BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Financial Information Required by the
Superintendency General of Financial Entities

Consolidated Financial Statements

As of March 31, 2020

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

	Note	March 2020
ASSETS		
Cash and due from banks	**7**	**1,220,850,577,363**
Cash		67,794,466,645
BCCR		779,680,824,237
Local financial entities		1,709,844,304
Foreign financial entities		364,442,033,153
Notes payable on demand		5,511,107,727
Restricted cash		1,712,301,297
Investments in financial instruments	**8**	**1,517,499,050,137**
Fair value through profit or loss		40,393,352,241
Fair value through other comprehensive income		794,103,923,426
Amortized cost		645,147,162,359
Derivative financial instruments	9	23,613,668,181
Accrued interest receivable		14,575,005,874
(Allowance for impairment of investments in financial instruments)		(334,061,944)
Loan portfolio	**10**	**4,122,570,293,942**
Current		3,886,778,739,858
Past due		207,807,226,153
In legal collection		146,532,225,205
Direct incremental borrowing costs related to loans		4,003,862,440
(Deferred income on loan portfolio)		(33,110,026,780)
Accrued interest receivable		38,537,249,393
(Allowance for impairment)		(127,978,982,327)
Accounts and commissions receivable	**11**	**2,779,547,092**
Commissions receivable		1,501,546,218
Accounts receivable for brokerage operations		34
Accounts receivable for transactions with related parties		61,815,619
Deferred tax and income tax receivable		1,057,338,132
Other receivables		4,494,887,843
Accrued interest receivable		8,008,909
(Allowance for impairment)		(4,344,049,663)
Available-for-sale assets	**12**	**25,591,826,192**
Assets and securities acquired in lieu of payment		95,058,307,713
Other available for sale assets		55,884,629
(Allowance for impairment of foreclosed assets and per legal requirements)		(69,522,366,150)
Investments in other companies	**13**	**68,760,351,711**
Property and equipment, net	**14**	**216,996,168,266**
Other assets	**15**	**74,568,690,794**
Deferred charges		54,483,583,867
Intangible assets		6,146,153,144
Other assets		13,938,953,783
TOTAL ASSETS		**7,249,616,505,497**

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

Continued...

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

LIABILITIES AND EQUITY	Note	March 2020
LIABILITIES		
Obligations with the public	**16**	**5,342,115,632,016**
Demand obligations		3,184,288,845,272
Term obligations		2,097,616,852,957
Other obligations		14,562,378,349
Finance charges payable		45,647,555,438
Obligations with BCCR	**17**	**125,644,412**
Term obligations		125,644,412
Obligations with entities	**18**	**1,021,664,360,894**
Demand obligations		84,243,810,686
Term obligations		923,037,349,891
Other obligations with entities		(116,136,265)
Finance charges payable		14,499,336,582
Accounts payable and provisions		**104,232,926,945**
Provisions	**20**	32,371,664,010
Accounts payable for brokerage services		2,926,036,386
Deferred tax	**19-b**	14,302,004,805
Other accounts payable	**21**	54,633,221,744
Other liabilities	**22**	**19,949,226,291**
Deferred income		49,568,930
Other liabilities		19,899,657,361
Subordinated obligations	**23**	**64,797,395,414**
Subordinated obligations		64,170,172,500
Finance charges payable		627,222,914
TOTAL LIABILITIES		**6,552,885,185,972**
EQUITY		
Share capital		**172,237,030,102**
Paid-in capital	**24-a**	172,237,030,102
Equity adjustments - Other comprehensive income		**85,544,470,902**
Reserves	**24-b**	**377,114,391,519**
Prior-period retained earnings		**18,103,162,108**
Income for the period		**4,688,899,771**
Capital contributions in funds	**24-c**	**39,043,365,123**
TOTAL EQUITY		**696,731,319,525**
TOTAL LIABILITIES AND EQUITY		**7,249,616,505,497**
DEBIT MEMORANDA ACCOUNTS	**25**	**458,365,193,910**
TRUST ASSETS	**26**	**1,858,925,346,526**
TRUST LIABILITIES		**138,004,917,930**
TRUST EQUITY		**1,720,920,428,596**
TRUST MEMORANDA ACCOUNTS		
OTHER DEBIT MEMORANDA ACCOUNTS	**27**	**24,025,606,609,169**
Own debit memoranda accounts		7,100,809,345,121
Third-party debit memoranda accounts		3,529,153,101,519
Own debit memoranda accounts for custodial activities		754,533,553,090
Third-party debit memoranda accounts for custodial activities		12,641,110,609,439

Gustavo Vargas Fernández
General Manager

Alejandra Morales Centeno
General Accountant
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Ricardo Araya Jiménez
General Auditor

COSTA RICA
COLEGIO DE CONTADORES PRIVADOS DE COSTA RICA
CASONA ANTIGUA
TIMBRE ¢300 COLONES

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

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE THREE MONTHS ENDED MARCH 31, 2020
(In colones)

	Note	March 2020
Finance income		
Cash and due from banks	31	1,310,525,032
Investments in financial instruments	31	19,544,215,271
Loan portfolio	32	105,370,313,507
Gain on financial instruments at fair value through profit or loss		1,293,679,732
Gain on financial instruments at fair value through other comprehensive income		1,852,109,693
Gain on derivative financial instruments, net	9	13,738,097,414
Other finance income	33	3,001,018,215
Total finance income		**146,109,958,864**
Finance costs		
Obligations with the public	34	50,606,250,585
Obligations with financial entities	35	13,396,811,707
Subordinated, convertible and preferred obligations		1,276,116,876
Loss on foreign exchange differences and DU, net	4-c	913,551,574
Loss on financial instruments at fair value through profit or loss		1,292,966,684
Loss on financial instruments at fair value through other comprehensive income		166,631,252
Other finance costs	36	14,219,469,075
Total finance costs		**81,871,797,753**
Allowance for impairment of assets	37	16,011,831,929
Recovery of assets and decrease in allowances and provisions	38	3,147,953,121
FINANCE INCOME		**51,374,282,303**
Other operating income		
Service commissions	39	37,740,898,895
Available-for-sale assets		215,688,503
Gain on investments in other companies	6	540,883,142
Foreign currency exchange and arbitrage		6,301,705,425
Other operating income	40	3,253,629,379
Total other operating income		**48,052,805,344**

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

Continued...

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE THREE MONTHS ENDED MARCH 31, 2020
(In colones)

	Note	March 2020
Other operating expenses		
Service commissions		8,834,902,713
Available-for-sale assets	41	7,621,381,855
Provisions	42	2,547,258,945
Bonuses on fees and commissions of voluntary pension funds		61,154,149
Foreign currency exchange and arbitrage		766,265
Other expenses - related parties		4,950,460
Other operating expenses	43	14,544,391,599
Total other operating expenses		**33,614,805,986**
GROSS OPERATING INCOME		**65,812,281,661**
Administrative expenses		
Personnel expenses	44	34,474,689,557
Other administrative expenses	45	14,775,484,612
Total administrative expenses		**49,250,174,169**
NET OPERATING INCOME BEFORE TAXES AND STATUTORY ALLOCATIONS		**16,562,107,492**
Current tax	19-a	8,489,055,418
Deferred tax	19-a	158,383,520
Increase in deferred tax	19-a	488,630,663
Statutory allocations	46	3,714,399,446
INCOME FOR THE PERIOD		**4,688,899,771**
OTHER COMPREHENSIVE INCOME, NET OF TAX		
Adjustment for valuation of investments at fair value through other comprehensive income		987,241,701
Adjustment for valuation of restricted financial instruments		(18,246,967)
Adjustment for valuation of investments in other companies		1,586,349,510
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX		**2,555,344,244**
TOTAL OTHER COMPREHENSIVE INCOME FOR THE PERIOD		**7,244,244,015**

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED MARCH 31, 2020
(In colones)

	Note	Share capital	Equity adjustments - Other comprehensive income	Reserves	Capital contributions in funds	Prior-period retained earnings	Total
Balance at December 31, 2019		172,237,030,102	83,000,303,041	348,798,402,459	34,648,535,964	53,253,753,772	691,938,025,338
Changes in accounting policies		-	-	-	-	(2,439,773,445)	(2,439,773,445)
Balance at January 1, 2020		172,237,030,102	83,000,303,041	348,798,402,459	34,648,535,964	50,813,980,327	689,498,251,893
Transactions with owners booked directly in equity:							
Legal reserves		-	-	28,843,578,678	-	(28,843,578,678)	-
Other statutory reserves		-	-	(527,589,618)	-	527,589,618	-
Capital contributions in funds		-	-	-	4,394,829,159	(4,394,829,159)	-
Total transactions with owners booked directly in equity		-	-	28,315,989,060	4,394,829,159	(32,710,818,219)	-
Comprehensive income for the period:							
Income for the period		-	-	-	-	4,688,899,771	4,688,899,771
Adjustment for valuation of investments at fair value through other comprehensive income	8	-	987,241,701	-	-	-	987,241,701
Adjustment for valuation of restricted financial instruments, net of income tax	8	-	(18,246,967)	-	-	-	(18,246,967)
Adjustment for valuation of investments in other companies		-	1,586,349,510	-	-	-	1,586,349,510
Realization of surplus from revaluation of property		-	(11,176,383)	-	-	-	(11,176,383)
Total comprehensive income for the period		-	2,544,167,861	-	-	4,688,899,771	7,233,067,632
Balance at March 31, 2020	24	172,237,030,102	85,544,470,902	377,114,391,519	39,043,365,123	22,792,061,879	696,731,319,525

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED MARCH 31, 2020
(In colones)

	Note	March 2020
Cash flows from operating activities		
Income for the period		4,688,899,771
Items not requiring cash		
Increase (decrease) in		
Depreciation and amortization		6,063,739,807
Loss on foreign exchange differences and DU, net		20,217,268,180
Gain on sale of non-financial assets		(379,033,324)
Loss on allowance for available-for-sale assets, net		5,803,955,065
Finance income		(124,914,528,778)
Finance costs		48,410,502,899
Allowance of investments, net		379,847,840
Allowance of loan portafolio and contingent loans, net		12,479,104,939
Allowance of other assets, net		4,755,671
Employee benefits provisions		(51,956,554)
Other provisions		(676,930,875)
Share of net profit of foreign associate		(540,883,138)
Statutory allocations, net		3,714,399,446
Income tax expense, net	19 -a	8,489,055,418
Deferred tax	19 -a	(330,247,143)
		(16,642,050,776)
Cash flows from operating activities		
Increase (decrease) in:		
Loan portfolio		101,121,200,182
Accounts and commissions receivable		(286,071,352)
Foreclosed assets		2,864,117,401
Other assets		15,692,679,996
Obligations with the public		36,547,554,303
Obligations with BCCR and other entities		37,888,625,172
Obligations for accounts payable, commissions payable and provisions		(1,818,789,221)
Other liabilities		(86,869,023,350)
Income tax paid		(20,254,140,802)
Interest received on loan portfolio and investments		126,666,532,968
Interest paid on term obligations with the public and financial entities		(45,324,145,277)
Statutory allocations paid		(17,158,214,687)
Net cash from operating activities		**132,428,274,557**
Cash flows from investing activities		
Increase (decrease) in		
Increase in financial instruments		(1,540,887,872,432)
Decrease in financial instruments		1,373,656,763,614
Acquisition of property and equipment		(3,076,910,547)
Sale of property and equipment		31,740,127
Acquisition of intangible assets		(2,792,350,909)
Net cash used in investing activities		**(173,068,630,147)**
Cash flows from financing activities		
Increase (decrease) in		
Settlement of obligations		(1,405,798,328)
Other new financial obligations		3,867,275,390
Net cash from financing activities		**2,461,477,062**
Net decrease in cash and cash equivalents		**(38,178,878,528)**
Cash and cash equivalents at beginning of period		**1,395,702,680,764**
Cash and cash equivalents at end of period	7	**1,357,523,802,236**

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(1) Reporting entity

Banco Nacional de Costa Rica (the Bank) is an autonomous, independently managed, public law institution. As a State-owned bank, it is regulated by the Internal Regulations of the National Banking System (IRNBS), the Internal Regulations of the Central Bank of Costa Rica and the Political Constitution of the Republic of Costa Rica. It is also subject to oversight by the 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. The Bank aims to improve the quality of life of the largest possible number of people by offering premium financial services that promote the sustainable creation of wealth.

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As of March 31, 2020, the Bank has 162 offices, 457 ATM's, and along with its subsidiaries a total of 5,606 employees. Employees are distributed as follows: Banco Nacional de Costa Rica - 5,168 employees; BN Valores Puesto de Bolsa, S.A. - 69 employees; BN Vital Operadora de Planes de Pensiones Complementarias, S.A. - 182 employees; BN Sociedad Administradora de Fondos de Inversión, S.A. - 86 employees; and BN Sociedad Corredora de Seguros, S.A. - 101 employees. The Bank's website is www.bncr.fi.cr.

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).

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

As of March 31, the main components that comprise the financial statements of the entities in which the Bank holds ownership interest are detailed below:

		March 2020				
		BN Valores Puesto de Bolsa, S.A.	BN Sociedad Administradora de Fondos de Inversión, S.A.	BN Vital Operadora de Planes de Pensiones Complementarias S.A.	BN Sociedad Corredora de Seguros, S.A.	Banco Internacional de Costa Rica, S.A.
Assets	¢	69,429,990,447	12,185,538,963	10,849,179,574	5,241,550,826	545,955,954,641
Liabilities		51,016,098,306	2,442,666,012	1,384,025,113	773,246,356	477,246,226,221
Equity		18,413,892,141	9,742,872,951	9,465,154,461	4,468,304,470	68,709,728,420
Income for the year		723,753,721	571,954,345	636,459,159	829,241,965	540,883,142
Memoranda accounts		1,075,177,530,612	1,749,219,000,527	494,712,466,841	-	-

(Continued)

(2) Basis of preparation

(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.

(b) Basis of measurement

The consolidated financial statements have been prepared on a historical cost or amortized cost basis, except for financial assets and liabilities at fair value, securities at fair value through other comprehensive income, derivative financial instruments at fair value, and foreclosed assets available 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 Bank commits to purchase or sell an instrument.

(c) 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.

(d) Use of estimates and judgments

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

Management applies judgment to determine whether control indicators established indicate that the Bank controls an entity or a separate vehicle.

(e) Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the quarter ended March 31, 2020 are related to the impairment of financial instruments.

(3) Significant accounting policies

The accounting policies detailed below have been applied consistently by the Bank for the periods presented in the consolidated financial statements.

(a) Basis of consolidation

i. Subsidiaries

Subsidiaries are entities controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of the subsidiaries described in Note 1 are included in the consolidated financial statements from the date that control commences until the date that control ceases.

ii. Investment companies and separate vehicles

The Bank manages assets held in trusts in its capacity as trustee and other investment vehicles to support investors. The financial statements of these entities are not part of the consolidated financial statements, except when the Bank has control of the entity. Revenue from commissions arising from trust management is booked under the accrual method.

iii. 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, 2020 and 2019, the Bank has 49% interest in Banco Internacional de Costa Rica, S.A. and Subsidiary (BICSA), a Panamanian entity.

iv. 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.

v. Transactions eliminated on consolidation

Intrabank balances and transactions, and any unrealized income and expenses (except for foreign currency transaction gains or losses) arising from intra-bank transactions, are eliminated. 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 foreign exchange rate ruling at the consolidated balance sheet date, except for transactions that have a contractually agreed exchange rate. Transactions in foreign currency during the year are translated at the exchange rates ruling on the dates of the transactions. Foreign currency differences arising on translation are recognized in profit or loss for the year.

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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 No. 9635, as of January 1, 2020, assets and liabilities in foreign currency must be expressed in colones, using the reference exchange rate set by BCCR.

Method for valuation of assets and liabilities in foreign currency

As of March 31, 2020, assets and liabilities in US dollars were valued at the exchange rate of ¢587.37 per US$1.00, which is the selling rate established by BCCR (2019: ¢596.04 per US$1.00, which the regulation established at the buy rate).

As of March 31, 2020, assets and liabilities denominated in euro were valued at the exchange rate of ¢643.17 per €1.00, which is obtained by multiplying the international Reuter exchange rate by the reference rate set by BCCR for the sale of US dollars on the last business day of the month (2019: ¢669.26 per €1.00, which the regulation established at the buy rate).

(Continued)

As of March 31, 2020, assets and liabilities denominated in Development Units (DU) were valued at the exchange rate of ¢917.56 to DU1.00 (2019: ¢903.94 to DU1.00). This exchange rate is based on the DU value tables published by SUGEVAL.

iii. 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
- Non-monetary assets and liabilities have been translated at the exchange rate in effect on the date of the transaction (historical rates).
- 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 rates).
- • Income and expenses have been translated at average exchange rates in effect for the period.

(c) Financial instruments

i. Classification and measurement

The Bank classifies financial assets into the following categories:

- Measured at amortized cost (AC)
- Measured at fair value through other comprehensive income (FVOCI)
- Measured at fair value through profit or loss (FVTPL).

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.

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.

Derivatives embedded in contracts where the host is a financial asset within the scope of IFRS 9 are not separated; the hybrid financial instrument is assessed as a whole for measurement.

The Bank classifies its financial assets as measured at amortized cost.

ii. Business model assessment

The Bank 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. These include whether management's strategy focuses on:
  i. earning contractual interest income
  ii. maintaining a particular interest rate profile
  iii. maintaining a specific duration
  iv. being able to sell at any time due to liquidity needs or to optimize the risk-return profile of a portfolio based on interest rates, risk margins, current duration and defined goal.

• how the performance of the portfolio is evaluated and reported to the Bank's 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

(Continued)

• the frequency, volume and timing of sales of financial assets in prior periods, the reason for such sales and expectations about future sales activity.

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 since they are not held to collect contractual cash flows or obtain contractual cash flows and sell those financial assets.

iii. Assessment 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. '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 Bank 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 Bank considers:

- contingent events that would change the amount or timing of cash flows;
- leveraging conditions;
- prepayment and extension features; and
- terms that limit the Bank's claim to cash flows from specified assets;
- characteristics that modify the considerations of the time value of money.

(Continued)

iv. Classification and measurement

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 (FVTPL):

- 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 debt investment is measured at fair value through other comprehensive income (FVOCI) 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.

The Bank classifies a financial asset at FVTPL if the contractual cash flows do not comply with the SPPI criteria.

On initial recognition of an equity investment that is not held for trading, the Bank irrevocably elected to designate those investments at FVOCI. Therefore, they are measured at fair value and changes therein are recognized directly in the statement of income and other comprehensive income.

Financial assets are not reclassified subsequent to their initial recognition unless the Bank 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 the business model.

A financial asset is measured at fair value plus related transaction costs directly attributable to its acquisition, except for investments measured at FVTPL.

v. Impairment of financial assets, credit obligations and financial guarantee contracts

Determining impairment requires considerable judgment about how changes in economic factors affect ECL, which will be determined on a probability-weighted basis.

(Continued)

The impairment model, developed by the Bank, applies to the following financial assets which are not measured at FVTPL:

- Debt instruments;
- Loans receivable;
- Financial guarantee contracts;
- Issued loan commitments; and
- Accounts receivable.

No impairment losses are recognized on investments in equity instruments.

The Bank requires the recognition of an allowance for loans losses for an amount equivalent to 12-month ECLs or lifetime ECLs. Lifetime ECLs correspond to the sum ECLs that result from all possible default events over the expected life of a financial instrument, while 12-month ECLs correspond to the portion of lifetime ECLs that result from possible default events within the 12 months after the reporting date.

Consequently, at least three stages are defined for the application of the ECL analysis:

- Stage 1: loans with no significant increase in risk; 12-month ECL is used.
- Stage 2: loans with a significant increase in risk; lifetime ECL is used.
- Stage 3: impaired loans in "default" (more than 90 days past due); lifetime ECL is used.

The Bank measures loss allowance at an amount equal to lifetime ECL, except in the following cases, for which they are measured as 12-month ECL:

- Debt investment securities that are determined to have low credit risk at the reporting date; and
- Other financial instruments (other than leases receivable) on which credit risk has not increased significantly since their initial recognition.

The allowance for losses on lease receivables shall be measured at an amount equivalent to lifetime ECL.

(Continued)

This impairment analysis is complex and requires professional judgments, estimates and assumptions that will be described in detail further below, mainly regarding the following aspects:

- Determining whether a significant increase in credit risk has occurred
- Incorporating information from risk-rating agencies in the analysis of ECL.

vi. Measurement of expected credit losses (ECL)

ECLs 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 Bank in accordance with the contract and the cash flows which the Bank expects to receive);
- Financial assets that are credit-impaired as of the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- Undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive;
- Financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

vii. Default

The Bank considers a financial instrument 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 the security (if any is held); or
- The borrower is over 90 days past due on any material credit obligation to the Bank. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised a limit smaller than the current amount outstanding.

In assessing whether a borrower is in default, the Bank considers quantitative indicators (e.g. delinquency and default in other obligations with the Bank) and qualitative indicators.

(Continued)

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

viii. Generating the structure of the probability of default

The Bank collects performance and default information about its credit risk exposures, analyzed by jurisdiction or region and by type of product and borrower.

The Bank designed and tested statistical models to analyze the data collected and generate estimates of the remaining lifetime probability of default of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in the probability of default and changes in key macroeconomic variables, as well as an in-depth analysis of other factors on the risk of losses. For most exposures, the key macroeconomic indicators generally include GDP growth and unemployment rate.

The Bank intends to formulate scenarios for the relevant economic variables as well as a representative range of other scenarios based on the recommendations of the Bank's Market Risk Committee, considering both current and forward-looking external information. The Bank intends to use these forward-looking forecasts to adjust its probability of default estimates.

ix. Determining significant increases in credit risk

The criteria to determine whether credit risk has increased significantly varies depending on the portfolio and mainly includes qualitative factors, including limits based on arrears.

In certain cases, using its expert judgment and, to the extent possible, relevant historical experience, the Bank can determine that the credit risk of an exposure has increased significantly, based on qualitative indicators which it considers indicative of this increase, the effect of which would not be fully reflected otherwise through a timely quantitative analysis.

(Continued)

When determining whether the risk of default of a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. 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.

In order to identify significant increases in credit risk, the Bank will use the rebuttable presumption indicated by the standard, which states that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due (at least once in the three months prior to the reporting date), the loan operation has been refinanced or restructured, or in management's opinion, there is information from internal or external sources which indicates a significant increase in risk.

As a backstop, the Bank considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received.

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- The criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- The criteria do not align with the point in time when the asset becomes 30 days past due;
- There is no unwarranted volatility in the loss allowance from transfers between the 12-month probability of default (stage 1) and the lifetime probability of default (stage 2).

x. Measurement of expected credit losses

The key inputs in the allowance for ECL are the term structure of the following variables:

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

The Bank 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.

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. The maximum contractual period extends to the date on which the Bank has the right to require repayment of an advance or terminate the loan commitment or guarantee.

For retail overdrafts and credit card facilities that include both a loan and an undrawn commitment component, the Bank measures ECL over a period longer than the maximum contractual period if the Bank's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Bank's exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Bank can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management, only when the Bank becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Bank expects to take and that serve to mitigate ECL. These include a reduction in limits, cancellation of the facility, or turning the outstanding balance into a loan with fixed repayment terms.

Forward-looking information

Under IFRS 9, the Bank will incorporate forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since initial recognition and its measurement of expected credit losses. The Bank will formulate a base case view of the future direction of relevant economic variables, based on the advice of the Risk Committee, the Bank's Investment Committee and on considerations of a variety of external information and forecasts. This process will entail developing two or more additional economic scenarios considering the relative probabilities of each outcome.

The base case will represent a most-likely outcome and will be aligned with information used by the Bank for strategic and budgeting purposes. The other scenario will represent more optimistic or pessimistic outcomes. The Bank will periodically carry out stress-testing of more extreme shocks to calibrate its determination of other representative scenarios.

(d) Derivative financial instruments

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

If a derivative is not held for trading, and is not designated in a qualifying hedge 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

(e) Embedded derivatives

Derivatives may be embedded in another contractual arrangement (a host contract). The Bank 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
- 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 statement of financial position together with the host contract.

(f) Cash and cash equivalents

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

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

(g) Securities purchased under reverse repurchase agreements

Securities purchased under reverse repurchase agreements are short-term financing transactions whereby the Bank purchases the securities at a discounted market price and agrees to sell them to the original owner at a specific date in the future at a fixed price. The difference between the purchase price and the selling price is recognized as income on an accrual basis during the term of the transaction under the effective interest method.

(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 vehicle, 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 Bank. Ongoing repairs and maintenance are expensed as incurred.

iii. Depreciation

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 Bank 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:

Type of asset	Estimated useful life
Buildings	25 to 120 years *(1)*
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. Goodwill

The Bank accounts for business combinations using the acquisition method. Goodwill arising on the acquisition of subsidiaries is the difference between the acquisition cost and the fair value of the identifiable net assets acquired.

Goodwill is measured at cost less accumulated impairment losses. For acquisitions made prior to March 2004, goodwill was amortized until December 31, 2004. Goodwill is assigned to cash-generating units (CGU) and is no longer amortized, instead it is tested annually for impairment. Negative goodwill arising from a business combination is recognized directly in profit or loss.

ii. Software

Software acquired by the Bank is measured at cost less accumulated amortization and any accumulated impairment losses.

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

Subsequent expenditure on software assets is capitalized only when it is reliably determined that those costs will generate future economic benefits. Other costs are recognized in profit or loss as incurred.

iii. Impairment of non-financial assets

At each reporting date, the Bank reviews the carrying amount of its non-financial assets (other than investment property 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 the 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 risks 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 profit or loss. They are allocated first to reduce the carrying amounts of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU (or group 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.

(j) Accounting policies used prior to January 1, 2019

i. Lease payments - lessee

Payments made under operating leases are recognized in the consolidated statement of profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

ii. Lease assets- lessor

Assets held by the Bank under leases that transfer to the Bank substantially all of the risks and rewards of ownership are classified as property, furniture and equipment. The leased asset is initially measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

If the Bank is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of the asset to the lessee, then the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognized and presented within loans and advances.

Assets held under other leases are classified as operating leases and are not recognized in the Bank’s statement of financial position.

iii. Leased assets - lessor

Where the Bank is a lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of the asset to the lessee, the arrangement is classified as a finance lease and a receivable amount equal to the net investment in the lease is recognized and presented with loans and advances.

iv. Changes in lease accounting policies

At inception of an arrangement, the Bank determines whether the arrangement is or contains a lease. It contains a lease if it grants the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank assesses whether:

- The arrangement involves the use of an identified asset, either implicitly or explicitly. The asset must be physically distinct or represent substantially all of the capacity of a physically distinguishable asset.
- The Bank has the right to obtain substantially all of the economic benefits from use of the asset during the period of use; and
- The Bank has the right to direct the use of the asset.

(Continued)

- The Bank has the right to direct the use of an asset when it can decide how and for what purpose the asset is used. In special cases where the decisions about how and for what purpose the asset is used are predetermined, the Bank has the right to direct the use of the asset if:
  - It has the right to operate the asset, or
  - It designed the asset in a way that predetermines how and for what purpose the asset will be used.

This policy applies to arrangements entered into or modified after January 1, 2019.

At commencement or on modification of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the lease of a building located on land on which it acts as lessor, the land is not separated as a non-lease component, rather, the Bank accounts for both as a single lease component.

v. Lessee

The Bank 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, less any incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method over the useful life of the underlying asset or from the commencement date to the end of the lease term. The useful life of the underlying asset is determined on the same basis as those of the Bank's property, furniture 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 Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate.

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

- fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank 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 Bank’s estimate of the amount expected to be payable under a residual value guarantee, or if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option.

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.

vi. Short-term leases or low-value leases

The Bank has elected not to recognize right-of-use assets and lease liabilities for short-term leases (including machinery, which has a lease term of 12 months or less) and leases of low-value assets (including computer equipment and ATMs). The Bank recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(k) Loan portfolio

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

(Continued)

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

(l) <u>Allowance for loan losses</u>

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 as of 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, 2020 and 2019, increases in the allowance for loan losses are included in the accounting records in accordance with Article 10 of IRNBS.

(m) <u>Allowance for impairment of derivative instruments other than hedges</u>

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.

(o) Foreclosed assets

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

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

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

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

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

For foreclosed assets prior to the aforementioned date, management of the Bank follows the policy of recognizing an allowance equivalent to 100% of the 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 balance sheet if, as a result of a past event, the Bank has a present legal or constructive obligation and it is probable that an outflow of economic benefits will be required to settle the obligation. The provision made approximates settlement value; however, final amounts may vary. The estimated value of provisions is adjusted at the consolidated balance sheet date, directly affecting the consolidated statement of comprehensive income.

(r) Employee benefits

i. Defined benefit plans

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

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

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

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

ii. Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided and recognized as personnel expenses in profit or loss. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future prepayments is available.

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iii. Other 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.

iv. Back-to-school bonus

The Back-to-school bonus is a percentage of the employee's salary earned during the year and is paid in the second week of January of the following year. The Bank establishes a fixed percentage of 8% for every year. The Bank books a monthly accrual to cover future disbursements related thereto.

v. Incentives and Performance Assessment System (SEDI)

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

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

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

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

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On November 12, 2018, a constitutional motion was filed before the Constitutional Chamber against Articles No. 34, 37, 44, 45, 46 and 48 of the Seventh Collective Bargaining Agreement; therefore, the payment of the economic benefits indicated in those articles has been temporarily suspended, awaiting resolution by that chamber.

vi. Employee Protection and Retirement Fund

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

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

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

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

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

(Continued)

vii. Severance benefits

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.

In the specific case of the Bank, that limit is 17 years for employees with more than 25 years of service. The Bank follows the policy of booking a provision to cover future disbursements related thereto for employees with more than 20 years of service, in compliance with Article 34 of the Collective Bargaining Agreement.

As of March 31, 2020, severance is included in the provisions account (see Note 21), which meets the legal provisioning requirements in effect as of those dates.

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

The Bank follows the practice of making monthly transfers to the Employee Association equivalent to 5.33% of member employees' monthly salaries for management and custody, which are expensed in the year incurred. The aforementioned contributions are considered advance severance payments.

viii. Short-term employee benefits

Statutory Christmas bonus

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. The Bank books a monthly accrual to cover future disbursements related thereto.

Vacation

Costa Rican legislation entitles employees to a certain number of vacation days for every year of service. The Bank follows the policy of provisioning the payment of vacation days on an accrual basis. The Bank establishes a provision for payment of vacation benefits to its employees.

For the Brokerage Firm, in Meeting No. 208 held on December 14, 2011, the board of directors approved the policy, pursuant to the approved vacations regime, of granting 1.17 vacation days each month for employees with less than 11 years of continuous service and 1.5 vacation days each month for employees with more than 11 years of continuous service.

For the Pension Fund Manager, the Policy on Payment and Enjoyment of Vacations for Employees of the Pension Fund Manager, approved in board of directors' Meeting No. 267 held on April 30, 2012, established the following:

a) Employees are entitled to 14 vacation days up to 10 years of continuous service.
b) All employees are entitled to 18 vacations days after the 11th year of continuous service.
c) For all employees that come from the public sector or the Financial Conglomerate of Banco Nacional de Costa Rica, their length of service is recognized and items a) or b) will be applied as appropriate.
d) Employees hired on or after January 1, 2012 are entitled to 14 vacation days. Before that date, employees are entitled to 15 vacation days until reaching 10 years of continuous service.

Back-to-school bonus

The Back-to-school bonus is a percentage of the employee's salary earned during the year and is paid in the second week of January of the following year. The Bank establishes a fixed percentage of 8% for every year. The Bank books a monthly accrual to cover future disbursements related thereto.

(Continued)

(s) Deferred income

Deferred income corresponds to income received in advance by the Bank and its subsidiaries 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 foreclosed assets	Agreement No. 003-2009
Excess of statutory reserve for loans	Resolution No. SBP-GJD-003-2013
Statutory dynamic provision	Agreement No. 004-2014

(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.

(Continued)

(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 balance sheet.

i. Current tax

Current tax is the expected tax payable on taxable income for the year, using tax rates enacted at the consolidated balance sheet date 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.

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 Bank 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.

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

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

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

(x) Recognition of income and costs

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 Bank 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 consolidated statement of comprehensive income.

ii. Fee and commission income

Fee and commission income arises on services provided by the Bank 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.

(y) 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.

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.

(Continued)

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.

(z) 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.

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.

(Continued)

(aa) 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 Law No. 9094 Repeal of Transition Provision VII of Law No. 8634 and Article 35 of the Development Banking System Act (Law No. 8634), in meeting No. 119 of January 16, 2013, through agreement No. AG-1015-119-2013, Banco de Costa Rica and Banco Nacional de Costa Rica are appointed managers for five years from the date of signing of the respective management agreements. Each bank is awarded the management of fifty percent (50%) of such fund.

(4) Risk management

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

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

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

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

(Continued)

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

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

The Bank has established the following credit risk management procedures:

- The Bank has defined procedures for the monitoring, application of controls and loan processing. The functions, tasks and procedures performed by the Credit Risk Division have been documented with the support of the Quality Management Division. Consequently, the Bank has been able to optimize and standardize the process.
- The Bank has performed and reviewed the administrative loan follow-up procedures for branches and regional offices.
- The 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 consolidated balance sheet date, there are no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset.

(Continued)

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

		Direct	Stand-by
		March 2020	March 2020
Loan portfolio			
Principal	¢	4,241,118,191,216	307,649,828,017
Accounts and accrued interest receivable		38,537,249,393	-
Gross carrying amount		4,279,655,440,609	307,649,828,017
Incremental direct costs related to loans		4,003,862,440	-
(Deferred income from loan portfolio)		(33,110,026,780)	-
Allowance for loan losses (accounting records)		(107,911,523,829)	(174,831,882)
Net carrying amount	¢	4,142,637,752,440	307,474,996,135

		Direct	Stand-by
		March 2020	March 2020
Loan portfolio			
Total balances:			
0	¢	38,229,697,915	-
A1		3,209,477,438,230	295,862,717,493
A2		53,495,912,599	823,587,269
B1		456,577,594,664	7,114,170,812
B2		15,471,540,432	60,459,619
C1		118,647,744,884	1,889,277,669
C2		4,472,708,625	38,670,960
D		186,566,571,163	849,282,465
E		196,716,232,097	1,011,661,730
		4,279,655,440,609	307,649,828,017
Structural allowance (subledger – database)		(103,211,072,079)	(94,825,736)
Net carrying amount	¢	4,176,444,368,530	307,555,002,281
Individually assessed loans with allowance:			
0	¢	38,229,698,161	-
A1		3,209,477,437,984	295,862,717,493
A2		53,495,912,599	823,587,269
B1		456,577,594,664	7,114,170,812
B2		15,471,540,432	60,459,619
C1		118,647,744,884	1,889,277,669
C2		4,472,708,625	38,670,960
D		186,566,571,163	849,282,465
E		196,716,232,097	1,011,661,730
		4,279,655,440,609	307,649,828,017
Structural allowance (subledger – database)		(103,211,072,079)	(94,825,736)
Net carrying amount	¢	4,176,444,368,530	307,555,002,281

		Direct March 2020	Stand-by March 2020
Gross carrying amount	¢	4,279,655,440,609	307,649,828,017
Allowance for loan losses (database)		(103,211,072,079)	(94,825,736)
(Excess) shortage of allowance over structural allowance		(4,700,451,750)	(80,006,146)
Incremental direct costs related to loans		4,003,862,440	-
(Deferred income from loan portfolio)		(33,110,026,780)	-
Net carrying amount	¢	4,142,637,752,440	307,474,996,135
Restructured loans	¢	51,710,417,868	-

Set out below is an analysis of the gross and net (of allowance for loan losses) amounts of loans by risk rating according to SUGEF Directive 1-05 and SUGEF Directive 15-16:

		March 2020	
		Loans to customers	
		Gross	Net
0	¢	38,229,697,915	37,114,366,235
A1		3,209,477,438,230	3,187,575,023,643
A2		53,495,912,599	53,227,293,839
B1		456,577,594,664	451,936,073,090
B2		15,471,540,432	15,223,882,791
C1		118,647,744,884	115,831,547,462
C2		4,472,708,625	4,034,702,741
D		186,566,571,163	173,054,992,978
E		196,716,232,097	133,746,804,284
	¢	4,279,655,440,609	4,171,744,687,063

(Continued)

As shown above, as of March 31, 2020, the gross portfolio amounts to ¢4,279 billion. Of that amount, 88.17% is classified in risk ratings "A+B" and 11.83% in risk ratings "C+D+E".

Individually assessed loans with allowance:

Pursuant to SUGEF Directive 1-05, a risk rating is assigned to all borrowers. Applicable allowance percentages are determined based on that risk rating. Individually assessed loans with allowance are loan operations 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 for at least the outstanding balance due to the Bank. Accordingly, no allowance is established.

Restructured loans:

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

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

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

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

(Continued)

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 (2018: ¢65 million) and Group 2, borrowers whose total outstanding balance is less than ¢100 million.

The loan portfolio by borrower classification is as follows:

		Direct	Stand-by
Borrower classification		March 2020	March 2020
Group 1	¢	2,142,711,170,363	34,853,717,543
Group 2		2,136,944,270,246	272,796,110,474
	¢	4,279,655,440,609	307,649,828,017

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:

Risk rating	Arrears	Historical payment behavior	Creditworthiness
A1	30 days or less	Level 1	Level 1
A2	30 days or less	Level 2	Level 1
B1	60 days or less	Level 1	Level 1 o Level 2
B2	60 days or less	Level 2	Level 1 o Level 2
C1	90 days or less	Level 1	Level 1 o Level 2 o Level 3
C2	90 days or less	Level 1 o Level 2	Level 1 o Level 2 o Level 3
D	120 days or less	Level 1 o Level 2	Level 1 o Level 2 o Level 3 o Level 4
E	More than 121 days	Level 1 o Level 2	Level 1 o Level 2 o Level 3 o Level 4

Pursuant to 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:

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

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

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

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

Analysis of creditworthiness

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

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

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

(Continued)

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.

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:

Risk rating	Specific allowance percentage - Uncovered portion	Specific allowance percentage - Covered portion
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:

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

Pursuant to Article No. 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.

(Continued)

General allowance percentages, based on borrower risk ratings, are as follows:

Risk rating	General allowance	Specific allowance percentage - Uncovered portion	Specific allowance percentage - Covered portion
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:

	March 2020		
	Allowance booked	Structural allowance	Excess of allowance
Allowance for direct loans	¢ 107,736,691,947	(103,211,072,079)	4,525,619,868
Allowance for stand-by credits	174,831,882	(94,825,736)	80,006,146
	107,911,523,829	(103,305,897,815)	4,605,626,014
Counter-cyclical allowance per SUGEF Directive 19-16	20,067,458,498	(20,067,458,498)	-
	¢ 127,978,982,327	(123,373,356,313)	4,605,626,014

Counter-cyclical allowance

As of March 31, 2020, 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*, approved by CONASSIF through Article 6 of minutes of meeting No. 1258-2016 held on June 7, 2016, published in Alcance No. 100 of the Official Gazette No. 117 of June 17, 2016. Those provisions are summarized as follows:

Pursuant to SUGEF Directive 19-16, a counter-cyclical allowance is a generic-type allowance applied to the loan portfolio that has no current indication of impairment, determined by the expected level of allowances in economic recession periods. The purpose of the counter-cyclical allowance is mitigating the effects of the economic cycle on the financial results derived from the provision for loan losses. The purpose of this allowance is to reduce the pro-cyclical effect of specific allowances on the financial system and its consequences on the actual economic sector.

This allowance may be deactivated for the entire financial system or for an individual entity, whenever it is required to safeguard the stability of the financial system prior to a duly supported resolution. In that case, required entities must book the elimination of all of the counter-cyclical allowances made and stop making new ones until the Superintendency indicates that the requirement has been reactivated.

Transition Provision II of SUGEF Directive 19-16 indicates that starting July 2016 each entity must perform the monthly booking of the expense for the counter-cyclical component equivalent to a minimum of 7% of the difference between the balance of income accounts less expenses plus taxes and monthly statutory allocations, until the balance of the analytical account reaches the amount corresponding to the counter-cyclical allowance provided in the regulations (¢30,066,087,227 based on the calculation of the counter-cyclical allowance made by management as of December 31, 2019). Once the entity reaches that level, it shall continue booking the counter-cyclical account as indicated by this regulation.

CONASSIF's agreement was published in Official Gazette No. 97 dated June 1, 2018. Through Article 13 of the minutes of meeting No. 1416-2018, held on May 15, 2018, such agreement establishes that the percentage to be applied for the counter-cyclical allowance will increase gradually as follows:

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

(Continued)

Through note SGF-0902-2020 dated March 16, 2020, SUGEF communicated the decrease in the percentage (over monthly income) used to determine the counter-cyclical allowance, (as per SUGEF Directive 19-16). As of the March 2020 close, the minimum percentage is applicable (0.0%).

On August 1, 2019, through note SGF-2336-2019, SUGEF communicated to the banks the amendment of Section II "Analysis of historical payment behavior" of the document "General Guidelines on the Regulation for Borrower Classification", SUGEF Directive 1-05 and Section VI "Historical payment behavior in the DBS" of the document "General Guidelines on the Regulations on Credit Risk Management and Evaluation for the Development Banking System," SUGEF Directive 15-16, in which it requests, according to the document, to modify the classification of borrowers with a Level 3 historical payment behavior with a balance greater than ¢25,000 colones; the accounting effect of this change is defined in subsections c) and d), as follows:

> … c) First, with cutoff date as of August 31, 2019, the amount determined in point b) above shall be reclassified to account "139.02.M.02 (Counter-cyclical component)" until reaching the amount corresponding to Pcc_{it} as per Article 4 of SUGEF Directive 19-16 *Regulations to Determine and Book Counter-cyclical Allowances*. This applies to entities who are still under Transition Provision II of SUGEF Directive 19-16 and the Superintendency's resolution SGF-0077-2019 SGF-PUBLICO dated January 14, 2019.
>
> d) Second, with cutoff date as of August 31, 2019, the remaining amount of the change in the allowances, after applying the reclassification indicated in point c) above, shall be reclassified to a general allowance account within the group of general allowances created.
>
> e) The amount booked in the analytical account mentioned in point d) above may be gradually reversed, at a maximum rate of 1/24 per month, starting as of the September 30, 2019 close. The reversal rate of 1/24 per month must be considered a maximum; each entity can establish a lower rate or decide to not reverse it.

Credit equivalent

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

a. bid bonds and export letters of credit without prior deposit: 0.05
b. other sureties and guarantees without prior deposit: 0.25
c. pre-approved lines of credit: 0.50.

Allowance for other assets

Allowances should be established for the following assets:

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

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

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

As of March 31, 2020, the carrying amount of the allowance for impairment of foreclosed assets and per legal requirements amounts to ¢69,522,366,150.

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

Sector		Direct March 2020	Stand-by March 2020
Trade	¢	351,756,014,669	2,826,498
Services		882,160,393,329	38,896,540,917
Financial services		106,232,657,428	-
Mining		748,625,425	-
Manufacturing and quarrying		169,098,136,393	-
Construction		97,048,899,159	-
Agriculture and forestry		107,064,090,783	1,347,065
Livestock, hunting and fishing		75,784,094,442	-
Electricity, water, sanitation and other related sectors		396,072,214,411	-
Transportation and telecommunications		47,110,521,780	-
Housing		1,311,388,925,819	2,413,314
Personal or consumer		549,162,972,114	268,581,934,566
Tourism		186,027,895,147	164,765,834
	¢	4,279,655,440,899	307,649,828,194

The concentration of the loan portfolio by geographic area is as follows:

		Direct March 2020	Stand-by March 2020
Central America	¢	4,279,655,440,899	307,649,828,194

The loan portfolio by type of guarantee is as follows:

		Direct	Stand-by
Guarantee		March 2020	March 2020
Back to Back	¢	16,956,972,631	287,253
Letters of credit		101,014,477	-
Mortgage bond		335,716,503,859	1,598,681
Assignment of loans		16,630,294,046	-
Mortgage		2,068,647,384,920	20,339,561
Surety		469,280,990,327	-
Trust		456,616,072,210	-
Securities		569,137,168	-
Chattel mortgage		253,512,072,420	-
Other		661,624,998,841	307,627,602,699
	¢	4,279,655,440,899	307,649,828,194

Guarantees:

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

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

The Bank conducts strict credit analyses before granting loans and requires guarantees from its borrowers before disbursing loans. As of March 31, 2020, 58.00% and 57.82% of the loan portfolio is secured by collateral guarantees, respectively.

(Continued)

The concentration of the loan portfolio by individual borrower or economic interest group is as follows:

		Direct	Stand-by
Loan portfolio concentration		March 2020	March 2020
¢1 to ¢3,000,000	¢	155,043,446,236	100,206,268,098
¢3,000,001 to ¢15,000,000		604,504,701,009	167,945,875,101
¢15,000,001 to ¢30,000,000		455,421,164,457	6,337,620,567
¢30,000,001 to ¢50,000,000		474,861,139,057	2,245,456,061
¢50,000,001 to ¢75,000,000		404,891,000,957	1,898,860,094
¢75,000,001 to ¢100,000,000		198,164,755,401	1,178,959,244
¢100,000,001 to ¢200,000,000		232,099,939,029	3,200,922,379
More than ¢200,000,000		1,754,669,294,753	24,635,866,650
	¢	4,279,655,440,899	307,649,828,194

As of March 31, 2020, the portion of the loan portfolio (direct and stand-by loans) corresponding to economic interest groups amounts to ¢621.243.350.

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

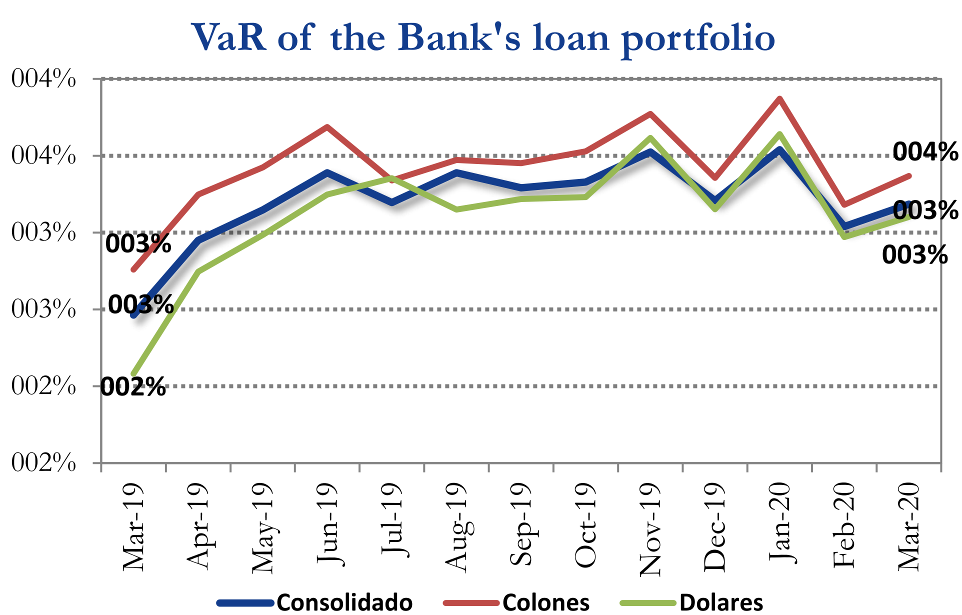
This approach is applied using a computational system developed in "Matlab" software. Also, the credit risk model takes into consideration the impact of changes in macroeconomic variables (endogenous and exogenous) on the loan portfolio when determining systemic factors. Results are compared with prior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

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

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

The quarterly decrease in the VaR of the entire loan portfolio (from 3.51% to 3.49%) is mainly due to the decrease in arrears between 61 and 90 days between December 2019 and March 2020. Specifically, arrears decreased from 0.74% to 0.45%, which represents 0.29 p.p.

By currency, the VaR of the portfolio in colones increased from 3.66% to 3.67% due to the increase in arrears between 1 and 30 days (0.68 p.p.), 31 and 45 days (0.10 p.p.) and 46 and 60 days (0.22 p.p.). A contrary behavior was observed in the VaR of the portfolio in US dollars, which decreased from 3.45% to 3.40%. For the portfolio in DU, the VAR increased from 16.70% to 18.85% due to an increase in legal collection and in arrears over 90 days between December 2019 and March 2020.



As of March 31, 2020, increases in the VaR of the loan portfolio were observed in most economic activities. Some massive portfolios such as Housing and Consumer had a decrease in VaR due to a decrease in legal collection for both portfolios. Other massive activities such as Services had an increase in VaR during the last quarter due to a significant increase in arrears indicators for this portfolio.

As of March 31, 2020, the VaR of the Bank's loan portfolio by economic activity is as follows:

Activity	March 2020
Agriculture	9.86%
Livestock	7.14%
Mining	19.62%
Industry	4.51%
Energy	4.65%
Housing	2.59%
Construction	5.18%
Trade	6.34%
Transportation	3.84%
Financial services	0.74%
Consumer	7.46%
Services	3.11%
Tourism	7.80%
BNCR	**3.49%**

As of March 31, the portion of the loan portfolio of borrowers with related parties is as follows:

Groups of interest of the SUGEF 30-18 Chart of Accounts

March 2020		
Financial segment	Accounting code	Number of operations
Individuals	3110	4802
Business sector	3310	4

i. *<u>BN Sociedad Administradora de Fondos de Inversión, S.A.</u>*

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 comprised 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.

ii. *<u>BN Valores Puesto de Bolsa, S.A.</u>*

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

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

The weighted average duration of the total portfolio based on Macaulay's duration and by weighing the carrying amount of each investment shall not exceed 2.75 years.

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

For the March 2019 close, the accounting records showed investments in colones, investments in instruments issued by local issuers in US dollars ($CR) and investments in instruments issued by foreign issuers in US dollars ($USA). The Brokerage Firm holds no investments in DU. By currency, most of the Brokerage Firm's financial instruments (66.38%) is concentrated in the portfolio denominated in colones.

With respect to the consolidated portfolio, investments in instruments issued by the Government of Costa Rica (63.04%) and BCCR (3.34%) comprise the portfolio in colones, representing 66.38% of the consolidated portfolio. Investments in instruments issued by the Government of Costa Rica comprise the portfolio in US dollars, representing 33.62% of the consolidated portfolio.

iii. *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.

In order to measure the VaR levels of the Pension Fund Manager's investment portfolio, starting January 2019 the Bank's Credit Risk Division has applied a method based on the financial copulas model. This model replaced the Merton Model.

VaR is calculated through a procedure prepared by the Mathematical Modelling Risk Unit using the Matlab software. The results are communicated monthly in the consolidated risk report.

As of March 31, 2020, the net assets managed by the Pension Fund Manager amount to ¢1,734,921million. This data does not include the Pension Fund Manager's own assets.

The pension fund with the highest relative share as of March 31, 2020 is ROP, which represents 84.26%.

(Continued)

The Pension Fund Manager's portfolio of own funds is represented by available-for-sale investments in the amount of ¢9,558 million.

As of March 31, 2020, the credit risk methodology is calculated using the financial copulas model, with a result of 0.45% (¢42.70 in millions).

Consolidated VaR - One year Financial copulas model	March 2020
FCL	1.01%
FPC A	0.96%
FPC B	0.75%
FPD A	3.90%
FPD B	4.80%
ROP	0.71%
BN Vital (OPC)	0.45%
FCLE	0.86%
ROPE	0.84%

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

For the Insurance Brokerage Firm, 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 arises mainly on cash and due from banks and investments in financial instruments and is represented by the carrying amount of the assets in the consolidated balance sheet.

At the consolidated balance sheet date, there are no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset and is based on parameters established by current regulations.

As of March 31, 2020, exposure to credit risk is represented by the carrying amounts of cash and due from banks and available-for-sale investments. Cash and due from banks correspond to checking account deposits at BNCR and participation in open investment funds managed by BN SAFI.

As of March 31, 2020, investments in financial instruments correspond to the non-diversified investment fund in colones *"Fondo de Inversión BN FonDepósito Colones, No Diversificado,"* which is secured by term certificates of deposit from BNCR. In addition, an investment was made in Monetary Stabilization Bonds issued by BCCR, which mature in the short term.

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 (duration by liability and currency), VaR of liquidity, levels of concentration of the Bank's funding sources, liquidity coverage ratio (LCR), systemic liquidity indicators and variables with the greatest impact on SUGEF's term matching indicators.

Below is the LCR indicator as of March 2020, period during which it increased in colones and remained stable in US dollars, remaining 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 increased significantly from 32% to 190% due to a recovery in the rhythm of placements during 2019, even though the growth in credit was below the expectation. This has led to an accrual of liquid assets in the amount of ¢340 billion, considerably above risk appetite. Furthermore, the methodological adjustment considers a higher percentage of minimum legal deposit, which has a positive effect on the LCR. In addition, the LCR requirement was recently changed from 15% to 12% starting June 17, 2019.

The LCR indicator in US dollars is at 367% at the close of the last quarter, considerably above risk appetite, due to the lack of dynamism in foreign currency, mainly loans, which continue to contract. This situation places LCR considerably above, in the amount of $970 million.

The LCR indicator in both currencies includes the adjustment set forth in SUGEF Directive 17-13, starting November 1, 2018, date on which this new adjustment is effective.

Indicator	March 2020	Level
LCR colones	190%	Appetite
LCR US dollars	367%	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.

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of March 31, 2020, 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	¢	-	49,321,305,373	-	-	-	-	-	-	49,321,305,373
Minimum legal deposit in BCCR		-	279,431,649,742	19,740,363,351	20,800,743,965	21,199,089,880	59,846,798,194	45,195,447,603	33,410,199,062	479,624,291,797
Investments		-	2,104,569,536	112,090,121,026	1,595,905,946	8,954,609,971	42,866,187,895	192,880,230,763	576,050,220,151	936,541,845,288
Loan portfolio		208,573,464,898	-	51,173,658,055	41,389,996,741	36,918,381,209	88,516,859,896	133,875,653,872	2,492,408,489,670	3,052,856,504,341
Recovery of assets	¢	208,573,464,898	330,857,524,651	183,004,142,432	63,786,646,652	67,072,081,060	191,229,845,985	371,951,332,238	3,101,868,908,883	4,518,343,946,799
Obligations with the public	¢	-	2,160,591,079,978	174,812,188,787	158,905,731,868	171,301,424,901	364,709,542,948	393,973,676,399	248,604,745,595	3,672,898,390,476
Obligations with BCCR		-	-	-	-	-	-	-	125,644,412	125,644,412
Obligations with financial entities		-	82,037,038,535	80,599,079,740	8,577,435,297	7,891,792,483	29,241,090,547	7,504,763,933	38,202,390,398	254,053,590,933
Charges payable		-	10,867,405,666	10,763,802,538	4,320,489,102	3,071,496,780	5,320,357,010	1,720,878,910	1,471,416,353	37,535,846,359
Maturity of liabilities		-	2,253,495,524,179	266,175,071,065	171,803,656,267	182,264,714,164	399,270,990,505	403,199,319,242	288,404,196,758	3,964,613,472,180
Difference	¢	208,573,464,898	(1,922,637,999,528)	(83,170,928,633)	(108,017,009,615)	(115,192,633,104)	(208,041,144,520)	(31,247,987,004)	2,813,464,712,125	553,730,474,619

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of March 31, 2020, the terms of the Bank and its Subsidiaries' assets and liabilities denominated in foreign currency, expressed in local currency, are matched as follows:

		Days								
		Past due	Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	More than 365	Total
Cash and due from banks	¢	-	391,565,249,347	-	-	-	-	-	283,198,405	391,848,447,752
Minimum legal deposit in BCCR		-	178,729,537,385	10,069,157,795	8,246,577,839	13,305,254,417	21,664,274,099	22,226,280,069	45,815,450,837	300,056,532,441
Investments		-	93,998,200	4,685,730,889	16,102,915,955	45,030,561,456	108,600,984,666	196,447,132,182	210,329,943,445	581,291,266,793
Loan portfolio		126,881,563,829	-	19,031,548,197	18,872,068,137	20,836,874,369	51,606,956,725	57,013,788,702	903,449,971,968	1,197,692,771,927
Recovery of assets	¢	126,881,563,829	570,388,784,932	33,786,436,881	43,221,561,931	79,172,690,242	181,872,215,490	275,687,200,953	1,159,878,564,655	2,470,889,018,913
Obligations with the public	¢	-	1,024,313,205,101	92,807,963,556	66,137,204,152	72,979,794,693	110,913,164,354	141,121,175,187	115,338,813,489	1,623,611,320,532
Obligations with BCCR		-	-	-	-	-	-	-	-	-
Obligations with financial entities		-	25,278,235,455	93,372,852,962	-	5,530,468,578	5,897,194,800	20,478,067,680	602,670,750,169	753,227,569,644
Charges payable		-	2,727,470,649	6,123,191,838	8,235,502,328	2,557,784,871	899,274,101	1,151,516,818	916,305,056	22,611,045,661
Maturity of liabilities	¢	-	1,052,318,911,205	192,304,008,356	74,372,706,480	81,068,048,142	117,709,633,255	162,750,759,685	718,925,868,714	2,399,449,935,837
Difference	¢	126,881,563,829	(481,930,126,273)	(158,517,571,475)	(31,151,144,549)	(1,895,357,900)	64,162,582,235	112,936,441,268	440,952,695,941	71,439,083,076

(Continued)

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

For the Investment Fund Manager, liquidity risk is the risk that it will be unable to liquidate its investments on a timely basis and for an amount that approximates fair value in order to meet its liquidity needs.

Liquidity risk management is closely related to credit risk management since they both involve facilitating the trading of securities in the financial market.

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.

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.

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.*

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.

Liquidity ratio Fund	March 2020
FCL	68.80
FPC A	9.16
FPC B	6.84
FPD A	7.21
FPD B	3.88
ROP	26.55
FCL Erroneous	24.42
ROP Erroneous	23.04

Liquidity risk management

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.

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 highly 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 4 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.

Exposure to liquidity risk:

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

v. *BN 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.

c) *Market risks*

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 market risk exposures so as to maintain them within risk appetite (risk limits approved by the board of directors) or as determined by SUGEF regulations, while optimizing the risk-return-ratio.

Indicator	Limit	Level
VaR (consolidated)	1.90%	Appetite
Foreign currency risk	2.50%	Appetite
Interest rate risk in colones	5.00%	Normal
Interest rate risk in foreign currency	5.00%	Normal

The main indicator used is the market VaR of the Bank's investments, which is quantified by means of an internal methodology and determined 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.

Face value of investments by currency

Currency	March 2020
Colones	834,725,200,000
US dollars – local issuers	145,103,948
US dollars – international issuers	762,342,000
Euro	-

The duration for each currency has presented variations according to portfolio management, with an increase during the last year in colones and local US dollars and a decrease in international US dollars and euro. Starting April 2019, there are no investment securities in DU and euro, respectively.

Duration	March 2020
Colones	0.85
US dollars - local issuers	0.84
US dollars - international issuers	0.99
Euro	-

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

For the Investment Fund Manager, market risk is the risk of potential losses in the fair value of its financial instrument portfolio before they are derecognized. The loss is equivalent to the difference between the fair value when the instrument was acquired and the fair value at the date the instrument was derecognized. The degree of risk depends on the settlement period and market volatility and liquidity.

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

Market risk management

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.

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 2020
VaR (99% confidence level)	0.76%

Fair values

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

These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision.

As of March 31, 2020, the carrying amount of the following financial instruments approximates fair value: cash, investments in financial instruments, interest receivable, obligations under repurchase agreements, interest payable, fees and commissions and other accounts payable. Investments are carried at the fair value determined using the method described above.

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 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.

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.

Price risk exposure:

The Brokerage Firm mainly measures and controls price 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 Monte Carlo approach.

(Continued)

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

The Pension Fund Manager manages market risk for each of its funds by applying a VaR model pursuant to Section 41 of IFRS 7. The calculation of market risk indicators is mainly performed using the RiMeR software, which estimates the VaR of the portfolios managed by the Bank. VaR is determined by adjusting the portfolio and calculating its duration and price. The total portfolio duration is the average amount-weighted durations. The RiMeR methodology applies daily parameters (modeling rising volatility curves) and efficiently captures market movements. Such parameters are denominated G2++ and are an extension of the Hull-White model.

Currently, the Pension Fund Manager's funds are comprised of funds in various currencies, i.e. the Costa Rican colon, the US dollar (local issuers and international portfolio) and DU, for which the Corporate Risk Division performs separate VaR analyses in respect of each currency. Subsequently, those analyses are consolidated using a model that includes interest rate and currency risks. Also, a VaR of investment funds is included to calculate the possible loss of the total investment portfolio over a holding period with a specific confidence level.

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

For the Insurance Brokerage Firm, market risk is the risk of changes in market prices, such as foreign exchange rates and interest rates. The objective of market risk management is to manage and control market risk exposures within acceptable parameters.

- *Market risk of investments*

i. *Banco Nacional de Costa Rica*

The Bank's consolidated VaR regarding the market value of investments increased 0.11% during the last year, mainly due to the increase in portfolio durations.

Type of risk	March 2020	Level
VaR (consolidated)	0.25%	Appetite

The individual VaR by currency is also included.

VaR by currency

Currency	March 2020
Colones	0.37%
US dollars - local issuers	0.81%
US dollars - international issuers	0.33%

Rating of investments by business model

Below is the effect on investments due to the implementation of IFRS 9 at the March 2020 close.

Market value of the portfolio by business model

Model	March 2020
Amortized cost	685,645,580,187
Comprehensive income (OCI)	685,933,843,846
Other assets	38,278,138,139

Expected loss of the portfolio by business model

Model|	March 2020
Amortized cost	277,396,380
Comprehensive income (OCI)	471,617,455
Other assets	-

- *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, using the indicators established by SUGEF Directive 24-00 and reports on its performance monthly to the Bank's Corporate Risk Committee.

Type of risk	March 2020
Interest rate risk in colones	0.63%
Interest rate risk in foreign currency	0.54%

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

The interest rate risk indicator in colones increased due to the combined effect of the increase in the maximum expected variations in the base deposit rate and a slight increase in the duration of equity. In US dollars, the decrease corresponds to the combined effect of a decrease in the duration of equity and lower volatility in the 3-month LIBOR rate.

As of March 31, 2020, the interest rate terms for the Bank's assets and liabilities (differences between the recovery of assets and the maturity of liabilities) are matched as follows:

		Current	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
Local currency (LC)									
Investments	¢	2,104,569,536	112,025,091,995	10,440,837,747	42,822,431,516	192,849,869,033	185,768,735,766	390,078,844,994	936,090,380,587
Loan portfolio		-	2,551,438,412,632	102,757,341,996	98,071,429,150	14,324,519,279	15,121,688,392	89,075,335,178	2,870,788,726,627
Recovery of rate-sensitive assets in LC (A)	¢	2,104,569,536	2,663,463,504,627	113,198,179,743	140,893,860,666	207,174,388,312	200,890,424,158	479,154,180,172	3,806,879,107,214
Obligations with the public	¢	-	258,559,345,264	354,317,109,670	399,270,990,505	401,913,496,241	194,254,206,571	64,027,633,353	1,672,342,781,604
Obligations with BCCR		-	15,300,000,000	8,700,000,000	-	-	-	125,644,412	24,125,644,412
Obligations with financial entities in LC		-	143,069,386	6,756,389	-	-	-	31,966,773,348	32,116,599,123
Maturity of rate-sensitive liabilities in LC (B)	¢	-	274,002,414,650	363,023,866,059	399,270,990,505	401,913,496,241	194,254,206,571	96,120,051,113	1,728,585,025,139
Difference in LC, recovery of assets less maturity of liabilities (A - B)	¢	2,104,569,536	2,389,461,089,977	(249,825,686,316)	(258,377,129,839)	(194,739,107,929)	6,636,217,587	383,034,129,059	2,078,294,082,075
Foreign currency (FC)									
Investments	¢	-	4,698,552,731	32,900,666,226	136,742,543,244	186,512,011,802	110,754,962,968	85,723,988,721	557,332,725,692
Loan portfolio		-	993,112,277,251	36,986,481,166	21,632,087,144	2,378,224,691	19,870,186,531	55,905,834,308	1,129,885,091,091
Recovery of rate-sensitive assets in FC (C)	¢	-	997,810,829,982	69,887,147,392	158,374,630,388	188,890,236,493	130,625,149,499	141,629,823,029	1,687,217,816,783
Obligations with the public	¢	-	192,789,506,540	153,728,520,215	117,604,407,629	142,518,705,409	248,633,566,583	384,985,343,679	1,240,260,050,055
Obligations with BCCR		-	6,948,587,100	146,842,500	-	-	-	-	7,095,429,600
Obligations with entities		-	25,588,345	1,671,238,516	105,225,626	19,823,737,500	-	85,959,719,916	107,585,509,903
Maturity of rate-sensitive liabilities in FC (D)	¢	-	199,763,681,985	155,546,601,231	117,709,633,255	162,342,442,909	248,633,566,583	470,945,063,595	1,354,940,989,558
Difference in FC, recovery of assets less maturity of liabilities (C - D)	¢	-	798,047,147,997	(85,659,453,839)	40,664,997,133	26,547,793,584	(118,008,417,084)	(329,315,240,566)	332,276,827,225
Recovery of rate-sensitive assets 1/ (A + C)	¢	2,104,569,536	3,661,274,334,609	183,085,327,135	299,268,491,054	396,064,624,805	331,515,573,657	620,784,003,201	5,494,096,923,997
Maturity of rate-sensitive liabilities 2/ (B + D)	¢	-	473,766,096,635	518,570,467,290	516,980,623,760	564,255,939,150	442,887,773,154	567,065,114,708	3,083,526,014,697
LC + FC difference, recovery of assets less maturity of liabilities (item 1 - item 2)	¢	2,104,569,536	3,187,508,237,974	(335,485,140,155)	(217,712,132,706)	(168,191,314,345)	(111,372,199,497)	53,718,888,493	2,410,570,909,300

(Continued)

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

For the Investment Fund Manager, interest rate risk in respect of cash flows and fair value is the risk that the future cash flows and the fair value of a financial instrument will fluctuate as a result of changes in market interest rates.

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

In general, the Pension Fund Manager sought to maintain the average term to maturity for investments in colones in order to receive the highest real returns, which were unusually high during the year (due to relatively low inflation).

The consolidated VaR of the Pension Fund Manager's own funds had a maximum of 2.07% and a minimum of 0.43% for an average of 0.94%, equivalent to ¢89.48 million. As of March 31, 2020, the indicator closed at 0.67%.

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

For the Insurance Brokerage Firm, interest rate risk is the risk of losses in the value of a financial asset or liability arising from fluctuations in interest rates, when interest rates for financial assets and liabilities are mismatched and when the Insurance Brokerage Firm does not have the necessary flexibility to make a timely adjustment.

- *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 Bank's Asset and Liability Committee (ALCO) decided to take a neutral foreign currency position with the purpose of protecting the Bank from any changes in the exchange rate, which has been ratified annually by the Bank's Corporate Risk Committee. The Bank's foreign currency position is monitored daily by the Market Risk Division.

i. *Banco Nacional de Costa Rica*

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

The Bank calculates the SUGEF currency risk indicator on a monthly basis, which remained at an appetite level for both years. The indicator decreased in relation to the previous year due to a decrease in the foreign currency position.

Type of risk	March 2020	Level
Currency risk	1.05%	Appetite

Assets and liabilities denominated in foreign currency are as follows:

		US dollars
		March 2020
Assets:		
Cash and due from banks	US$	1,131,336,509
Investments in financial instruments		989,650,930
Loan portfolio		1,974,084,927
Accounts and accrued interest receivable		457,270
Investments in other companies		116,978,614
Other assets		1,438,357
	US$	4,213,946,607
Liabilities:		
Obligations with the public	US$	2,734,938,138
Obligations with entities		1,303,914,782
Accounts payable and provisions		20,422,076
Other liabilities		2,516,605
Subordinated obligations		110,317,850
	US$	4,172,109,451
Excess of assets over liabilities in US dollars	US$	41,837,156

		Euro
		March 2020
Assets:		
Cash and due from banks	€	42,583,428
	€	42,583,428
Liabilities:		
Obligations with the public	€	40,349,195
Obligations with entities		1,617,219
Accounts payable and provisions		31,682
	€	41,998.096
Excess of assets over liabilities in euro	€	591,372

		DU
		March 2020
Assets:		
Loan portfolio	UD	3,660,623
		3,660,623
Liabilities:		
Accounts payable and provisions	UD	261,873
Other liabilities		25
	UD	261,898
Excess of assets over liabilities in DU	UD	3,398,725

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

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

		March 2020
Foreign exchange gain	¢	107,014,092,887
Foreign exchange loss		(108,854,537,110)
Net loss	¢	(913,551,574)

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

		March 2020
Gain on net valuation of other assets (Note 40)	¢	117,392,688
Loss on net valuation of other liabilities (Note 43)		(337,908,509)
Net loss	¢	(220,515,821)

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

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

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

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

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

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

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

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

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

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

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

As of March 31, 2020, 5.00% 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 6.14% (¢615.30 million).

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

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

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

d) *Operational risk*

i. *Banco Nacional de Costa Rica*

Operational risk is the risk of losses resulting from inadequate or failed internal processes, personnel, information systems and controls or from external events. This definition includes legal risk but excludes strategic, business or reputational risks. 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 inherently responsible for managing operational risk. The Bank's employees are also required at all times to comply with the policies, regulations, procedures and controls applicable to their positions and to ensure that the Bank's institutional values, code of conduct and ethics are adopted across all levels of the organization.

That policy is implemented through a management framework that includes:

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

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

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

One of the Bank's fundamental operational risk management principles is transparency, meaning that all events must 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 applicable.

Additionally, operational risk management entails the assessment of risk in institutional processes through the application of a specific methodology that controls the frequency, impact and quality of control of identified risk events. The diagram below shows how such a methodology is applied to institutional processes:

Once the risks of the processes, areas and operations are assessed, control activities are established in order to implement operating and prudential mitigation mechanisms, so that preventive controls are included in the day-to-day tasks and functions performed.

Senior 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. Risk management also entails a qualitative assessment through the calculation of indicators and specific risk models, which reflect behaviors and trends on a periodic basis that are used as inputs for decision-making.

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

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

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.
- 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 considers the following:

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

Fair value of financial instruments

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

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

(a) The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable approximate fair value because of the short-term nature of these instruments.

(b) Available-for-sale investments are booked at fair value. The fair values are based on quoted market prices or prices quoted by brokers. The fair values of held-to-maturity investments are estimated using discounted cash flow techniques.

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.

(Continued)

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

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

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

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

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

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

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

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

As of March 31, 2020, the Bank's General Risk Division presented the results of the VaR by legal risk for the Pension Fund Manager, indicating that the amount to be provisioned is the EL of ¢38,885,502 million (see Note 12, Lawsuits) that covers the lawsuits against the Pension Fund Manager with a probability of an unfavorable outcome, out of seven pending lawsuits, most of which are in first instance.

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

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

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

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

Capital management

Costa Rican banking legislation requires the financial conglomerate to maintain a capital surplus at all times (i.e. a ratio of one or higher obtained by dividing the sum of total transferable surpluses of each company in the conglomerate and the individual surplus of the controlling company by the absolute value of the sum of individual deficits).

The capital surplus or capital deficit of the financial group or conglomerate is calculated as the individual surplus or deficit of the controlling company plus the transferable surpluses and minus the individual deficits of each company in the financial group or conglomerate.

The individual surplus of each company in the financial conglomerate is calculated as the excess of the capital base over the respective minimum capital requirement for each type of company stipulated in the CONASSIF prudential standard.

Regulatory capital is analyzed with consideration for the following three areas:

Tier I capital: ordinary and preferred paid-in capital plus reserves.

Tier II capital: calculated as the sum of equity adjustments revaluation of property up to a maximum of 75% of the balance of the corresponding equity account, unrealized gains on investments in available-for-sale financial instruments, non-capitalized contributions, prior-period retained earnings and profit or loss for the period, less statutory deductions.

Deductions: Investments in other companies and loans granted to the controlling entity of the same financial group or conglomerate are to be deducted from the sum of Tier I and Tier II capital.

Risk-weighted assets: Assets and contingent liabilities are weighted according to the risk level established by regulations plus a price risk adjustment per capital requirements.

The Bank's policy is to maintain a strong capital base so as to maintain a balance between share capital and return on investment. Throughout the year, the Bank has complied with capital requirements and no significant changes were made to its capital management.

As of March 31, 2020, the Bank's risk rating is at a normal level since its capital adequacy ratio is above the required 10% ratio.

COVID 19 implications in the Conglomerate

The Corona virus (COVID-19), declared a pandemic by the World Health Organization, has implications internationally. On one hand, it has caused a number of diseases. On the other hand, markets and productive sectors have been heavily affected for fear of the accelerated spread and of the preventive measures taken by some governments including, social distancing, cancelation of massive assistance events, interest rate reductions, and border closures. This has strongly impacted the countries' economies and dynamic production. The International Monetary Fund (IMF) expects the global economy to shrink by 3% in 2020, the biggest contraction since 1930.

(Continued)

Below is a detail of the main changes and concerns for the Bank, mitigated by the state of emergency declared by on March 16.

a) Financial level

- Significant reduction in credit growth
- Increased levels of arrears and impact on customers
- Impact on financial margin (lower rate)
- Reduction in service fees and commissions and merchant acquisition
- Impact on equity ratio

b) Changes in standards and regulations

- CONASSIF suspends the accumulation of the counter-cyclical allowance. Term: From March 24 to December 2020 (CNS-1566-03, SUGEF Directive 16-19).

- CONASSIF excludes, from the Readjusted operation definition, the granting of grace periods and the extension of grace periods, for qualification as a special credit operation. Term: From March 24 to June 30, 2021 (CNS-1566-03, SUGEF Directive 1-05).

- CONASSIF exempts from performing a creditworthiness assessment to borrowers under stress scenarios, only during the follow-up stage. Term: From March 24 to March 31, 2021 (CNS-1566-03, SUGEF Directive 1-05 and SUGEF 1Directive 5-16).

- CONASSIF admits that each entity at its discretion take immediate action to exclude in their credit policies and procedures the presentation of information usually required for creditworthiness analysis to grant extensions, readjustments or refinancing, or a combination of them. Term: From March 24 to March 31, 2021 (CNS-1566-03, SUGEF Directive 1-05 and SUGEF Directive 15-16).

- CONASSIF authorizes SUGEF to make the changes to the parameters that determine normality or irregularity levels for liquidity indicators, Article 6 (matching). Term: From March 24 to September 30, 2020 (CNS-1566-03, SUGEF Directive 24-00).

(Continued)

- CONASSIF suspends application of item g) of Article 22 “When a financial entity has losses in six or more monthly periods, whether consecutive or not, during the last 12 months, it is considered grade two financial irregular condition, or subparagraph f of SUGEF Directive 27-00. Term: From the close at March 2020 to March 31, 2021. (CNS-1566-03, SUGEF Directive 24-00, SUGEF Directive 27-00).

- CONASSIF authorizes SUGEF, based on systemic risk elements or when necessary to safeguard the financial system stability, with a prior and duly justified resolution, to make the amendment of the minimum level of the liquidity coverage ratio. Term: From March 24 to September 30, 2020 (SUGEF Directive 17-13).

- The Central Bank modifies the minimum legal deposit. The change is related to daily control, from 97.5% to 90%, but 100% of the requirement is kept in the minimum legal deposit for a two-week term. Term: From April 1, 2020 (JD 5923-05).

- CONASSIF annuls Consultation 1559-2020, dated February 17, 2020, which advanced the general allowance to “non generators”, from the current 1.25% to 1.50%. Term: Annuls the consultation performed (CNS-1564-05, SUGEF Agreement 1-05).

- The Central Bank publishes the Regulation for loan operations to solve liquidity in local currency and sends the Guidelines to access loans operations to solve liquidity in local currency and the format of the Guarantee Assignment Agreement. Term: Effective from publication in the Official Gazette (JD 5922-09).

- CONASSIF appoints María del Rocío Aguilar Montoya, identity card No. 1-0556-0040, Superintendent of Pensions, from June 1, 2020, for a 5-year period. Term: Effective from June 1, 2020 (CNS-1565-09).

- CONASSIF modified the first paragraph of Transition Provision VII of the Financial Information Regulation, so that the application of the measurement of expected credit losses in investment funds of the money market category, provided in IFRS 9, is effective from June 1, 2020 (previously scheduled for April 1, 2020). Term: Effective from its publication in the Official Gazette (CNS-1564-09).

(Continued)

- The Central Bank established to modify the Monetary Policy Regulations to include SUPEN-regulated entities in the formalization of credits through Deferred Liquidity Operations. It also considers the possibility that investment and pension funds be able to constitute operations in the integrated liquidity market. Term: Effective from March 27, 2020 (JD-5925-05).

- The Central Bank modifies Article 3 of the Payment System Regulation to include investment funds and pension operator funds as the members of the Payment System. Term: Effective from March 27, 2020 (JD-5925-05).

- The Central Bank firmly provided that a note be added to Article 514 of the Payment System Regulation, indicating the following: "For investment fund managing corporations and pension operators that use SINPE services on behalf of its funds, a single fee should be paid for the monthly subscription of each service acquired, subject to collection, irrespectively of the number of managed funds, which in turn have been registered as participants of SINPE". Term: Effective March 27, 2020 (JD-5925-05).

c) Credit risk

- The range of restructuring options was extended for these customers, aimed at easing the pressure on cash flows due to this temporary situation.
- A simplified process scheme was established for payment arrangements, extensions, and restorations, offered to specific customer profiles.
- Ongoing monitoring of the application of extensions granted to affected segments.

d) Interest rate risk

- Ongoing revision of interest rate indicators.
- Promote use of the TRI rate as reference of loans which best reflects market conditions.
- Adjusted downwards for the Bank's borrowing rates in agreement with the measures taken by central banks.

e) Liquidity risk

- Review of and adjustments to the Contingency Plan.
- Approval was received of the Regulation for loan operations to solve liquidity, and the procedure is being prepared, as well as the loan portfolio that will serve as guarantee, if necessary.
- Daily monitoring is performed of the main liquidity indicators.
- Potential lines of credit are processed with foreign entities.

f) Price risk

- Regular monitoring is performed of concentration and of the evolution of prices of government instruments in the complex scenario

(Continued)

(5) Collateralized or restricted assets

Collateralized or restricted assets are as follows:

Restricted asset	Cause of restriction		March 2020
Cash and due from banks:			
Checking account – colones	Minimum legal deposit	¢	460,840,739,072
Checking account – US dollars (Note 7)	Minimum legal deposit		271,056,066,422
Checking account – euro (Note 7)	Minimum legal deposit		4,001,239,223
Other cash and due from banks (Note 7)	Custody of liabilities of Banco Crédito Agrícola de Cartago		1,120,492,474
Other cash and due from banks (Note 7)	Margin calls for derivative financial instruments		63,477,722
Other cash and due from banks (Note 7)	Margin calls for tri-party repurchase agreements		245,132,709
Other cash and due from banks (Note 7)	Contribution to FOGABONA		283,198,392
		¢	737,610,346,014
Investments in financial instruments:			
Investments in financial instruments	Guarantee for tri-party repurchase agreements	¢	15,368,797,482
Investments in financial instruments	Liquidity market operations		38,726,206,294
Securities issued by BCCR and the Government	Investments securing repurchase agreements		716,670,971
External debt bonds	Nomura Bank guarantee		39,224,407,114
External debt bonds	JP-SWAPS guarantee		1,210,576,536
		¢	95,246,658,398
Other assets:			
Other assets (Note 19)	Security deposits	¢	822,139,084

As of March 31, 2020, the Brokerage Firm has restricted assets in the amount of ¢54,124,383,385, corresponding to guarantees for tri-party repurchase agreements, operations in the liquidity market and contributions to the liquidation and compensation risk management fund.

(Continued)

(6) Balances and transactions with related parties

a) Transactions with related parties (corporations)

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

		March 2020
Assets:		
Checking accounts in foreign financial entities *(1)* (Note 7)	¢	26,483,089,727
Investments in financial instruments and accrued interest receivable		7,710,729,308
Investments in other companies *(2)*		68,659,105,111
	¢	102,852,924,146
Liabilities:		
Demand obligations with entities *(3)*		72,223,263
Charges payable for obligations with related parties		537,080
	¢	72,760,343
Income:		
Gain on investments in other foreign companies		540,883,142
Expenses:		
Operating expenses		26,326,628

The aforementioned balances and transactions with related parties are related to:

(1) Foreign checking accounts with BICSA.
(2) Investments in the share capital of entities over which the Bank exercises control or significant influence.
(3) Movements in the subsidiaries' checking accounts with the Bank.

b) Compensation to personnel

For the year ended March 31, compensation to key personnel is as follows:

		March 2020
Short-term benefits	¢	499,762,540
Long-term benefits		64,969,130
Per diem - Board of directors		42,430,606
	¢	607,162,276

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

(7) Cash and cash equivalents

As of March 31, for reconciliation purposes of the consolidated statement of cash flows, cash and cash equivalents are as follows:

		March 2020
Cash and due from banks	¢	1,220,850,577,363
Investments with maturities of two months or less		136,673,224,873
	¢	1,357,523,802,236

(Continued)

Cash and due from banks is as follows:

		March 2020
Cash in transit		5,967,568,317
Checking account in BCCR *(1)*		44,879,181,693
Minimum legal deposits in BCCR *(2)*		734,801,642,544
Checking accounts and demand deposits in State-owned commercial banks and banks created under special laws		440,998,383
Checking accounts and other demand accounts in private financial entities		268,845,921
Overnight deposits in local financial entities		1,000,000,000
Checking accounts in foreign financial entities		324,873,507,526
Deposits and other demand accounts in foreign financial entities		2,738,546,255
Checking accounts and demand deposits in related parties (see Note 6)		26,483,089,727
Overnight deposits in foreign financial entities		10,346,889,645
Transfers through the Interbank Electronic Payment System (SINPE)		2,203,289,697
Local notes receivable		2,775,355,407
Foreign notes receivable		532,462,623
Margin calls - derivative financial instruments (see Note 5)		63,477,722
Margin calls for tri-party repurchase agreements		245,132,709
Fondo de Garantía de la Bolsa Nacional de Valores (FOGABONA)		283,198,392
Other restricted cash and due from banks *(3)*		1,120,492,474
	¢	1,220,850,577,363

(1) Checking accounts and demand deposits in BCCR include the balances of the minimum legal deposits required for each year (see Note 8).

(2) Pursuant to Note GD-5879/09 issued by BCCR on June 3, 2019, as of June 16, 2019 the percentage for the minimum legal deposit decreased to 12% (2018: 15%). The corresponding amount must be deposited in cash in BCCR pursuant to current banking legislation. Such 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.

(3) "Other restricted cash and due from banks" includes the banking mandate for custody of liabilities, checking accounts, savings accounts and term certificates of deposit of Banco Crédito Agrícola de Cartago (see Note 8).

(8) Investments in financial instruments

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

		March 2020
Investments at fair value through profit or loss	¢	40,393,352,241
Investments at fair value through other comprehensive income		794,103,923,426
Investments at amortized cost		645,147,162,359
	¢	1,479,644,438,026
Futures contracts to hedge interest rate risk		23,613,668,181
Allowance for impairment of investments		(334,061,944)
Accrued interest receivable on investments		14,575,005,874
	¢	1,517,499,050,137

a) Investments at fair value through profit or loss

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

	March 2020
Local issuers	-
Private banks	45,714,584
Private issuers	9,815,298,850
	¢ 9,861,013,434

	March 2020
Private issuers	30,532,338,807
	¢ 30,532,338,807

b) Investments at fair value through other comprehensive income

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

		March 2020
Local issuers		
Government of Costa Rica	¢	447,339,175,872
BCCR		72,568,973,515
State-owned banks		3,965,075,017
Private issuers		1,112,400,281
	¢	524,985,624,685

		March 2020
Foreign issuers		
Government	¢	99,880,942,350
Private issuers		85,668,089,968
Private banks		83,569,266,413
		269,118,298,731
	¢	794,103,923,426

c) Investments at amortized cost

Investments at amortized cost are as follows:

		March 2020
Local issuers		
Government of Costa Rica	¢	310,589,633,690
BCCR		149,752,176,240
Private banks		1,174,740,000
	¢	461,516,549,930

		March 2020
Foreign issuers		
Governments	¢	133,480,365,898
Private issuers		43,923,281,190
Private banks		6,226,965,340
		183,630,612,429
		645,147,162,359
	¢	1,479,644,438,026

As of March 31, 2019, the valuation of available-for-sale investments and restricted financial instruments gives rise to an unrealized gain, net of deferred tax, in the amount of ¢968,994,734. Accordingly, as of that date, the cumulative balance of equity adjustments arising from valuation of these investments is an unrealized gain of ¢9,444,289,425.

(9) Derivative financial instruments

The Bank holds the following types of derivative financial instruments:

✓ *Derivatives as risk hedging instruments:*

Interest rate futures - hedges:

The Bank obtained interest rate hedges to hedge exposure to the LIBOR rate on international debt issues made in October 2013 and April 2016 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 a reference rate.

Derivative financial instruments are as follows:

		March 31, 2020			
Issuing bank		Notional amount		Valuation	Purpose
CitiBank	US$	100,000,000	US$	7,709,939	Swaps to hedge 10-year issues (maturing in 2023)
JP Morgan		200,000,000		15,419,878	
Bank of America		180,850,000		15,408,842	
	US$	480,850,000	US$	38,538,658	
Amount in colones	¢	282,436,864,500	¢	22,636,451,501	
Bank of America	US$	60,200,000	US$	609,133	Swaps to hedge 5-year issues (maturing in 2021)
JP Morgan		250,000,000		1,054,333	
	US$	310,200,000	US$	1,663,466	
Amount in colones	¢	182,202,174,000	¢	977,069,884	
Chicago Board of Trade	US$	5,700,000	US$	(70,633)	Standardized futures contracts (maturing in 2020)
Amount in colones	¢	3,348,009,000	¢	(41,487,635)	

(Continued)

As of March 31, 2020, total notional amounts of US$796,750,000, equivalent to ¢467,987,047,500, are booked under "Other debit memoranda accounts" (see Note 27).

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

As of March 31, 2020, the Bank booked an increase in the fair value of these swaps in the amount of US$40,202,374 equivalent to ¢23,613,668,181 (see Note 9) and a decrease in the fair value of these hedges in the amount of US$70,883 equivalent to ¢41,634.430 (see Note 21).

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

As of March 31, effectiveness of the valuation of derivative financial instruments is as follows:

	Effectiveness rate March 2020
10-year issue (maturing in 2023)	103.60%
5-year issue (maturing 2021)	110.80%

As of March 31, 2020, a valuation was performed to calculate the change in the fair value of the primary and derivative instruments based on the following inputs:

- a 5- or 10-year LIBOR rate at the issue of the bond
- discount rates from Bloomberg
- zero rates corresponding to the swap curve as of December 31, 2019
- only a portion of the bond cash flows is hedged (corresponding to the 5- and 10-year LIBOR rates in effect at the issue of the bond) rather than the total interest amount
- 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, 2020, standardized futures contracts are negotiated as part of the management of the financial derivatives portfolio. The Bank booked a notional amount of US$5.7 million (equivalent to ¢3,348,009,000) for the sale and purchase of these futures contracts.

✓ *Derivatives for trading purposes:*

Currency forwards:

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

These types of instruments are products which the Bank can offer to its clients pursuant to the authorization provided by BCCR to operate exchange rate derivatives.

As of March 31, 2020, the total notional amount is US$796,750,000, equivalent to ¢467,987,047,500 (see Note 27).

As of March 31, 2020, the Bank books an increase of US$40,202,374, equivalent to ¢23,613,668,181, and a decrease of US$70,883, equivalent to ¢41,634,430 in the liabilities account (see Note 21).

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 the market interest rates in colones and US dollars applicable to different terms.

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

		March 2020
Gain on derivative financial instruments	¢	14,301,407,658
Loss on derivative financial instruments		(563,310,244)
Net gain	¢	13,738,097,414

(10) Loan portfolio

(a) Loan portfolio by sector

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

		March 2020
Trade	¢	348,543,507,880
Services		877,333,773,380
Financial services		105,659,990,111
Mining		730,170,800
Manufacturing and quarrying		168,144,834,219
Construction		96,628,624,527
Agriculture and forestry		105,312,174,257
Livestock, hunting and fishing		74,447,096,150
Electricity, water, sanitation and other related sectors		393,042,902,832
Transportation and telecommunications		46,639,035,381
Housing		1,297,909,830,326
Personal or consumer loans		542,012,018,001
Tourism		184,714,233,352
		4,241,118,191,216
Direct incremental costs related to loans		4,003,862,440
(Deferred income from loan portfolio)		(33,110,026,780)
Accrued interest receivable		38,537,249,393
Allowance for loan losses		(127,978,982,327)
	¢	4,122,570,293,942

Annual interest rates on loans receivable are as follows:

	March 2020	
Currency	Rates	Average *(1)*
Colones	2.00% to 46.00%	14.75%
US dollars	1.25% to 34.92%	9.04%
DU	3.85% to 10.50%	6.35%

(1) Simple average of the minimum and maximum values of the portfolio as of March 31, 2020.

(b) Loan portfolio by arrears

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

		March 2020
Current	¢	3,887,258,213,546
1 to 30 days		104,218,319,116
31 to 60 days		82,554,495,213
61 to 90 days		19,179,348,844
91 to 120 days		12,993,559,147
121 to 180 days		20,169,738,366
More than 180 days		114,744,516,984
		4,241,118,191,216
Direct incremental costs related to loans		4,003,862,440
(Deferred income from loan portfolio)		(33,110,026,780)
Accrued interest receivable		38,537,249,393
Allowance for loan losses		(127,978,982,327)
	¢	4,122,570,293,942

(c) Allowance for loan losses

Movement in the allowance for loan losses is as follows:

		March 2020
Opening balance	¢	118,507,110,835
Allowance expense for the year (Note 37)		14,987,065,461
Write-offs		(6,767,671,474)
Decrease in allowance		147,982,736
Foreign exchange differences		1,104,494,769
Closing balance	¢	127,978,982,327

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

(11) Accounts and fees and commissions receivable

As of March 31, accounts and fees and commissions receivable are as follows:

		March 2020
Fees and commissions	¢	1,501,546,218
Accounts receivable for operations with related parties (Note 6)		34
Accounts due from employees		61,815,619
Deferred tax (Note 19-b)		966,061,871
Income tax receivable *(1)*		76,686,062
Value-added tax		14,590,199
Sundry accounts receivable for credit cards		187,084,788
Other expenses to be recovered		21,040,485
Other accounts receivable		4,286,762,570
Accrued interest receivable on other sundry accounts receivable		8,008,909
Allowance for impairment of accounts receivable *(2)*		(4,344,049,663)
	¢	2,779,547,092

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

		March 2020
Banco Nacional de Costa Rica	¢	32,820,083
BN Vital Operadora de Planes de Pensiones Complementarias, S.A.		7,622,411
BN Sociedad Corredora de Seguros, S.A.		36,243,568
	¢	76,686,062

(2) For the year ended March 31, movement in the allowance for impairment of other accounts receivable is as follows:

		March 2020
Opening balance	¢	4,439,440,280
Allowance expense (Note 37)		309,565,662
Decrease in allowance (Note 38)		(304,605,669)
Items settled against allowance		(104,283,168)
Foreign exchange differences		3,932,557
Closing balance	¢	4,344,049,663

(12) Foreclosed assets

As of March 31, foreclosed assets are presented net of the allowance for impairment as follows:

		March 2020
Assets acquired in lieu of payment	¢	95,058,307,713
Idle property and equipment		55,884,629
Allowance for impairment		(69,522,366,150)
	¢	25,591,826,192

For the year ended March 31, movement in the allowance for impairment of foreclosed assets is as follows:

		March 2020
Opening balance	¢	59,100,375,778
Allowance expense (Note 41)		5,803,955,066
Sale or disposal of foreclosed assets		4,618,035,306,00
Decrease in allowance	¢	69,522,366,150

(13) Investments in other companies

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

		March 2020
Other financial and non-financial entities *(1)*	¢	50,623,300
Banco Internacional de Costa Rica, S.A. and subsidiary (BICSA) (Note 6) *(2)*		68,709,728,411
	¢	68,760,351,711

(1) As of March 31, the Bank's investments in other entities are as follows:

		March 2020	Concept
National Stock Exchange	¢	15,000,000	Investment to operate as custodian of electronic securities
Central de Valores de la Bolsa Nacional de Valores, S.A.		15,000,000	Investment to operate as custodian of electronic securities
Interclear Central de Valores		15,000,000	Investment to operate as custodian of electronic securities
Depósito Libre Comercial Golfito (Golfito Duty Free Shopping Center) per Article 24 of Law No. 7131		5,200,000	Investment in the Golfito Duty Free Shopping Center
Other financial entities		423,300	Investments in various cooperatives
	¢	50,623,300	

(2) The Bank holds 49% ownership interest in BICSA, represented in 2020 and 2019 by 6,506,563 ordinary shares of US$10 par value.

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(14) Property and equipment, net

a) Historical cost and depreciation

As of March 31, property and equipment is as follows:

		March 2020					
		Land	Buildings	Furniture and equipment	Computer hardware	Vehicles	Total
Cost:							
Historical cost at beginning of year	¢	4,281,149,677	70,302,884,014	64,407,050,144	52,648,710,467	357,222,206	191,997,016,508
Revalued cost at beginning of year		49,385,684,604	65,580,690,062	(9,833,908)	(33,717,532)	-	114,922,823,226
Additions		-	86,743,570	864,261,641	577,901,739	-	1,528,906,950
Revaluation		(11,176,383)	-	-	-	-	(11,176,383)
Disposals		-	-	(1,424,925,700)	(3,838,356,041)	(1,370,000)	(5,264,651,741)
Adjustments		-	-	(43,326,060)	38,979,522	(5,643,163)	(9,989,701)
Closing balance		53,655,657,898	135,970,317,646	63,793,226,117	49,393,518,155	350,209,043	303,162,928,859
Accumulated depreciation:							
Opening balance		-	46,650,108,387	39,746,312,102	40,158,922,648	238,523,704	126,793,866,841
Depreciation expense on historical cost		-	403,291,263	1,612,399,146	1,614,277,868	7,485,860	3,637,454,137
Depreciation expense on revalued cost		-	295,378,719	-	-	-	295,378,719
Disposals		-	-	(1,420,135,865)	(3,811,405,749)	(1,370,000)	(5,232,911,614)
Adjustments		-	(439,189,846)	(76,787,342)	(3,567,952)	(47,928)	(519,593,068)
Closing balance	¢	-	46,909,588,523	39,861,788,041	37,958,226,815	244,591,636	124,974,195,015
Net closing balance	¢	53,655,657,898	89,060,729,123	23,931,438,076	11,435,291,340	105,617,407	178,188,733,844

(Continued)

As of March 2020, the appraisals of the Bank's land and buildings were performed by an independent appraiser, obtaining the net realizable value, which was compared to the carrying amount to determine the equity increase, affecting the related accounts for accumulated depreciation and revaluation. Based on the valuation techniques used, those items are classified as Level 3 of the fair value hierarchy.

b) Right of use

Right of use is comprised of leased land and buildings as follows:

		March 2020					
		Right of use - Land	Right of use - Buildings	Right of use - Furniture and equipment	Right of use - Computer equipment	Right of use - Vehicles	Total
Cost:							
Historical cost balance at beginning of year	¢	-	-	-	-	-	-
Revalued cost balance at beginning of year		-	-	-	-	-	-
Additions		-	42,688,470,422	-	-	277,254,296	42,965,724,718
Balance at end of year			42,688,470,422	-	-	277,254,296	42,965,724,718
Accumulated depreciation:		-	-	-	-	-	-
Opening balance		-	-	-	-	-	-
Depreciation expense on historical cost		-	4,036,786,134	-	-	121,504,162	4,158,290,296
Balance at end of year	¢	-	4,036,786,134	-	-	121,504,162	4,158,290,296
Net closing balance	¢	-	38,651,684,288	-	-	155,750,134	38,807,434,422

(Continued)

(15) Other assets

As of March 31, other assets are as follows:

		March 2020
Deferred charges:		
Leasehold improvements *(1)*	¢	278,601,607
Cost of issue of financial instruments, net		641,287,460
Cost of subordinated debt project		255,514,009
Other deferred charges		53,308,180,791
		54,483,583,867
Intangible assets:		
Software		6,143,283,085
Other intangible assets		2,870,059
		6,146,153,144
Other assets:		
Prepaid taxes		501,564,722
Prepaid insurance policy		372,209,159
Other prepaid expenses		2,312,071,510
Stationery, office supplies and other materials		538,718,920
Leased assets		122,558,815
Library and artwork		429,918,818
Construction work-in-progress		1,125,439,428
Payments to welfare and trade associations		600,000
Other sundry assets		496,857,589
Operations pending settlement		7,123,601,101
Other operations pending application		93,274,636
Security deposits (Note 5)		558,938,095
Legal and administrative deposits (Note 5)		263,200,990
		13,938,953,783
	¢	74,568,690,794

(1) As of March 31, 2020, the expense for amortization of leasehold improvements amounts to ¢76,331,195.

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

		March 2020			
		5-year issue (maturing in 2018)	10-year issue (maturing in 2023)	5-year issue (maturing in 2021)	Total
Commission - structuring banks	¢	293,685,000	293,685,000	499,264,500	1,086,634,500
Commission - Moody's Investors Service		146,842,500	146,842,500	-	293,685,000
Commission - Société de la Bourse de Luxembourg, S.A.		7,178,249	7,178,249	-	14,356,498
RR Donnelley		6,429,939	6,429,916	3,849,197	16,709,052
BNY Mellon		2,321,874	2,321,874	3,387,363	8,031,110
Moody's - issuer rating		19,441,947	19,441,947	146,842,500	185,726,394
Fitch Ratings		146,842,500	146,842,500	146,842,500	440,527,500
Milbank		86,437,369	86,437,369	115,723,996	288,598,734
Shearman & Sterling		86,549,557	86,549,557	128,748,039	301,847,152
External audit		111,600,300	111,600,300	136,269,840	359,470,440
Perkins Cole (Broker)		-	-	7,704,562	7,704,562
Printing of documents		-	-	9,289,073	9,289,073
		907,329,235	907,329,211	1,197,921,568	3,012,580,015
Amortization		(907,329,235)	(514,205,431)	(949,757,889)	(2,371,292,555)
	¢	-	393,123,781	248,163,679	641,287,460

Issue costs are amortized over the term of the financial instrument

(3) As of March 31, intangible assets, net, are as follows:

		March 2020		
		Software	Other intangible assets	Total
Cost:				
Opening balance	¢	32,758,659,684	42,095,559	31,687,331,192
Additions		259,961,344	-	250,588,615
Disposals		(863,264,443)	-	(853,968,232)
Adjustments		(45,571,296)	-	(45,571,296)
Closing balance		32,109,785,289	42,095,559	31,038,380,279
Accumulated amortization:				
Opening balance		25,835,625,309	42,095,559	25,287,153,505
Expense for the year		1,047,936,331	-	1,001,356,995
Disposals		(853,968,232)	-	(853,968,232)
Reclassifications		1,133,844	-	-
Adjustments		(64,225,048)	-	(64,225,050)
Closing balance		25,966,502,204	42,095,559	25,370,317,218
Net closing balance	¢	6,143,283,085	-	5,668,063,061

(16) Obligations with the public

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

		March 2020
Demand deposits:		
Checking accounts	¢	1,640,266,722,313
Certified checks		20,318,522
Savings deposits		1,508,915,128,852
Matured term deposits		18,906,911,164
Other demand deposits		144,884,554
Drafts and transfers payable		384,558,454
Cashier’s checks		3,528,501,227
Advance collections from customers for credit cards		10,853,696,127
Banking mandates		1,120,492,474
Trust fund obligations		147,631,585
		3,184,288,845,272
Term deposits:		
Deposits from the public		1,957,015,660,257
Other term deposits		140,601,192,700
		2,097,616,852,957
Obligations with third parties for tri-party repurchase agreements		14,562,378,349
Finance charges payable		45,647,555,438
	¢	5,342,115,632,016

As of March 31, 2020, deposits in checking accounts in colones bear interest at a maximum rate of 2.05% per annum on full balances and at a minimum rate of 0.00% per annum on balances greater than or equal to ¢500,001. Deposits in checking accounts in US dollars bear interest at a maximum rate of 0.45 per annum on full balances and at a minimum rate of 0.00% per annum on balances greater than or equal to US$1,000.

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 2020
Colones	1.25% to 6.75%
US Dollars	0.25% to 3.90%

The Bank has term certificates of deposit that are restricted to secure certain loan operations. As of March 31, 2020, the balance of those term certificates of deposit is ¢78,833,995,105. As of that date, the Bank has no inactive deposits with State-owned entities or other banks.

(17) Obligations with BCCR

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

		March 2020
Financing for loans using external funds *(i)*	¢	125,644,412
	¢	125,644,412

i. According to Agreement MAG/AID 515-T-027 signed December 15, 1981, obligations related to financing of loans using external funds correspond to the agreement between the Government of Costa Rica and the Bank 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.

(18) Obligations with financial entities

As of March 31, obligations with financial entities are as follows:

		March 2020
Demand		
Checking accounts with local financial entities	¢	79,879,698,553
Savings deposits with local financial entities		28,869,351
Outstanding checks		2,496,260,885
Matured term deposits		1,766,758,635
Current accounts and obligations with related parties		72,223,262
		84,243,810,686
Term:		
Term deposits with local financial entities		83,364,674,090
Term obligations with foreign financial entities *(1)*		484,143,859,218
Liquidity market obligations		31,095,429,598
Loans from local financial entities *(2)*		31,966,773,348
Loans from foreign financial entities *(2)(3)*		105,783,457,416
Obligations for right of use – leased assets received		39,690,965,063
Obligations with resources from the Development Credit Fund (FOCREDE)		146,992,191,158
		923,037,349,891
(Deferred tax and fees and commissions on own portfolio)		(116,136,265)
		(116,136,265)
Charges payable on other demand and term obligations with financial entities - foreign currency		47,826,491
Charges payable on other demand and term obligations with financial entities - local currency		635,422,991
Charges payable on loans with foreign financial entities *(2)(3)*		1,760,928,135
Charges payable on loans with local financial entities *(2)*		61,468,568
Charges payable on term deposits with foreign financial entities *(1)*		11,993,690,397
		14,499,336,582
	¢	1,021,664,360,894

(1) Obligations with foreign financial entities are as follows:

Date of issue	Face value	Characteristics
11/01/2013	US$500 million	• Traded amount: 99.072% • Term: 10 years • Interest rate: 6.250% per coupon payment
04/25/2016	US$500 million	• Traded amount: 99.68% • Term: 5 years • Interest rate: 5.875% per coupon payment

As of March 31, balances according to the term of the obligations are as follows:

	March 2020		
	10-year issue (Maturing in 2023)	5-year issue (Maturing in 2021)	Total
Issue	¢ 279,815,850,397	181,619,127,043	461,434,977,440
Adjustment to fair value of hedged item measured at cost of international issues	20,555,323,540	(486,559,293)	20,068,764,247
Amortization of discount in traded amount of issues	2,057,070,574	583,046,957	2,640,117,531
	302,428,244,511	181,715,614,707	484,143,859,218
Finance charges payable	7,355,126,717	4,638,563,680	11,993,690,397
	¢ 309,783,371,228	186,354,178,387	496,137,549,615

(Continued)

(2) As of March 31, the maturity of loans and term obligations payable with financial entities is as follows:

		March 2020		
		Local	Foreign	Total
Less than 1 year		-	19,895,988,386	19,895,988,386
3 to 5 years		-	42,619,144,540	42,619,144,540
More than 5 years		32,153,886,328	45,029,252,625	77,183,138,953
	¢	32,153,886,328	107,544,385,551	139,698,271,879

(3) Loans due to foreign financial entities bear interest at rates ranging between 3.32% and 6.65% per annum.

(19) Income tax

Pursuant to the Costa *Rican Income Tax Law*, the Bank is required to file income tax returns each year. As of March 31, income tax is as follows:

a) Income tax for the current period

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

		March 2020
Income tax expense		
Income tax expense for the period	¢	4,889,014,967
Prior-period income tax expense		3,600,040,451
		8,489,055,418
Current tax		
Income tax expense for the period		4,889,014,967
		4,889,014,967
Prior-period income tax		
Prior-period income tax expense		3,600,040,451
		3,600,040,451
		8,489,055,418
Deferred tax:		
Deferred tax expense		158,383,520
Deferred tax income		(488,630,663)
Deferred tax income, net		(330,247,143)
Income tax expense, net	¢	8,158,808,275

For the three months ended March 31, 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 2020
Profit before tax	¢	16,562,107,492
Plus (less) tax effect of:		
Non-deductible expenses		5,116,776,178
Deductible expenses		(822,155,922)
Non-taxable income		(4,560,011,201)
Tax base		16,296,716,547
Tax rate		30%
Subtotal - income tax expense		4,889,014,967
Prior-year income tax expense		3,600,040,451
Subtotal prior-period income tax expense		3,600,040,451
Deferred tax expense		158,383,520
Income from deferred income tax		(488,630,663)
Subtotal deferred tax expense		(330,247,143)
Income tax expense, net	¢	8,158,808,275

b) Deferred tax

As of March 31, deferred tax assets and liabilities are as follows

		As of March 31, 2020		
		Assets	Liabilities	Net
Unrealized losses on valuation of investments	¢	666,034,467	-	666,034,467
Provisions		300,027,404	-	300,027,404
Unrealized gains on valuation of investments		-	(4,795,612,024)	(4,795,612,024)
Revaluation of assets		-	(9,506,392,781)	(9,506,392,781)
	¢	966,061,871	(14,302,004,805)	(13,335,942,934)

As of March 31, deferred tax assets and liabilities are as follows

		December 31, 2019	Included in the income statement	Included in equity	March 31, 2020
Unrealized losses on valuation of investments	¢	1,049,189,321	-	(383,154,854)	666,034,467
Provisions		198,437,376	101,590,028	-	300,027,404
Unrealized gains on valuation of investments		(4,547,196,438)	113,174,399	(361,589,985)	(4,795,612,024)
Revaluation of assets		(9,506,392,781)	-	-	(9,506,392,781)
	¢	(12,805,962,522)	214,764,427	(744,744,839)	(13,335,942,934)

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

As of March 31, 2020, the Bank did not recognize a deferred tax liability in the amount of ¢5,969,925,169, given that it controls the moment when the subsidiaries pay dividends.

Tax returns filed by the Bank for the year ended December 31, 2019 and the tax return that will be filed for the year ended December 31, 2020 are open to review by the Tax Authorities.

(20) Provisions

As of March 31, provisions are as follows:

		March 2020
Severance benefits	¢	535,196,301
Litigation		7,291,629,749
Checking and savings accounts liquidated		734,358,224
Manager commissions		15,023,914,963
Variation in RIVM methodology		6,021,999,440
Notice of deficiency		2,269,841,890
Other		494,723,443
	¢	32,371,664,010

For the three months ended as of March 31, movement in provisions is as follows:

		Severance benefits	Litigation	Other	Total
Opening balance as of December 31, 2019	¢	490,062,436	7,728,962,160	23,746,890,492	31,965,915,088
Increase in provision		51,956,554	143,110,316	2,352,192,075	2,547,258,945
Used		(6,822,689)	(169,345,506)	(1,547,196,619)	(1,723,364,814)
Decrease in provision		-	(411,097,221)	(7,047,988)	(418,145,209)
Closing balance as of March 31, 2020	¢	535,196,301	7,291,629,749	24,544,837,960	32,371,664,010

(1) As of March 31, the Bank and its subsidiaries are defendants in pending litigations and management considers that an outflow of economic benefits will be required to settle the corresponding obligations. The Bank and its subsidiaries have estimated future outflows and made the following provisions:

Type		Claimed amount March 2020	Provision March 2020
Ordinary - in colones	¢	21,495,690,172	4,405,016,194
Ordinary - in US dollars		127,168,674,571	1,972,039,731
Criminal - in colones		1,020,877,223	687,969,335
Labor - in colones		937,151,625	226,604,489
	¢	150,622,393,591	7,291,629,749

(21) Other sundry accounts payable

Other sundry accounts payable are as follows:

		March 2020
Professional fees	¢	3,989,118
Creditors - goods and services		4,996,146,103
Income tax		4,888,921,799
Value-added tax		220,723,631
Employer contributions		4,915,890,891
Court-ordered withholdings		3,661,077,734
Tax withholdings		2,329,576,677
Employee withholdings		679,180,952
Other third-party withholdings		158,973,971
Compensation		3,440,141,708
Statutory allocations		3,705,649,598
Obligations on loans with related parties		171,342
Clearing house operations		2,737,915,668
Accrued vacation		5,180,421,890
Accrued statutory Christmas bonus		2,834,415,550
Contributions to the Superintendencies' budget		4,997,897
Foreclosed assets		912,119,496
Temporary deposits for the payment of premiums		3,244,740,703
Direct contracts with the Government Purchases department - various (1)		1,063,044,977
PAYPAL transactions		361,504,032
Accounts due to customers (2)		1,726,386,903
Merlink guarantees		1,161,542,568
Fees due to international organizations		343,875,000
Amounts received for partial sales of foreclosed assets		581,534,331
Master Card and Visa payments		1,249,262,040
Various creditors *(3)*		4,189,382,735
Interest rate futures - Hedges (Note 9)		41,634,430
		54,633,221,744

(1) Corresponds to allowances booked for the payment of the Visa and Master Card brands.

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

(22) Other liabilities

As of March 31, other liabilities are as follows:

		March 2020
Deferred income:		
Deferred fees and commissions for trust management	¢	49,568,927
		49,568,927
Operations pending application:		
Operations pending settlement		3,579,677,983
Other operations pending application		16,319,979,381
		19,899,657,364
	¢	19,949,226,291

(23) Subordinated obligations

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

Annual interest rate	Term	Maturity		March 2020
6-month LIBOR + 4.50% in the first 5 years and 6-month LIBOR + 5.00% thereafter	10 years	05/27/2024	US$	80,000,000
6-month LIBOR + 5.25% in the first 5 years and 6-month LIBOR + 5.75% thereafter	15 years	10/23/2029		29,250,000
			US$	109,250,000
		Total equivalent in colones	¢	64,170,172,500
		Finance charges payable		627,222,914
			¢	64,797,395,414

(24) Equity

(a) Share capital

As of March 31, the Bank's share capital is as follows:

		March 2020
Capital under Law No. 1644	¢	144,618,072,265
Bank capitalization bonds		27,618,957,837
	¢	172,237,030,102

(b) Capital reserves

As of March 31, capital reserves are as follows:

		March 2020
Legal reserve	¢	360,592,172,848
Statutory reserve for foreclosed assets		705,179,130
Excess of statutory reserve for loans		5,430,966,996
Statutory dynamic provision		10,386,072,545
	¢	377,114,391,519

(c) Equity of the Development Financing Fund

As of March 31, 2020, the allocation of the Bank's earnings to the Development Financing Fund (FOFIDE) amounts to ¢39,043,365,123

(25) Commitments and contingencies

The Bank has off-balance sheet commitments and contingencies that arise in the normal course of business and involve elements of credit and liquidity risk. As of March 31, the notional amounts of foreign exchange derivatives are as follows:

		March 2020
Performance bonds	¢	28,555,913,953
Bid bonds		3,405,086,724
Other guarantees		464,086,617
Letters of credit		6,471,453,506
Credits pending disbursement		171,352,651
		39,067,893,451
Pre-approved lines of credit		268,581,934,566
Other contingencies not related to credits		92,897,699
Other contingencies - Pending litigation and lawsuits (Note 46)		150,622,468,195
Subtotal		419,297,300,459
	¢	458,365,193,910

Letters of credit, guarantees and sureties granted expose the Bank to credit loss in the event of non-compliance by the customer. The Bank's policies and procedures for approving credit commitments and financial guarantees are the same as those for granting loans booked. Guarantees and sureties granted have fixed maturity dates and, in most cases, mature without requiring disbursement. Therefore, they do not represent a significant liquidity risk. Most letters of credit are used; however, those used are generally on demand, issued and confirmed by correspondent banks and payable immediately

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

(Continued)

The Bank 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.

(26) Trust assets (unaudited)

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

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

- management and investment trusts
- management trusts with a testamentary clause
- guaranty trusts
- housing trusts
- management and investment public trusts.

As of March 31, 2020, trust capital is invested in the following assets (unaudited):

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
Trust assets													
Cash and due	¢	221,858,392	302,674,032	17,644,032	20	51,700	-	8,864	212,109,998	-	-	-	754,347,038
from banks		258,578,649,555	17,828,202,554	158,641,351	1,237,360,609,646	3,589,978,666	-	2,437,096	35,248,027	-	35,249,689	588,063	1,517,589,604,647
Investments in		3,292,427,685	-	1,401,049,106	-	-	-	-	-	-	-	-	4,693,476,791
financial		87,097,268,910	27,752,270,639	1,804,785,589	32,455,389	-	-	-	134,147,083	-	-	1,257,860	116,822,185,471
instruments		147,946,086	-	11,792,442	-	-	-	-	-	-	-	-	159,738,528
Loan portfolio													
		-	-	-	200,000,000	3,378,737	176,000	-	-	36,000	-	944,532,000	1,148,122,737
Accounts and													
		802,039,010	42,931,054,338	-	104,127,451,336	483,082,253	-	-	8,719,375,327	-	-	1,738,460,805	158,801,463,069
Accrued interest		45,997,221,433	11,042,692,646	-	235,000,000	6,989,440	-	-	-	-	-	1,674,504,726	58,956,408,245
	¢	396,137,411,071	99,856,894,209	3,393,912,520	1,341,955,516,391	4,083,480,796	176,000	2,445,960	9,100,880,435	36,000	35,249,689	4,359,343,454	1,858,925,346,526

(Continued)

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

a) Housing mortgage

These trusts are exclusively dedicated to managing housing loan portfolios.

b) Cash or property management

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

c) Securitization

These trusts are used to obtain funds from 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 guarantee 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)

h) Custody of stock with testamentary clause

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

(27) Other debit memoranda accounts

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

		March 2020
Pension Fund Manager's own investments in custody – Face value of principal (unaudited)	¢	8,450,801,200
Pension Fund Manager's own investments in custody – Coupons (unaudited)		5,144,164,081
Pension Fund Manager's own investments in custody – Number of shares (unaudited)		23
Guarantees received in the Bank's custody		292,623,589
Other guarantees received in the Bank's custody		5,264,009,447,655
Lines of credit granted but unused		336,594,788,286
Loans pending disbursement		171,540,983,918
Unused overdrafts		76,169,125
Loans settled		318,474,164,355
Other accounts receivable settled		14,122,286,097
Accrued interest receivable settled		28,441,825,947
Interest income on non-accrual loans of loan portfolio		25,733,126,963
Supporting documentation received in the Bank's custody		1,255
Notified letters of credit		4,125,639,879
Notional value subject to interest rate futures (Note 9)		467,987,047,500
Reversals made to income accounts for the year		30,789,263,983
Reversals made to expense accounts for the year		52,976,645,521
Non-deductible expenses		76,710,515,077
Non-taxable income		87,270,366,858
Other memoranda accounts		208,069,483,809
		7,100,809,345,121
Third-party debit memoranda accounts		3,529,153,101,519
Own debit memoranda accounts for custodial activities		754,533,553,090
Third-party debit memoranda accounts for custodial activities		12,641,110,609,439
		16,924,797,264,048
	¢	24,025,606,609,169

(1) As of March 31, third-party debit memoranda accounts are as follows:

		March 2020
Management of banking mandates	¢	1,299,001,063,174
"TUDES" securities received in custody from affiliates under Article 75 of Law No. 7531		572,482,280
Pension funds (Note 30)		1,734,921,864,113
Investment funds (Note 29)		494,657,691,952
	¢	3,529,153,101,519

As of March 31, other memoranda accounts by entity are as follows:

		March 2020
Banco Nacional de Costa Rica	¢	20,706,497,611,189
BN Valores Puesto de Bolsa, S.A. (Note 28)		1,075,177,530,612
BN Sociedad Administradora de Fondos de Inversión, S.A. (Note 29)		494,712,466,841
BN Vital Operadora de Planes de Pensiones Complementarias, S.A. (Note 27)		1,749,219,000,528
	¢	24,025,606,609,170

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

As of March 31, memoranda accounts for brokerage operations are summarized as follows:

		March 2020
Own		
Trading securities in custody (Note 25-b)		47,243,550,452
Trading securities pending delivery (Note 25-a)		20,234,751,149
Other own memoranda accounts		18,259,758
		67,496,561,359
Third-party		
Trading securities received as guarantees		35,536,890,109
Trading securities pledged as guarantees		3,492,772,873
Trading securities pending receipt		3,898,463,057
Repurchase agreements pending settlement (Note 25-b)		86,778,382,215
Third-party trading securities (Note 25-a)		875,048,424,778
Cash and accounts receivable		2,926,036,221
		1,007,680,969,253
Memoranda accounts (Note 24)	¢	1,075,177,530,612

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.

a) As of March 31, securities held in custody are as follows:

Location	Type of custody		March 2020
Own custodial activities			
Local	CEVAL - private		15,368,851,976
Local	CEVAL - public		4,850,899,171
Local	Vault		15,000,002
			20,234,751,149
Custodial activities on behalf of third parties			
Local	CEVAL - private		147,109,115,586
Foreign	CEVAL - private		37,484,941,858
Local	CEVAL - public		665,039,439,762
Foreign	International custody		24,999,550,569
Local	Vault		8,024,829
Local- Foreign	Securities that are doubtful, in arrears or in litigation		407,352,174
			875,048,424,778
		¢	895,283,175,927

b) As of March 31, term buyer and seller positions in third-party repurchase agreements involving the Brokerage Firm are as follows:

	March 2020							
	Term buyer				Term seller			
	Colones	US dollars	US dollars expressed in colones	Total	Colones	US dollars	US dollars expressed in colones	Total
Own	24,077,865,139	37,030,574	21,750,648,464	45,828,513,603	1,321,055,041	160,004	93,981,808	1,415,036,849
Third	15,182,102,915	71,134,768	41,782,428,762	56,964,531,677	5,241,257,893	41,834,947	24,572,592,645	29,813,850,538
	39,259,968,054	108,165,343	63,533,077,226	102,793,045,280	6,562,312,934	41,994,951	24,666,574,453	31,228,887,387

As of March 31, 2020, term buyer and seller positions in tri-party repurchase agreements in US dollars were valued at the exchange rate of ¢587.37 (2019: ¢604.39) to US$1.00.

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

	March 2020			
	Term buyer		Term seller	
	Colones	US dollars	Colones	US dollars
Own				
1 to 30 days	¢ -	11,839,458	1,321,055,041	160,004
31 to 60 days	24,077,865,139	2,829,234	-	-
61 to 90 days	-	21,420,904	-	-
More than 91 days	-	940,978	-	-
	24,077,865,139	37,030,574	1,321,055,041	160,004
Third parties				
1 to 30 days	830,406,422	1,836,302	-	677,300
31 to 60 days	12,597,219,319	36,734,007	2,887,659,002	18,542,005
61 to 90 days	626,245,132	32,078,455	1,225,366,849	20,771,145
More than 91 days	1,128,232,042	486,005	1,128,232,042	1,844,497
	15,182,102,915	71,134,769	5,241,257,893	41,834,947
	¢ 39,259,968,054	108,165,343	6,562,312,934	41,994,951

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.

(29) Investment fund management agreements

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

Fondo		March 2020 Net value	Shares	Value per share
Funds in colones:				
Súper Fondo colones	¢	126,034,536,567	28,867,933,940	4.37
Fon Depósito colones		49,858,237,798	31,511,128,008	1.58
Creci Fondo colones		4,351,764,453	723,547,628	6.01
Redi Fondo colones		29,428,375,239	6,861,104,628	4.29
Diner Fondo colones		54,167,272,796	18,522,159,853	2.92
	¢	263,840,186,853	86,485,874,057	
Funds in US dollars:				
Súper Fondo US dollars	US$	15,197,611	9,927,003	1.53
Creci Fondo US dollars		10,063,144	5,059,363	1.99
Redi Fondo US dollars		36,457,698	22,168,840	1.64
Diner Fondo US dollars		81,850,007	61,068,826	1.34
Fon Depósito US dollars		49,493,790	43,531,759	1.14
Súper Fondo Plus US dollars		170,716,494	153,047,569	1.12
Fondo Hipotecario US dollars		24,533	25,450	27.66
BN Infraestructura Pública -1		29,164,536	21,750	1,340.90
	US$	392,967,813	294,850,560	
	¢	230,817,505,099	173,186,373,427	
Assets of managed funds	¢	494,657,691,952	259,672,247,484	
Guarantees:				
Performance bonds		52,799,585	-	
Outstanding checks		1,975,304	-	
		54,774,889	-	
Memoranda accounts (Note 24)	¢	494,712,466,841	-	

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.
- *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 Fondo de Inversión de Titularización Hipotecaria dólares FHIPO- US dólares (mortgage securitization - US dollars):* This is mainly a closed-end mortgage investment fund, i.e. investor shares are listed and traded on a stock exchange.
- *BN SuperFondo Dólares Plus No Diversificado (US dólares)* (non-diversified - US dollars): This fund is aimed at conservative investors looking for short-term investments. It allows obtaining reimbursement of the shares one business day and up to a maximum of three business days from the date of receipt of the withdrawal request. Since it is a short-term fund, it allows the investor to manage resources to address its present or future liquidity needs. The goal of the fund is to offer an investment mechanism that seeks to obtain higher returns than other investment alternatives under similar liquidity, term and risk parameters, taking advantage of the short-term part of the yield curve in the composition of its portfolio.

- *Fondo de Inversión de Desarrollo Inmobiliario BN-1*: (real estate development): This fund invests in the construction of buildings to be occupied by entities of the Banco Nacional Conglomerate (BNCR Conglomerate). Once the works are completed, the buildings will be sold to an entity of the BNCR Conglomerate or 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 an entity of the BNCR Conglomerate. As of March 31, 2020, and 2019, 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. As of March 31, 2020 and 2019, this fund does not have operations.
- *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 sector and investment funds. As of March 31, 2020 and 2019, this fund does not have operations.
- *BN Internacional Suma (US dollars):* This is an international, mixed portfolio investment fund, addressed to investors with a balanced-risk profile, that is, willing to assume losses in the short- and mid-term to obtain returns higher than those of the market in the mid- and long-term. It is addressed to the investor that would like to invest in a portfolio comprised of debt securities issued by the public or private sector and in variable-return instruments and investment funds. As of March 31, 2020 and 2019, this fund does not have operations.
- *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. As of March 31, 2020 and 2019, this fund does not have operations.

(Continued)

(30) Pension fund management agreements

As of March 31, the Pension Fund Manager's memoranda accounts are as follows:

		March 2020
Mandatory Pension Fund (ROP)	¢	1,461,931,109,144
ROP erroneous		17,676,683,238
Mandatory Retirement Savings Account (FCL)		109,972,105,983
FCL erroneous		4,097,244,647
Voluntary Pension Fund in Colones A (FPC A)		94,078,989,162
Voluntary Pension Fund in Colones B (FPC B)		23,039,105,278
Voluntary Pension Fund in US dollars A (FPD A) *(i)*		15,771,007,125
Voluntary Pension Fund in US dollars B (FPD B) *(ii)*		8,355,619,536
Assets of managed funds (Note 30)		1,734,921,864,113
Securities and assets in own custody		13,594,965,304
Bid and performance bonds – colones		32,099,630
Bid and performance bonds – US dollars (iii)		97,589,200
Securities in DU		572,482,281
Memoranda accounts (Note 27)	¢	1,749,219,000,528

i. As of March 31, 2020, this fund amounts to US$26,850,209 and is valued at the exchange rate of ¢587.37 to US$1.00

ii. As of March 31, 2020, this fund amounts to US$14,225,479 and is valued at the exchange rate of ¢587.37 to US$1.00.

iii. As of March 31, 2020, this fund amounts to US$166,146 and is valued at the exchange rate of ¢587.37 to US$1.00.

(Continued)

(31) Finance income from financial instruments

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

		March 2020
Cash and due from banks		
Deposits in BCCR	¢	2,911,965
Checking accounts and demand deposits in local entities		10,968,913
Checking accounts and demand deposits in foreign entities		1,296,644,154
		1,310,525,032
Financial instruments:		
Investments in trading securities		533,793,086
Investments in available-for-sale securities		10,113,517,391
Investments in securities and held-to-maturity deposits		8,834,889,513
Investment in securities and restricted deposits		62,015,281
		19,544,215,271
	¢	20,854,740,303

(32) Finance income from loan portfolio

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

		March 2020
Current loans:		
Individuals	¢	43,996,917,891
Development Banking System		1,665,448,947
Business		19,580,177,271
Corporate		19,787,313,928
Public sector		2,978,601,574
Financial sector		1,989,562,723
		89,998,022,334
Past due loans and loans in legal collection:		
Individuals		7,409,995,817
Development Banking System		206,141,757
Business		4,133,527,009
Corporate		1,013,051,830
Public sector		33,081,073
Financial sector		328,224
In legal collection		2,314,505,711
Amortization of net commission of incremental direct costs related to credits		261,659,752
		15,372,291,173
	¢	105,370,313,507

(33) Other finance income

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

		March 2020
Fees and commissions on letters of credit	¢	3,740,641
Fees and commissions on guarantees granted		173,384,359
Gain on fair value hedge for item measured at cost		1,374,016,285
Other sundry finance income		1,449,876,930
	¢	3,001,018,215

(34) 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 2020
Demand deposits	¢	14,874,320,904
Term deposits		35,635,115,708
Third-party repurchase agreements and securities lending		101,219,652
	¢	50,606,250,585

(35) 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 2020
Demand obligations	¢	621,424,516
Term obligations		12,775,387,191
	¢	13,396,811,707

(36) Other finance costs

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

		March 2020
Fees and commissions on letters of credit obtained	¢	37,834,865
Loss on hedged item measured at cost from fair value hedge on interest rate risk		13,998,698,602
Other sundry finance costs		182,935,608
	¢	14,219,469,075

(37) 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 2020
Allowance for loan losses (Note 10-c)	¢	13,752,570,405
Allowance for impairment of other accounts receivable (Note 8)		309,565,662
Allowance for stand-by credit losses (Note 19)		1,000,000
General and counter-cyclical allowance for loan portfolio (Note 7-c)		1,209,469,488
General and counter-cyclical allowance for stand-by credit losses (Note 19)		24,025,568
Allowance for impairment of investments at fair value through other comprehensive income		306,499,198
Allowance for impairment of financial instruments at amortized cost		349,032,217
Allowance for impairment of operations with derivative financial instruments (Note 5)		59,388,592
Allowance for impairment of past due or restricted financial instruments		110,442
Other expenses for sundry assets		170,357
	¢	16,011,831,929

(Continued)

(38) 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 2020
Recovery of loan write-offs	¢	2,507,960,522
Recovery of accounts receivable write-offs		204,322
Decrease in allowance for impairment of other accounts receivable (Note 11)		304,605,669
Decrease in allowance for impairment of investments in financial instruments (Note 8)		335,182,609
	¢	3,147,953,121

(39) Operating income from service fees and commissions

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

		March 2020
Drafts and transfers	¢	2,209,228,410
Certified checks		778,493
Trusts		396,519,086
Custodial services		446,186,616
Banking mandates		41,871
Collections		5,311,477
Credit cards		15,998,198,341
Management services		953,276,362
Management of investment funds		1,621,496,385
Management of pension funds		2,273,144,623
Insurance underwriting		1,900,217,022
Brokerage operations (third parties in local market)		943,180,935
Brokerage operations (third parties in other markets)		71,629,719
Transactions with related parties		32,445,522
Commissions charged to other affiliates due to covenants		2,880,290,391
Servibanca local interchange		5,883,126,515
Other service fees and commissions		2,125,827,127
	¢	37,740,898,895

(40) Other operating income

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

		March 2020
Recovery of expenses		1,747,368,282
Net valuation of other assets (Note 4-c)		117,392,688
Other income from accounts receivable		1,476,553
Savings accounts liquidation		55,450,751
Administrative charges - VISA		397,695,982
Liquidation of term certificate of deposit not claimed		85,351,849
Withholdings from vendors		79,318,123
Excess cash from human teller		50,978,986
Sundry operating income		300,450,956
Decrease in provisions		418,145,209
	¢	3,253,629,379

(41) Expenses for foreclosed assets

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

		March 2020
Property and other assets acquired in lieu of payment	¢	48,313,855
Loss on sale of assets awarded in judicial auctions		330,719,469
Management of assets received in lieu of payment		5,457,410
Management of assets awarded in judicial auctions		1,427,986,098
Loss on impairment of foreclosed assets (Note 12)		29,050,877
Loss on allowance for impairment of foreclosed assets and per legal requirements (Note 12)		5,774,904,189
Other expenses for foreclosed assets		4,949,957
	¢	7,621,381,855

(42) Provision expenses

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

		March 2020
Severance benefits	¢	51,956,554
Pending litigation		143,110,316
“BN Premios” points program		988,494,946
Case of the manager commissions with CCSS		270,978,445
Case of the RIVM contribution		600,920,714
Notice of deficiency		488,901,158
Other provisions		2,896,812
	¢	2,547,258,945

(43) Other operating expenses

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

		March 2020
Donations	¢	-
Fines for noncompliance with legal regulatory provisions		-
Net valuation of other liabilities (Note 4-c)		337,908,510
Value-added tax expense		221,174,040
Income tax on foreign remittances		1,675,614
Income tax (8%) on interest on investments in financial instruments		1,273,236,929
Property tax		63,657,379
Patents		278,794,969
Other local taxes		33,979,382
Transfer to FINADE		572,838,113
Local and international currency exchange		853,646,245
Costs of microfinance insurance policies		800,555,722
Authorization abroad		741,541,477
Base I and II fund disbursements		4,139,214,668
Life insurance policy debit balance		2,055,514,421
Software and license maintenance		1,708,744,575
Sundry operating expenses		1,461,909,555
	¢	14,544,391,599

(Continued)

(44) Personnel expenses

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

		March 2020
Salaries and bonuses, permanent staff	¢	17,961,071,787
Salaries and bonuses, contractors		378,875,893
Compensation for directors and statutory examiners		57,313,271
Overtime		205,947,026
Travel expenses		90,418,073
Statutory Christmas bonus		1,826,439,257
Vacation		1,507,445,106
Incentives		837,431,177
Other compensation		914,556,875
Severance benefits		1,062,825,285
Employer social security taxes		6,924,638,866
Refreshments		93,271,072
Uniforms		20,426,461
Training		65,928,125
Employee insurance		21,163,106
Back-to-school bonus		1,568,697,950
Mandatory retirement savings account		665,529,391
Other personnel expenses		272,710,836
	¢	34,474,689,557

(45) Other administrative expenses

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

		March 2020
Outsourcing	¢	4,062,732,165
Transportation and communications		833,487,955
Infrastructure		6,615,921,877
Overhead		3,263,342,615
	¢	14,775,484,612

(46) Statutory allocations

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

		March 2020
CONAPE 5%	¢	727,681,044
Comisión Nacional de Emergencias 3%		496,863,225
INFOCOOP 10%		992,388,174
Public capital pension operators		571,954,345
RIVM 15%		925,512,658
	¢	3,714,399,446

(47) Fair value of financial instruments

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 2020	
		Carrying amount	Fair value
Financial assets:			
Cash and due from banks	¢	1,220,850,577,363	1,220,850,577,363
Loan portfolio		4,250,549,276,269	4,225,454,487,328
	¢	5,471,399,853,632	5,446,305,064,691
Financial liabilities:			
Demand deposits from the public and financial entities	¢	3,298,145,331,529	3,298,145,331,529
Other demand obligations with the public		16,034,879,867	16,034,879,867
Term deposits from the public and financial entities		3,020,779,847,260	2,979,808,289,435
Obligations for tri-party repurchase agreements		14,562,378,349	14,562,378,349
	¢	6,349,522,437,005	6,308,550,879,180

Fair value estimates

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

(a) Cash and due from banks, demand deposits from customers, obligations from tri-party repurchase agreements and accrued interest payable.

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 dates. Future expected cash flows for loans are discounted at the interest rates offered for similar loans to new borrowers as of March 31, 2020 and 2019.

(c) Term deposits

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

(d) Obligations with entities

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

Fair value estimates are made at a specific date, based on 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)

As of March 31, financial instruments measured at fair value by the level in the fair value hierarchy are as follows:

		March 2020			
		Level 1	Level 2	Level 3	Total
Fair value through other comprehensive income	¢	750,914,441,236	3,965,075,017	-	754,879,516,253
Amortized cost		682,956,590,303	1,414,979,200	-	684,371,569,503
Fair value through profit or loss		5,322,968,174	30,532,338,806	4,538,045,261	40,393,352,241
Derivative financial instruments		-	-	23,613,521,385	23,613,521,385
Term obligations with foreign financial entities		-	-	484,143,859,218	484,143,859,218

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

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

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

		March 2020		
		Available for sale	Derivative financial instruments	Term obligations with foreign financial entities
Opening balance	¢	4,488,288,925	10,742,740,489	489,650,619,452
Repurchases		3,172,700,449	-	-
Valuation		1,868,487,253	12,545,157,523	13,656,651,980
Amortization		-	-	808,045,088
Exchange differences		(1,818,747,310)	325,623,373	(19,971,457,302)
Closing balance	¢	7,710,729,317	23,613,521,385	484,143,859,218

(48) Segments

The Bank 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, 2020							
		Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations	Consolidated
ASSETS									
Cash and due from banks	¢	1,212,903,830,237	8,072,453,431	209,185,220	460,774,026	27,210,654	1,221,673,453,568	822,876,205	1,220,850,577,363
Investments in financial instruments		1,433,193,834,041	60,926,855,644	9,282,448,320	9,719,915,564	4,387,396,566	1,517,510,450,135	11,400,000	1,517,499,050,135
Loan portfolio, net		4,122,570,293,941	-	-	-	-	4,122,570,293,941	-	4,122,570,293,941
Accounts and fees and commissions receivable, net		1,241,146,361	149,446,575	106,844,335	828,040,283	510,093,330	2,835,570,884	56,023,793	2,779,547,091
Fees and commissions		349,319,063	18,878,045	26,251,461	715,412,841	442,228,815	1,552,090,225	50,544,007	1,501,546,218
Brokerage services		-	34	-	-	-	34	-	34
Transactions with related parties		61,630,659	2,033,063	3,441,163	190,519	-	67,295,404	5,479,786	61,815,618
Deferred tax and income tax		695,950,397	122,132,068	67,611,302	105,995,485	65,648,880	1,057,338,132	-	1,057,338,132
Other		4,411,126,094	6,403,365	9,540,409	65,602,340	2,215,635	4,494,887,843	-	4,494,887,843
Accrued interest		8,008,909	-	-	-	-	8,008,909	-	8,008,909
Allowance for impairment of accounts and fees and commissions receivable		(4,284,888,761)	-	-	(59,160,902)	-	(4,344,049,663)	-	(4,344,049,663)
Foreclosed assets, net		25,591,826,192	-	-	-	-	25,591,826,192	-	25,591,826,192
Investments in other companies		110,820,575,742	30,000,000	-	-	-	110,850,575,742	42,090,224,031	68,760,351,711
Property and equipment, net		214,977,018,030	125,098,233	756,487,580	1,016,962,687	120,601,738	216,996,168,268	-	216,996,168,268
Other assets		73,592,245,171	126,136,564	494,214,121	159,846,402	196,248,538	74,568,690,796	-	74,568,690,796
TOTAL ASSETS	¢	7,194,890,769,715	69,429,990,447	10,849,179,576	12,185,538,962	5,241,550,826	7,292,597,029,526	42,980,524,029	7,249,616,505,497
LIABILITIES AND EQUITY									
LIABILITIES									
Obligations with the public	¢	5,327,518,410,357	14,597,221,659	-	-	-	5,342,115,632,016	-	5,342,115,632,016
Obligations with BCCR		125,644,412	-	-	-	-	125,644,412	-	125,644,412
Obligations with entities		990,313,549,549	31,139,518,280	459,785,269	585,784,000	-	1,022,498,637,098	834,276,203	1,021,664,360,895
Demand		85,066,686,889	-	-	-	-	85,066,686,889	822,876,203	84,243,810,686
Term		890,907,751,025	31,095,429,598	459,785,269	585,784,000	-	923,048,749,892	11,400,000	923,037,349,892
(Deferred expenses for own portfolio)		(116,136,265)	-	-	-	-	(116,136,265)	-	(116,136,265)
Finance charges payable		14,455,247,900	44,088,682	-	-	-	14,499,336,582	-	14,499,336,582
Accounts payable and provisions		95,455,224,167	5,279,358,367	924,239,844	1,856,882,012	773,246,356	104,288,950,746	56,023,804	104,232,926,942
Other liabilities		19,949,226,293	-	-	-	-	19,949,226,293	-	19,949,226,293
Subordinated obligations		64,797,395,414	-	-	-	-	64,797,395,414	-	64,797,395,414
TOTAL LIABILITIES	¢	6,498,159,450,192	51,016,098,306	1,384,025,113	2,442,666,012	773,246,356	6,553,775,485,979	890,300,007	6,552,885,185,972

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		As of March 31, 2020							
		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	3,000,000,000	5,836,419,738	369,700,000	188,043,149,840	15,806,119,738	172,237,030,102
Non-capitalized capital contributions		-	-	-	358,505,271	-	358,505,271	358,505,271	-
Equity adjustments		85,544,470,902	759,534,009	165,963,921	45,001,334	-	86,514,970,166	970,499,263	85,544,470,903
Capital reserves		377,114,391,519	1,320,000,000	600,000,000	300,000,000	73,940,000	379,408,331,519	2,293,940,000	377,114,391,519
Prior period retained earnings		18,103,162,108	9,010,604,411	5,062,731,381	2,630,992,265	3,195,422,505	38,002,912,670	19,899,750,561	18,103,162,109
Income for the year		4,688,899,770	723,753,721	636,459,159	571,954,343	829,241,965	7,450,308,958	2,761,409,179	4,688,899,779
FOFIDE		39,043,365,123	-	-	-	-	39,043,365,123	-	39,043,365,123
TOTAL EQUITY	¢	696,731,319,524	18,413,892,141	9,465,154,461	9,742,872,951	4,468,304,470	738,821,543,547	42,090,224,012	696,731,319,535
TOTAL LIABILITIES AND EQUITY	¢	7,194,890,769,716	69,429,990,447	10,849,179,574	12,185,538,963	5,241,550,826	7,292,597,029,526	42,980,524,019	7,249,616,505,507
Debit memoranda accounts	¢	458,189,486,253	133,004,706	100,000	39,762,951	2,840,000	458,365,193,910	-	458,365,193,910
Trust assets	¢	1,858,764,071,944	161,274,582	-	-	-	1,858,925,346,526	-	1,858,925,346,526
Trust liabilities	¢	138,004,353,793	564,137	-	-	-	138,004,917,930	-	138,004,917,930
Trust equity	¢	1,720,759,718,150	160,710,446	-	-	-	1,720,920,428,596	-	1,720,920,428,596
Other debit memoranda accounts	¢	20,706,497,611,189	1,075,177,530,612	494,712,466,841	1,749,219,000,527	-	24,025,606,609,169	-	24,025,606,609,169

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the three months ended March 31, 2020

		Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations	Consolidated
Finance income	¢	143,485,103,758	1,135,795,072	244,833,688	1,207,138,301	48,970,035	146,121,840,854	11,881,990	146,109,958,864
Finance costs		81,461,765,954	365,198,844	32,045,432	15,667,023	9,002,492	81,883,679,745	11,881,992	81,871,797,753
Allowance expense		15,942,885,972	59,388,592	5,251,793	3,975,452	330,120	16,011,831,929	-	16,011,831,929
Income from recovery of assets		3,145,637,351	2,312,920	2,850	-	-	3,147,953,121	-	3,147,953,121
FINANCE INCOME		49,226,089,183	713,520,556	207,539,313	1,187,495,826	39,637,424	51,374,282,303	-	51,374,282,303
Other operating income		44,150,280,216	1,421,596,551	1,623,878,379	2,276,355,514	1,800,598,325	51,272,708,985	3,219,903,641	48,052,805,344
Other operating expenses		33,306,230,414	201,765,317	141,976,793	361,499,661	28,136,450	34,039,608,635	424,802,649	33,614,805,986
GROSS OPERATING INCOME		60,070,138,985	1,933,351,790	1,689,440,899	3,102,351,679	1,812,099,299	68,607,382,653	2,795,100,992	65,812,281,661
Personnel expenses		31,380,078,178	867,500,055	561,769,509	1,133,830,982	531,510,833	34,474,689,557	-	34,474,689,557
Other administrative expenses		14,136,439,925	183,296,829	185,637,465	262,199,483	41,602,714	14,809,176,416	33,691,804	14,775,484,612
Total administrative expenses		45,516,518,103	1,050,796,884	747,406,974	1,396,030,465	573,113,547	49,283,865,973	33,691,804	49,250,174,169
NET OPERATING INCOME BEFORE STATUTORY ALLOCATIONS AND TAXES		14,553,620,881	882,554,906	942,033,925	1,706,321,214	1,238,985,752	19,323,516,679	2,761,409,187	16,562,107,492
Income tax		7,300,695,102	139,634,394	288,316,689	539,914,215	378,878,534	8,647,438,934	-	8,647,438,934
Decrease in income tax		435,322,218	7,309,857	11,002,940	28,691,327	6,304,322	488,630,664	-	488,630,664
Statutory allocations		2,999,348,226	26,476,647	28,261,019	623,143,981	37,169,573	3,714,399,446	-	3,714,399,446
Decrease in allocations		-	-	-	-	-	-	-	-
INCOME FOR THE PERIOD	¢	4,688,899,771	723,753,722	636,459,157	571,954,345	829,241,967	7,450,308,963	2,761,409,192	4,688,899,771

(Continued)

(49) Contingencies

As of March 31, 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:

	2020	Phase		2020
Banco				
Nacional	354	First instance	¢	260,283,301,146
de Costa Rica	16	Second instance		18,611,486,536
	9	Appeal		5,720,491,698
	379			284,615,279,380
BN Vital	7	First instance		39,762,952
BN Valores	1	First instance		133,004,706
BN SAFI	1			100,000
BN Corredora	1			2,840,000
	389	(Note 25)	¢	284,790,987,038

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

As of March 31, the Bank is a claimant in ordinary, labor and criminal lawsuits for which the outcome is uncertain. These are not booked in the accounting records.

2020	Phase		2020
283	First instance	¢	55,114,085,197
1	Second instance		375,839,600
284		¢	55,489,924,797

Additionally, the Bank is a defendant in one lawsuit related to the payment of SEDI. The file for such proceedings is File No. 5-008666-1027-CA of the Administrative Court, at 10:45 hours of November 20, 2015, received on December 15, 2015. As of March 31, 2020, the Bank booked a provision in the amount of ¢866,518,115 for that lawsuit

The following lawsuits are also worth noting:

- *File No. 14-003379-1027-CA*

  ✓ Statement of facts: The plaintiffs seek the payment of damages by the Bank to all the plaintiffs as well as compensation for pain and suffering caused due to the inability to acquire decent housing, as a result of apparent anomalies regarding the management of credits for Grupo Zion, S.A. to build the Bariloche Real condominium. Additionally, it has had media coverage.

  ✓ Current status: The resolution of April 10, 2018 at 17:15 ordered the separation of the case into separate files for each of the group 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. The plaintiff's attorney resigned from its legal representation; therefore, the processes are currently suspended while a new attorney is appointed.

(Continued)

- *File No. 08-000388-0419-AG*

  - ✓ Court: Agrarian Court of Corredores
  - ✓ Statement of facts: The proceedings seek to declare the liability of CORBANA, as Trustee of a banana plantation Management Trust, in which the Bank was the Trust Beneficiary.
  - ✓ Current status: Vote No. 055-F-18 of January 31, 2018, at 11:55, denied the negative statute of limitations exception, in its commercial and decennial common modality. The judge of first instance must issue a ruling on the appeal concerning new facts and claims of the case, as applicable. Since the parties were not in conformity with the resolution, all parties filed appeals for review before the First Chamber. As of the date of this report, this case remains the same.

- *File No. 08-000232-0419-AG*

  - ✓ Court: Agrarian Court of Corredores
  - ✓ Statement of facts: This process was filed by the Bank against Surcoop R.L. It seeks to nullify the auction, awarding and registration of lots of the Agrarian Court of Corredores processed through file No. 97-010656-1701 AG.
  - ✓ Current status: The Bank appeared before the First Chamber in relation to the appeal for review filed by the plaintiff. A resolution by the First Chamber is pending.

- *File No. 11-001042-0612-PE.*

  - ✓ Court: Office of Economic, Tax and Customs Crimes
  - ✓ Statement of facts: Irregularities were reported with respect to the company Zion and the process to grant credits to that company, misuse of resources, presentation of fake documents to the Bank to obtain credit approval and the apparent participation of some of the employees of Bank.

(Continued)

- ✓ Current status: The public prosecutor's office filed an accusation, but it was not communicated to the Bank since it is not considered a victim. A motion for declaration of procedural defects was filed, so that the accusation can be brought to the Bank's attention. In a hearing scheduled for September 12, 2019, the declaration of procedural defects filed by BNCR will be heard. There is a civil lawsuit against the Bank, but it does not hold because the accused (bank employees) were summoned to a testimony. Until the legal status of those individuals is defined, they cannot be part of a civil lawsuit.

- *File No. 08-000350-0419-AG.*

  - ✓ Statement of facts: This proceeding seeks annulment of the judicial auction, award and registration of plots No. 79045-000, No. 79046-000 and No.134130-000.
  - ✓ Current status: Vote No. 001581-F-S1-2019 made at 11:36 hrs. of July 24, 2019 by the First Chamber of the Supreme Court of Justice rejected the appeal, thus confirming the resolution which had rejected the lawsuit in all respects.

(50) Significant events

Subsequent events due to the emergency caused by COVID-19

a) Operating measures

- The Bank has permanently encouraged customers to use digital channels: BN MOVIL, SINPE MOVIL, webpage and Contact Center.

- Changes in schedules for all service offices:
  i. Attention to the public was reduced by one hour, seeking to reduce the exposure for both employees and customers.
  ii. The first hour and a half of the schedule was established every day for exclusive attention to the elderly, extended to two hours and a half during pension payment days, when offices will open one hour before the regular schedule.
  iii. The elderly or disabled customers are given preferred attention during the entire office hours.
  iv. A decision was made to not provide the services offered within the service network during the weekends, except for ATMs.

(Continued)

- Hygiene measures were reinforced 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 2,472 teleworkers, representing 44% of total employees. All teleworkable positions have been implemented.
- According to each office's physical space capacity, the maximum number of customers was established, and protection screens are used to avoid contact.
- Of the total Autobanks not in operation, a number of 17 were activated.
- A number of 462 employees was identified as having health conditions according to the Ministry of Health. That population was separated from processes involving attention to the public, the majority of them are working from home.
- The Bank's Emergency Institutional Commission meets on an ongoing basis to implement the measures recommended by the Ministry of Health.

b) Measures to support customers with credits

On March 20, the Bank announced a program to support different credit customer segments in order to contribute to the mitigation of the negative effects caused by the COVID-19 pandemic crisis. Segments are as follows:

- Individuals with housing, consumption or vehicle loans. Non-salaried, physical borrowers may dispense with loan installments for the next three months, with those installments being transferred to the final loan installment. As in the small- and medium-sized enterprise program, this adjustment is automatic. The customers that do not wish to take the benefit can continue to pay their installments normally by informing so through enabled channels.
- Credit card customers. Starting April 2020, non-salaried credit card borrowers will have the minimum payments of their installments for the following three months transferred to monthly installments payable after the fourth month.

(Continued)

- 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.

This program was effective since March 26. The Bank has identified approximately 107,000 loans operations that could benefit from these support measures. The Bank has made the necessary adjustments to its systems to ensure correct control and accounting record derived from previous assistance programs.

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

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

c) Liquidity measures

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

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

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

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

The provisions of RFI are applicable to entities regulated by SUGEF, SUGEVAL, SUPEN and SUGESE, to controlling entities and entities of groups and financial conglomerates, to funds managed by the latter, to the trusts and management funds they use to perform financial intermediation activities, and to non-financial issuers or special-purpose vehicles authorized by SUGEVAL to perform public offerings of securities.

IFRS and its interpretations will be fully applied by the entities established in RFI, except for the prudential or regulatory treatments established therein.

For financial entities, the new IFRS issued by IASB, or its amendments, will be incorporated in the accounting process of regulated entities. However, early application as of the effective date is not permitted, unless CONASSIF authorizes so through an agreement or amendment to RFI.

Following is a detail of some of the main differences between the accounting standards issued by CONASSIF and IFRS, as well as the IFRS or Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) yet to be adopted:

a) IAS 1: Presentation of Financial Statements

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

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

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

b) IAS 7: Statement of Cash Flows

CONASSIF has only authorized preparation of the cash flow statement using the indirect method. The direct method is also acceptable under this Standard. In addition, this Standard requires disclosure of the changes in the liabilities that arise from financing activities derived from cash flows as well as those that do not entail cash flows, for example exchange rate variations.

(Continued)

c) IAS 12: Income Taxes

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

d) IAS 16: Property, Plant and Equipment

The regulations issued by CONASSIF require that property be accounted for based on the revaluation method, eliminating the option to carry these assets at cost or to revalue other types of assets.

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

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

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

f) IAS 27: Consolidated and Separate Financial Statements

CONASSIF requires that the financial statements of a parent be presented separately, measuring its investments by the equity method. IAS 27 requires presentation of consolidated financial statements. A parent need not present consolidated financial statements when the ultimate or any intermediate parent of the parent produces consolidated financial statements available for public use, provided certain other requirements are also met. However, IAS 27, effective as of 2011, requires that investments be accounted for at cost. With the amendments to IAS 27 effective starting 2014, in the preparation of separate financial statements investments in subsidiaries and associates can be measured at cost according to IFRS 9 or using the equity method described in IAS 28. However, the amendments to IAS 27 have not been adopted by CONASSIF.

(Continued)

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

g) IAS 28: Investments in Associates

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

h) Revised IAS 32: Financial Instruments - Presentation

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

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

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

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

SUGEF prescribes recognition of a provision for possible losses on contingent assets. This type of provision is prohibited under IAS 37.

k) IAS 38: Intangible Assets

The commercial banks listed in Article 1 of IRNBS (Law No. 1644) may present organization and installation expenses as an asset in the balance sheet. However, those expenses must be fully amortized 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.

l) IAS 39: Financial Instruments: Recognition and Measurement

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

- The option of classifying loans and receivables as available for sale was established.
- Securities quoted in an active market may be classified as available for sale, trading or held to maturity.
- The "fair value option" was established to designate any financial instrument to be measured at fair value through profit or loss, provided a series of requirements are met (e.g. the instrument has been measured at fair value since the original acquisition date).
- The category of loans and receivables was expanded to include purchased loans and receivables that are not quoted in an active market.

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

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

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

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

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

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

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

The above classifications do not necessarily adhere to the provisions of IAS 39.

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

m) IAS 40: Investment Property

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

n) Revised IFRS 3: Business Combinations

This Standard establishes that a business combination between entities under common control can be performed at cost or at fair value. CONASSIF only permits booking of these transactions measuring the assets and liabilities at fair value.

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

CONASSIF requires booking an allowance of one-twenty-fourth of the value of non-current assets classified as available for sale each month, so that if they are not sold within two years from acquisition, an allowance is recognized equivalent to 100% of the assets' carrying amount. IFRS 5 requires that these assets be recorded at the lower of the carrying amount or fair value less costs to sell, discounted to the present value of the assets that will be sold in periods greater than one year. Accordingly, assets could be understated, with excess allowances.

(Continued)

p) IFRS 9: Financial Instruments

CONASSIF requires that the loan portfolio be classified pursuant to SUGEF Directive 1-05 and that the allowance for loan losses be determined based on that classification. It also allows excess allowances to be booked. Additionally, June 17, 2016, through Official Letter SGF-1729-2016, CONASSIF approves SUGEF Directive 19-16 *Regulations to Determine and Book Counter-cyclical Allowances,* which obligates SUGEF-regulated entities to book a general allowance applied to the loan portfolio that have no indication of current impairment to mitigate the effects of the economic cycle on the financial results derived from the allowance for nonpayment of the loan portfolio.

This Standard requires that allowance for loan losses to be determined through a financial analysis of expected losses. This Standard also prohibits the booking of provisions for contingent accounts. Any excess allowance must be reversed in the consolidated income statement.

q) IFRS 13: Fair Value Measurement

The Regulations set forth that the valuation at fair value of the portfolio of financial assets and financial liabilities exposed to market and credit risks will be performed individually. Measurement made on the basis of the entity's net exposure to risk is not admissible.

r) IFRS 17: Insurance Contracts

This Standard was approved in March 2017. It establishes the guidelines for recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied by to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This Standard replaces IFRS 4 Insurance Contracts. It is effective for annual periods beginning on or after January 1, 2021. Early application is permitted for those entities that will perform the early adoption of IFRS 9 and IFRS 15. This Standard has not been adopted by CONASSIF.

s) IFRIC 23: Uncertainty over Income Tax Treatments

The Interpretation clarifies application of recognition and measurement requirements in IAS 12 *Income Taxes* when there is uncertainty over income tax treatments. In these circumstances, an entity shall recognize and measure its current or deferred tax assets or liabilities applying the requirements of IAS 12 on the taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined applying this Interpretation.

The Regulations provide that in the event of a dispute of a specific tax treatment by the Tax Authorities, which begins with a notice of deficiency, the entity must:

a. Book against profit or loss for the period in the case that, in accordance with the assessment made by senior management, a conclusion is reached that the entity has an obligation of immediate enforceability with the Tax Administration.

b. Book a provision for those treatments not considered in the items above; the amount must reflect the uncertainty of each tax treatment in dispute, according to the method that best predicts its resolution as established in IFRIC 23.

(52) Disclosures 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.