,967	9,981,250,991
Variation in RIVM methodology	490,003,103	490,003,103	490,003,103
Notice of deficiency	4,714,347,682	4,714,347,682	4,225,446,524
Other	673,739,478	693,432,968	244,839,156
	¢ <u>21,601,221,093</u>	<u>21,510,154,585</u>	<u>23,050,364,329</u>

Movement in provisions is as follows:

	March 2021			
	Severance benefits	Litigation	Other	Total
Balance as of December 31, 2020	¢ 490,062,436	7,728,962,160	23,746,890,492	31,965,915,088
Increase in provision	20,007,131	187,974,058	1,260,007,862	1,467,989,051
Used	(175,928,446)	(888,463,250)	(9,306,016,700)	(10,370,408,396)
Decrease in provision	-	(7,808,881)	(5,322,533)	(13,131,414)
Balance as of March 31, 2021	¢ <u>334,141,121</u>	<u>7,020,664,087</u>	<u>15,695,559,121</u>	<u>23,050,364,329</u>

(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

March 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	5,383,976	132,361,864	967,000,393	1,104,746,233
Used	55,723,127	1,068,389,927	(9,235,794,220)	(8,111,681,166)
Decrease in provision	(33,477,938)	(8,833)	(242,599)	(33,729,370)
Balance as of March 31, 2022	¢ 341,763,155	8,153,170,330	13,106,287,608	21,601,221,093

The Bank and its subsidiaries are defendants in pending lawsuits, for which the potential outflow of economic benefits is considered. As of March 31, the Bank has estimated future outflows and made the following provisions:

Type	Claimed amount			Provision		
	March 2022	December 2021	March 2021	March 2022	December 2021	March 2021
Ordinary - in colones	19,834,478,975	18,689,257,903	18,651,496,377	4,446,534,422	4,454,089,608	4,313,661,707
Ordinary - in US dollars	138,263,892,098	135,030,173,609	134,098,897,024	3,051,062,598	2,920,760,287	2,216,734,582
Criminal - in colones	1,020,877,223	1,020,877,223	1,020,877,223	-	-	-
Labor - in colones	955,498,846	955,498,846	879,064,573	655,573,310	659,375,333	490,267,800
	160,074,747,142	155,695,807,581	154,650,335,197	8,153,170,330	8,034,225,228	7,020,664,089

(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:

	March 2022	December 2021	March 2021
Professional fees	¢ 12,680,040	8,845,876	3,496,929
Creditors - goods and services	5,350,554,136	5,677,747,171	5,429,810,119
Income tax	7,368,912,581	18,567,386,331	5,846,757,445
Value added tax	191,226,796	339,302,747	256,551,032
Employer contributions	8,672,547,363	10,271,862,174	7,212,372,651
Court-ordered withholdings	3,889,286,482	3,863,355,272	3,595,081,128
Tax withholdings	1,808,433,364	2,281,670,067	2,532,225,433
Employee withholdings	785,434,177	812,634,933	1,046,804,457
Other third-party withholdings	91,210,117	9,747,627	161,829,843
Compensation	12,688,053,545	16,341,390,269	7,314,424,445
Statutory allocations	12,943,657,679	18,174,951,496	7,744,818,625
Obligations on loans with related parties	1,707,718	-	-
Clearing house operations	202,750,597	339,051,671	91,148,109
Accrued vacation	5,427,915,220	5,159,944,007	4,763,400,502
Accrued statutory Christmas bonus	3,809,009,876	1,906,421,522	3,386,363,181
Contribution to the superintendencies' budget	6,111,241	6,111,241	6,111,241
Assets held for sale	202,213,727	142,060,903	212,440,606
Provisional deposits for the payment of premiums	2,611,609,228	2,106,711,540	2,744,527,143
BN Seguros – premiums paid	-	-	1,354,595,009
Direct contracts with the Government Purchases department - various	655,723,811	669,279,588	-
International operations	455,921,011	-	-
Courier	-	-	450,500,000
Accounts due to customers (1)	-	21,165,923	-
SICOP guarantees	1,488,035,205	1,598,166,821	-
International organizations	525,225,000	-	-
Property	683,649,268	-	-
Amounts received for partial sales of assets held for sale	513,538,735	525,977,790	1,289,356,178
Master Card and Visa payments	1,754,756,538	574,083,215	-
Allocation for petty cash differences	-	1,706,268,154	-
Various creditors	2,116,123,104	2,976,461,289	3,261,938,923
Interest rate futures - Hedges (Note 9)	52,788,957	14,185,350	3,261,988
	¢ 74,309,075,516	94,094,782,977	58,707,814,987

(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:

		<u>March 2022</u>	<u>December 2021</u>	<u>March 2021</u>
<u>Deferred income:</u>				
Deferred fees and commissions for trust management	¢	<u>110,256,453</u>	<u>88,200,061</u>	<u>79,422,254</u>
		<u>110,256,453</u>	<u>88,200,061</u>	<u>79,422,254</u>
<u>Operations pending application:</u>				
Operations pending settlement		<u>3,044,625,255</u>	<u>16,748,386,396</u>	<u>2,135,014,398</u>
Other operations pending settlement		<u>12,761,722,563</u>	<u>10,135,704,410</u>	<u>12,552,261,489</u>
		<u>15,806,347,818</u>	<u>26,884,090,806</u>	<u>14,687,275,887</u>
	¢	<u>15,916,604,271</u>	<u>26,972,290,867</u>	<u>14,766,698,141</u>

(25) Subordinated obligations

The Conglomerate's subordinated obligations are as follows:

Entity	Annual interest rate	Term	Maturity		<u>March 2022</u>	<u>December 2021</u>	<u>March 2021</u>
	6-month LIBOR + 4.50% in the first 5 years and 6-month LIBOR + 5% thereafter	10	05/27/2024	US\$	45,000,000	50,000,000	60,000,000
BID							
	6-month LIBOR + 5.25% in the first 5 years and 6-month LIBOR + 5.75% thereafter	15	10/23/2029		<u>23,250,000</u>	<u>24,000,000</u>	<u>26,250,000</u>
BCIE							
AFD	8.28% per annum (1)	10	09/29/2031		<u>15,000,000</u>	<u>15,000,000</u>	<u>-</u>
	6-month LIBOR + 6.30%, in the first 5 years and 6-month LIBOR + 6.80% thereafter	10	02/18/2032		<u>30,000,000</u>	<u>-</u>	<u>-</u>
FINDEV				US\$	<u>113,250,000</u>	<u>89,000,000</u>	<u>86,250,000</u>
				¢	<u>75,549,075,000</u>	<u>57,427,250,000</u>	<u>53,113,612,500</u>
	Total equivalent in colones						
	Finance charges payable				<u>609,299,187</u>	<u>940,121,894</u>	<u>412,563,997</u>
				¢	<u>76,158,374,187</u>	<u>58,367,371,894</u>	<u>53,526,176,497</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.

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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:

		March 2022	December 2021	March 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:

		March 2022	December 2021	March 2021
Legal reserve	¢	366,290,915,456	343,173,824,949	343,171,661,109
Statutory reserve for assets held for sale		3,892,824,791	3,248,004,049	1,794,071,197
Excess of statutory reserve for loans		6,142,339,487	7,124,739,246	8,530,959,087
Statutory dynamic provision		11,538,770,290	11,190,669,854	11,830,177,919
	¢	<u>387,864,850,024</u>	<u>364,737,238,098</u>	<u>365,326,869,312</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(c) Equity of the Development Financing Fund

As of March 31, 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 March 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:

		March 2022	December 2021	March 2021
Performance bonds	¢	44,878,384,566	42,618,377,673	42,640,522,315
Bid bonds		1,761,248,068	2,180,865,597	3,196,759,297
Other guarantees		-	445,367,225	531,684,787
Letters of credit		4,243,242,036	4,124,817,367	5,813,036,440
Credits pending disbursement		124,833,348	124,833,348	130,921,240
		<u>51,007,708,018</u>	<u>49,494,261,210</u>	<u>52,312,924,079</u>
Pre-approved lines of credit		314,033,394,607	293,974,025,045	278,175,266,470
Other contingencies not related to credits		83,658,102	83,658,102	83,658,102
Other contingencies - Pending litigation and lawsuits (Note 51)		<u>160,075,453,526</u>	<u>155,692,521,734</u>	<u>154,646,416,881</u>
		<u>474,192,506,235</u>	<u>449,750,204,881</u>	<u>432,905,341,453</u>
Sales of FX futures - Other than hedges		-	-	1,114,616,100
	¢	<u>525,200,214,253</u>	<u>499,244,466,091</u>	<u>486,332,881,632</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 March 31, 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 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	¢ 197,738,260	10,039,423	12,898,230	200	6,621	-	-	16,411	-	20,507,784,654	5,593	20,728,489,392
Investments in financial instruments	220,470,728,258	9,352,104,139	81,127,047	2,353,311,937,746	4,069,531,807	-	2,530,514	68,240,967	-	283,388,895	680,969	2,587,640,270,342
Loan portfolio	3,825,651,649	-	1,093,516,442	-	-	-	-	-	-	-	-	4,919,168,091
Accounts and accrued interest receivable	153,936,838,175	29,102,911,670	1,989,689,089	85,221,689	2,702,269	-	-	188,792,088	-	-	241,116	185,306,396,096
Assets held for sale	145,614,246	-	5,900,257	-	-	-	-	-	-	-	-	151,514,503
Investments in other companies	-	-	-	4,595,000,000	24,308,710	164,000	-	-	25,206,000	609,425,156	4,740,000	5,258,843,866
Property and equipment	741,181,018	29,703,724,351	-	120,810,868,028	878,546,947	-	-	8,719,375,327	-	-	3,004,248,009	163,857,943,680
Other assets	23,023,907,896	206,848,760	1,262	235,000,000	9,801,159	-	-	728,546	-	5,584,405,816	1,674,505,317	30,735,198,756
¢	402,341,659,502	68,375,628,343	3,183,132,327	2,479,038,027,663	4,984,897,513	164,000	2,530,514	8,977,153,339	25,206,000	26,985,004,521	4,684,421,004	2,998,597,824,726

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 management	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
Other assets	22,370,111,737	2,796,050,506	1,262	235,000,000	6,847,664	-	-	799,362	-	4,513,506,224	-	1,674,505,320	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	4,684,397,890	2,996,260,410,061

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of March 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 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	¢ 223,415,520	12,625,492	17,587,361	-	-	-	-	99,032,223	-	19,135,100,315	-	19,487,760,911
Investments in financial instruments	253,904,394,371	9,015,544,290	850,572,166	1,645,382,511,657	3,946,189,780	-	2,488,742	99,369,011	-	20,418,979	623,279	1,913,222,112,275
Loan portfolio	3,206,847,792	-	1,321,840,333	-	-	-	-	-	-	-	-	4,528,688,125
Accounts and accrued interest receivable	125,360,451,256	28,760,938,776	1,881,055,047	51,150,508	-	-	-	152,197,070	-	-	453,199	156,206,245,856
Assets held for sale	141,382,781	-	9,465,809	-	-	-	-	-	-	-	-	150,848,590
Investments in other companies	-	-	-	200,000,000	23,381,581	176,000	-	-	36,000	-	4,739,999	228,333,580
Property and equipment	801,047,029	60,639,497,446	-	117,344,920,072	521,101,270	-	-	8,719,375,327	-	-	3,004,248,009	191,030,189,153
Other assets	25,595,851,734	814,037,851	-	235,000,000	8,986,598	-	-	-	-	4,325,312,525	1,674,504,726	32,653,693,434
¢	409,233,390,483	99,242,643,855	4,080,520,716	1,763,213,582,237	4,499,659,229	176,000	2,488,742	9,069,973,631	36,000	23,480,831,819	4,684,569,212	2,317,507,871,924

(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:

	March 2022	December 2021	March 2021
Pension Fund Manager's own investments in custody – Face value of principal (unaudited) ¢	11,324,095,997	11,256,590,000	9,250,553,000
Pension Fund Manager's own investments in custody – Coupons (unaudited)	2,913,148,985	4,837,091,300	4,396,787,466
Pension Fund Manager's own investments in custody – Number of shares (unaudited)	23	23	23
Guarantees received in the Bank's custody	1,146,311,602	943,997,162	207,132,618
Guarantees on financial instruments	-	-	22,626,707
Other guarantees received in the Bank's custody	7,758,649,331,801	7,425,266,129,616	6,334,022,089,116
Lines of credit granted but unused	387,949,970,680	397,631,709,645	383,089,286,019
Loans pending disbursement	144,043,839,067	147,964,508,341	174,315,522,339
Unused overdrafts	65,653,076	60,701,458	55,750,203
Loans settled	457,855,133,205	415,127,217,926	345,323,658,338
Other accounts receivable settled	21,900,851,748	20,675,349,825	15,083,395,807
Accrued interest receivable settled	40,765,493,749	38,305,871,616	31,806,060,808
Interest income on non-accrual loans of loan portfolio	36,452,950,658	35,790,789,103	32,401,432,900
Supporting documentation received in the Bank's custody	9,003,235	9,004,104	2,572
Securities issued pending placement	34,444,000,000	34,444,000,000	6,248,000,000
Lines of credit or overdrafts obtained but unused	6,670,999,997	6,452,500,001	6,158,099,999
Notified letters of credit	5,327,313,785	5,257,203,839	3,865,858,305
Notional value subject to interest rate futures (Note 11)	219,356,489,100	216,430,400,250	403,491,644,010
Reversals made to income accounts for the year	6,120,504,431	50,805,600,120	30,789,263,983
Reversals made to expense accounts for the year	9,967,376,638	89,622,428,300	52,976,645,521
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	211,773,942,715	229,090,096,899	210,768,352,150
	<u>9,407,999,628,402</u>	<u>9,181,234,407,438</u>	<u>8,070,286,683,910</u>
Third-party debit memoranda accounts (1)	4,932,408,012,922	4,897,730,289,330	4,244,159,792,220
Own debit memoranda accounts for custodial activities	660,259,392,646	672,053,399,643	760,339,379,626
Third-party debit memoranda accounts for custodial activities	<u>17,051,663,110,688</u>	<u>16,326,243,606,935</u>	<u>14,365,140,010,297</u>
	<u>22,644,330,516,256</u>	<u>21,896,027,295,908</u>	<u>19,369,639,182,143</u>
¢	<u>32,052,330,144,658</u>	<u>31,077,261,703,346</u>	<u>27,439,925,866,053</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

	March 2022	December 2021	March 2021
Management of banking mandates	¢ 1,749,697,333,393	1,742,711,823,628	1,554,980,349,938
“TUDES” securities received in custody from affiliates under Article 75 of Law No. 7531	628,234,659	617,389,318	584,619,607
Pension funds (Note 32)	2,305,319,266,678	2,283,096,382,911	1,944,582,609,558
Investment funds (Note 31)	775,661,158,622	772,762,830,934	652,483,434,151
Portfolio management	101,102,019,570	98,541,862,539	91,528,778,966
	¢ <u>4,932,408,012,922</u>	<u>4,897,730,289,330</u>	<u>4,244,159,792,220</u>

Other memoranda accounts by entity are as follows:

	March 2022	December 2021	March 2021
Banco Nacional de Costa Rica	¢ 27,874,877,851,081	26,924,093,940,397	23,682,558,972,389
BN Valores Puesto de Bolsa, S.A. (Note 30)	1,081,453,307,974	1,080,445,381,521	1,145,894,038,696
BN Sociedad Administradora de Fondos de Inversión, S.A. (Note 31)	775,702,870,062	772,807,168,583	652,526,148,001
BN Vital Operadora de Planes de Pensiones Complementarias, S.A. (Note 32)	2,320,296,115,541	2,299,915,212,845	1,958,946,706,968
	¢ <u>32,052,330,144,658</u>	<u>31,077,261,703,346</u>	<u>27,439,925,866,054</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:

	March 2022	December 2021	March 2021
<u>Own</u>			
Futures contracts pending settlement	25,932,382,940	19,922,658,293	18,101,356,268
Own trading securities (Note 30-a)	4,548,774,206	4,543,858,793	2,495,162,095
Other own memoranda accounts	6,703,383,830	6,484,248,455	6,184,691,302
	<u>37,184,540,976</u>	<u>30,950,765,541</u>	<u>26,781,209,665</u>
<u>Third party</u>			
Trading securities received as guarantees	19,225,335,545	42,697,285,222	22,803,097,748
Trading securities pending receipt	4,497,370,402	-	84,485,743
Signed contracts pending settlement	4,778,301,931	-	-
Futures contracts pending settlement	72,882,809,294	93,572,152,796	65,983,042,418
Third-party trading securities (Note 30-a)	840,233,303,604	813,707,676,314	937,332,436,973
Cash and accounts receivable	1,549,626,652	975,639,109	1,380,987,183
Portfolio management	101,102,019,570	98,541,862,539	91,528,778,966
	<u>1,044,268,766,998</u>	<u>1,049,494,615,980</u>	<u>1,119,112,829,031</u>
Memoranda accounts (Note 29) ¢	<u>1,081,453,307,974</u>	<u>1,080,445,381,521</u>	<u>1,145,894,038,696</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	March 2022	December 2021	March 2021
<i><u>Own custodial activities</u></i>				
Local	CEVAL – public	-	-	2,480,162,092
Local	International custody - Vault	4,533,774,204	4,518,046,793	-
Local	Vault	15,000,002	25,812,000	15,000,003
		<u>4,548,774,206</u>	<u>4,543,858,793</u>	<u>2,495,162,095</u>
<i><u>Custodial activities on behalf of third parties</u></i>				
Local	CEVAL - private	136,814,815,672	125,354,746,394	120,753,925,524
Foreign	CEVAL - private	59,531,771,467	42,765,105,609	45,640,681,734
Local	CEVAL - public	594,314,390,008	603,913,323,634	739,477,428,965
Foreign	International custody	49,380,208,680	41,486,925,664	31,227,442,773
Local	Vault	8,024,829	8,024,829	8,024,829
Local- Foreign	Securities that are doubtful, in arrears or in litigation	184,092,948	179,550,184	224,933,148
		<u>840,233,303,604</u>	<u>813,707,676,314</u>	<u>937,332,436,973</u>
		<u>¢ 844,782,077,810</u>	<u>818,251,535,107</u>	<u>939,827,599,068</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

b) Term buyer and seller positions in third-party repurchase agreements involving the Brokerage Firm are as follows:
March 2022

	Term buyer				Term seller			
	Colones	US dollars	US dollars expressed in colones	Total	Colones	US dollars	US dollars expressed in colones	Total
Own	19,823,220,878	8,108,400	5,409,113,451	25,232,334,329	700,048,611	-	-	700,048,611
Third parties	6,747,812,916	76,917,166	51,311,441,219	58,059,254,135	3,752,485,898	16,595,817	11,071,069,261	14,823,555,159
	<u>26,571,033,794</u>	<u>85,025,566</u>	<u>56,720,554,670</u>	<u>83,291,588,464</u>	<u>4,452,534,509</u>	<u>16,595,817</u>	<u>11,071,069,261</u>	<u>15,523,603,770</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	5,231,443,959	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>58,595,586,968</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

March 2021								
	Term buyer				Term seller			
	Colones	US dollars	US dollars expressed in colones	Total	Colones	US dollars	US dollars expressed in colones	Total
Own	14,017,132,778	6,632,279	4,084,223,490	18,101,356,268	-	-	-	-
Third								
parties	6,807,780,176	66,321,368	40,841,361,713	47,649,141,889	3,821,902,642	23,565,707	14,511,997,887	18,333,900,529
	<u>20,824,912,954</u>	<u>72,953,647</u>	<u>44,925,585,203</u>	<u>65,750,498,157</u>	<u>3,821,902,642</u>	<u>23,565,707</u>	<u>14,511,997,887</u>	<u>18,333,900,529</u>

As of March 31, 2022, term buyer and seller positions in tri-party repurchase agreements in US dollars were valued at the exchange rate of ¢667.10 to US\$1.00 (2021: ¢615.81 to US\$1.00).

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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:

March 2022					
Term buyer			Term seller		
Colones		US dollars	Colones		US dollars
<u>Own</u>					
1 to 30 days	¢	3,006,007,639	1,701,557	700,048,611	-
31 to 60 days		16,817,213,239	6,406,843	-	-
		19,823,220,878	8,108,400	700,048,611	-
<u>Third-party</u>					
1 to 30 days		587,898,518	1,557,966	368,816,141	114,964
31 to 60 days		3,261,303,675	19,274,850	266,165,986	2,275,124
61 to 90 days		214,148,657	51,441,789	35,441,706	9,563,168
More than 91 days		2,684,462,066	4,642,561	3,082,062,065	4,642,561
		6,747,812,916	76,917,166	3,752,485,898	16,595,817
	¢	26,571,033,794	85,025,566	4,452,534,509	16,595,817
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

March 2021				
	Term buyer		Term seller	
	Colones	US dollars	Colones	US dollars
<u>Own</u>				
1 to 30 days	¢ 5,405,693,056	5,605,527	-	-
31 to 60 days	8,611,439,722	1,026,752	-	-
	14,017,132,778	6,632,279	-	-
<u>Third-party</u>				
1 to 30 days	350,375,890	4,734,277	-	2,126,370
31 to 60 days	2,828,279,819	17,604,540	781,291,045	3,668,356
61 to 90 days	2,521,384,059	36,302,730	1,932,871,191	13,742,421
More than 91 days	1,107,740,407	7,679,821	1,107,740,407	4,028,561
	6,807,780,175	66,321,368	3,821,902,643	23,565,708
¢	20,824,912,953	72,953,647	3,821,902,643	23,565,708

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:

Fund	March 2022		
	Net value	Shares	Value per share
<i>Funds in colones:</i>			
Súper Fondo colones	¢ 150,396,430,005	33,693,357,122	4.46
Fon Depósito colones	69,938,900,142	43,442,144,629	1.61
Creci Fondo colones	18,029,004,692	2,673,413,392	6.74
Redi Fondo colones	52,174,445,945	11,003,139,785	4.74
Diner Fondo colones	73,332,654,418	24,577,315,432	2.98
	¢ <u>363,871,435,202</u>	<u>115,389,370,360</u>	
<i>Funds in US dollars</i>			
Creci Fondo US dollar	27,848,612	12,436,927	2.24
Redi Fondo US dollar	57,245,809	31,390,453	1.82
Diner Fondo US dollars	172,217,019	126,053,465	1.37
Fon Depósito US dollar	61,897,040	53,792,001	1.15
Súper Fondo Plus US dollar	241,502,855	212,283,214	1.14
Fondo Hipotecario dólares	31,172,728	21,750	1,433.23
Fondo Internacional liquidez	332,476	342,074	0.97
BN internacional Valor	3,838,218	3,807,668	1.01
BN internacional Suma	3,202,933	3,101,652	1.03
BN internacional Crece	3,086,117	3,081,194	1.00
BN Infraestructura Pública -1	14,939,543	15,000	995.97
	US\$ <u>617,283,350</u>	<u>446,325,398</u>	
	¢ <u>411,789,723,420</u>	<u>297,743,673,006</u>	
Assets of managed funds	¢ <u>775,661,158,622</u>	<u>413,133,043,366</u>	
<i>Guarantees:</i>			
Performance bonds	39,736,136		
Outstanding checks	1,975,304		
	<u>41,711,440</u>		
Memoranda accounts (Note 29)	¢ <u>775,702,870,062</u>		

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	December 2021		
Fund	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 <i>US dollars</i>	24,919,805	11,122,701	0.00
Redi Fondo <i>US dollars</i>	57,218,500	31,325,053	2.21
Diner Fondo <i>US dollars</i>	168,031,240	123,135,967	1.81
Fon Depósito <i>US dollars</i>	62,616,598	54,447,099	1.36
Súper Fondo Plus <i>US dollars</i>	244,162,299	214,866,302	1.15
Fondo Internacional liquidez	31,000,837	21,750	1,417.38
BN Internacional Valor	323,143	325,732	1.00
BN Internacional Suma	3,515,217	3,429,494	1.00
BN Internacional Crece	2,580,115	2,452,183	1.01
BN Infraestructura Pública -1	3,046,241	3,043,150	1.00
	US\$ <u>597,413,995</u>	<u>444,169,431</u>	
	¢ <u>385,481,380,528</u>	<u>286,600,325,353</u>	
Assets of managed funds	¢ <u>772,762,830,932</u>	<u>407,511,007,425</u>	
<i>Guarantees:</i>			
Performance bonds	42,362,347	-	
Outstanding checks	<u>1,975,304</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

	March 2021		
Fund	Net value	Shares	Value per share
<i>Funds in colones:</i>			
Súper Fondo colones	¢ 176,697,178,441	39,878,822,397	4.43
Fon Depósito colones	59,118,211,537	36,933,407,510	1.60
Creci Fondo colones	6,926,265,287	1,077,701,314	6.43
Redi Fondo colones	39,658,900,253	8,711,798,413	4.55
Diner Fondo colones	67,572,756,674	22,788,373,095	2.97
	¢ 349,973,312,192	109,390,102,729	
<i>Funds in US dollars:</i>			
Súper Fondo <i>US dollar</i>	US\$ 16,639,177	10,722,374	1.55
Creci Fondo <i>US dollar</i>	10,557,018	4,900,046	2.15
Redi Fondo <i>US dollar</i>	31,608,632	17,900,468	1.77
Diner Fondo <i>US dollar</i>	148,366,739	109,372,408	1.36
Fon Depósito <i>US dollar</i>	58,468,431	50,946,429	1.15
Súper Fondo Plus <i>US dollar</i>	193,320,819	171,165,722	1.13
Fondo Internacional liquidez	29,278,389	21,750	
BN Infraestructura Pública -1	3,000,173	3,000,000	1.00
	US\$ 491,239,378	368,029,197	
	¢ 302,510,121,959	226,636,059,805	
Assets of managed funds	¢ 652,483,434,151	336,026,162,534	
<i>Guarantees:</i>			
Performance bonds	40,738,546		
Outstanding checks	1,975,304		
	42,713,850		
Memoranda accounts (Note 29)	¢ 652,526,148,001		

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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.

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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- *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.
- *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. As of December 31, 2021, this fund does not have operations.
- *Fondo de Inversión de Desarrollo Inmobiliario de Infraestructura Pública – 1: (real estate development - US dollars)*: This fund will invest in the construction of buildings to be 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. As of December 31, 2021, this fund does not have operations.
- *BN Internacional Suma No Diversificado (non-diversified - US dollars)*: This is an international, mixed portfolio investment fund, addressed to investors with a balanced-risk profile, that is, 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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

securities issued by the public or private sector and in variable-return instruments and investment funds. As of March 31, 2021, this fund does not have operations.

- *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. As of December 31, 2021, this fund does not have operations.
- *Fondo de Inversión BN Internacional Liquidez No Diversificado (non-diversified liquidity investment fund)*: This fund is an international investment fund aimed at conservative investors looking for short-term investments. It is a good alternative for meeting present or future liquidity needs. The long-term fund is aimed at investors looking for meeting future liquidity needs. As of December 31, 2021, this fund does not have operations.
- *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.

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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. As of March 31, 2022 and 2021, this fund does not have operations.

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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:

	March 2022	December 2021	March 2021
Mandatory Pension Fund (ROP) ¢	1,965,130,088,698	1,937,484,746,302	1,648,336,377,547
Mandatory Retirement Savings Account (FCL)	99,661,857,103	96,494,039,246	110,531,758,267
Voluntary Pension Fund in Colones A (FPC A)	140,878,768,104	149,725,096,177	118,269,341,303
Voluntary Pension Fund in Colones B (FPC B)	44,218,193,875	44,590,216,879	30,358,369,475
Notary Guarantee Fund	27,474,260,216	-	-
Voluntary Pension Fund in US dollars A (FPD A) (i)	21,362,134,581	27,355,613,131	19,669,423,207
Voluntary Pension Fund in US dollars B (FPD B) (ii)	6,593,964,101	20,918,277,764	11,401,160,895
ICT employee pension fund	-	6,528,393,412	6,016,178,864
Assets of managed funds (Note 29)	2,305,319,266,678	2,283,096,382,911	1,944,582,609,558
Securities and assets in own custody	14,237,245,006	16,093,681,323	13,647,340,489
Bid and performance bonds – colones	31,291,875	26,556,671	29,844,178
Bid and performance bonds – US dollars (iii)	80,077,323	81,202,623	102,293,135
Securities in DU	628,234,659	617,389,317	584,619,608
Memoranda accounts (Note 29) ¢	<u>2,320,296,115,541</u>	<u>2,299,915,212,845</u>	<u>1,958,946,706,968</u>

- i. As of March 31, 2022, this fund amounts to US\$32,022.387 (2021: 31,940,734) and is valued at the exchange rate of ¢667.10 to US\$1.00 (2021: ¢615.81 to US\$1.00).
- ii. As of March 31, 2022, this fund amounts to US\$9,884,521 (2021: US\$18,514,089) and is valued at the exchange rate of ¢667.10 to US\$1.00 (2021: ¢615.81 to US\$1.00).
- iii. As of March 31, 2022, this fund amounts to US\$120,038 (2021: US\$166,112) and is valued at the exchange rate of ¢667.10 to US\$1.00 (2021: ¢615.81 to US\$1.00).

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(33) Income from financial instruments

For the three-months ended March 31, income from financial instruments is as follows:

	March 2022	March 2021
<u>Cash and due from banks:</u>		
Deposits in BCCR	¢ 1,436,021	2,199,234
Checking accounts and demand deposits in local entities	10,511,853	8,219,715
Checking accounts and demand deposits in foreign entities	302,769,437	192,741,458
	<u>314,717,311</u>	<u>203,160,407</u>
<u>Financial instruments:</u>		
Investments at fair value through profit or loss	51,281,272	67,282,400
Investments at fair value through other comprehensive income	7,065,768,341	9,651,720,252
Investments at amortized cost	5,128,253,179	5,927,080,466
Investments in past due and restricted securities	209,989,280	111,560,303
	<u>12,455,292,072</u>	<u>15,757,643,421</u>
¢	<u>12,770,009,383</u>	<u>15,960,803,828</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(34) Income from loan portfolio

For the three months ended March 31, finance income from the loan portfolio is as follows:

	<u>March 2022</u>	<u>March 2021</u>
<i><u>Current loans:</u></i>		
Individuals	¢ 30,800,331,126	38,217,629,018
Development Banking System	817,863,568	1,292,917,394
Business	9,174,460,538	15,246,438,401
Corporate	17,062,200,185	17,901,648,466
Public sector	3,061,317,998	2,315,445,867
Financial sector	990,639,785	1,415,099,205
	<u>61,906,813,200</u>	<u>76,389,178,351</u>
<i><u>Past due loans and loans in legal collection:</u></i>		
Individuals	2,757,067,995	6,419,331,258
Development Banking System	69,164,922	167,745,416
Business	702,674,415	4,106,289,566
Corporate	722,953,859	481,232,704
Public sector	8,321,374	52,410,507
Financial sector	2,387	328,112
In legal collection	22,025,920,703	1,819,906,575
Amortization of net commission of incremental direct costs related to credits	258,650,331	261,964,663
	<u>26,544,755,986</u>	<u>13,309,208,801</u>
	<u>¢ 88,451,569,186</u>	<u>89,698,387,152</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(35) Other finance income

For the three months ended March 31, other finance income is as follows:

	March 2022	March 2021
Fees and commissions on letters of credit	¢ 4,048,219	3,675,470
Fees and commissions on guarantees granted	95,874,592	195,514,074
Gain on sale of financial instruments	2,188	-
Gain on fair value hedge for item measured at cost	42,810,915	110,450,127
Other sundry finance income	5,525,847,934	2,082,919,328
Fees and commissions on letters of credit	690,987,200	744,196,136
	¢ <u>6,359,571,048</u>	<u>3,136,755,135</u>

(36) Finance costs for obligations with the public

For the three months ended March 31, finance costs for obligations with the public are as follows:

	March 2022	March 2021
Demand deposits	¢ 9,739,956,616	9,880,383,258
Term deposits	14,374,561,054	23,165,174,604
Third-party repurchase agreements	-	15,293,926
	¢ <u>24,114,517,670</u>	<u>33,046,266,551</u>

(37) Finance costs for obligations with financial entities

For the three months ended March 31, finance costs for obligations with financial entities are as follows:

	March 2022	March 2021
Demand obligations	¢ 458,257,034	381,742,793
Term obligations	7,622,617,302	10,187,710,714
	¢ <u>8,080,874,336</u>	<u>10,569,453,507</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(38) Other finance costs

For the three months ended March 31, other finance costs are as follows:

	March 2022	March 2021
Fees and commissions on letters of credit obtained	¢ 57,234,244	54,592,445
Loss on hedged item measured at cost from fair value hedge on interest rate risk	59,890	215,004,603
Other sundry finance costs	202,196,767	173,040,775
	¢ <u>259,490,901</u>	<u>442,637,823</u>

(39) Expenses for allowance for impairment of assets

For the three months ended March 31, expenses for allowance for impairment of assets are as follows:

	March 2022	March 2021
Allowance for loan losses (Note 12)	¢ 19,537,082,745	16,850,882,005
Allowance for impairment of other accounts receivable (Note 13)	218,406,814	210,679,781
Allowance for stand-by credit losses (Note 12 and 24)	300,000,000	100,000,000
General and counter-cyclical allowance for loan losses (Note 12)	1,200,000,000	100,000,001
General and counter-cyclical allowance for stand-by credit losses (Note 12)	-	999,727,803
Allowance for impairment of investments at fair value through other comprehensive income (FVOCI)	140,800,094	367,446,061
Allowance for impairment of financial instruments at amortized cost	207,341,673	2,069,719
Allowance for impairment of operations with derivative financial instruments	31,048,674	35,228
	¢ <u>21,634,680,000</u>	<u>18,630,840,598</u>

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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 three months ended March 31, income from recovery of assets and decreases in allowances and provisions is as follows:

	March 2022	March 2021
Recovery of loan write-offs	¢ 6,067,722,203	2,365,182,613
Recovery of accounts receivable write-offs	841,503	693,159
Decrease in allowance for loan losses	81,428	-
Decrease in allowance for impairment of other accounts receivable (Note 13)	135,093,874	223,931,665
Decrease in allowance for impairment of investments in financial instruments	679,348,352	1,726,679,494
	¢ <u>6,883,087,360</u>	<u>4,316,486,931</u>

(41) Income from service fees and commissions

For the three months ended March 31, operating income from service fees and commissions is as follows:

	March 2022	March 2021
Drafts and transfers	¢ 2,828,533,948	2,360,323,781
Certified checks	529,352	911,314
Trusts	537,392,285	458,360,573
Custodial services	563,233,300	488,734,755
Banking mandates	6,240	14,214
Collections	5,590,689	4,947,565
Credit cards	17,176,329,786	13,538,589,625
Management services	1,231,653,821	1,047,377,253
Management of investment funds	1,872,799,526	1,818,311,434
Management of pension funds	2,823,909,866	2,655,195,665
Insurance underwriting	1,981,001,206	1,892,536,270
Brokerage operations (third parties in local market)	547,776,635	1,141,346,723
Brokerage operations (third parties in other markets)	77,953,759	67,510,353
Transactions with related parties	17,280,919	19,832,621
Commissions charged to other affiliates due to covenants	3,355,913,003	3,102,923,552
Servibanca local interchange	6,450,910,379	5,236,496,257
Other service fees and commissions	3,062,396,532	2,147,191,496
	¢ <u>42,533,211,246</u>	<u>35,980,603,451</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(42) Other operating income

For the three months ended March 31, other operating income is as follows:

	March 2022	March 2021
Recovery of expenses (1)	¢ 454,145,238	1,183,449,438
Net valuation of other assets (Note 6)	40,394,855	9,980,921
Other income from accounts receivable	212,637	340,469
PMEP administrative charges	-	277,529,018
Liquidation of term certificate of deposit not claimed	138,911,740	230,388,841
Fines applied to vendors	91,912,733	-
Sundry income	113,718,209	-
Card commissions	134,714,170	-
Other operating income	342,090,978	519,968,234
Decrease in provisions	33,729,370	13,131,414
	¢ <u>1,349,829,930</u>	<u>2,234,788,335</u>

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(43) Expenses for assets held for sale

For the three months ended March 31, expenses for assets held for sale are as follows:

	March 2022	March 2021
Property and other assets acquired in lieu of payment	¢ 7,496,325	212,205,279
Loss on sale of assets awarded in judicial auctions	2,105,133,352	716,515,216
Management of assets received in lieu of payment	6,065,913	6,924,865
Management of assets awarded in judicial auctions	1,043,220,977	898,788,755
Loss on impairment of assets held for sale (Note 14)	333,540	26,797,261
Loss on allowance for impairment of assets held for sale and per legal requirement (Note 14)	1,563,209,422	354,972,124
Other expenses for assets held for sale	2,021,900	2,135,076
	¢ <u>4,727,481,429</u>	<u>2,218,338,576</u>

(44) Provision expenses

For the three months ended March 31, provision expenses are as follows:

	March 2022	March 2021
Severance benefits	¢ 5,383,976	20,007,131
Pending litigation	132,361,865	187,974,058
“BN Premios” points program	599,862,036	428,564,811
Case of the manager commissions with CCSS	-	342,059,526
Notice of deficiency	-	488,901,159
Other provision	367,138,357	482,366
	¢ <u>1,104,746,234</u>	<u>1,467,989,051</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(45) Other operating expenses

For the three months ended March 31, other operating expenses are as follows:

	March 2022	March 2021
Penalties for noncompliance with regulatory legal provisions	¢ 594,181	143,281
Net valuation of other liabilities	53,978,373	2,676,297
Value-added tax expense	331,576,839	269,171,348
Income tax on foreign remittances	1,954,759	1,872,419
Income tax (8%) on interest from investments in financial instruments	131,222,006	-
Property tax	66,447,502	65,004,886
Patents	158,888,842	341,857,775
Other local taxes	8,082,602	27,914,850
Other foreign taxes	7,885	5,780
Transfer to FINADE	156,912,001	684,625,233
Costs of microfinance insurance policies	879,640,957	826,487,941
Amortization of deferred direct costs related to loans	106,035,783	98,019,622
Authorization abroad	765,943,690	451,406,534
Base I and II fund disbursements	5,660,085,904	3,918,068,553
Life insurance policy – debit balance	2,830,977,434	2,023,256,512
Software maintenance and licenses	2,387,697,077	3,701,661,138
Sundry operating expenses	1,515,862,572	1,353,470,119
Other expenses for sundry assets	-	159,463
	¢ <u>15,055,908,407</u>	<u>13,765,801,751</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(46) Personnel expenses

For the three months ended March 31, personnel expenses are as follows:

	March 2022	March 2021
Salaries and bonuses, permanent staff	¢ 17,729,785,394	17,068,444,664
Salaries and bonuses, contractors	186,464,194	229,801,851
Compensation for directors and statutory examiners	49,888,370	64,938,727
Overtime	108,345,123	113,719,804
Travel expenses	44,165,720	36,955,846
Statutory Christmas bonus	1,930,224,782	1,851,730,842
Vacation	1,561,571,550	1,687,663,491
Incentives	1,171,794,039	1,004,169,178
Other compensation	1,389,480,142	1,330,727,405
Severance benefits	1,149,111,763	1,047,922,108
Employer social security taxes	7,660,021,055	7,411,080,063
Refreshments	9,928,601	7,941,341
Uniforms	-	64,000
Training	68,018,006	53,708,197
Employee insurance	67,466,607	42,991,946
Back-to-school bonus	1,628,401,366	1,588,615,103
Mandatory retirement savings account	376,561,886	369,174,142
Other personnel expenses	104,164,978	160,278,661
	¢ <u>35,235,393,576</u>	<u>34,069,927,369</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(47) Other administrative expenses

For the three months ended March 31, other administrative expenses are as follows:

	March 2022	March 2021
Outsourcing	¢ 5,591,318,993	5,971,008,803
Transportation and communications	940,400,156	800,118,899
Infrastructure	6,073,118,436	6,445,649,951
Overhead	4,210,987,914	3,602,129,734
	¢ <u>16,815,825,499</u>	<u>16,818,907,387</u>

(48) Statutory allocations

For the three months ended March 31, statutory allocations are as follows:

	March 2022	March 2021
CONAPE - 5%	¢ 1,137,794,365	922,363,485
CNE - 3%	755,104,519	613,908,638
INFOCOOP - 10%	1,523,008,990	1,271,488,184
Public capital pension operators	742,981,707	452,400,012
RIVM - 15%	1,653,887,599	1,275,219,202
	¢ <u>5,812,777,180</u>	<u>4,535,379,521</u>

(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:

	March 2022			
	Carrying amount	Level	Fair value	Level
<u>Financial assets:</u>				
Cash and due from banks	¢ 1,462,759,162,039		1,462,759,162,039	
Loan portfolio	<u>4,721,058,315,126</u>	(3)	<u>4,159,556,574,302</u>	(3)
	¢ <u>6,183,817,477,165</u>		<u>5,622,315,736,341</u>	
<u>Financial liabilities:</u>				
Demand deposits from the public and financial entities	¢ 4,441,163,802,645	(3)	4,441,163,802,645	(3)
Other demand obligations with the public	20,483,593,205		20,483,593,205	
Term deposits from the public and financial entities	<u>2,559,754,193,455</u>	(3)	<u>2,543,004,048,392</u>	(3)
	¢ <u>7,021,401,589,305</u>		<u>7,004,651,444,242</u>	

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		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>	
		March 2021			
		Carrying amount	Level	Fair value	Level
<u>Financial assets:</u>					
Cash and due from banks	¢	1,351,896,042,338		1,351,896,042,338	
Loan portfolio		4,404,792,572,011	(3)	4,278,566,223,622	(3)
	¢	<u>5,756,688,614,349</u>		<u>5,630,462,265,960</u>	
<u>Financial liabilities:</u>					
Demand deposits from the public and financial entities	¢	3,705,165,687,132	(3)	3,705,165,687,132	(3)
Term deposits from the public and financial entities		15,232,424,903		15,232,424,903	
Obligations with entities		3,090,418,344,835	(3)	3,085,979,276,087	(3)
	¢	<u>6,810,816,456,870</u>		<u>6,806,377,388,122</u>	

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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 March 31, 2022 and 2021.

(c) *Term deposits*

The fair value of term deposits is calculated by discounting cash flows at the interest rates offered for term deposits with similar maturities.

(d) *Obligations with entities*

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

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

(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:

March 2022				
	Level 1	Level 2	Level 3	Total
Fair value through profit or loss	4,644,713,755	29,567,129,873	4,770,899,070	38,982,742,698
Fair value through other comprehensive income	724,984,734,805	8,730,449,460	-	733,715,184,265
Amortized cost	764,782,580,762	-	-	764,782,580,762
Derivative financial instruments	-	-	3,408,404,918	3,408,404,918
Term obligations with foreign financial entities	-	-	214,145,567,328	214,145,567,328
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
March 2021				
	Level 1	Level 2	Level 3	Total
Fair value through profit or loss	867,850,419,769	5,489,054,860	-	873,339,474,629
Fair value through other comprehensive income	3,417,272,173	20,302,567,086	4,404,088,377	28,123,927,636
Amortized cost	790,902,556,815	1,995,478,798	-	792,898,035,613
Derivative financial instruments	-	-	14,889,862,208	14,889,862,208
Term obligations with foreign financial entities	-	-	397,950,248,291	397,950,248,291

(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:

		March 2022			March 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	¢	4,616,192,330	7,723,704,438	212,580,207,606	4,370,730,920	-	-
Purchases		-	-	-	44,013,490	-	-
Valuation		-	(4,576,846,291)	(5,481,973,609)	67,012	14,887,353,885	10,412,403,396
Amortizations		-	-	117,599,776	-	-	1,820,548,380
Exchange differences		154,706,740	261,546,771	6,929,733,555	(10,723,045)	2,508,323	385,717,296,515
Closing balance	¢	4,770,899,070	3,408,404,918	214,145,567,328	4,404,088,377	14,889,862,208	397,950,248,291

(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 March 31, 2022								
	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations and reclassifications	Consolidated
ASSETS								
Cash and due from banks	1,459,950,891,356	2,674,531,227	811,019,366	673,233,897	73,809,909	1,464,183,485,755	1,424,323,716	1,462,759,162,039
Investments in financial instruments	1,480,534,736,274	40,142,520,273	11,802,406,265	11,900,074,822	6,669,324,375	1,551,049,062,009	271,812,000	1,550,777,250,009
Loan portfolio, net	4,569,471,250,785	-	-	-	-	4,569,471,250,785	-	4,569,471,250,785
Fees and commissions receivable	658,120,458	32,514,897	29,242,659	1,228,738,121	422,615,043	2,371,231,178	74,407,785	2,296,823,393
Accounts due from related parties	43,261,109	4,662,460	-	11,441	321,658	48,256,668	25,214,766	23,041,902
Deferred tax and income tax receivable	1,986,409,833	106,769,608	89,654,036	587,151,568	80,507,205	2,850,492,250	-	2,850,492,250
Other accounts receivable	4,235,558,097	342,651,885	7,576,840	71,765,754	3,940,755	4,661,493,331	-	4,661,493,331
Accrued interest	1,994,645	-	-	-	-	1,994,645	-	1,994,645
Allowance for impairment	(4,034,508,962)	-	(6,609,619)	(60,098,606)	-	(4,101,217,187)	-	(4,101,217,187)
Assets held for sale, net	35,275,542,979	-	-	-	-	35,275,542,979	-	35,275,542,979
Investments in other companies	126,833,449,441	30,000,000	-	-	-	126,863,449,441	47,163,293,687	79,700,155,754
Property, furniture and equipment, net	204,117,081,931	571,563,577	249,590,891	399,173,953	139,564,201	205,476,974,553	-	205,476,974,553
Other assets	57,015,852,478	246,437,255	362,243,692	156,939,258	289,052,112	58,070,524,795	-	58,070,524,795
TOTAL ASSETS	7,936,089,640,424	44,151,651,183	13,345,124,130	14,956,990,206	7,679,135,257	8,016,222,541,200	48,959,051,954	7,967,263,489,246
LIABILITIES AND EQUITY								
LIABILITIES								
Obligations with the public	6,005,415,624,491	-	-	-	-	6,005,415,624,491	-	6,005,415,624,491
Obligations with BCCR	195,558,918,341	-	-	-	-	195,558,918,341	-	195,558,918,341
Obligations with entities	804,542,700,051	25,620,293,196	-	-	-	830,162,993,247	1,684,061,342	828,478,931,905
Accounts payable and provisions	106,229,623,028	2,596,669,638	1,166,078,636	2,750,415,578	836,150,046	113,578,936,926	99,622,558	113,479,314,368
Other liabilities	15,928,678,647	-	-	-	-	15,928,678,647	12,074,375	15,916,604,272
Subordinated obligations	76,158,374,187	-	-	-	-	76,158,374,187	-	76,158,374,187
TOTAL LIABILITIES	7,203,833,918,745	28,216,962,834	1,166,078,636	2,750,415,578	836,150,046	7,236,803,525,839	1,795,758,275	7,235,007,767,564

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of March 31, 2022								
	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations	Consolidated
EQUITY								
Share capital	172,237,030,102	6,600,000,000	5,000,000,000	7,262,426,573	369,700,000	191,469,156,675	19,232,126,573	172,237,030,102
Non-capitalized capital contributions	-	-	-	1,632,498,435	-	1,632,498,435	1,632,498,435	-
Equity adjustments	85,143,845,051	237,805,712	366,222,136	3,909,394	-	85,751,782,293	607,937,241	85,143,845,052
Capital reserves	387,864,850,024	1,320,000,000	764,036,859	300,000,000	73,940,000	390,322,826,883	2,457,976,859	387,864,850,024
Prior year retained earnings	33,845,016,950	7,430,988,961	5,282,881,730	2,264,758,526	5,572,961,765	54,396,607,932	20,551,590,981	33,845,016,951
Income for the period	8,728,383,882	345,893,674	765,904,768	742,981,701	826,383,446	11,409,547,471	2,681,163,588	8,728,383,883
FOFIDE	44,436,595,670	-	-	-	-	44,436,595,670	-	44,436,595,670
TOTAL EQUITY	732,255,721,679	15,934,688,347	12,179,045,493	12,206,574,629	6,842,985,211	779,419,015,359	47,163,293,677	732,255,721,682
TOTAL LIABILITIES AND EQUITY	7,936,089,640,424	44,151,651,181	13,345,124,129	14,956,990,207	7,679,135,257	8,016,222,541,198	48,959,051,952	7,967,263,489,246
Debit memoranda accounts	525,084,793,096	76,434,274	-	36,146,883	2,840,000	525,200,214,253	-	525,200,214,253
Income from cash and due from banks and financial instruments	2,998,515,621,778	82,202,948	-	-	-	2,998,597,824,726	-	2,998,597,824,726
Trust liabilities	95,543,549,312	600,327	-	-	-	95,544,149,639	-	95,544,149,639
Trust equity	2,902,972,072,466	81,602,621	-	-	-	2,903,053,675,087	-	2,903,053,675,087
Other debit memoranda accounts	27,874,877,851,080	1,081,453,307,974	775,702,870,062	2,320,296,115,542	-	32,052,330,144,658	-	32,052,330,144,658

As of March 31, 2022								
	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations and reclassifications	Consolidated
Finance income	107,964,837,228	395,335,832	273,516,271	1,318,508,762	33,154,991	109,985,353,084	4,637,775	109,980,715,309
Finance costs	38,707,121,012	106,622,524	30,208,708	2,247,383	-	38,846,199,627	4,637,775	38,841,561,852
Allowance expense	21,459,052,915	31,042,441	4,928,939	135,871,155	3,784,550	21,634,680,000	-	21,634,680,000
Income from recovery of assets	6,760,484,159	6,804,104	5,026,744	106,261,613	4,510,740	6,883,087,360	-	6,883,087,360
FINANCE INCOME	54,559,147,460	264,474,971	243,405,368	1,286,651,837	33,881,181	56,387,560,817	-	56,387,560,817
Other operating income	48,069,402,553	1,349,740,120	1,876,595,664	2,824,468,765	1,962,110,609	56,082,317,711	3,330,285,893	52,752,031,818
Other operating expenses	31,624,625,036	212,374,108	208,639,323	462,547,016	31,670,234	32,539,855,717	621,632,766	31,918,222,951
GROSS OPERATING INCOME	71,003,924,977	1,401,840,983	1,911,361,709	3,648,573,586	1,964,321,556	79,930,022,811	2,708,653,127	77,221,369,684
Personnel expenses	31,956,942,173	781,207,831	642,341,521	1,205,624,785	649,277,266	35,235,393,576	-	35,235,393,576
Other administrative expenses	16,291,095,515	112,477,628	125,844,817	232,708,061	81,189,015	16,843,315,036	27,489,537	16,815,825,499
Total administrative expenses	48,248,037,688	893,685,459	768,186,338	1,438,332,846	730,466,281	52,078,708,612	27,489,537	52,051,219,075
NET OPERATING INCOME BEFORE STATUTORY ALLOCATIONS AND TAXES	22,755,887,288	508,155,524	1,143,175,371	2,210,240,740	1,233,855,276	27,851,314,199	2,681,163,590	25,170,150,609
Income tax	9,608,865,384	164,732,890	356,023,243	690,957,534	377,814,885	11,198,393,936	-	11,198,393,936
Decrease in income tax	498,294,643	17,715,706	13,047,901	32,987,427	7,358,715	569,404,392	-	569,404,392
Statutory allocations	4,916,932,665	15,244,666	34,295,261	809,288,930	37,015,658	5,812,777,180	-	5,812,777,180
INCOME FOR THE YEAR	8,728,383,882	345,893,674	765,904,768	742,981,703	826,383,448	11,409,547,475	2,681,163,590	8,728,383,885

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of March 31, 2021								
	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations and reclassifications	Consolidated
ASSETS								
Cash and due from banks	1,348,466,493,603	3,429,222,517	363,403,563	962,501,445	54,444,590	1,353,276,065,718	1,380,023,380	1,351,896,042,338
Investments in financial instruments	1,661,228,161,850	34,044,803,164	10,709,590,199	9,729,869,514	8,001,207,380	1,723,713,632,107	372,212,000	1,723,341,420,107
Loan portfolio, net	4,241,994,561,533	-	-	-	-	4,241,994,561,533	-	4,241,994,561,533
Fees and commissions receivable, net	2,366,405,810	138,715,556	113,909,076	1,160,950,750	454,963,478	4,234,944,670	77,607,748	4,157,336,922
Fees and commissions receivable	436,719,739	24,380,138	25,581,699	810,641,682	382,871,104	1,680,194,362	64,371,955	1,615,822,407
Accounts receivable for brokerage operations	-	2,596,779	-	-	-	2,596,779	-	2,596,779
Accounts due from related parties	26,713,933	3,709,703	-	386,030	-	30,809,666	13,235,793	17,573,873
Deferred tax and income tax receivable	1,293,179,145	99,583,234	87,232,460	342,780,750	70,378,988	1,893,154,577	-	1,893,154,577
Other accounts receivable	4,695,028,722	8,445,703	8,248,869	66,637,673	1,713,387	4,780,074,354	-	4,780,074,354
Accrued interest	2,992,171	-	-	-	-	2,992,171	-	2,992,171
Allowance for impairment	(4,088,227,900)	-	(7,153,952)	(59,495,385)	-	(4,154,877,237)	-	(4,154,877,237)
Assets held for sale, net	32,615,486,721	-	-	-	-	32,615,486,721	-	32,615,486,721
Investments in other companies	118,826,345,937	30,000,000	-	-	-	118,856,345,937	46,499,721,324	72,356,624,613
Property, furniture and equipment, net	207,957,426,470	688,206,225	216,396,457	334,885,044	100,196,145	209,297,110,341	-	209,297,110,341
Other assets	68,507,396,559	268,709,112	423,119,162	130,335,779	255,062,192	69,584,622,804	-	69,584,622,804
TOTAL ASSETS	7,681,962,278,483	38,599,656,574	11,826,418,457	12,318,542,532	8,865,873,785	7,753,572,769,831	48,329,564,452	7,705,243,205,379
LIABILITIES AND EQUITY								
LIABILITIES								
Obligations with the public	5,791,047,848,508	-	-	-	-	5,791,047,848,508	-	5,791,047,848,508
Obligations with BCCR	70,273,029,901	-	-	-	-	70,273,029,901	-	70,273,029,901
Obligations with entities	945,215,475,550	18,566,603,838	-	-	-	963,782,079,388	1,751,126,922	962,030,952,466
Demand	59,925,632,155	-	-	-	-	59,925,632,155	1,378,914,922	58,546,717,233
Term	872,766,901,738	18,554,171,490	-	-	-	891,321,073,228	372,212,000	890,948,861,228
(Deferred expenses for own portfolio)	(163,611,738)	-	-	-	-	(163,611,738)	-	(163,611,738)
Finance charges payable	12,686,553,396	12,432,348	-	-	-	12,698,985,744	-	12,698,985,744
Accounts payable and provisions	93,259,920,013	2,721,692,493	1,118,834,005	1,878,892,281	824,747,428	99,804,086,220	77,607,767	99,726,478,453
Other liabilities	14,767,806,599	-	-	-	-	14,767,806,599	1,108,458	14,766,698,141
Subordinated obligations	53,526,176,497	-	-	-	-	53,526,176,497	-	53,526,176,497
TOTAL LIABILITIES	6,968,090,257,068	21,288,296,331	1,118,834,005	1,878,892,281	824,747,428	6,993,201,027,113	1,829,843,147	6,991,371,183,966

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of March 31, 2021

	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations	Consolidated
EQUITY								
Share capital	¢ 172,237,030,102	6,600,000,000	5,000,000,000	6,360,584,931	369,700,000	190,567,315,033	18,330,284,931	172,237,030,102
Non-capitalized capital contributions	-	-	-	1,034,340,078	-	1,034,340,078	1,034,340,078	-
Equity adjustments	88,728,926,183	346,030,284	310,407,648	(47,457,317)	-	89,337,906,798	608,980,614	88,728,926,184
Capital reserves	365,326,869,312	1,320,000,000	600,000,000	300,000,000	73,940,000	367,620,809,312	2,293,940,000	365,326,869,312
Prior year retained earnings	39,292,322,364	8,189,360,724	4,030,181,397	2,339,782,548	6,730,918,671	60,582,565,704	21,290,243,340	39,292,322,364
Income for the period	6,599,369,432	855,969,233	766,995,405	452,400,012	866,567,663	9,541,301,745	2,941,932,316	6,599,369,429
FOFIDE	41,687,504,022	-	-	-	-	41,687,504,022	-	41,687,504,022
TOTAL EQUITY	¢ 713,872,021,415	17,311,360,241	10,707,584,450	10,439,650,252	8,041,126,334	760,371,742,692	46,499,721,279	713,872,021,413
TOTAL LIABILITIES AND EQUITY	¢ 7,681,962,278,483	38,599,656,572	11,826,418,455	12,318,542,533	8,865,873,762	7,753,572,769,805	48,329,564,426	7,705,243,205,379
Debit memoranda accounts	¢ 486,218,095,130	79,928,041	100,000	31,918,461	2,840,000	486,332,881,632	-	486,332,881,632
Income from cash and due from banks and financial instruments	¢ 2,316,649,596,014	858,275,910	-	-	-	2,317,507,871,924	-	2,317,507,871,924
Trust liabilities	¢ 132,170,848,646	382,727	-	-	-	132,171,231,373	-	132,171,231,373
Trust equity	¢ 2,184,478,747,368	857,893,183	-	-	-	2,185,336,640,551	-	2,185,336,640,551
Other debit memoranda accounts	¢ 23,682,558,972,389	1,145,894,038,696	652,526,148,001	1,958,946,706,967	-	27,439,925,866,053	-	27,439,925,866,053

As of March 31, 2021

	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations and reclassifications	Consolidated
Finance income	¢ 111,068,626,371	908,924,227	247,740,959	373,049,931	48,264,459	112,646,605,947	11,534,246	112,635,071,701
Finance costs	45,489,681,129	101,672,093	23,878,804	2,760,537	4,960,870	45,622,953,433	11,534,246	45,611,419,187
Allowance expense	18,611,610,559	2,057,178	7,019,503	1,056,708	9,256,113	18,631,000,061	159,463	18,630,840,598
Income from recovery of assets	4,273,677,389	11,294,656	5,728,745	25,786,141	-	4,316,486,931	-	4,316,486,931
FINANCE INCOME	51,241,012,072	816,489,612	222,571,397	395,018,827	34,047,476	52,709,139,384	(159,463)	52,709,298,847
Other operating income	39,847,744,519	1,673,982,805	1,819,030,364	2,664,139,661	1,890,770,039	47,895,667,388	3,433,941,922	44,461,725,466
Other operating expenses	25,449,951,835	231,575,315	171,522,993	414,943,457	24,690,328	26,292,683,928	474,115,645	25,818,568,283
GROSS OPERATING INCOME	65,638,804,756	2,258,897,102	1,870,078,768	2,644,215,031	1,900,127,187	74,312,122,844	2,959,666,814	71,352,456,030
Personnel expenses	30,933,421,232	945,164,233	578,626,261	1,067,618,843	545,096,800	34,069,927,369	-	34,069,927,369
Other administrative expenses	16,258,113,823	126,880,252	149,622,705	240,607,919	61,417,183	16,836,641,882	17,734,495	16,818,907,387
Total administrative expenses	47,191,535,055	1,072,044,485	728,248,966	1,308,226,762	606,513,983	50,906,569,251	17,734,495	50,888,834,756
NET OPERATING INCOME BEFORE STATUTORY ALLOCATIONS AND TAXES	18,447,269,700	1,186,852,617	1,141,829,802	1,335,988,269	1,293,613,204	23,405,553,593	2,941,932,319	20,463,621,274
Income tax	8,291,711,318	357,236,108	356,110,417	410,562,797	397,321,884	9,812,942,524	-	9,812,942,524
Decrease in income tax	378,042,043	61,958,303	15,530,912	19,454,203	9,084,740	484,070,205	-	484,070,205
Statutory allocations	3,934,230,993	35,605,579	34,254,893	492,479,659	38,808,397	4,535,379,521	-	4,535,379,521
INCOME FOR THE PERIOD	¢ 6,599,369,432	855,969,233	766,995,404	452,400,016	866,567,663	9,541,301,753	2,941,932,323	6,599,369,430

(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:

	<u>Number of cases</u>		<u>Stage</u>	<u>Total estimated amount</u>	
	<u>March 2022</u>	<u>March 2021</u>		<u>March 2021</u>	<u>March 2021</u>
Banco Nacional de Costa Rica	326	387	First instance	¢ 102,217,149,330	128,582,465,620
	17	15	Second instance	9,187,193,938	20,398,825,394
	49	11	Appeal	48,555,689,100	5,550,339,364
	<u>392</u>	<u>413</u>		<u>159,960,032,368</u>	<u>154,531,630,378</u>
BN Vital	7	7	First instance	36,146,883	31,918,462
	2	-	Appeal	-	-
BN Valores	<u>1</u>	<u>1</u>	First instance	<u>76,434,274</u>	<u>79,928,040</u>
BN SAFI	-	1	First instance	-	100,000
BN Corredora	1	1	First instance	2,840,000	2,840,000
	<u>403</u>	<u>423</u>	(Note 27)	¢ <u>160,075,453,525</u>	<u>154,646,416,880</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.

<u>Number of cases</u>		<u>Stage</u>	<u>Total estimated amount</u>	
<u>March 2022</u>	<u>March 2021</u>		<u>March 2022</u>	<u>March 2021</u>
323	36	First instance	¢ 79,479,205,306	79,917,157,596
1	1	Second instance	375,839,600	375,839,600
2	-	Appeal	2,844,233,566	-
<u>326</u>	<u>37</u>		¢ <u>82,699,278,472</u>	<u>80,292,997,196</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Additionally, the Bank is 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, at 10:45 hours of November 20, 2015, received on December 15, 2015. As of March 31, 2022, the Bank booked a provision in the amount of ¢862,909,721 for that lawsuit (2021: ¢820,669,567).

The following lawsuits are also worth noting:

- File No. 14-003379-1027-CA
 - ✓ Statement of facts: The plaintiffs seek the payment of damages by the Bank to all the plaintiffs as well as compensation for pain and suffering caused due to the inability to acquire decent housing, as a result of apparent anomalies regarding the management of credits for Grupo Zion, S.A. to build the Bariloche Real condominium, Additionally, it has had media coverage.
 - ✓ Current status: The resolution of April 10, 2018 at 17:15 ordered the separation of the case into separate files for each of the Bank members. This resolution was unsuccessfully appealed by the plaintiff's representatives currently, a number of separate lawsuits were presented to the Bank, which is in the process of filing the corresponding responses and some preliminary hearings have been summoned, while other summons for public trial are pending or issue of a resolution, having been declared a question of law.
- File No. 08-000382-0419-AG
 - ✓ Court: Agrarian Court of Corredores
 - ✓ Statement of facts: The proceedings seek to declare the liability of CORBANA, as Trustee of a banana plantation Management Trust, in which the Bank was the Trust Beneficiary. In resolution No. 92-2015 of first instance, the Agrarian Court ruled in favor of the Bank. The Agrarian Court accepted the objection of statute of limitations, since the lawsuit was filed four years after negative prescription, as per Article 968 of the Code of Commerce.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- ✓ Current status: Through judgment number 000261-F-2018, decision from May 23, 2018 at 11:59, the Agrarian Court of San José confirmed the judgment of first instance. The plaintiff (the Cooperative) filed an appeal for review on April 5, 2018. It is currently in the First Chamber of Appeals, awaiting a decision by said court.
- 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: Banco Nacional de Costa Rica (the plaintiff) invoked the judgment of first instance; the Agrarian Supreme Court, through the decision of March 3, 2018 at 14:30, rejected the statute of limitations, with a dissenting opinion. It indicated that the judge of first instance must adjudge the claims of the case. Both Banco Nacional de Costa Rica and CORBANA filed an appeal for review, Through Vote 000260-F-S1-2019, decision of May 26, 2019 at 13:50, the First Chamber of Appeals rejected the appeal for review and confirmed the judgment. Consequently, the file is currently at the Agrarian Court of Corredores and the issue of a new judgment is pending.
- 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: The Public Prosecutor's Office filed an accusation against the real estate development company in charge of the project and three employees of Banco Nacional de Costa Rica.
Banco Nacional de Costa Rica filed a claim and civil action only against the real estate development company in charge of the project and not against the employees of Banco Nacional de Costa Rica, to prevent strengthening the civil actions against that bank. There are several civil actions against Banco Nacional de Costa Rica.
 - ✓ The Criminal Court of Grecia: through resolution of February 23, 2021 at 07:30, declared its lack of jurisdiction and forwarded the case to the Criminal Court of Finance. The Criminal Court of Finance of the Second Judicial Circuit of San José has not provided the date for the preliminary hearing.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- 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: A new appeal for review was filed before the First Chamber, insofar as the new resolution of first instance requires Banco Nacional de Costa Rica to pay damages to the plaintiffs, in relation to the issue of Series A bonds, Therefore, Banco Nacional de Costa Rica will file a new remedy.
- File No.15-010837-1027-CA
 - ✓ Statement of facts: Banco Nacional de Costa Rica filed a suit against the Costa Rican Social Security Administration (CCSS) for additional payrolls presented for the collection of commissions from the employees of the Bank, Article 173 of the Internal Regulations of the National Banking System (IRNBS) sets forth that those commissions are exempt from employer and employee contributions.
 - ✓ Current status: An amended complaint which adds new facts was added to the proceedings in order to submit to the Court the decisions of the Costa Rican Social Security Administration in which Banco Nacional de Costa Rica was allowed to exclude the subsidiaries from the collection of the parafiscal tax. The oral proceedings are pending; the date was set for August 8, 2022.

(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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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 March 31, 2022, the loan portfolio that required at least one modification to the originally agreed conditions amounts to ¢1,926,804,038,538 representing 41.50% of the total loan portfolio (2021: ¢1,757,251,280,890 representing 7.11% of the total loan portfolio).

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

		March 2022	December 2021	March 2021
Agriculture and forestry	¢	50,390,846,783	50,679,602,088	52,598,584,506
Trade		169,893,873,420	177,668,570,650	220,372,005,792
Construction		52,479,570,954	57,079,493,093	36,845,718,993
Consumer or personal loans		131,471,309,046	140,315,345,556	167,775,312,895
Electricity, water, sanitation and other related sectors		31,695,581,569	170,683,996,232	13,778,294,247
Mining		87,115,997,442	315,774,759	345,022,348
Livestock, hunting and fishing		521,385,481,445	33,336,273,387	28,718,201,774
Industry		32,162,931,807	87,566,129,712	74,695,656,345
Services		37,329,211,012	528,078,318,447	404,536,890,596
Financial services		146,449,912,479	31,625,084,816	2,607,622,619
Transportation, communication and storage		496,020,602,372	38,823,600,256	42,535,886,342
Tourism		170,104,439,998	163,210,454,349	166,431,409,016
Housing		304,280,211	505,469,909,927	545,993,237,406
Sub-total		1,926,804,038,538	1,984,852,553,272	1,757,233,842,885
Accounts and accrued interest receivable		2,340,992,908	2,176,885,953	9,810,883,147
Loans restructured due to COVID-19		1,929,145,031,446	1,987,029,439,225	1,767,044,726,033
Allowance for doubtful accounts		(50,416,331,634)	(48,608,619,661)	(36,328,329,132)
Total loan portfolio, net	¢	1,878,728,699,812	1,938,420,819,564	1,730,716,396,900

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the three months ended March 31, the loan portfolio, restructured at least once due to COVID-19, by arrears, is as follows:

	March 2022	December 2021	March 2021
Current	¢ 1,760,024,045,388	1,846,458,129,874	1,586,255,679,317
1 to 30 days	45,939,181,784	34,458,315,104	38,862,334,915
31 to 60 days	53,822,623,734	39,761,510,557	66,596,165,186
61 to 90 days	19,275,130,594	15,106,421,740	48,515,809,521
91 to 120 days	4,813,407,096	7,235,778,972	2,628,881,078,19
121 to 150 days	2,927,007,729	4,449,181,727	2,368,904,124,16
In legal collection	40,002,642,213	37,383,215,298	12,006,068,742
	1,926,804,038,538	1,984,852,553,272	1,757,233,842,885
Accounts and accrued interest receivable	2,340,992,908	2,176,885,953	9,810,883,147,176
Total loans restructured due to COVID-19	1,929,145,031,446	1,987,029,439,225	1,767,044,726,033
Allowance for loan losses	(50,416,331,634)	(48,608,619,661)	(36,328,329,1329)
Loan portfolio, net	¢ 1,878,728,699,812	1,938,420,819,564	1,730,716,396,900

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

	March 2022	December 2021	March 2021
Collateral	¢ 52,893,827,064	58,294,189,127	90,754,158,199
Surety	19,160,736,263	20,670,755,440	-
Assignment of loans	82,339,487,789	87,299,935,436	-
Back-to-back	3,457,779,487	3,884,342,685	-
Mortgage	771,742,969,113	794,772,089,972	1,454,304,756,532
Trust	195,133,411,107	190,541,750,232	212,174,928,154
Surety - Mortgage	183,723,655,005	189,921,758,678	-
Surety - Trust	261,928,201,297	278,784,020,584	-
Other	286,841,026,792	290,166,392,276	-
Not assigned	3,058,870,548	3,212,232,131	-
Surety - Collateral	8,655,118,289	9,249,816,018	-
Collateral - Mortgage	1,143,068,010	1,153,368,479	-
Collateral - Securities	15,861,431	16,574,399	-
Surety - Collateral - Mortgage	3,128,986,263	3,634,064,223	-
Securities	29,786,436,881	29,191,295,063	-
Mortgage - Trust	199,998,868	199,507,307	-
Collateral - Back-to-back	8,078,995	8,753,998	-
Surety - Securities	58,219,232	73,099,529	-
Bond guaranteed by mortgage	8,973,295	8,973,296	-
Collateral - Trust	23,519,332,809	23,769,634,399	-
	1,926,804,038,538	1,984,852,553,272	1,757,233,842,885
Accounts and accrued interest receivable	2,340,992,908	2,176,885,953	9,810,883,148
Loans restructured due to COVID-19	1,929,145,031,446	1,987,029,439,225	1,767,044,726,033
Allowance for loan losses	(50,416,331,634)	(48,608,619,661)	(36,328,329,133)
Loan portfolio, net	¢ 1,878,728,699,812	1,938,420,819,564	1,730,716,396,900

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of March 31, 2022, an amount of ₡1,926,804,038,538 maintains temporary credit conditions, which represents 41.50% of the total loan portfolio (2021: ₡1,757,233,842,885 representing 17.43% of the total loan portfolio).

a) Operating measures

- The Bank constantly encourages customers to use digital channels: BN MOVIL, SINPE MOVIL, webpage and Contact Center.
- 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 3,238 employees working from home, representing 58% 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 activated once again.
- 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:

- 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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- 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.

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),

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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 March 31, 2021, recurring to the sale of securities measured at amortized cost is not considered necessary and is not expected in the short term.

(53) Relevant Events

(1) 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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(2) 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 March 31, 2022, 2,807 loan operations were placed under this modality, applying a discount to the interest rate on the loans in colones in the amount of ¢167,934 million, reaching an average rate of the operations already processed of 6%, The remaining average maturity term is 12.3 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.

(54) Reclassification of the loan portfolio in legal collection

As of March 31, 2022 and 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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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.

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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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.

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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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.

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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.