

**BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES**

Financial Information required by the  
Superintendency General of Financial Entities

Consolidated Financial Statements

As of March 31, 2021  
*(With corresponding figures for 2020)*

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

	Note	March 2021	December 2020	March 2020
<b>ASSETS</b>				
<b>Cash and due from banks</b>	<b>9</b>	<b>1,351,896,042,338</b>	<b>1,383,902,440,319</b>	<b>1,220,850,577,363</b>
Cash		117,204,465,424	99,375,577,345	67,794,466,645
BCCR		844,460,001,291	822,607,349,488	779,680,824,237
Local financial entities		858,023,222	1,403,645,589	1,709,844,304
Foreign financial entities		383,552,781,408	452,827,309,776	364,442,033,153
Notes payable on demand		5,621,779,742	6,280,622,565	5,511,107,727
Restricted cash and due from banks		198,991,251	1,407,935,556	1,712,301,297
<b>Investments in financial instruments</b>	<b>10</b>	<b>1,723,341,420,108</b>	<b>1,388,856,750,831</b>	<b>1,517,499,050,137</b>
At fair value through profit or loss		28,123,927,636	23,465,673,087	40,393,352,241
At fair value through other comprehensive income		873,339,474,631	849,337,898,903	794,103,923,426
At amortized cost		792,898,035,613	483,076,553,779	645,147,162,359
Derivative financial instruments	<b>11</b>	14,893,124,197	15,753,371,710	23,613,668,181
Accrued interest receivable		15,505,448,459	19,648,169,663	14,575,005,874
(Allowance for impairment of investments in financial instruments)		(1,418,590,428)	(2,424,916,311)	(334,061,944)
<b>Loan portfolio</b>	<b>12</b>	<b>4,241,994,561,532</b>	<b>4,296,577,338,170</b>	<b>4,122,570,293,942</b>
Current		3,949,608,701,110	4,116,568,006,084	3,886,778,739,858
Past due		209,854,430,023	84,141,099,223	207,807,226,153
In legal collection		148,789,966,029	158,003,288,313	146,532,225,205
Incremental direct costs related to loans		3,657,662,021	3,756,519,754	4,003,862,440
(Deferred income on loan portfolio)		(33,230,117,422)	(33,106,164,873)	(33,110,026,780)
Accrued interest receivable		126,111,930,250	122,742,551,278	38,537,249,393
(Allowance for loan losses)		(162,798,010,479)	(155,527,961,609)	(127,978,982,327)
<b>Accounts and fees and commissions receivable</b>	<b>13</b>	<b>4,157,336,923</b>	<b>3,540,248,917</b>	<b>2,779,547,092</b>
Fees and commissions receivable		1,615,822,407	1,378,393,151	1,501,546,218
Accounts receivable for brokerage operations		2,596,779	5,728,706	34
Accounts receivable for transactions with related parties		17,573,873	19,025,296	61,815,619
Deferred tax and income tax receivable		1,893,154,575	2,026,008,000	1,057,338,132
Other receivables		4,780,074,354	4,326,039,872	4,494,887,843
Accrued interest receivable		2,992,171	2,991,594	8,008,909
(Allowance for impairment of accounts and fees and commissions receivable)		(4,154,877,236)	(4,217,937,702)	(4,344,049,663)
<b>Foreclosed assets</b>	<b>14</b>	<b>32,615,486,722</b>	<b>32,365,899,015</b>	<b>25,591,826,192</b>
Assets and securities acquired in lieu of payment		98,963,202,112	98,844,527,473	95,058,307,713
Other available-for-sale assets		55,884,629	55,884,629	55,884,629
(Allowance for impairment of foreclosed assets and per legal requirements)		(66,403,600,019)	(66,534,513,087)	(69,522,366,150)
<b>Investments in other companies</b>	<b>15</b>	<b>72,356,624,615</b>	<b>72,427,044,877</b>	<b>68,760,351,711</b>
<b>Property, furniture and equipment, net</b>	<b>16</b>	<b>209,297,110,337</b>	<b>213,220,001,233</b>	<b>216,996,168,266</b>
<b>Other assets</b>	<b>17</b>	<b>69,584,622,804</b>	<b>99,224,929,910</b>	<b>74,568,690,794</b>
Deferred charges		39,575,455,272	43,321,227,963	54,483,583,867
Intangible assets		4,775,429,958	5,300,401,472	6,146,153,144
Other assets		25,233,737,574	50,603,300,475	13,938,953,783
<b>TOTAL ASSETS</b>		<b>7,705,243,205,379</b>	<b>7,490,114,653,272</b>	<b>7,249,616,505,497</b>

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

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

<b>LIABILITIES AND EQUITY</b>	<b>Note</b>	<b>March 2021</b>	<b>December 2020</b>	<b>March 2020</b>
<b>LIABILITIES</b>				
Obligations with the public	18	5,791,047,848,509	5,634,090,139,712	5,342,115,632,016
Demand obligations		3,629,323,149,867	3,553,063,486,246	3,184,288,845,272
Term obligations		2,129,196,453,707	2,036,536,524,256	2,097,616,852,957
Other obligations		-	7,873,700,508	14,562,378,349
Finance charges payable		32,528,244,935	36,616,428,702	45,647,555,438
Obligations with BCCR	19	70,273,029,901	8,126,311,079	125,644,412
Term obligations		70,223,644,412	8,125,644,412	125,644,412
Finance charges payable		49,385,489	666,667	-
Obligations with entities	20	962,030,952,466	921,247,445,981	1,021,664,360,894
Demand obligations		58,546,717,233	65,275,408,256	84,243,810,686
Term obligations		890,948,861,227	850,885,682,288	923,037,349,891
Deferred commissions		(163,611,738)	(49,567,474)	(116,136,265)
Finance charges payable		12,698,985,744	5,135,922,911	14,499,336,582
Accounts payable and provisions		99,726,478,452	130,862,868,189	104,232,926,945
Provisions	22	23,050,364,329	28,641,885,395	32,371,664,010
Accounts payable for brokerage services		1,378,390,575	1,683,288,201	2,926,036,386
Deferred tax	21-b	16,589,908,561	24,275,593,286	14,302,004,805
Other sundry accounts payable	23	58,707,814,987	76,262,101,307	54,633,221,744
Other liabilities	24	14,766,698,141	37,052,115,137	19,949,226,291
Deferred income		79,422,254	72,347,267	49,568,930
Other liabilities		14,687,275,887	36,979,767,870	19,899,657,361
Subordinated obligations	25	53,526,176,497	60,950,013,196	64,797,395,414
Subordinated obligations		53,113,612,500	59,878,100,000	64,170,172,500
Finance charges payable		412,563,997	1,071,913,196	627,222,914
<b>TOTAL LIABILITIES</b>		<b>6,991,371,183,966</b>	<b>6,792,328,893,294</b>	<b>6,552,885,185,972</b>
<b>EQUITY</b>				
Share capital		172,237,030,102	172,237,030,102	172,237,030,102
Paid-in capital	26-a	172,237,030,102	172,237,030,102	172,237,030,102
Equity adjustments - Other comprehensive income		88,728,926,183	79,402,840,338	85,544,470,902
Reserves	26-b	365,326,869,312	381,362,590,326	377,114,391,519
Prior-period retained earnings		39,292,322,364	11,005,359,016	18,103,162,108
Income for the period		6,599,369,430	14,734,575,073	4,688,899,771
Capital contributions or special funds	26-c	41,687,504,022	39,043,365,123	39,043,365,123
<b>TOTAL EQUITY</b>		<b>713,872,021,413</b>	<b>697,785,759,978</b>	<b>696,731,319,525</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>7,705,243,205,379</b>	<b>7,490,114,653,272</b>	<b>7,249,616,505,497</b>
<b>DEBIT MEMORANDA ACCOUNTS</b>	27	486,332,881,632	481,372,304,314	458,365,193,910
<b>TRUST ASSETS</b>	28	2,317,507,871,924	2,001,643,523,415	1,858,925,346,526
<b>TRUST LIABILITIES</b>		132,171,231,373	138,640,927,340	138,004,917,930
<b>TRUST EQUITY</b>		2,185,336,640,551	1,863,002,596,075	1,720,920,428,596
<b>TRUST MEMORANDA ACCOUNTS</b>		165,222,188,395	159,832,530,404	122,164,314,747
<b>OTHER DEBIT MEMORANDA ACCOUNTS</b>	29	27,439,925,866,053	26,668,196,780,571	24,025,606,609,169
Own debit memoranda accounts		8,070,286,683,910	8,317,223,534,996	7,100,809,345,121
Third-party debit memoranda accounts		4,244,159,792,220	4,073,331,070,341	3,529,153,101,519
Own debit memoranda accounts for custodial activities		760,339,379,626	654,639,927,606	754,533,553,090
Third-party debit memoranda accounts for custodial activities		14,365,140,010,297	13,623,002,247,628	12,641,110,609,439

Bernardo Alfaro Araya  
General Manager

Alejandra Morales Centeno  
General Accountant  
CPI 21119

Ricardo Araya Jiménez  
General Auditor

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



BANCO NACIONAL DE COSTA RICA  
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE THREE MONTHS ENDED MARCH 31, 2021 AND 2020  
(In colones)

	Note	March 2021	March 2020
<b>Finance income</b>			
Cash and due from banks	33	203,160,407	1,310,525,032
Investments in financial instruments	33	15,757,643,421	19,544,215,271
Loan portfolio	34	89,698,387,152	105,370,313,507
Gain on financial instruments at fair value through profit or loss		50,140,072	1,293,679,732
Gain on financial instruments at fair value through other comprehensive income		3,788,985,514	1,852,109,693
Gain on derivative financial instruments, net	11	-	13,738,097,414
Other finance income	35	3,136,755,135	3,001,018,215
<b>Total finance income</b>		<b>112,635,071,701</b>	<b>146,109,958,864</b>
<b>Finance costs</b>			
Obligations with the public	36	33,060,851,788	50,606,250,585
Obligations with BCCR		50,997,364	-
Obligations with financial and non-financial entities	37	10,569,453,507	13,396,811,707
Subordinated, convertible and preferred obligations		806,783,522	1,276,116,876
Loss on foreign exchange differences and DU, net	6-c	10,508,767	913,551,574
Loss on financial instruments at fair value through profit or loss		1,064,437	1,292,966,684
Loss on financial instruments at fair value through other comprehensive income		21,635,748	166,631,252
Loss on derivative financial instruments, net	11	647,486,231	-
Other finance costs	38	442,637,823	14,219,469,075
<b>Total finance costs</b>		<b>45,611,419,187</b>	<b>81,871,797,753</b>
Allowance for impairment of assets	39	18,630,840,598	16,011,831,929
Recovery of assets and decrease in allowances	40	4,316,486,931	3,147,953,121
<b>FINANCE INCOME</b>		<b>52,709,298,847</b>	<b>51,374,282,303</b>
<b>Other operating income</b>			
Service fees and commissions	41	35,980,603,451	37,740,898,895
Foreclosed assets		842,784,815	215,688,503
Gain on investments in other companies	8	184,690,752	540,883,142
Foreign currency exchange and arbitrage		5,216,794,788	6,301,705,425
Other income from related parties		2,063,325	-
Other operating income	42	2,234,788,335	3,253,629,379
<b>Total other operating income</b>		<b>44,461,725,466</b>	<b>48,052,805,344</b>

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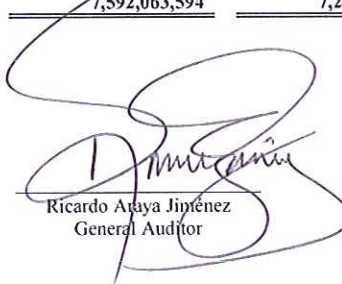


BANCO NACIONAL DE COSTA RICA  
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE THREE MONTHS ENDED MARCH 31, 2021 AND 2020  
(In colones)

	Note	March 2021	March 2020
<b>Other operating expenses</b>			
Service fees and commissions		8,257,980,372	8,834,902,713
Foreclosed assets	43	2,218,338,576	7,621,381,855
Provisions	44	1,467,989,051	2,547,258,945
Bonuses on fees and commissions of voluntary pension funds		104,685,209	61,154,149
Foreign currency exchange and arbitrage		1,440	766,265
Other expenses with related parties		3,771,884	4,950,460
Other operating expenses	45	13,765,801,751	14,544,391,599
<b>Total other operating expenses</b>		<b>25,818,568,283</b>	<b>33,614,805,986</b>
<b>GROSS OPERATING INCOME</b>		<b>71,352,456,030</b>	<b>65,812,281,661</b>
<b>Administrative expenses</b>			
Personnel expenses	46	34,069,927,369	34,474,689,557
Other administrative expenses	47	16,818,907,387	14,775,484,612
<b>Total administrative expenses</b>		<b>50,888,834,756</b>	<b>49,250,174,169</b>
<b>NET OPERATING INCOME BEFORE TAXES AND STATUTORY ALLOCATIONS</b>		<b>20,463,621,274</b>	<b>16,562,107,492</b>
Income tax	21-a	5,846,757,445	8,489,055,418
Prior period income tax	21-a	3,547,309,483	-
Deferred tax	21-a	418,875,596	158,383,520
Deferred tax income	21-a	484,070,201	488,630,663
Statutory allocations	48	4,535,379,521	3,714,399,446
<b>INCOME FOR THE PERIOD</b>		<b>6,599,369,430</b>	<b>4,688,899,771</b>
<b>OTHER COMPREHENSIVE INCOME, NET OF TAX</b>			
<b>Items that will not be reclassified to profit or loss</b>			
Surplus from revaluation of property		48,241,849	(11,176,383)
Other adjustments		197,909,184	1,586,349,510
<b>Items that are or may be subsequently reclassified to profit or loss</b>			
Adjustment for valuation of investments at fair value through other comprehensive income		749,411,941	987,241,701
Adjustment for valuation of restricted financial instruments		(2,868,810)	(18,246,967)
<b>OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX</b>		<b>992,694,164</b>	<b>2,544,167,861</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>7,592,063,594</b>	<b>7,233,067,632</b>

  
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**BANCO NACIONAL DE COSTA RICA**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY, NET**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2020**  
(In colones)

Note	Share capital	Equity adjustments - Other comprehensive income	Reserves	Capital contributions in special funds	Prior-period retained earnings	TOTAL
Balance at December 31, 2019	172,237,030,102	83,000,303,041	348,798,402,459	34,648,535,964	53,253,753,772	691,938,025,338
Changes in accounting policies	-	-	-	-	(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	-
Equity of special 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	10	987,241,701	-	-	-	987,241,701
Adjustment for valuation of restricted financial instruments	10	(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	26	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  
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY, NET  
FOR THE THREE MONTHS ENDED MARCH 31, 2021  
(In colones)

Balance at December 31, 2020

Changes in accounting policies

Balance at January 1, 2020

Transactions with owners booked directly in equity:

Legal reserves

Other statutory reserves

Equity of special funds

Total transactions with owners booked directly in equity

Comprehensive income for the period:

Income for the period

Surplus from revaluation of property

Adjustment for valuation of investments at fair value through other comprehensive income

Adjustment for valuation of restricted financial instruments

Other adjustments

Realization of surplus from revaluation of property

Total comprehensive income for the period

Balance at March 31, 2021

Note	Share capital	Equity adjustments - Other comprehensive income	Reserves	Capital contributions in special funds	Prior-period retained earnings	TOTAL
	172,237,030,102	79,402,840,338	381,362,590,326	39,043,365,123	25,739,934,089	697,785,759,978
10	-	8,494,197,840	-	-	-	8,494,197,840
	172,237,030,102	87,897,038,178	381,362,590,326	39,043,365,123	25,739,934,089	706,279,957,818
	-	-	(16,063,811,692)	-	16,063,811,692	-
	-	-	28,090,678	-	(28,090,678)	-
	-	-	-	2,644,138,899	(2,644,138,899)	-
	-	-	(16,035,721,014)	2,644,138,899	13,391,582,115	-
	-	-	-	-	6,599,369,430	6,599,369,430
10	-	48,241,849	-	-	-	48,241,849
10	-	749,411,941	-	-	-	749,411,941
	-	(2,868,810)	-	-	-	(2,868,810)
	-	197,909,185	-	-	-	197,909,185
	-	(160,806,160)	-	-	160,806,160	-
	-	831,888,005	-	-	6,760,175,590	7,592,063,595
26	172,237,030,102	88,728,926,183	365,326,869,312	41,687,504,022	45,891,691,794	713,872,021,413

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BANCO NACIONAL DE COSTA RICA  
CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE THREE MONTHS ENDED MARCH 31, 2021 AND 2020  
(In colones)

	Note	March 2021	March 2020
<b>Cash flows from operating activities</b>			
Income for the period		6,599,369,430	4,688,899,771
<b>Items not requiring cash</b>			
Depreciation and amortization		5,386,302,812	6,063,739,807
Loss (gain) on foreign exchange differences and DU, net		(3,362,471,568)	20,217,268,180
Loss (gain) on sale of non-financial assets		928,720,495	(379,033,324)
Finance income		(105,456,030,573)	(124,914,528,778)
Finance costs		33,403,882,682	48,410,502,899
Allowance for investments, net		(357,400,682)	379,847,840
Allowance for loan losses and stand-by credits, net		17,050,882,005	12,479,104,939
Allowance for other accounts receivable, net		(13,945,043)	4,755,671
Gain (loss) on allowance for foreclosed assets, net		(130,913,067)	5,803,955,065
Provision for severance benefits		20,007,132	(51,956,554)
Other provisions		5,564,651,706	(676,930,875)
Share of net profit in foreign associate, net		(852,154,692)	(540,883,138)
Statutory allocations, net		4,535,379,521	3,714,399,446
Income tax expense, net	21-a	9,394,066,928	8,489,055,418
Deferred tax	21-a	(65,194,605)	(330,247,143)
		<u>(27,354,847,519)</u>	<u>(16,642,050,776)</u>
<b>Cash flows from operating activities</b>			
Loan portfolio		34,081,783,429	101,121,200,182
Accounts and fees and commissions receivable		(2,436,731,374)	(286,071,352)
Foreclosed assets		3,031,430,038	2,864,117,401
Other assets		29,108,116,526	15,692,679,996
Obligations with the public		161,984,546,530	36,547,554,303
Obligations with BCCR and other entities		10,323,818,536	37,888,625,172
Obligations for accounts payable, fees and commissions payable and provisions		(4,332,721,138)	(1,818,789,221)
Other liabilities		(14,392,846,712)	(86,869,023,350)
Income tax paid		(17,327,984,862)	(20,254,140,802)
Interest received on loan portfolio and investments		106,229,372,805	126,666,532,968
Interest paid on term obligations with the public and financial entities		(29,880,284,794)	(45,324,145,277)
Statutory allocations paid		(12,320,255,489)	(17,158,214,687)
<b>Net cash from operating activities</b>		<u>236,713,395,976</u>	<u>132,428,274,557</u>
<b>Cash flows from investing activities</b>			
Increase in financial instruments		(412,405,491,351)	(1,540,887,872,432)
Decrease in financial instruments		234,455,550,971	1,373,656,763,614
Acquisition of property, furniture and equipment		(13,835,791,047)	(3,076,910,547)
Sale of property, furniture and equipment		549,509,042	31,740,127
Acquisition of intangible assets		(505,518,743)	(2,792,350,909)
<b>Net cash used in investing activities</b>		<u>(191,741,741,128)</u>	<u>(173,068,630,147)</u>
<b>Cash flows from financing activities</b>			
Settlement of financial obligations		(9,339,300,714)	(1,405,798,328)
New financial obligations		94,790,000,000	3,867,275,390
Payment of lease liabilities		(456,074,171)	-
<b>Net cash from financing activities</b>		<u>84,994,625,115</u>	<u>2,461,477,062</u>
<b>Net increase in cash and cash equivalents</b>		<u>129,966,279,962</u>	<u>(38,178,878,528)</u>
<b>Cash and cash equivalents at beginning of period</b>		<u>1,483,188,630,362</u>	<u>1,395,702,680,764</u>
<b>Cash and cash equivalents at end of period</b>	9	<u><u>1,613,154,910,324</u></u>	<u><u>1,357,523,802,236</u></u>

Bernardo Alfaro Araya  
General Manager

Alejandra Morales Centeno  
General Accountant  
CPI 21119

Ricardo Araya Jiménez  
General Auditor

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



# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

As of March 31, 2021

### (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. It seeks to become the leading bank in Costa Rica, strengthening its decisive role in the country's development and wellbeing; significantly promote profitability; offer superior services to the customer at prices aligned with the market; have exemplary organizational health and financial strength.

As of March 31, 2021, the Bank has 156 offices, 462 ATM's, and along with its subsidiaries a total of 5,532 employees (2020: 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 - 5,095 employees (2020: 5,168); BN Valores Puesto de Bolsa, S.A. - 69 employees (2020: 69); BN Vital Operadora de Planes de Pensiones Complementarias, S.A. - 182 employees (2020: 182); BN Sociedad Administradora de Fondos de Inversión, S.A. - 86 employees (2020: 86); and BN Sociedad Corredora de Seguros, S.A. - 100 employees (2020: 101). The Bank's website is [www.bncr.fi.cr](http://www.bncr.fi.cr).

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

The following subsidiaries are wholly owned by the Bank:

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

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

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

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

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

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

(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

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

		March 2021				
		BN Valores Puesto de Bolsa, S.A.	BN Sociedad Administradora de Fondos de Inversión, S.A.	BN Vital Operadora de Planes de Pensiones Complementarias S.A.	BN Sociedad Corredora de Seguros, S.A.	Banco Internacional de Costa Rica, S.A.
Assets	¢	38,599,656,573	12,318,542,531	11,826,418,455	8,865,873,785	523,805,058,649
Liabilities		21,288,296,331	1,878,892,281	1,118,834,005	824,747,428	451,499,057,310
Equity		17,311,360,242	10,439,650,250	10,707,584,450	8,041,126,357	72,306,001,339
Income for the period		855,969,233	452,400,011	766,995,405	866,567,686	180,642,638
Memoranda accounts		1,145,894,038,696	1,958,946,706,968	652,526,148,001	-	-
		December 2020				
		BN Valores Puesto de Bolsa, S.A.	BN Sociedad Administradora de Fondos de Inversión, S.A.	BN Vital Operadora de Planes de Pensiones Complementarias S.A.	BN Sociedad Corredora de Seguros, S.A.	Banco Internacional de Costa Rica, S.A.
Assets	¢	49,576,661,728	11,093,309,837	12,218,697,173	8,106,052,844	562,510,298,505
Liabilities		31,045,542,773	1,289,254,469	2,507,717,325	931,494,174	490,133,876,894
Equity		18,531,118,955	9,804,055,368	9,710,979,848	7,174,558,670	72,376,421,611
Income for the period		2,565,073,680	2,691,762,046	1,337,726,758	3,537,361,479	866,529,479
Memoranda accounts		1,199,940,596,159	599,339,040,487	1,870,044,097,261	-	-
		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 period		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)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(2) Basis of accounting

(a) Basis of accounting

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

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

(b) Basis of measurement

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

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

(3) Functional and presentation currency

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

(Continued)



## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### (4) Use of estimates and judgments

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

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

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

##### *a- Judgments*

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

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

##### *b- Assumptions and estimation uncertainties*

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the period ended March 31, 2021 is related to the impairment of financial instruments.

##### *(i) Fair value measurement*

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

(5) Significant accounting policies

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

(a) Basis of consolidation

*i. Subsidiaries*

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

*ii. Non-controlling interests*

Non-controlling interests are measured initially at their proportionate share of the acquiree’s identifiable net assets at the date of acquisition. As of March 31, 2021, the Bank has 49% interest in Banco Internacional de Costa Rica, S.A. and Subsidiary (BICSA), a Panamanian entity.

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

*iii. Loss of control*

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

*iv. Interests in equity-accounted investees*

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

v. *Transactions eliminated on consolidation*

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

(b) Foreign currency

i. *Foreign currency transactions*

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

ii. *Monetary unit and foreign exchange regulations*

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

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

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

As of March 31, 2021, assets and liabilities in US dollars are valued at the exchange rate of ¢615.81 to US\$1.00 (2020: ¢587.37 to US\$1.00), which is the reference selling rate established by BCCR.

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

As of March 31, 2021, assets and liabilities denominated in euro are valued at the exchange rate of ¢669.26 to €1.00 (2020: ¢643.17 to €1,00), which is obtained by multiplying the international Reuter exchange rate by the reference rate set by BCCR for the sale of US dollars on the last business day of the month.

As of March 31, 2021, assets and liabilities denominated in Development Units (DU) were valued at the exchange rate of ¢924.97 to DU1.00 (2020: ¢917.56 to DU1.00). This exchange rate is based on the DU value tables published by SUGEVAL.

#### *iv. Foreign operations*

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

- Monetary assets and liabilities denominated in US dollars have been translated at the closing exchange rate.
- Non-monetary assets and liabilities have been translated at the exchange rate in effect on the transaction date (historical 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) Recognition and initial measurement*

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

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

(Continued)



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(ii) Classification and subsequent measurement

Financial assets

*Classification*

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

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

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

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

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

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

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

#### *Business model assessment*

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

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

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### *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. However, the principal may change over time (e.g. if there are reimbursements of the principal).

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

In assessing whether the contractual cash flows are solely payments of principal and interest, the 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;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and
- terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse loans);
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

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

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### *Subsequent measurement and gains and losses*

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

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

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

#### Financial liabilities

##### *Classification*

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

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

#### *Subsequent measurement and gains and losses*

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

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

(Continued)



## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### (iii) Impairment of financial assets

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

- Investments in financial instruments
- Accrued interest receivable

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

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

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

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

#### *Measurement of ECL*

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

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

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

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

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

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

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

#### *Forward-looking information*

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

(d) Impairment of non-financial assets

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

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

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

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

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### (iv) Derecognition

##### Financial assets

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

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

##### Financial liabilities

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

#### (v) Offsetting

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

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

#### (e) Derivative financial instruments

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

(f) Embedded derivatives

Derivatives may be embedded in another contractual arrangement (a host contract). The 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; and
- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

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

The Bank currently has the following derivative financial instruments:

✓ Derivatives held for risk management

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

✓ Derivatives other than hedges

The 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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

(g) Cash and cash equivalents

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

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

(h) Property, furniture, equipment and leasehold improvements

(i) Recognition and measurement

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

(ii) Subsequent costs

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

(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

### (iii) *Depreciation and amortization*

Depreciation is calculated using the straight-line method over the estimated useful life of each item of property, furniture, equipment and leasehold improvements, and it is recognized in profit or loss for the period. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the 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:

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

### (i) Intangible assets

#### (i) *Recognition and measurement*

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

#### (ii) *Amortization*

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

#### (iii) *Subsequent costs*

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

(Continued)



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(j) Leases

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

(i) As a lessee

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

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 or to restore the underlying asset or the site on which it is located, less any lease incentives received.

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

- fixed payments, including in-substance fixed payments; and
- the exercise price under a purchase option that the 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, if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

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

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

The Bank has elected not to recognize right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. 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)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

(l) Allowance for loan losses

The allowance for loan losses is based on a periodic assessment of the probability of recovery of the loan portfolio that considers a number of factors, including current economic conditions, prior experience with the allowance, the portfolio structure, borrower liquidity and loan guarantees.

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

SUGEF may require an allowance to be established for an amount greater than the amount determined by the Bank.

Management considers the allowance to be sufficient to absorb any potential losses that may be incurred on recovery of the portfolio.

As of March 31, 2021, increases in the allowance for loan losses are included in the accounting records in accordance with Article 10 of IRNBS.

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(n) Other receivables

Other receivables are recorded at amortized cost. The recoverability of these accounts is assessed by applying criteria similar to those established by SUGEF Directive 1-05 for the loan portfolio. Notwithstanding the results of the assessment, if an account is not recovered within 120 days from the due date, an allowance is established for an amount equivalent to 100% of the balance receivable. Accounts with no specified due date are considered payable immediately.

(o) Foreclosed assets

Foreclosed assets are assets owned by the 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 year in which they were incurred.

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

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

For foreclosed assets prior to the aforementioned date, management of the 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 statement of financial position 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 statement of financial position, directly affecting the consolidated statement of comprehensive income.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(r) Employee benefits

(i) Short-term employee benefits

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

*Statutory Christmas bonus*

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

*Vacation*

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

*Incentives plan*

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

(ii) Defined contribution plans

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

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

(iii) Defined benefit plans

The 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.

(Continued)



## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income. The 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.

(iv) Termination benefits

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

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

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

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

(v) Employee Protection and Retirement Fund

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

- items established by the laws and regulations related to the Fund;
- contributions made by the Bank equivalent to 10% of total wages;
- contributions made by employees equivalent to 5.50% of total wages to strengthen the Fund; and
- income from investments made by the Fund and other potential income.

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

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

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

(s) Deferred income

Deferred income corresponds to income received in advance by the 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.

(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

### (t) Legal reserve

Pursuant to Article 12 of IRNBS, the Bank appropriates 50% of each year's earnings after income taxes and statutory allocations to a legal reserve. Such appropriation is performed pursuant to the Chart of Accounts for Financial Entities, Groups and Conglomerates. Accordingly, in the first and second halves of each year, income and expenses are offset and the sum of the results of each half year is transferred to opening retained earnings.

### Other statutory reserves

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

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

### (u) Revaluation surplus

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

### (v) Income tax

Income tax is determined pursuant to the provisions of the *Income Tax Law*, which require that the Bank file its income tax returns for the 12 months ending December 31 of each year. Any resulting tax is recognized in profit or loss for the year and credited to a liability account in the consolidated statement of financial position.

#### *i. Current tax*

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### ii. *Deferred tax*

Deferred tax is recognized using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. In accordance with this method, temporary differences are identified as either taxable temporary differences (which result in future taxable amounts) or deductible temporary differences (which result in future deductible amounts). A deferred tax liability represents a taxable temporary difference and a deferred tax asset represents a deductible temporary difference.

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

#### iii. *Tax benefits FOCREDE*

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

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

#### (w) Segment reporting

A business segment is a distinguishable component of the 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.

#### (x) Financial statements of the different departments

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

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

(y) Recognition of income and expenses

*i. Interest income and interest expense*

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

The 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 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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

iv. *Operating lease expenses*

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

(z) Statutory allocations

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

Under Article 12 of IRNBS, the net earnings of commercial State-owned banks are allocated as follows: 50% to a legal reserve; 10% to increase the capital of INFOCOOP; and the remainder to increase the Bank's capital, pursuant to Article 20 of Law No. 6074.

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

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

Article 78 of the *Employee Protection Law* (Law No. 7983) establishes a contribution of up to 15% of the earnings of State-owned public companies, with the purpose of strengthening the funding base for the RIVM of CCSS and to provide universal CCSS coverage for impoverished non-salaried workers.

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

(aa) Development Financing Funds (FOFIDE)

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

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

(bb) Development Credit Fund (FOCREDE)

The Development Credit Fund (FOCREDE) is comprised of the funds prescribed in Article 59 of IRNBS (Law No. 1644). FOCREDE will be managed by State-owned banks. Accordingly, in compliance with the *Repeal of Transition Provision VII of Law No. 8634* (Law No. 9094) and Article 35 of the *Development Banking System Act* (Law No. 8634), in meeting No. 119 of January 16, 2013, through agreement No. AG-1015-119-2013, Banco de Costa Rica and Banco Nacional de Costa Rica are appointed managers for five years from the date of signing of the respective management agreements. Each bank is awarded the management of fifty percent (50%) of such fund.

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

(Continued)



## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

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

#### (cc) Trust operations

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

#### (6) Risk management

The Bank has exposure to the following risks:

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

The Corporate Risk Division is responsible for identifying and measuring credit, market, liquidity and operational risks. For such purposes, all types of risks to which the 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.

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

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

The Bank has established the following credit risk management procedures:

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

(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

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

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

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

	Note	Direct		Stand-by	
		March 2021	March 2020	March 2021	March 2020
Loan portfolio					
Principal	7-a	¢ 4,308,253,097,162	4,241,118,191,216	330,488,190,549	307,649,828,017
Accounts and accrued interest receivable		126,111,930,250	38,537,249,393	-	-
Gross carrying amount		4,434,365,027,412	4,279,655,440,609	330,488,190,549	307,649,828,017
Incremental direct costs related to loans		3,657,662,021	4,003,862,440	-	-
(Deferred income from loan portfolio)		(33,230,117,422)	(33,110,026,780)	-	-
Allowance for loan losses (accounting records)		(154,629,848,598)	(107,911,523,829)	(816,323,995)	(174,831,882)
Net carrying amount	¢	4,250,162,723,413	4,142,637,752,440	329,671,866,554	307,474,996,135
Structural allowance (subledger – database)		-	(103,211,072,079)	-	(94,825,736)
Net carrying amount	¢	-	4,176,444,368,530	-	307,555,002,281

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		Direct		Stand-by	
		March 2021	March 2020	March 2021	March 2020
<i>Loan portfolio</i>					
Total balances:					
0	¢	40,214,429,685	38,229,698,161	-	-
A1		3,287,441,643,891	3,209,477,437,984	321,587,588,310	295.862.717.493
A2		63,169,389,628	53,495,912,599	1,056,296,273	823.587.269
B1		494,518,517,841	456,577,594,664	3,825,822,525	7.114.170.812
B2		21,407,783,156	15,471,540,432	189,476,987	60.459.619
C1		156,739,879,709	118,647,744,884	1,412,578,002	1.889.277.669
C2		13,176,532,555	4,472,708,625	42,090,078	38.670.960
D		150,592,473,116	186,566,571,163	1,093,655,584	849.282.465
E		207,104,377,831	196,716,232,097	1,280,682,790	1.011.661.730
		4,434,365,027,412	4,279,655,440,609	330,488,190,549	307.649.828.017
Structural allowance (subledger – database)					
		(111,755,828,400)	(103,211,072,079)	(182,314,542)	(94,825,736)
Net carrying amount					
	¢	4,322,609,199,012	4,176,444,368,530	330,305,876,007	307,555,002,281
Individually assessed loans with allowance:					
0	¢	39,968,554,765	38,229,698,161	-	-
A1		3,286,203,398,624	3,209,477,437,984	40,982,963,827	295,862,717,493
A2		63,169,389,628	53,495,912,599	46,855,689	823,587,269
B1		494,518,517,841	456,577,594,664	835,667,777	7,114,170,812
B2		21,407,783,156	15,471,540,432	-	60,459,619
C1		156,724,863,270	118,647,744,884	35,093,991	1,889,277,669
C2		13,176,532,555	4,472,708,625	-	38,670,960
D		150,592,473,116	186,566,571,163	175,124,678	849,282,465
E		207,104,377,831	196,716,232,097	6,352,840	1,011,661,730
		4,432,865,890,786	4,279,655,440,609	42,082,058,802	307,649,828,017
Structural allowance (subledger – database)					
		(111,755,828,400)	(103,211,072,079)	(182,314,542)	(94,825,736)
Net carrying amount					
	¢	4,321,110,062,386	4,176,444,368,530	41,899,744,260	307,555,002,281

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		Direct		Stand-by	
		March 2021	March 2020	March 2021	March 2020
Current loan portfolio, without allowance:					
0	¢	245,874,920	-	-	-
A1		1,238,245,267	-	-	-
C1		15,016,438	-	-	-
Carrying amount	¢	<u>1,499,136,625</u>	<u>-</u>	<u>-</u>	<u>-</u>
Gross carrying amount	¢	4,434,365,027,411	4,279,655,440,609	42,082,058,028	307,649,828,017
Allowance for loan losses (database)		(111,755,828,400)	(103,211,072,079)	(182,314,542)	(94,825,736)
(Excess) of allowance over structural allowance		(42,874,020,198)	(4,700,451,750)	(634,009,453)	(80,006,146)
Incremental direct costs		<u>3,657,662,021</u>	<u>4,003,862,440</u>	<u>-</u>	<u>-</u>
(Deferred income from loan portfolio)		(33,230,117,422)	(33,110,026,780)	-	-
Net carrying amount	7-a ¢	<u>4,250,162,723,412</u>	<u>4,142,637,752,440</u>	<u>41,265,734,033</u>	<u>307,474,996,135</u>
Restructured loans	¢	<u>22,086,665,748</u>	<u>51,710,417,868</u>	<u>-</u>	<u>-</u>

Set out below is an analysis of the Bank's loan portfolio balances as of March 31, 2021, gross and net of the allowance for loan losses, by risk rating according to SUGEF Directive 1-05 and SUGEF Directive 15-16:

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		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		53,495,912,99	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

As shown above, as of March 31, 2021, the gross portfolio amounts to ¢4,434 billion. Of that amount, 88.10% is classified in risk ratings “A+B” and 11.90% in risk ratings “C+D+E” (2020: ¢4,279 billion, of which 88.17% is classified in risk ratings “A+B” and 11.83% in risk ratings “C+D+E”).

Individually assessed loans with allowance:

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

Past due loans without allowance:

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

Restructured loans:

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

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

#### Loan write-off policy:

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

#### Borrower classification

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

(Continued)



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

Borrower classification	Direct		Stand-by	
	March 2021	March 2020	March 2021	March 2020
Group 1	¢ 2,301,059,087,940	2,142,711,170,363	46,991,292,239	34,853,717,543
Group 2	2,133,305,939,472	2,136,944,270,246	283,496,898,310	272,796,110,474
	¢ 4,434,365,027,412	4,279,655,440,609	330,488,190,549	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:

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

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

(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

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

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

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

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

### *Analysis of creditworthiness*

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

- 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.

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

- e. *Other factors:* Analysis of other factors that affect the borrower's creditworthiness. In the case of legal entities, considerations include, but are not limited to, environmental issues, technological aspects, operating licenses and permits, representation of products or foreign offices, relationship with significant customers and suppliers, sales agreements, legal risks and country risk (the latter for foreign-domiciled borrowers). In the case of individuals, the following borrower characteristics may be taken into consideration: marital status, age, level of education, profession, gender, etc.

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

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

#### *Analysis of historical payment behavior*

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

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

#### Structural allowance for loan losses

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

(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

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

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

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

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

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

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

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

(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

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

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

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

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Credit equivalent

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

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

Allowance for other assets

Allowances should be established for the following assets:

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

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

As of March 31, 2021, the carrying amount of the allowance for impairment of foreclosed assets and per legal requirements amounts to ¢66,403,600,019 (2020: ¢66,534,513,087).

(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

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

Sector		Direct		Stand-by	
		March 2021	March 2020	March 2021	March 2020
Trade	¢	373,565,406,857	351,756,014,669	3,105,093	2,826,498
Services		893,691,603,548	882,160,393,329	52,182,003,613	38,896,540,917
Financial services		82,427,281,384	106,232,657,428	-	-
Mining		728,147,254	748,625,425	-	-
Manufacturing and quarrying		164,298,589,632	169,098,136,393	-	-
Construction		96,519,299,677	97,048,899,159	-	-
Agriculture and forestry		117,122,584,069	107,064,090,783	1,606,312	1,347,065
Livestock, hunting and fishing		75,871,857,961	75,784,094,442	-	-
Electricity, water, sanitation and other related sectors		477,083,777,549	396,072,214,411	-	-
Transportation and telecommunications		49,259,342,594	47,110,521,780	-	-
Housing		1,349,546,854,399	1,311,388,925,819	2,691,556	2,413,314
Personal or consumer		538,747,108,937	549,162,972,114	278,175,266,470	268,581,934,566
Tourism		215,503,173,551	186,027,895,147	123,517,506	164,765,834
	¢	<u>4,434,365,027,412</u>	<u>4,279,655,440,899</u>	<u>330,488,190,550</u>	<u>307,649,828,194</u>

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

		Direct		Stand-by	
		March 2021	March 2020	March 2021	March 2020
Central America	¢	<u>4,434,365,027,412</u>	<u>4,279,655,440,899</u>	<u>330,488,190,550</u>	<u>307,649,828,194</u>

The loan portfolio by type of guarantee is as follows:

Type of guarantee		Direct		Stand-by	
		March 2021	March 2020	March 2021	March 2020
Back-to-back	¢	13,326,086,856	16,956,972,631	85,773,774	287,253
Letters of credit		-	101,014,477	-	-
Mortgage bond		81,657,021	335,716,503,859	-	1,598,681
Assignment of loans		354,683,379,163	16,630,294,046	-	-
Mortgage		1,751,313,090,363	2,068,647,384,920	9,952,202	20,339,561
Surety		883,327,622,894	469,280,990,327	2,173,818	-
Trust		388,765,194,449	456,616,072,210	-	-
Securities		756,090,950	569,137,168	-	-
Chattel mortgage		245,606,059,404	253,512,072,420	-	-
Other		796,505,846,312	661,624,998,841	330,390,290,755	307,627,602,699
	¢	<u>4,434,365,027,412</u>	<u>4,279,655,440,899</u>	<u>330,488,190,549</u>	<u>307,649,828,194</u>

(Continued)



# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

### Guarantees:

- a. 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.
- b. 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, 2021, 57.36% of the loan portfolio is secured by collateral guarantees.

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

Loan portfolio concentration	Direct		Stand-by	
	March 2021	March 2020	March 2021	March 2020
¢1 to ¢3,000,000	¢ 137,965,381,883	155,043,446,236	89,033,376,882	100,206,268,098
¢3,000,001 to ¢15,000,000	574,415,460,761	604,504,701,009	185,824,054,162	167,945,875,101
¢15,000,001 to ¢30,000,000	455,762,959,087	455,421,164,457	8,024,613,995	6,337,620,567
¢30,000,001 to ¢50,000,000	478,991,355,115	474,861,139,057	3,035,636,118	2,245,456,061
¢50,000,001 to ¢75,000,000	431,531,797,033	404,891,000,957	2,241,239,366	1,898,860,094
¢75,000,001 to ¢100,000,000	208,352,593,177	198,164,755,401	880,668,555	1,178,959,244
¢100,000,001 to ¢200,000,000	242,777,913,416	232,099,939,029	2,789,976,473	3,200,922,379
More than ¢200,000,000	1,904,567,566,940	1,754,669,294,753	38,658,624,999	24,635,866,650
	¢ 4,434,365,027,412	4,279,655,440,899	330,488,190,550	307,649,828,194

As of March 31, 2021, the portion of the loan portfolio (direct and stand-by loans) corresponding to economic interest groups amounts to ¢732,461,233,028 (2020: (¢621,243,350,351), equivalent to 16.52% of the loan portfolio.

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

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

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

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

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

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

(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

Loss Allowance	
Portfolio	March 2021
Investments in financial instruments at FVOCI	¢ 43,599,904

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

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

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

The Brokerage Firm may acquire the following instruments:

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

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

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

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

(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

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

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

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

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

Loss allowance		
Portfolio		March 2021
Investments measured at amortized cost	¢	173,569,660
Investments measured at FVOCI	¢	22,129,991

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

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

Loss Allowance	
Fund	March 2021
Investments measured at FVOCI	¢ 14,431,223

(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

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

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

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

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

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

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

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

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

Loss allowance	
Portfolio	March 2021
Investments measured at amortized cost	¢ 2,909,513

(Continued)



# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

### Investments in financial instruments

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

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

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

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

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

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

Date		Model 1 Amortized cost	Model 2 Comprehensive income	Total estimated loss
January	¢	2,645,232,799	907,120,180	3,552,352,979
February		1,312,830,500	1,716,961,888	3,029,792,388
March		1,406,477,965	1,912,333,323	3,318,811,288

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

		March 2021	
		Stage 1	Total
Investments in financial instruments	¢	792,898,035,613	792,898,035,613
Allowance		(1,418,686,791)	(1,418,686,791)
	¢	<u>791,479,348,822</u>	<u>791,479,348,822</u>

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

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

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

		March 2021	
		Stage 1	Total
Investments in financial instruments	¢	28,123,927,636	28,123,927,636
	¢	<u>28,123,927,636</u>	<u>28,123,927,636</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of March 31, 2021, the expected loss by currency is as follows:

		Absolute	Relative
Colones	¢	2,849,007,171	0.27%
US dollars		482,313,270	0.08%
	¢	3,331,320,441	0.35%

Investments by geographic location are as follows:

Country	March 2021		
	Principal	Interests	Total
Costa Rica	¢ 1,083,780,929,072	12,988,498,262	1,096,769,427,334
Panama	6,142,803,937	-	6,142,803,937
United States	419,086,579,344	2,098,898,774	421,185,478,118
Mexico	192,917,281	2,652,464	195,569,745
Canada	12,812,416,361	97,418,761	12,909,835,122
Venezuela	9,904,044,511	1,200,303	9,905,244,814
Europe	71,838,020,526	550,368,328	72,388,388,854
Asia	7,383,941,737	57,019,099	7,440,960,836
Australia	8,305,922,418	88,708,745	8,394,631,163
New Zealand	372,513,753	2,563,510	375,077,263
	¢ 1,694,703,457,336	15,505,448,452,77	1,710,208,905,788

Amounts arising from expected credit losses

- *Significant increase in credit risk*

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

(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

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

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

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

- *Definition of default*

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

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

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

- *Incorporation of forward-looking information*

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

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

- *Measurement of expected credit losses*

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

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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.

(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

- *Expected credit losses*

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

		Etap 1	Total
<u>Investment securities</u>			
Balance as of January 1, 2020	¢	3,695,720,586	3,695,720,586
Update of allowance		5,048,682	5,048,682
Allowance for new investments		1,338,660,761	1,338,660,761
Decrease in allowance		(1,708,218,818)	(1,708,218,818)
Balance as of March 31, 2021	¢	3,331,211,210	3,331,211,210

b) Liquidity risk

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

i. Banco Nacional de Costa Rica

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

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

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

(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

Year on year, the LCR indicator in colones increased 47 percentage points during the last year, closing at 237% as of March 31, 2021, due to the low placement of credit and to the Bank's financing through ODP operations with BCCR in the amount of approximately ¢70,000 million with a term of 4 years. This caused an increase in the stock of liquid assets (HQLA) of 17% (¢83,400 million, mainly in investments in the local market (MIL) and in the government) and a decrease in net cash outflows of 6,1% (-¢34,600 million, mainly in wholesale and financial commitments). The LCR indicator remains considerably below the appetite level at 125%, equivalent to ¢595,100 million.

At the March 31, 2021 close, the LCR indicator in US dollars located at 200%, showing a significant decrease of 167 percentage points as a result of an international issue pending payment for a total of \$310 million at the April 2021 close. The foregoing was reflected in an increase of net cashflows equivalent to 49% (\$392.6 million, mainly due to the commitment of less than 30 days of the international issue), which had an impact greater than the increase in the stock of liquid assets (HQLA) of 8.1% (\$129.9 million, mainly in investments and cash and due from banks abroad, Level 1A). The LCR indicator is considerably below the appetite level at 125%, equivalent to \$584 million.

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

<u>Indicator</u>	<u>March 2021</u>	<u>March 2020</u>	<u>Variation</u>	<u>Level</u>
LCR - colones	237%	190%	47%	Appetite
LCR - US dollars	200%	367%	167%	Appetite

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

(Continued)



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of March 31, 2021, the terms of the Bank and its Subsidiaries' assets and liabilities denominated in local currency are matched as follows:

		Days								
		Past due	Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	More than 365	Total
Cash and due from banks	¢	-	91,197,048,989	-	-	-	-	-	-	91,197,048,989
Minimum legal deposit in BCCR		-	299,676,245,712	13,509,632,355	16,177,774,849	18,501,107,438	69,414,653,520	63,843,606,879	16,923,978,103	498,046,998,856
Investments		-	3,417,272,173	207,822,324,069	813,146,337	2,668,105,336	17,592,595,330	112,856,469,626	716,669,873,310	1,061,839,786,181
Loan portfolio		283,047,230,811	-	84,565,243,443	51,851,713,282	39,979,479,371	93,271,947,475	130,593,186,801	2,514,659,928,643	3,197,968,729,826
Recovery of assets	¢	283,047,230,811	394,290,566,874	305,897,199,867	68,842,634,468	61,148,692,145	180,279,196,325	307,293,263,306	3,248,253,780,056	4,849,052,563,852
Obligations with the public	¢	-	2,377,980,408,589	142,676,030,083	166,447,843,656	166,521,227,478	462,086,191,942	508,521,575,499	113,202,651,585	3,937,435,928,832
Obligations with BCCR		-	-	-	-	-	-	-	70,223,644,412	70,223,644,412
Obligations with financial entities		-	45,669,172,443	86,599,426,506	14,612,306,257	17,179,824,598	51,867,423,300	10,004,025,258	36,656,975,785	262,589,154,147
Charges payable		-	9,336,382,661	5,340,824,899	2,988,879,853	1,999,763,750	3,199,683,426	1,105,835,653	1,537,714,674	25,509,084,916
Maturity of liabilities	¢	-	2,432,985,963,693	234,616,281,488	184,049,029,766	185,700,815,826	517,153,298,668	519,631,436,410	221,620,986,456	4,295,757,812,307
Difference	¢	283,047,230,811	(2,038,695,396,819)	71,280,918,379	(115,206,395,298)	(124,552,123,681)	(336,874,102,343)	(212,338,173,104)	3,026,632,793,600	553,294,751,545

(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 local currency are matched as follows:

		Days							Total
		Past due	Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	
Cash and due from banks	¢	-	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	59,846,798,94	45,195,447,603	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	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
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
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
Obligations with BCCR		-	-	-	-	-	-	-	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
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
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
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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of March 31, 2021, the terms of the Bank's assets and liabilities denominated in foreign currency, expressed in local currency, are matched as follows:

		Days							Total
		Past due	Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	
Cash and due from banks	¢	-	416,040,001,072	-	-	-	-	-	416,238,992,057
Minimum legal deposit in BCCR		-	222,463,170,509	10,327,387,067	35,831,926,898	12,457,106,753	23,328,082,762	26,377,789,558	346,413,002,435
Investments		-	-	14,581,075,049	34,625,050,358	15,198,007,221	54,509,343,340	111,196,026,831	662,920,224,354
Loan portfolio		188,255,956,386	-	27,890,885,853	16,133,395,830	16,431,949,305	41,065,286,932	55,263,270,722	1,206,823,842,185
Recovery of assets	¢	188,255,956,386	638,503,171,581	52,799,347,969	86,590,373,086	44,087,063,279	118,902,713,034	192,837,087,111	2,632,396,061,031
Obligations with the public	¢	-	1,251,342,741,278	83,315,775,507	52,394,683,731	73,726,549,149	115,709,985,048	163,911,844,889	1,821,086,936,730
Obligations with financial entities		-	14,256,459,712	286,003,999,887	-	3,378,464,828	9,290,468,172	20,790,995,781	686,906,424,313
Charges payable		-	2,817,380,393	5,866,937,836	6,007,464,653	2,452,555,980	821,175,516	850,019,114	19,767,531,252
Maturity of liabilities	¢	-	1,268,416,581,383	375,186,713,230	58,402,148,384	79,557,569,957	125,821,628,736	185,552,859,784	2,527,760,892,295
Difference	¢	188,255,956,386	(629,913,409,802)	(322,387,365,261)	28,188,224,702	(35,470,506,678)	(6,918,915,702)	7,284,227,327	104,635,168,736

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

		Days							Total
		Past due	Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	
Cash and due from banks	¢	-	391,565,249,347	-	-	-	-	-	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	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	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	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	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	1,623,611,320,532
Obligations with financial entities		-	25,278,235,455	93,372,852,962	-	5,530,468,578	5,897,194,800	20,478,067,680	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	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	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	71,439,083,076

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

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

Management of liquidity risk

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

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

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

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

Management of liquidity risk

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

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

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

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

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

#### Management of liquidity risk

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

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

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

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

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

#### Management of liquidity risk

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

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

c) Market risk

i. Banco Nacional de Costa Rica

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

The portfolios by currency are as follows:

<u>Currency</u>	<u>Face value of investments by currency</u>		
	<u>March 2021</u>	<u>March 2020</u>	<u>Variation</u>
Colones	957,405,750,000	834,725,200,000	122,680,550
US dollars - local issuers	49,890,735	145,103,948	(95,213,213)
US dollars - international issuers	972,010,000	762,342,000	209,668,000

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

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

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

(Continued)



## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

#### Management of market risks

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

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Market risk exposure – trading portfolio:

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

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

	March 2021	March 2020
VaR indicator (99% confidence level)	0.43%	0.76%

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

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

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

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### Market risk management

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

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

#### Market risk exposure

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

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

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

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

#### Market risk management

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

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

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

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

#### Market risk management

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- Market risk of investments

- i. Banco Nacional de Costa Rica

As of March 31, 2021, the Bank's consolidated VaR regarding the market value of investments is at the risk appetite level. There was an increase of 0.12% during the last period, mainly caused by the increase in the volatility of prices due to the COVID-19 situation.

- Interest rate risk

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

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

<u>Type of risk</u>	<u>March 2021</u>	<u>March 2020</u>	<u>Variation</u>
Consolidated VaR	0.41%	0.47%	(0.06)%

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

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

(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

As of March 31, 2021, the interest rate terms for the Bank's assets and liabilities are matched as follows (differences between the recovery of assets and the maturity of liabilities):

		Demand	1 to 30 days	31 to 90 days	91 to 180 days	181 to 360 days	361 to 720 days	More than 720 days	Total
<i>Local currency (LC)</i>									
Investments	¢	3,417,272,173	207,819,815,744	3,457,536,524	17,517,701,711	112,787,195,350	223,558,305,186	493,195,765,721	1,061,753,592,409
Loan portfolio		-	2,666,640,440,744	107,319,426,017	102,382,577,478	14,667,927,166	15,376,423,409	94,539,159,748	3,000,925,954,562
Recovery of rate-sensitive assets LC (A)	¢	3,417,272,173	2,874,460,256,488	110,776,962,541	119,900,279,189	127,455,122,516	238,934,728,595	587,734,925,469	4,062,679,546,971
Obligations with the public	¢	-	221,887,417,097	369,998,584,833	517,153,298,668	518,135,353,635	70,460,431,449	54,414,842,386	1,752,049,928,068
Obligations with BCCR		-	-	-	-	-	-	70,273,029,901	70,273,029,901
Obligations with financial entities		-	14,126,803,476	-	-	-	-	29,414,073,347	43,540,876,823
Maturity of rate-sensitive liabilities LC (B)	¢	-	236,014,220,573	369,998,584,833	517,153,298,668	518,135,353,635	70,460,431,449	154,101,945,634	1,865,863,834,792
Difference in LC, recovery of assets less maturity of liabilities (A - B)	¢	3,417,272,173	2,638,446,035,915	(259,221,622,292)	(397,253,019,479)	(390,680,231,119)	168,474,297,146	433,632,979,835	2,196,815,712,179
<i>Foreign currency (FC)</i>									
Investments	¢	-	13,425,580,813	49,293,797,027	54,513,230,048	103,196,989,413	104,211,007,196	323,303,369,481	647,943,973,978
Loan portfolio		-	978,683,496,950	36,449,110,092	21,317,797,773	2,343,671,819	19,581,495,551	55,567,928,407	1,113,943,500,592
Recovery of rate-sensitive assets FC (C)	¢	-	992,109,077,763	85,742,907,119	75,831,027,821	105,540,661,232	123,792,502,747	378,871,297,888	1,761,887,474,570
Obligations with the public	¢	-	371,346,676,008	136,079,640,292	125,738,880,561	164,024,436,750	74,973,957,173	243,622,640,517	1,115,786,231,301
Obligations with entities		-	4,185,901,844	1,876,816,059	82,748,176	20,526,999,998	-	117,626,853,396	144,299,319,473
Maturity of rate-sensitive liabilities FC (D)	¢	-	375,532,577,852	137,956,456,351	125,821,628,737	184,551,436,748	74,973,957,173	361,249,493,913	1,260,085,550,774
Difference in FC, recovery of assets less maturity of liabilities (C - D)	¢	-	616,576,499,911	(52,213,549,232)	(49,990,600,916)	(79,010,775,516)	48,818,545,574	17,621,803,975	501,801,923,796
Recovery of rate-sensitive assets 1/ (A + C)	¢	3,417,272,173	3,866,569,334,251	196,519,869,660	195,731,307,010	232,995,783,748	362,727,231,342	966,606,223,357	5,824,567,021,541
Maturity of rate-sensitive liabilities 2/ (B + D)	¢	-	611,546,798,425	507,955,041,184	642,974,927,405	702,686,790,383	145,434,388,622	515,351,439,547	3,125,949,385,566
Difference in LC + FC, recovery of assets less maturity of liabilities (item 1 - item 2)	¢	3,417,272,173	3,255,022,535,826	(311,435,171,524)	(447,243,620,395)	(469,691,006,635)	217,292,842,720	451,254,783,810	2,698,617,635,975

(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

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

		Demand	1 to 30 days	31 to 90 days	91 to 180 days	181 to 360 days	361 to 720 days	More than 720 days	Total
<i>Local currency (LC)</i>									
Investments	¢	2,104,569,536	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 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		-	143,069,386	6,756,389	-	-	-	31,966,773,348	32,116,599,123
Maturity of rate-sensitive liabilities 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
<i>Foreign currency (FC)</i>									
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 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 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
Difference in LC + FC, 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)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

The consolidated VaR of the Pension Fund Manager's own funds has a decreasing trend, with a maximum of 2.08% and a minimum of 0.67% for an average of 1.19%, equivalent to ₡116.06 million. As of March 31, 2021, the indicator closes at 0.93%, showing an increase due to the portfolio's portion of fixed-rate investments, because the indicator shows the portfolio volatility with respect to market interest rates.

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

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

As of March 31, 2021, the Insurance Brokerage Firm has investments amounting to ₡5,249,253,988 in open investment funds managed by BN Sociedad Administradora de Fondos de Inversiones S.A. They are related to financial assets subject to interest rate changes due to fluctuations in the stock market since short-term positions are constituted to meet investor's liquidity needs. The remainder of the investment portfolio is kept in financial instruments measured at amortized cost, whose market interest rate variations are monitored on an ongoing basis by BN Valores, with quarterly reports to the Insurance Brokerage Firm. The Insurance Brokerage Firm holds no liabilities subject to interest rate variations.

(Continued)



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- Currency risk

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

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

- i.* Banco Nacional de Costa Rica

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

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

The result is as follows:

<u>Type of risk</u>	<u>March 2021</u>	<u>March 2020</u>	<u>Variation</u>	<u>Level</u>
Currency risk	1.78%	1.05%	0.73 %	Appetite

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Assets and liabilities denominated in foreign currency are as follows:

		US dollars	
		March 2021	March 2020
<u>Assets:</u>			
Cash and due from banks	US\$	-	1,131,336,509
Investments in financial instruments		141,995,561	989,650,930
Loan portfolio		355,969,844	1,974,084,927
Accounts and accrued interest receivable		-	457,270
Investments in other companies		-	116,978,614
Other assets		30,780	1,438,357
	US\$	<u>497,996,185</u>	<u>4,213,946,607</u>
<u>Liabilities:</u>			
Obligations with the public	US\$		2,734,938,138
Obligations with BCCR		-	-
Obligations with entities		146,370,158	1,303,914,782
Accounts payable and provisions		430,365	20,422,076
Other liabilities		6	2,516,605
Subordinated obligations		-	110,317,850
	US\$	<u>146,800,529</u>	<u>4,172,109,451</u>
Excess of assets over liabilities in US dollars	US\$	<u>351,195,656</u>	<u>41,837,156</u>
		Euro	
		March 2021	March 2020
<u>Assets:</u>			
Cash and due from banks	€		42,583,428
	€		<u>42,583,428</u>
<u>Liabilities:</u>			
Obligations with the public	€	-	40,349,195
Obligations with entities		660,531	1,617,219
Accounts payable and provisions		-	31,682
	€	<u>660,531</u>	<u>41,997,454</u>
(Deficit) excess of assets over liabilities in euro	€	<u>(660,531)</u>	<u>591,372</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

As of December 31, the valuation in colones of monetary assets and liabilities in foreign currency gave rise to foreign exchange gains and losses, as follows:

		March 2021	March 2020
Foreign exchange gains	¢	7,952,490,464	107,940,985,536
Foreign exchange losses		<u>(7,962,999,231)</u>	<u>(108,854,537,110)</u>
Net losses	¢	<u>(10,508,767)</u>	<u>(913,551,574)</u>

Additionally, the valuation of other assets and other liabilities for the three months ended March 31, 2021 gave rise to gains and losses, which are booked in "Other operating income" and "Other operating expenses", respectively, as follows:

		March 2021	March 2020
Gain on valuation of other assets, net (Note 37)	¢	9,980,921	117,392,688
Loss on valuation of other liabilities, net (Note 40)		<u>(2,676,297)</u>	<u>(337,908,509)</u>
Gain, net	¢	<u>7,304,624</u>	<u>(220,515,821)</u>

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

As of March 31, 2021, 6.34% 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 7.03% (¢758.16 million), which reveals a currency risk that is relatively low considering the size of the managed portfolio.

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

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

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

d) *Operational risk*

i. *Banco Nacional de Costa Rica*

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

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

That policy is implemented through a management framework that includes:

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

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

One of the Bank's fundamental principles for operational risk management is transparency, which means that all risk events should be identified, documented, and reported in order to allow the Bank to adequately measure risk events and carry out any necessary corrective, preventive, and mitigation measures in a timely manner, including insurance where this is effective.

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



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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

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

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

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

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

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

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

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

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

(Continued)



## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

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

#### Fair value of financial instruments

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

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

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

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

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

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

As of March 31, 2021, the Bank's General Risk Division presented the results of the VaR by legal risk for the Pension Fund Manager, indicating that the amount to be provisioned is the EL of ¢35,839,163 (March and December 2020: ¢43,447,803 and ¢7,999,063) that covers the lawsuits against the Pension Fund Manager with a probability of an unfavorable outcome, out of eight pending lawsuits, most of which are in first instance.

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

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

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

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### Capital management:

##### Regulatory capital

The Bank's capital must always comply with the capital adequacy indicators established by SUGEF, which require that banks maintain a Capital Adequacy Ratio (CAR) of at least 10%. That ratio is calculated by dividing the Bank's base capital by total risk-weighted exposures.

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

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

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

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

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

From January 1, 2007 in order to comply with the disclosure of objectives, policies, and procedures for managing capital and quantitative information. The Bank and its subsidiaries adhere to SUGEF's Chart of Accounts, Articles 10, 11, and 12 of IRNBS, Decision AGB 8-86, *Regulations for Authorizing the Organization, Opening, and Operation of Private Banks*, and SUGEF official communication 043-2005.

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

The Bank's own contributions to share capital and amounts capitalized from other equity accounts are recognized in share capital (account No. 310) in accordance with Article 11 of IRNBS. Debits and credits applied against that account must be generated by operations that comply with all legal requirements for modifying the entity's capital and that have been approved by BCCR or CONASSIF, as appropriate.

Article 11 of the aforementioned regulations establishes that banks must use the calendar year as their financial year and that gains and losses be presented on a net basis at the close of the last business day of each half of the year must be liquidated. Such liquidations must be reported to SUGEF.

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

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

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

As of March 31, 2021, the Bank's CAR is above the minimum level required by applicable regulations, which indicates that capital levels are above the minimum required by laws and regulations.

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### COVID 19 implications for the Bank

The Coronavirus (COVID-19) pandemic, declared as such by the World Health Organization, has international implications. On one hand, it has caused a large number of deaths. On the other hand, markets and productive sectors have been heavily affected, due to the fear of rapid spread of the disease and to the preventive measures taken by some governments, including: social distancing, cancellation of mass events, decrease in interest rates, closing of borders, among other. This has strongly impacted the countries' economies and their production dynamic. At country level, recent figures from the International Monetary Fund (IMF) forecast a gradual recovery of the economy until reaching a growth of 2.6% and 3.3% (4.6% and 3.1% in Latin America and the Caribbean) as of the 2021 and 2022 close, respectively. That forecast is conditional on a moderate growth of the internal demand, the vaccination pace and reactivation of key economic activities, such as tourism. Additionally, high debt and deficit levels continue to be the main risk factors that may have a negative impact on economic recovery. As per the vaccination pace in Costa Rica, data provided by CCSS indicate that a number of 698,327 doses have been applied and a total of 247,734 people have been fully vaccinated, equivalent to 4.9% of the population.

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

#### *(a) Financially*

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

#### *(b) Credit risk*

- 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 processing system was established for payment arrangements, extensions, and restorations, offered to specific customer profiles.
- Ongoing monitoring of the application of extensions granted to affected segments.
- Follow up on the results of expected losses according to the internal model.

#### *(c) Interest rate risk*

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

#### *(d) Liquidity risk*

- Review of and adjustments to the Contingency Plan.
- The Bank received approval of the “Regulation for loan operations to solve liquidity”. The procedure is being prepared, as well as the loan portfolio that will serve as guarantee, if necessary.
- Daily monitoring of the main liquidity indicators.
- Potential lines of credit with foreign entities have been processed.
- Weekly stress testing of liquidity indicators.

#### *(e) Price risk*

- Ongoing monitoring of concentration of instruments in the investment portfolio by currency, sector, rating, and others.
- Monitoring of prices and ratings of local and international securities.

#### *(f) Currency risk*

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(7) Collateralized or restricted assets

Collateralized or restricted assets are as follows:

Restricted asset	Cause of restriction		March 2021	December 2020	March 2020
<i>Cash and due from banks:</i>					
Checking account – colones (Note 9)	Minimum legal deposit	¢	493,744,827,267	471,119,415,447	460,840,739,072
Checking account – US dollars (Note 9)	Minimum legal deposit		308,312,209,726	303,912,606,319	271,056,066,422
Checking account – euro (Note 9)	Minimum legal deposit		4,727,030,660	4,365,899,890	4,001,239,223
Other cash and due from banks (Note 9)	Custody of BCAC liabilities		368	1,142,835,066	1,120,492,474
Other cash and due from banks (Note 9)	Margin calls – derivative financial instruments		-	-	63,477,722
Other cash and due from banks (Note 9)	Margin calls for tri-party repurchase agreements		-	-	245,132,709
Other cash and due from banks (Note 9)	Contribution to FOGABONA		198,990,883	265,100,489	283,198,392
		¢	<u>806,983,058,904</u>	<u>780,805,857,211</u>	<u>737,610,346,014</u>
<i>Investments in financial instruments:</i>					
Investments in financial instruments	Guarantee for tri-party repurchase agreements	¢	-	8,649,884,640	15,368,797,482
Investments in financial instruments	Liquidity market operations		31,473,983,712	33,429,088,935	38,726,206,294
Securities issued by BCCR and the Government	Investments securing repurchase agreements		2,370,720,000	3,053,900,150	716,670,971
External debt bonds	Nomura Bank guarantee		54,546,340,117	59,031,542,209	39,224,407,114
External debt bonds	JP-SWAPS guarantee		-	9,178,308,496	1,210,576,536
External debt bonds	JP-SWAPS guarantee		-	1,240,773,951	-
Central bank bonds (global bonds)	SINPE guarantee		86,489,324,039	-	-
External debt bonds	SINPE guarantee		-	-	-
Term Certificate of Deposit	Nomura Bank guarantee		24,632,400,000	24,692,000,000	-
		¢	<u>199,512,767,868</u>	<u>139,275,498,381</u>	<u>95,246,658,398</u>
<i>Other assets:</i>					
Other assets (Note 17)	Security deposits	¢	<u>844,931,028</u>	<u>701,139,441</u>	<u>822,139,084</u>

(Continued)



# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

As of March 31, 2021, the Brokerage Firm has restricted assets in the amount of ¢31,488,233,780 (December and March 2020: ¢42,093,256,466 and ¢54,124,383,385), corresponding to guarantees for tri-party repurchase agreements, operations in the liquidity market and contributions to the liquidation and compensation risk management fund.

### (8) Balances and transactions with related parties

Balances and transactions with related parties are as follows:

	March 2021	December 2020	March 2020
<u>Assets:</u>			
Checking accounts in foreign financial entities (1) (Note 4)	¢ 19,781,176,508	18,728,211,563	26,483,089,727
Allowance for impairment of transactions with related parties	(15,515,000)	13,138,269,284	-
Other fees and commissions receivable	45,054,687	-	-
Accounts receivable (4) (Note 8)	9,669,298	-	-
Investments in financial instruments and accrued interest receivable	18,713,544,156	-	7,710,729,308
Investments in other companies (2)	118,805,722,637	72,325,798,277	68,659,105,111
	¢ 157,339,652,286	104,192,279,124	102,852,924,146
<u>Liabilities:</u>			
Demand obligations with entities (3)	1,385,929,690	817,312,947	72,223,263
Accounts payable for obligations with related parties	3,587,189	-	537,080
Term obligations with entities (3)	372,212,000	1,253,627	-
	¢ 1,761,728,879	818,566,574	72,760,343
<u>Income:</u>			
Operating income	185,477,235	-	-
Gain on investments in other foreign companies	180,642,637	876,994,771	540,883,142
Gain on investments in entities regulated by SUGEVAL	1,622,964,620	-	-
Gain on investments in entities regulated by SUPEN	452,400,011	-	-
Gain on investments in entities regulated by SUGESE	866,567,686	-	-
	3,308,052,189	876,994,771	540,883,142
<u>Expenses:</u>			
Finance costs	3,042,248	-	-
Operating expenses	185,477,235	42,738,454	26,326,628
	¢ 187,484,918	42,738,454	26,326,628

(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

The aforementioned balances and transactions with related parties correspond to:

- (1) Balances in foreign checking accounts with Banco Internacional de Costa Rica, S.A.
- (2) 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.

### *a) Compensation to key personnel*

Compensation to key personnel is as follows:

		March 2021	December 2020	March 2020
Short-term benefits	¢	264,835,134	1,994,768,937	499,762,540
Long-term benefits		34,428,567	259,319,962	64,969,130
Per diem – Board of directors		37,479,162	202,058,176	42,430,606
	¢	<u>336,742,863</u>	<u>2,456,147,075</u>	<u>607,162,276</u>

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

### (9) Cash and cash equivalents

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

		March 2021	December 2020	March 2020
Cash and due from banks	¢	1,351,896,042,338	1,383,902,440,319	1,220,850,577,363
Investments with maturities of less than two months		261,258,867,986	99,286,190,041	136,673,224,873
	¢	<u>1,613,154,910,324</u>	<u>1,483,188,630,360</u>	<u>1,357,523,802,236</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Cash and due from banks is as follows:

	March 2021	December 2020	March 2020
Cash on hand and in vaults	¢ 70,385,991,688	71,803,663,890	-
Cash in transit	46,818,473,736	27,571,913,455	5,967,568,317
Checking account in BCCR (1)	31,917,351,594	35,863,230,024	44,879,181,693
Minimum legal deposits in BCCR (1)	812,542,649,697	786,744,119,464	734,801,642,544
Checking accounts and demand deposits in State-owned commercial banks and banks created under special laws	135,733,152	163,010,654	440,998,383
Checking accounts and other demand accounts in private financial entities	722,290,070	840,634,935	268,845,921
Overnight deposits in local financial entities	-	400,000,000	1,000,000,000
Checking accounts in foreign financial entities	354,822,966,623	431,725,189,207	324,873,507,526
Deposits and other demand accounts in foreign financial entities	33,304,961	634,807,976	2,738,546,255
Checking accounts and demand deposits in related parties (Note 3)	19,781,176,508	18,728,211,563	26,483,089,727
Overnight deposits in foreign financial entities	8,915,333,316	1,739,101,030	10,346,889,645
Transfers through the Interbank Electronic Payment System (SINPE)	1,414,661,398	2,067,809,169	2,203,289,697
Local notes receivable	3,439,032,683	3,502,281,731	2,775,355,407
Foreign notes receivable	768,085,662	710,531,665	532,462,623
Margin calls – derivative financial instruments (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)	198,990,881	265,100,489	283,198,392
Other restricted cash and due from banks (2)	369	1,142,835,067	1,120,492,474
	¢ 1,351,896,042,338	1,383,902,440,319	1,220,850,577,363

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

(10) Investments in financial instruments

Investments in financial instruments are as follows:

	March 2021	December 2020	March 2020
Investments at fair value through profit or loss	¢ 28,123,927,636	23,465,673,087	40,393,352,241
Investments at fair value through other comprehensive income	873,339,474,630	723,002,449,515	794,103,923,426
Investments at amortized cost	792,898,035,614	609,412,003,167	645,147,162,359
	¢ 1,694,361,437,880	1,355,880,125,769	1,479,644,438,026
Interest rate futures – Hedges	14,890,615,874	15,753,371,710	23,613,668,181
Sale of FX futures – Other than hedges (Note 6)	2,508,323	1,583,451	-
Allowance for impairment of investments	(1,418,577,886)	(2,424,916,311)	(334,061,944)
Allowance for impairment of derivative instruments other than hedges	(12,542)	(58,698)	-
Accrued interest receivable on investments	15,505,448,458	19,648,169,663	14,575,005,874
	¢ 1,723,341,420,107	1,388,856,750,831	1,517,499,050,137

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

a) Investments at fair value through profit or loss

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

		March 2021	December 2020	March 2020
<u>Local issuers</u>				
Private banks		-	-	45,714,584
Private issuers		28,123,927,636	23,465,673,087	9,815,298,850
	¢	<u>28,123,927,636</u>	<u>23,465,673,087</u>	<u>9,861,013,434</u>
		March 2021	December 2020	March 2020
<u>Foreign issuers</u>				
Private issuers		-	-	30,532,338,807
		-	-	30,532,338,807
	¢	<u>28,123,927,636</u>	<u>23,465,673,087</u>	<u>40,393,352,241</u>

b) Investments at fair value through other comprehensive income

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

		March 2021	December 2020	March 2020
<u>Local issuers</u>				
Government of Costa Rica	¢	531,065,863,813	393,816,770,016	447,339,175,872
BCCR		64,298,217,175	17,463,207,857	72,568,973,515
State-owned banks		5,138,963,046	5,637,250,549	3,965,075,017
Private issuers		2,370,720,000	3,438,576,362	1,112,400,281
	¢	<u>602,873,764,034</u>	<u>420,355,804,784</u>	<u>524,985,624,685</u>
		March 2021	December 2020	March 2021
<u>Foreign issuers</u>				
Governments	¢	66,779,007,463	78,890,923,811	99,880,942,350
Private issuers		96,760,615,939	108,960,124,861	85,668,089,968
Private banks		106,926,087,194	114,795,596,059	83,569,266,413
		<u>270,465,710,596</u>	<u>302,646,644,803</u>	<u>269,118,298,731</u>
	¢	<u>873,339,474,630</u>	<u>723,002,449,515</u>	<u>794,103,923,426</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

c) Investments at amortized cost

Investments at amortized cost are as follows:

		March 2021	December 2020	March 2020
<u>Local issuers</u>				
Government of Costa Rica	¢	198,098,479,305	256,575,723,320	310,589,633,690
BCCR		247,755,843,367	81,767,031,269	149,752,176,240
Private banks		615,810,000	-	1,174,740,000
Private issuers		1,995,478,803	35,579,860,552	-
	¢	<u>448,465,611,475</u>	<u>373,922,615,141</u>	<u>461,516,549,930</u>
<u>Foreign issuers</u>				
Governments	¢	307,226,751,651	187,044,327,663	133,480,365,898
Private issuers		4,823,040,952	4,868,656,150	43,923,281,190
Private banks		7,750,231,536	43,576,404,213	6,226,965,340
		<u>24,632,400,000</u>	<u>-</u>	<u>-</u>
		<u>344,432,424,139</u>	<u>235,489,388,026</u>	<u>183,630,612,429</u>
	¢	<u><u>792,898,035,614</u></u>	<u><u>609,412,003,167</u></u>	<u><u>645,147,162,359</u></u>

As of March 31, 2021, the valuation of available-for-sale investments and restricted financial instruments gives rise to unrealized gains, net of deferred tax, in the amount of ¢11,283,470,309 (December and March 2020: unrealized gains in the amount of ¢2,061,632,488 and ¢968,994,734, respectively). The cumulative balance of equity adjustments arising from the valuation of those investments is equivalent to unrealized gains of ¢11,283,470,309 (December and March 2020: unrealized gains in the amount of ¢10,536,927,179 and ¢9,444,289,425, respectively).

(11) Derivative financial instruments

The Bank holds the following types of derivative financial instruments:

✓ Derivatives as risk hedging instruments

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Derivative financial instruments are as follows:

		March 2021		Purpose
Issuing bank		Notional amount	Valuation	
CitiBank	US\$	100,000,000	US\$ 6,928,204	Swaps to hedge 10-year issues (maturing in 2023)
JP Morgan		46,533,000	3,223,901	
Bank of America		173,588,000	12,026,531	
	US\$	320,121,000	US\$ 22,178,636	
Amount in colones	¢	<u>197,610,693,300</u>	¢ <u>13,657,825,841</u>	
Bank of America	US\$	60,200,000	US\$ 351,566	Swaps to hedge 5-year issues (maturing in 2021)
JP Morgan		250,000,000	1,459,990	
	US\$	310,200,000	US\$ 1,811,556	
Amount in colones	¢	<u>191,024,262,000</u>	¢ <u>1,115,574,411</u>	
Chicago Board of Trade	US\$	24,900,000	US\$ 185,047	Standardized futures contracts (maturing in 2021)
Amount in colones	¢	<u>15,333,669,000</u>	¢ <u>113,953,633</u>	
		December 2020		Purpose
Issuing bank		Notional amount	Valuation	
CitiBank	US\$	100,000,000	US\$ 7,396,127	Swaps to hedge 10-year issues (maturing in 2023)
JP Morgan		46,533,000	3,441,640	
Bank of America		173,588,000	12,838,790	
	US\$	320,121,000	US\$ 23,676,557	
Amount in colones	¢	<u>197,610,693,300</u>	¢ <u>14,615,538,723</u>	
Bank of America	US\$	60,200,000	US\$ 352,970	Swaps to hedge 5-year issues (maturing in 2021)
JP Morgan		250,000,000	1,457,517	
	US\$	310,200,000	US\$ 1,810,487	
Amount in colones	¢	<u>191,486,460,000</u>	¢ <u>1,117,613,736</u>	
Chicago Board of Trade	US\$	12,200,000	US\$ 11,171	Standardized futures contracts (maturing in 2021)
Amount in colones	¢	<u>7,531,060,000</u>	¢ <u>6,896,000</u>	

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		March 2020		Purpose
Issuing bank		Notional amount	Valuation	
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	¢	<u>282,436,864,500</u>	¢ <u>22,636,451,501</u>	
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	¢	<u>182,202,174,000</u>	¢ <u>977,069,884</u>	
Chicago Board of Trade	US\$	5,700,000	US\$ (70,633)	Standardized futures contracts (maturing in 2020)
Amount in colones	¢	<u>3,348,009,000</u>	¢ <u>(41,487,635)</u>	

As of March 31, 2021, total notional amounts of US\$655,221,000, equivalent to ¢403,491,644,010 (December and March 2020: US\$642,521,000, equivalent to ¢396,628,213,300, respectively) are booked under “Other debit memoranda accounts” (see Note 29).

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

As of March 31, 2021, the Bank books an increase in the fair value of these swaps in the amount of US\$23,990,192, equivalent to ¢14,773,400,252 (December and March 2020: US\$25,487,044, equivalent to ¢15,733,152,459 and US\$40,202,374, equivalent to ¢23,613,668) (see Note 10).

For purposes of the valuation the aforementioned interest rate swaps, the Bank elected to apply the “Fair Value Hedge Method”; while the “Dollar Offset Method” is used to test hedge effectiveness. The latter method was defined by SUGEF and prescribes that effectiveness is to be assessed retrospectively. A hedge is considered highly effective if the ratio of the changes in the derivative and primary instruments ranges between 80% and 125%.

(Continued)



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

	Rate of effectiveness		
	March 2021	December 2020	March 2020
10-year issue (maturing in 2023)	92.90%	94.58%	103.60%
5-year issue (maturing 2021)	96.35%	101.40%	110.80%

A valuation was performed as of March 31, 2021 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, 2020
- only a portion of the bond cash flows is hedged (corresponding to the 5- and 10-year LIBOR rate in effect at the issue of the bond) rather than the total interest rate
- accrued and earned interest were segregated from the instruments to obtain variations in clean prices
- forward rate to calculate variable interest.

As of March 31, 2021, standardized futures contracts are negotiated as part of the management of the financial derivatives portfolio. The Bank books a notional amount of US\$24,900,000, equivalent to ₡15,333,669,000 (December and March 2020: US\$12,200,000, equivalent to ₡7,531,060,000 and US\$5,700,000, equivalent to ₡3,348,009,000, respectively) for the sale and purchase of these futures contracts.

As of March 31, 2021, the Bank books an increase in the fair value of futures contracts in the amount of US\$190,343, equivalent to ₡117,215,622 (December and March 2020: US\$11,171, equivalent to ₡6,896,000 and US\$249.92, equivalent to ₡146,795, respectively).

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

✓ Derivatives other than hedges

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, 2021, the total notional amount is US\$1,810,000, equivalent to ¢1,114,616,100 (December and March 2020: US\$2,300,000, equivalent to ¢1,417,790,000 and nil, respectively).

As of March 31, 2021, the Bank books an increase in the fair value of these forwards in the amount of ¢2,508,323 (December and March 2020: ¢13,323,251 and nil, respectively) under an asset account. It did not book a decrease in the fair value of these forwards, which would have been booked under a liability account.

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

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

	<u>March 2021</u>	<u>December 2020</u>	<u>March 2020</u>
Gains on derivative financial instruments	¢ 2,415,457,837	21,875,260,965	14,301,407,658
Losses on derivative financial instruments	<u>(3,062,944,068)</u>	<u>(6,149,525,767)</u>	<u>(563,310,244)</u>
Net (losses) gains	¢ <u>(647,486,231)</u>	<u>15,725,735,198</u>	<u>13,738,097,414</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(12) Loan portfolio

(a) Loan portfolio by sector

The loan portfolio by sector is as follows:

	March 2021	December 2020	March 2020
Trade	360,522,155,790	366,543,473,364	348,543,507,880
Services	869,474,124,898	882,958,009,616	877,333,773,380
Financial services	81,912,751,879	86,384,902,878	105,659,990,111
Mining	696,237,785	723,836,045	730,170,800
Manufacturing and quarrying	160,512,749,601	154,439,840,021	168,144,834,219
Construction	94,609,082,093	97,117,113,215	96,628,624,527
Agriculture and forestry	113,420,488,666	119,176,139,304	105,312,174,257
Livestock, hunting and fishing	73,287,530,281	73,609,723,660	74,447,096,150
Electricity, water, sanitation and other related sectors	472,745,289,645	483,518,311,261	393,042,902,832
Transportation and telecommunications	45,911,200,853	46,878,351,392	46,639,035,381
Housing	1,311,240,222,690	1,317,083,078,572	1,297,909,830,326
Personal or consumer loans	519,177,258,966	528,808,645,806	542,012,018,001
Tourism	204,744,004,015	201,470,966,486	184,714,233,352
	<u>4,308,253,097,162</u>	<u>4,358,712,393,620</u>	<u>4,241,118,191,216</u>
Incremental direct costs related to loans	3,657,662,021	3,756,519,754	4,003,862,440
(Deferred income from loan portfolio)	(33,230,117,422)	(33,106,164,873)	(33,110,026,780)
Accrued interest receivable	126,111,930,250	122,742,551,278	38,537,249,393
Allowance for loan losses	<u>(162,798,010,479)</u>	<u>(155,527,961,609)</u>	<u>(127,978,982,327)</u>
¢	<u>4,241,994,561,532</u>	<u>4,296,577,338,170</u>	<u>4,122,570,293,942</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Annual interest rates on loans receivable are as follows:

Currency	March 2021		December 2020		March 2020	
	Rates	Average (1)	Rates	Average (1)	Rates	Average (1)
Colones	1.20% to 45.00%	13.06%	2.00% to 45.00%	13.32%	2.00% to 46.00%	14.75%
US dollars	0.20% to 30.00%	7.48%	0.24% to 31.00%	7.47%	1.25% to 34.92%	9.04%
DU	3.85% to 10.00%	5.81%	3.85% to 10.00%	5.67%	3.85% to 10.50%	6.35%

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

(b) Loan portfolio by arrears

The loan portfolio by arrears is as follows:

	March 2021	December 2020	March 2020
Current	¢ 3,951,551,651,391	4,116,568,006,122	3,887,258,213,546
1 to 30 days	66,403,346,085	39,182,017,579	104,218,319,116
31 to 60 days	88,554,724,739	29,640,705,064	82,554,495,213
61 to 90 days	56,166,829,286	11,541,663,555	19,179,348,844
91 to 120 days	4,496,933,076	1,870,053,553	12,993,559,147
121 to 180 days	7,885,106,351	1,892,441,550	20,169,738,366
More than 180 days	133,194,506,234	14,217,884	114,744,516,984
In legal collection	3,951,551,651,391	158,003,288,313	-
	4,308,253,097,162	4,358,712,393,620	4,241,118,191,216
Incremental direct costs related to loans	3,657,662,021	3,756,519,754	4,003,862,440
(Deferred income from loan portfolio)	(33,230,117,422)	(33,106,164,873)	(33,110,026,780)
Accrued interest receivable	126,111,930,250	122,742,551,278	38,537,249,393
Allowance for loan losses	(162,798,010,479)	(155,527,961,609)	(127,978,982,327)
	¢ 4,241,994,561,532	4,296,577,338,170	4,122,570,293,942

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(c) Allowance for loan losses

Movement in the allowance for loan losses is as follows:

	<u>March 2021</u>	<u>December 2020</u>	<u>March 2020</u>
Opening balance	¢ 155,527,961,609	118,507,110,835	118,507,110,835
Allowance expense for the period (Note 39)	17,050,882,006	68,378,115,626	14,987,065,461
Write-offs	(9,665,976,260)	(34,781,370,191)	(6,767,671,474)
Adjustments due to reclassification of allowance	-	147,982,736	147,982,736
Foreign exchange differences	(114,856,875)	3,276,122,603	1,104,494,769
Closing balance	¢ <u>162,798,010,479</u>	<u>155,527,961,609</u>	<u>127,978,982,327</u>

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

As of March 31, the allowance for stand-by credits is as follows:

	<u>March 2021</u>
Opening balance	¢ 717,444,504
Allowance expense for the year (Note 36)	100,000,001
Foreign exchange differences	(1,120,510)
Closing balance	¢ <u>816,323,994</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(13) Accounts and fees and commissions receivable

Other accounts and fees and commissions receivable are as follows:

	March 2021	December 2020	March 2020
Fees and commissions	¢ 1,615,822,407	1,378,393,151	1,501,546,252
Accounts receivable for brokerage operations	2,596,779	5,728,706	-
Accounts due from employees	17,573,873	19,025,296	61,815,619
Deferred tax (Note 21-b)	1,819,643,368	1,686,064,546	966,061,871
Income tax receivable (1)	63,684,703	321,981,420	76,686,062
Value added tax	9,826,504	17,962,034	14,590,199
Sundry accounts receivable related to credit cards	304,539,955	237,913,865	187,084,788
Other expenses receivable	485,934,014	22,525,394	21,040,485
Other accounts receivable (2)	1,538,825,147	4,065,600,613	4,286,762,570
Credit fraud	748,936,955	-	-
Misappropriation and theft	1,701,838,283	-	-
Accrued interest receivable on other sundry accounts receivable	2,992,171	2,991,594	8,008,909
Allowance for impairment of accounts receivable	(4,154,877,236)	(4,217,937,702)	(4,344,049,663)
	¢ <u>4,157,336,923</u>	<u>3,540,248,917</u>	<u>2,779,547,092</u>

(1) Income tax receivable is as follows:

	March 2021	December 2020	March 2020
Banco Nacional de Costa Rica	¢ 29,327,041	143,613,342	32,820,083
BN Vital Operadora de Planes de Pensiones Complementarias, S.A.	17,535	79,766	7,622,411
BN Sociedad Corredora de Seguros, S.A.	34,340,127	-	36,243,568
	¢ <u>63,684,703</u>	<u>143,693,108</u>	<u>76,686,062</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

	March 2021	December 2020	March 2020
Opening balance	¢ 4,217,937,702	4,439,440,280	4,439,440,280
Allowance expense (Note 39)	210,679,781	1,080,131,153	309,565,662
Decrease in allowance (Note 40)	(223,931,665)	(752,680,302)	(304,605,669)
Write-offs	(49,381,354)	(574,231,463)	(104,283,168)
Foreign exchange differences	(427,229)	25,278,034	3,932,557
Closing balance	¢ 4,154,877,236	4,217,937,702	4,344,049,663

(14) Foreclosed assets

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

	March 2021	December 2020	March 2020
Assets acquired in lieu of payment	98,963,202,112	98,844,527,473	95,058,307,713
Idle property, furniture and equipment	55,884,629	55,884,629	55,884,629
Allowance for impairment of foreclosed assets and per legal requirements	(66,403,600,019)	(66,534,513,087)	(69,522,366,150)
	<u>32,615,486,722</u>	<u>32,365,899,015</u>	<u>25,591,826,192</u>

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

	March 2021	December 2020	March 2020
Opening balance	66,534,513,087	63,718,411,084	63,718,411,084
Allowance expense (Note 38)	381,769,385	9,628,924,296	5,803,955,066
Decrease in allowance	(512,682,451)	(6,812,822,294)	-
Closing balance	<u>66,403,600,019</u>	<u>66,534,513,087</u>	<u>69,522,366,150</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(15) Investments in other companies

Investments in other companies are as follows:

	<u>March 2021</u>	<u>December 2020</u>	<u>March 2020</u>
Investment in other financial and non-financial entities (1)	¢ 20,623,300	20,623,300	50,623,300
Banco Internacional de Costa Rica, S.A. and Subsidiary (BICSA) (Note 3) (2)	<u>72,376,421,644</u>	<u>72,376,421,644</u>	<u>68,709,728,411</u>
	¢ <u>72,427,044,914</u>	<u>72,427,044,914</u>	<u>68,760,351,711</u>

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

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

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

(Continued)



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

a) *Historical cost and depreciation*

Property, furniture and equipment is as follows:

		March 2021					
		Land	Buildings	Furniture and equipment	Computer hardware	Vehicles	Total
<u>Cost:</u>							
Historical cost at beginning of period	¢	4,281,149,677	70,673,112,451	65,964,459,511	52,338,212,534	341,154,043	193,598,088,216
Revalued cost at beginning of period		49,374,508,221	65,580,690,063	(10,298,846)	(34,287,875)	-	114,910,611,563
Additions		-	-	676,469,715	324,488,662	-	1,000,958,377
Disposals		-	-	(291,344,069)	(1,828,340,507)	-	(2,119,684,576)
Reclassifications		-	-	-	339,924	-	339,924
Closing balance		53,655,657,898	136,253,802,514	66,339,286,311	50,800,412,738	341,154,043	307,390,313,504
<u>Accumulated depreciation:</u>							
Opening balance		-	48,747,685,316	39,861,872,242	40,281,237,135	252,905,265	129,143,699,958
Depreciation expense on historical cost		-	395,669,577	1,671,980,789	1,211,391,570	4,837,201	3,283,879,137
Depreciation expense on revalued cost		-	219,281,802	-	-	-	219,281,802
Disposals		-	-	(251,799,914)	(1,750,001,672)	-	(2,001,801,586)
Closing balance	¢	-	49,362,636,695	41,282,053,117	39,742,627,033	257,742,466	130,645,059,311
Net closing balance	¢	53,655,657,898	86,891,165,819	25,057,233,194	11,057,785,705	83,411,577	176,745,254,193

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		March 2020					
		Land	Buildings	Furniture and equipment	Computer hardware	Vehicles	Total
<u>Cost:</u>							
Historical cost at beginning of year	¢	4,281,149,677	70,302,884,014	64,407,050,144	52,648,710,467	357,222,206	191,997,016,508
Revalued cost at beginning of year		49,385,684,604	65,580,690,062	(9,833,908)	(33,717,532)	-	114,922,823,226
Additions		-	86,743,570	864,261,641	577,901,739	-	1,528,906,950
Asset 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
<u>Accumulated depreciation:</u>							
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)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of March 31, 2021, the appraisals of the Bank's land and buildings were performed by an independent appraiser. The net realizable value obtained was compared to the carrying amount to determine the equity increase and the effects on the accumulated depreciation and revaluation accounts. Based on the valuation techniques used, those items are classified as Level 3 of the fair value hierarchy.

*b) Right-of-use assets*

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

		March 2021		
		Right of use of land	Right of use of building	Right of use of vehicles
				Total
<u>Cost:</u>				
Historical cost at beginning of period	¢	5,571,583	39,540,817,132	277,254,296
Additions		-	12,610,990	-
Disposals		-	(494,347,167)	-
Adjustments		(5,571,583)	(127,005,816)	(9,595,209)
Closing balance		-	38,932,075,139	267,659,087
Accumulated depreciation:				
Opening balance		-	5,776,635,561	192,006,038
Depreciation expense on historical cost		-	733,526,593	21,760,850
Disposals		-	(62,721,114)	-
Adjustments		-	(11,215,236)	(2,114,610)
Closing balance	¢	-	6,436,225,804	211,652,278
Net closing balance	¢	-	32,495,849,335	56,006,809

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		December 2020		
		Right of use of building	Right of use of vehicles	Total
<u>Cost:</u>				
Additions		43,228,824,081	277,254,296	43,506,078,377
Disposals		(3,285,365,707)	-	(3,285,365,707)
Adjustments		(397,069,659)	-	(397,069,659)
Closing balance		39,546,388,715	277,254,296	39,823,643,011
<u>Accumulated depreciation:</u>				
Opening balance		82,823,437	-	82,823,437
Effect of implementation of IFRS		3,046,732,987	97,203,330	3,143,936,317
Depreciation expense on historical cost		3,312,926,599	94,802,707	3,407,729,306
Disposals		(527,027,745)	-	(527,027,745)
Adjustments		(138,819,718)	-	(138,819,718)
Closing balance		5,776,635,560	192,006,037	5,968,641,597
Net closing balance	¢	33,769,753,155	85,248,259	33,855,001,414
		March 2020		
		Right of use of building	Right of use of vehicles	Total
<u>Cost:</u>				
Additions	¢	42,688,470,422	277,254,296	42,965,724,718
Closing balance		42,688,470,422	277,254,296	42,965,724,718
Depreciation expense on historical cost		4,036,786,134	121,504,162	4,158,290,296
Closing balance	¢	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)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

*c) Lease liabilities*

*i. Amounts recognized in profit or loss*

The amounts recognized in profit or loss are as follows:

	March 2021
Interest on lease liability	¢ <u>879,298,180</u>
Expenses for leases of low-value assets, excluding short-term assets	¢ <u>123,693,039</u>

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

	March 2021
Total cash outflows for leases	¢ <u><u>492,683,016</u></u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(17) Other assets

Other assets are as follows:

	March 2021	December 2020	March 2020
<i><u>Deferred charges:</u></i>			
Leasehold improvements (1)	¢ 60,216,045	109,029,869	278,601,607
Cost of issue of financial instruments, net (2)	-	383,327,082	641,287,460
Cost of subordinated debt project	467,057,223	215,689,311	255,514,009
Direct deferred costs related to loans	-	-	-
Other deferred charges	39,048,182,004	42,613,181,701	53,308,180,791
	<u>39,575,455,272</u>	<u>43,321,227,963</u>	<u>54,483,583,867</u>
<i><u>Intangible assets:</u></i>			
Software (3)	4,771,557,867	5,295,527,348	6,143,283,085
Other intangible assets (3)	3,872,091	4,874,124	2,870,059
	<u>4,775,429,958</u>	<u>5,300,401,472</u>	<u>6,146,153,144</u>
<i><u>Other assets:</u></i>			
Prepaid taxes	5,448,139,424	16,712,469,431	501,564,722
Prepaid insurance policy	282,030,299	169,380,002	372,209,159
Other prepaid expenses	7,448,591,140	7,866,604,530	2,312,071,510
Stationery, office supplies and other materials	675,414,013	913,024,907	538,718,920
Leased assets	121,161,194	121,506,085	122,558,815
Library and artwork	404,704,948	404,704,948	429,918,818
Construction work in progress	1,587,760,075	1,383,200,612	1,125,439,428
Automated applications under development	92,052,283	88,151,366	-
Payments to welfare and trade associations	600,000	600,000	600,000
Other sundry assets	158,557,669	158,557,669	496,857,589
Operations pending settlement	7,919,983,403	21,965,902,330	7,123,601,101
Other operations pending application	249,812,098	118,059,154	93,274,636
Security deposits (Note 7)	603,684,576	460,789,956	558,938,095
Legal and administrative deposits (Note 7)	241,246,452	240,349,485	263,200,990
	<u>25,233,737,574</u>	<u>50,603,300,475</u>	<u>13,938,953,783</u>
¢	<u><u>69,584,622,804</u></u>	<u><u>99,224,929,910</u></u>	<u><u>74,568,690,794</u></u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- (1) As of March 31, 2021, the amortization expense for leasehold improvements amounts to ¢48,813,824.
- (2) As of March 31, 2021, costs of the issue of financial instruments are as follows:

	March 2021			
	5-year issue (maturing in 2018)	10-year issue (maturing in 2023)	5-year issue (maturing in 2021)	Total
Commission - structuring banks	¢ 307,905,000	307,905,000	523,438,500	1,139,248,500
Commission - Moody's Investors Service	153,952,500	153,952,500	-	307,905,000
Commission - Société de la Bourse de Luxembourg, S.A.	7,525,814	7,525,814	-	15,051,628
RR Donelley	6,741,272	6,741,247	4,035,572	17,518,092
BNY Mellon	2,434,297	2,434,297	3,551,376	8,419,970
Moody's - issuer rating	20,383,311	20,383,311	153,952,500	194,719,122
Fitch Ratings	153,952,500	153,952,500	153,952,500	461,857,500
Milbank	90,622,600	90,622,600	121,327,262	302,572,461
Shearman & Sterling	90,740,219	90,740,219	134,981,919	316,462,357
External audit	117,003,900	117,003,900	142,867,920	376,875,720
Perkins Cole (Broker)	-	-	8,077,611	8,077,611
Printing of documents	-	-	9,738,939	9,738,939
	<u>951,261,413</u> (951,261,413)	<u>951,261,388</u>	<u>1,255,924,098</u>	<u>3,158,446,900</u>
Amortization		(712,993,901)	(1,236,327,812)	(2,900,583,126)
¢	<u>-</u>	<u>238,267,487</u>	<u>19,596,286</u>	<u>257,863,773</u>

(Continued)



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 2020				
	5-year issue (maturing in 2018)	10-year issue (maturing in 2023)	5-year issue (maturing in 2021)	Total
Commission - structuring banks	¢ 308,650,000	308,650,000	524,705,000	1,142,005,000
Commission - Moody's Investors Service	154,325,000	154,325,000	-	308,650,000
Commission - Société de la Bourse de Luxembourg, S.A.	7,544,023	7,544,023	-	15,088,047
RR Donelley	6,757,583	6,757,558	4,045,337	17,560,478
BNY Mellon	2,440,187	2,440,187	3,559,969	8,440,343
Moody's - issuer rating	20,432,630	20,432,630	154,325,000	195,190,260
Fitch Ratings	154,325,000	154,325,000	154,325,000	462,975,000
Milbank	90,841,868	90,841,868	121,620,823	303,304,559
Shearman & Sterling	90,959,773	90,959,771	135,308,518	317,228,063
External audit	117,287,000	117,287,000	143,213,600	377,787,600
Perkins Cole (Broker)	-	-	8,097,155	8,097,155
Printing of documents	-	-	9,762,503	9,762,503
	<u>953,563,064</u>	<u>953,563,037</u>	<u>1,258,962,905</u>	<u>3,166,089,006</u>
Amortization	<u>(953,563,064)</u>	<u>(619,064,422)</u>	<u>(1,210,134,438)</u>	<u>(2,782,761,924)</u>
¢	<u>-</u>	<u>334,498,615</u>	<u>48,828,467</u>	<u>383,327,082</u>
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 Donelley	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
	<u>907,329,235</u>	<u>907,329,211</u>	<u>1,197,921,568</u>	<u>3,012,580,015</u>
Amortization	<u>(907,329,235)</u>	<u>(514,205,431)</u>	<u>(949,757,889)</u>	<u>(2,371,292,555)</u>
¢	<u>-</u>	<u>393,123,781</u>	<u>248,163,679</u>	<u>641,287,460</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		December 2020		
		Software	Other intangible assets	Total
<u>Cost:</u>				
Opening balance	¢	32,758,659,684	44,965,618	32,803,625,302
Additions		2,518,506,297	16,490,398	2,534,996,695
Disposals		(1,008,133,238)	-	(1,008,133,238)
Reclassifications		(1,659,291)	(14,486,333)	(16,145,624)
Adjustments		(126,417,047)	-	(126,417,047)
Closing balance		<u>34,140,956,405</u>	<u>46,969,683</u>	<u>34,187,926,088</u>
<u>Accumulated amortization:</u>				
Opening balance				
Expense for the year		25,835,625,309	42,095,559	25,877,720,868
Disposals		4,093,766,764	-	4,093,766,764
Reclassifications		(1,021,627,707)	-	(1,021,627,707)
Adjustments		1,889,740	-	1,889,740
Closing balance		<u>(64,225,048)</u>	<u>-</u>	<u>(64,225,048)</u>
Net closing balance	¢	<u>28,845,429,057</u>	<u>42,095,559</u>	<u>28,887,524,616</u>
		March 2020		
		Software	Other intangible assets	Total
<u>Cost:</u>				
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		<u>32,109,785,289</u>	<u>42,095,559</u>	<u>31,038,380,279</u>
<u>Accumulated amortization:</u>				
Opening balance		25,835,625,309	42,095,559	25,287,153,505
Expense for the period		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		<u>25,966,502,204</u>	<u>42,095,559</u>	<u>25,370,317,218</u>
Net closing balance	¢	<u>6,143,283,085</u>	<u>-</u>	<u>5,668,063,061</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(18) Obligations with the public

Obligations with the public by cumulative amount are as follows:

	March 2021	December 2020	March 2020
<i><u>Demand deposits:</u></i>			
Checking accounts	¢ 1,788,279,308,545	1,722,635,196,234	1,640,266,722,313
Certified checks	109,727,704	158,566,763	20,318,522
Savings deposits	1,805,516,088,403	1,793,268,825,369	1,508,915,128,852
Matured term deposits	20,059,605,692	21,038,851,425	18,906,911,164
Other demand deposits	125,994,621	126,026,584	144,884,554
Drafts and transfers payable	294,693,106	402,866,378	384,558,454
Cashier's checks	4,072,936,029	2,853,421,177	3,528,501,227
Advance collections from customers for credit cards	10,760,064,754	11,366,072,439	10,853,696,127
Banking mandates	-	1,142,835,067	1,120,492,474
Trust fund obligations	104,731,013	70,824,810	147,631,585
	<u>3,629,323,149,867</u>	<u>3,553,063,486,246</u>	<u>3,184,288,845,272</u>
<i><u>Term deposits:</u></i>			
Deposits from the public	2,055,444,408,902	1,938,769,672,856	1,957,015,660,257
Other term deposits	73,752,044,805	97,766,851,400	140,601,192,700
	<u>2,129,196,453,707</u>	<u>2,036,536,524,256</u>	<u>2,097,616,852,957</u>
<i><u>Other obligations with the public:</u></i>			
Obligations for tri-party repurchase agreements	-	7,873,700,508	14,562,378,349
Finance charges payable	32,528,244,935	36,616,428,702	45,647,555,438
	<u>¢ 5,791,047,848,509</u>	<u>5,634,090,139,712</u>	<u>5,342,115,632,016</u>

As of March 31, 2021, deposits in checking accounts in colones bear interest at a maximum rate of 1.15% per annum on full balances and at a minimum rate of 0.65% 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 0.25% per annum on full balances and at a minimum rate of 0.10% per annum on balances greater than or equal to US\$5,000.99.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Term deposits correspond to term certificates of deposit in colones, US dollars, and euro. As of March 31, 2021, term certificates bear annual interest at the following rates:

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

The Bank has term certificates of deposit that are restricted to secure certain loan operations. As of March 31, 2021, the balance of those term certificates of deposit is ¢76,107,298,099. As of that date, the Bank has no inactive deposits with State-owned entities or other banks.

(19) Obligations with BCCR

Obligations with BCCR are as follows:

	March 2021	December 2020	March 2020
Financing of loans using internal funds	70,098,000,000	-	-
Financing of loans using external funds (i)	¢ 125,644,412	125,644,412	125,644,412
Other term obligations (ii)	-	8,000,000,000	-
Finance charges payable	49,385,489	666,667	-
	¢ <u>70,273,029,901</u>	<u>8,126,311,079</u>	<u>125,644,412</u>

- i. According to Agreement MAG/AID 515-T-027 signed December 15, 1981, obligations related to financing of loans using external funds correspond to the agreement between the Government of Costa Rica and the 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.
- ii. Other term obligations with BCCR correspond to deferred liquidity operations (MIL operations), with the corresponding interest.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(20) Obligations with financial entities

Obligations with financial entities are as follows:

	March 2021	December 2020	March 2020
<i><u>Demand:</u></i>			
Checking accounts with local financial entities	¢ 57,267,542,103	63,081,831,168	79,879,698,553
Savings deposits with local financial entities	41,498,961	52,978,622	28,869,351
Outstanding checks	1,054,372,168	1,319,135,518	2,496,260,885
Matured term deposits	176,289,233	4,150,001	1,766,758,635
Checking accounts and obligations with related parties	7,014,768	817,312,947	72,223,262
	<u>58,546,717,233</u>	<u>65,275,408,256</u>	<u>84,243,810,686</u>
<i><u>Term:</u></i>			
Term deposits with local financial entities	113,730,138,596	81,249,784,724	83,364,674,090
Term obligations with foreign financial entities (1)	397,950,248,289	400,679,619,801	484,143,859,218
Obligations for funds from the liquidity market	18,079,741,250	19,484,690,997	31,095,429,598
Loans from local financial entities (2)	29,414,073,347	30,060,611,046	31,966,773,348
Loans from foreign financial entities (2)(3)	138,153,853,394	114,374,846,095	105,783,457,416
Lease liabilities (1)	35,891,350,837	37,044,902,529	39,690,965,063
Obligations with funds from the Development Credit Fund	157,729,455,514	167,991,227,096	146,992,191,158
	<u>890,948,861,227</u>	<u>850,885,682,288</u>	<u>923,037,349,891</u>
(Deferred fees and commissions on own loan portfolio)	<u>(163,611,738)</u>	<u>(49,567,474)</u>	<u>(116,136,265)</u>
	<u>(163,611,738)</u>	<u>(49,567,474)</u>	<u>(116,136,265)</u>
Charges payable for other demand and term obligations with financial entities – foreign currency	37,787,493	23,373,089	47,826,491
Charges payable for other demand and term obligations with financial entities – local currency	536,503,832	393,526,931	635,422,991
Charges payable for loans with foreign financial entities (2)(3)	2,065,724,952	534,786,904	1,760,928,135
Charges payable for loans with local financial entities (2) (3)	62,119,647	63,322,482	61,468,568
Charges payable for term deposits with foreign financial entities (1)	9,996,849,820	4,120,913,505	11,993,690,397
	<u>12,698,985,744</u>	<u>5,135,922,911</u>	<u>14,499,336,582</u>
¢	<u><u>962,030,952,466</u></u>	<u><u>921,247,445,981</u></u>	<u><u>1,021,664,360,894</u></u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(1) *Lease liabilities*

As of March 31, 2021, long-term lease liabilities and their current portion amount to ¢6,655,398,288 and US\$47,562,666, respectively, for a total in colones of ¢35,944,963,723, using the exchange rate of ¢615.81.

Lease liabilities include 75 lease operations, of which 15 operations are denominated in colones, with rates ranging between 11.80% and 13.63% per annum and maturing between 2022 and 2042, and 60 operations are denominated in US dollars, with rates ranging between 8.80% and 8.85% per annum and maturing between 2021 and 2041.

Future minimum lease payments are as follows:

		March 2021	
	<u>Future minimum</u>		<u>Present value of</u>
	<u>lease payments</u>	<u>Interest</u>	<u>minimum lease</u>
			<u>payments</u>
Less than one year	¢ 5,326,063,508	3,378,336,495	1,947,731,155
Between one and five years	24,587,495,256	13,977,846,614	10,609,669,369
More than five years	34,505,867,790	11,151,499,868	23,354,404,968
	¢ <u>64,419,426,554</u>	<u>28,507,682,977</u>	<u>35,911,805,492</u>

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

	March 2021
Balance at January 1, 2021	¢ 36,527,027,411
Acquisition of obligations	540,654,548
Settlements or withdrawals	(457,570,020)
Adjustments	(138,945,443)
Payment of obligations	(486,735,671)
Interest expense	10,206,669
Foreign exchange differences	(70,128,169)
Related to liabilities	(59,921,500)
Balance at March 31, 2021	¢ <u><u>35,924,509,325</u></u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

	March 2021		
	10-year issue (maturing in 2023)	5-year issue (maturing in 2021)	Total
Issue	¢ 195,304,312,153	190,412,984,362	385,717,296,515
Adjustment to fair value of hedged item measured at cost of international issues	10,610,314,772	(197,911,376)	10,412,403,396
Amortization of discount in traded amount of issues	1,228,202,815	592,345,565	1,820,548,380
	207,142,829,740	190,807,418,551	397,950,248,291
Finance charges payable	5,133,690,483	4,863,159,337	9,996,849,820
	¢ 212,276,520,223	195,670,577,888	407,947,098,111

(Continued)



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	December 2020		
	10-year issue (maturing in 2023)	5-year issue (maturing in 2021)	Total
Issue	¢ 195,776,866,066	190,873,703,328	386,650,569,394
Adjustment to fair value of hedged item measured at cost of international issues	12,722,231,276	(413,491,874)	12,308,739,402
Amortization of discount in traded amount of issues	1,171,077,027	549,233,978	1,720,311,005
	209,670,174,369	191,009,445,432	400,679,619,801
Finance charges payable	2,058,444,759	2,062,468,746	4,120,913,505
	¢ 211,728,619,128	193,071,914,178	404,800,533,306
	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	81,715,614,707	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)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

		March 2021		
		Local	Foreign	Total
Less than one year	¢	-	20,633,160,715	20,633,160,715
Three to five years		-	72,385,415,042	72,385,415,042
More than five years		29,601,837,406	47,201,002,589	76,802,839,995
	¢	<u>29,601,837,406</u>	<u>140,219,578,346</u>	<u>169,821,415,752</u>
		December 2020		
		Local	Foreign	Total
Less than one year	¢	63,322,482	21,690,172,319	21,753,494,801
Three to five years		-	46,297,500,000	46,297,500,000
More than five years		30,060,611,046	46,921,960,680	76,982,571,726
	¢	<u>30,123,933,528</u>	<u>114,909,632,999</u>	<u>145,033,566,527</u>
		March 2020		
		Local	Foreign	Total
Less than one year	¢	-	19,895,988,386	19,895,988,386
Three to five years		-	42,619,144,540	42,619,144,540
More than five years		32,153,886,328	45,029,252,625	77,183,138,953
	¢	<u>32,153,886,328</u>	<u>107,544,385,551</u>	<u>139,698,271,879</u>

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

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

	March 2021	December 2020
Balance at beginning of period	¢ 144,435,457,141	135,780,260,555
New financial obligations	24,692,000,000	38,326,617,261
Settlement of financial obligations	(1,225,256,449)	(39,250,574,578)
Foreign exchange differences	(334,273,951)	9,579,153,903
Cash flows from financing activities	23,132,469,600	8,655,196,586
Balance at end of period	¢ <u>167,567,926,741</u>	<u>144,435,457,141</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(21) Income tax

Pursuant to the Costa Rican *Income Tax Law*, the Bank is required to file income tax returns each year. As of March 31, 2021, income tax is as follows:

a) Income tax for the period

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

	<u>March 2021</u>	<u>March 2020</u>
<u>Current tax:</u>		
Current tax expense for the period	¢ 5,846,757,445	4,889,014,967
Prior-period income tax expense	<u>3,547,309,483</u>	<u>3,600,040,451</u>
	9,394,066,928	8,489,055,418
<u>Deferred tax:</u>		
Deferred tax expense	418,875,596	158,383,520
Deferred tax income	<u>(484,070,201)</u>	<u>(488,630,663)</u>
Total deferred tax expense, net	<u>(65,194,605)</u>	<u>(330,247,143)</u>
Income tax expense, net	<u>¢ 9,328,872,323</u>	<u>8,158,808,275</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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 2021	March 2021
Profit before taxes	¢ 20,463,621,274	16,562,107,492
<i>Plus (less) tax effect of:</i>		
Non-deductible expenses	3,831,054,066	5,116,776,178
Deductible expenses	(2,843,203,944)	(822,155,922)
Non-taxable income	(1,962,279,920)	(4,560,011,201)
Tax base	19,489,191,476	16,296,716,547
Tax rate	30%	30%
Subtotal income tax expense	5,846,757,445	4,889,014,967
Prior-period income tax expense	3,547,309,483	3,600,040,451
Deferred tax expense	418,875,596	158,383,520
Deferred tax income	(484,070,200)	(488,630,663)
Subtotal deferred tax expense	(65,194,604)	(330,247,143)
Income tax expense, net	¢ 9,328,872,324	8,158,808,275

b) Deferred tax

Deferred tax assets and liabilities are as follows:

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		December 2020		
		Assets	Liabilities	Net
Unrealized losses on valuation of investments	¢	446,733,973	-	446,733,973
Provisions		287,529,817	-	287,529,817
Right-of-use assets		951,800,756	-	951,800,756
Unrealized gains on valuation of investments		-	(3,006,120,072)	(3,006,120,072))
Revaluation of property		-	(17,530,316,973)	(17,530,316,973)
Tax base of property and equipment		-	(3,739,156,241)	(3,739,156,241)
	¢	<u>1,686,064,546</u>	<u>(24,275,593,286)</u>	<u>(22,589,528,740)</u>
		March 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 property		-	(9,506,392,781)	(9,506,392,781)
	¢	<u>966,061,871</u>	<u>(14,302,004,805)</u>	<u>(13,335,942,934)</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Deferred tax assets and liabilities are as follows:

	December 31, 2020	Included in the income statement	Included in equity	March 2021
Unrealized losses on valuation of investments	446,733,973	(84,763,319)	62,569,939	424,540,593
Provisions	287,529,817	110,762,203	-	398,292,020
Right-of-use assets	951,800,756		45,009,999	996,810,755
Unrealized gains	(3,006,120,072)	63,770,736	(854,020,157)	(3,796,369,493)
Asset revaluation	(17,530,316,973)	-	8,542,439,687	(8,987,877,286)
Tax base of property, furniture and equipment	(3,739,156,241)	(345,275,292)	278,769,751	(3,805,661,782)
	<u>¢ (22,589,528,740)</u>	<u>(255,505,672)</u>	<u>8,074,769,219</u>	<u>(14,770,265,193)</u>
	December 2019	Included in the income statement	Included in equity	December 2020
Unrealized losses on valuation of investments	1,049,189,321	-	(530,233,034)	518,956,287
Provisions	198,437,376	1,710,738	-	200,148,114
Right-of-use assets	-	971,338,597	(18,206,160)	953,132,437
Impairment of investments	-	12,686,297	-	12,686,297
Asset depreciation	-	346,133	-	346,133
Lease liabilities	-	(1,221,832)	-	(1,221,832)
Unrealized gains on valuation of investments	(4,547,196,438)	-	1,642,602,757	(2,904,593,681)
Revaluation of property	(9,506,392,781)	-	470,273,651	(9,036,119,130)
Tax base of property, furniture and equipment	-	(358,422,205)	(3,469,008,302)	(3,827,430,507)
	<u>¢ (12,805,962,522)</u>	<u>626,437,728</u>	<u>(1,904,571,088)</u>	<u>(14,084,095,882)</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	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)
Asset revaluation	(9,506,392,781)	-	-	(9,506,392,781)
	¢ <u>(12,805,962,522)</u>	<u>214,764,427</u>	<u>(744,744,839)</u>	<u>(13,335,942,934)</u>

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

As of March 31, 2021, the Bank has not recognized a deferred tax liability in the amount of ¢6,387,073,002, given that it controls the moment when the subsidiaries pay dividends.

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

(22) Provisions

Provisions are as follows:

	March 2021	December 2020	March 2020
Severance benefits	¢ 334,141,121	314,133,990	535,196,301
Litigation	7,020,664,087	6,952,427,372	7,291,629,749
Inactive checking and savings accounts liquidated	754,019,347	759,171,321	734,358,224
Manager commissions	9,981,250,991	15,931,625,072	15,023,914,963
Variation in RIVM methodology	490,003,103	490,003,103	6,021,999,440
Notice of deficiency	4,225,446,524	3,736,545,365	2,269,841,890
Other	244,839,156	457,979,172	494,723,443
	¢ <u>23,050,364,329</u>	<u>28,641,885,395</u>	<u>32,371,664,010</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Movement in provisions is as follows:

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

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

		Severance benefits	Litigation	Other	Total
Balance as of December 31, 2019	¢	490,062,436	7,728,962,160	23,746,890,492	31,965,915,088
Increase in provision		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)
Balance as of March 31, 2020	¢	535,196,301	7,291,629,749	24,544,837,960	32,371,664,010

As of March 31, 2021, the Bank is a defendant in litigation, and it considers an outflow of economic benefits. The Bank has estimated future outflows and made the following provisions:

Type	Claimed amount			Provision		
	March 2021	December 2020	March 2020	March 2021	December 2020	March 2020
Ordinary - in colones	18,651,496,377	18,699,964,447	21,495,690,172	4,313,661,707	4,196,881,474	4,405,016,194
Ordinary - in US dollars	134,098,897,024	132,624,641,534	127,168,674,571	2,216,734,582	2,188,079,724	1,972,039,731
Criminal - in colones	1,020,877,223	1,020,877,223	1,020,877,223	-	-	687,969,335
Labor - in colones	879,064,573	879,064,573	937,151,625	490,267,800	567,466,174	226,604,489
	154,650,335,197	153,224,547,777	150,622,393,591	7,020,664,089	6,952,427,372	7,291,629,749

(Continued)



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(23) Other sundry accounts payable

Other sundry accounts payable are as follows:

	March 2021	December 2020	March 2020
Professional fees	¢ 3,496,929	1,514,875	3,989,118
Creditors - goods and services	5,092,284,206	7,348,831,124	4,996,146,103
Income tax	4,344,864,251	1,760,368,473	4,888,921,799
Value added tax	85,953,228	271,040,616	220,723,631
Employer contributions	6,868,123,018	7,611,217,677	4,915,890,891
Court-ordered withholdings	3,594,692,823	3,642,750,117	3,661,077,734
Tax withholdings	2,363,137,042	2,145,519,550	2,329,576,677
Employee withholdings	965,239,970	736,355,713	679,180,952
Other third-party withholdings	153,528,711	187,242,872	158,973,971
Compensation	6,845,326,713	10,053,389,163	3,440,141,708
Statutory allocations	7,144,388,955	12,318,653,859	3,705,649,598
Obligations on loans with related parties	-	200,171	171,342
Clearing house operations	91,148,109	207,654,419	2,737,915,668
Accrued vacation	4,438,386,124	4,463,928,317	5,180,421,890
Accrued statutory Christmas bonus	3,144,913,024	1,343,813,548	2,834,415,550
Contribution to the superintendencies' budget	-	6,111,241	4,997,897
Foreclosed assets	212,440,607	198,833,316	912,119,496
Provisional deposits for the payment of premiums	2,744,527,143	2,063,670,964	3,244,740,703
Direct contracts with the Government Purchases department			
- various	1,289,356,178	974,210,561	1,063,044,977
PAYPAL transactions			361,504,032
Accounts due to customers (1)	-	13,575,039	1,726,386,903
Merlink guarantees	1,354,595,009	1,422,035,747	1,161,542,568
Fees due to international organizations			343,875,000
Amounts received for partial sales of foreclosed assets	-	635,281,514	581,534,331
Master Card and Visa payments	-	-	1,249,262,040
Allocation for petty cash differences	-	583,322,866	-
Various creditors	3,671,384,953	2,974,402,146	4,189,382,735
Interest rate futures - Hedges (Note 9)	3,261,989	-	41,634,430
	¢ 54,411,048,982	60,963,923,888	54,633,221,744

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(24) Other liabilities

Other liabilities are as follows:

	<u>March 2021</u>	<u>December 2020</u>	<u>March 2020</u>
<i>Deferred income:</i>			
Deferred fees and commissions for trust management	79,422,254	72,347,267	49,568,927
	<u>79,422,254</u>	<u>72,347,267</u>	<u>49,568,927</u>
Allowance for stand-by credit losses (1)	-	-	-
<i>Operations pending application:</i>			
Operations pending settlement	2,135,014,398	25,188,593,904	3,579,677,983
Other operations pending application	12,552,261,489	11,791,173,966	16,319,979,381
	<u>14,687,275,887</u>	<u>36,979,767,871</u>	<u>19,899,657,364</u>
¢	<u>14,766,698,141</u>	<u>37,052,115,137</u>	<u>19,949,226,291</u>

(25) Subordinated obligations

Subordinated obligations are as follows:

<u>Annual interest rate</u>	<u>Term</u>	<u>Maturity</u>		<u>March 2021</u>	<u>December 2020</u>	<u>March 2020</u>
6-month LIBOR + 4.50% in the first 5 years and 6-month LIBOR + 5.00% thereafter	10 years	05/27/2024	US\$	60,000,000	70,000,000	80,000,000
6-month LIBOR + 5.25% in the first 5 years and 6-month LIBOR + 5.75% thereafter	15 years	10/23/2029		26,250,000	27,000,000	29,250,000
			US\$	<u>86,250,000</u>	<u>97,000,000</u>	<u>109,250,000</u>
Total equivalent in colones			¢	53,113,612,500	59,878,100,000	64,170,172,500
Finance charges payable				412,563,997	1,071,913,196	627,222,914
			¢	<u>53,526,176,497</u>	<u>60,950,013,196</u>	<u>64,797,395,414</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

In accordance with IRNBS No. 1644, the debt of State-owned commercial banks will be secured with guarantees issued by the Government and all its divisions and institutions. Government guarantees provided for in the aforementioned regulations apply to subordinated loans subscribed by State-owned commercial banks or rights and obligations derived therefrom. Subordinated financial instruments or loans (and the rights and obligations derived therefrom) may only be subscribed by multilateral development banks or bilateral development organizations.

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

(26) Equity

(a) Share capital

The Bank's share capital is as follows:

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

(b) Capital reserves

Capital reserves are as follows:

		March 2021	December 2020	March 2020
Legal reserve	¢	343,171,661,109	359,235,472,801	360,592,172,848
Statutory reserve for foreclosed assets		1,794,071,197	1,730,214,922	705,179,130
Excess of statutory reserve for loans		8,530,959,087	8,231,223,420	5,430,966,996
Statutory dynamic provision		11,830,177,919	12,165,679,183	10,386,072,545
	¢	<u>365,326,869,312</u>	<u>381,362,590,326</u>	<u>377,114,391,519</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(c) Equity of the Development Financing Fund

As of March 31, the allocation of the Bank's earnings for the creation of the Development Financing Fund (FOFIDE) amounts to ¢41,687,504,022 (December and March 2020: ¢39,043,365,123).

(27) Commitments and contingencies

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

		March 2021	December 2020	March 2020
Performance bonds	¢	42,640,522,315	43,130,640,271	28,555,913,953
Bid bonds		3,196,759,297	3,226,116,392	3,405,086,724
Other guarantees		531,684,787	698,212,573	464,086,617
Letters of credit		5,813,036,440	2,514,802,830	6,471,453,506
Credits pending disbursement		130,921,240	130,054,473	171,352,651
		<u>52,312,924,079</u>	<u>49,699,826,539</u>	<u>39,067,893,451</u>
Pre-approved lines of credit		278,175,266,470	276,948,161,866	268,581,934,566
Other contingencies not related to credits		83,658,102	83,658,102	92,897,699
Other contingencies - Pending litigation and lawsuits (Note 47)		<u>154,646,416,881</u>	<u>153,220,867,807</u>	<u>150,622,468,195</u>
		<u>432,905,341,453</u>	<u>430,252,687,775</u>	<u>419,297,300,459</u>
Sales of FX futures - Other than hedges (Note 6)		<u>1,114,616,100</u>	<u>1,419,790,000</u>	-
	¢	<u><u>486,332,881,632</u></u>	<u><u>481,372,304,314</u></u>	<u><u>458,365,193,910</u></u>

Letters of credit, guarantees and sureties granted expose the Bank to credit loss in the event of noncompliance by the customer. The Bank's policies and procedures for approving credit commitments and financial guarantees are the same as those for granting loans booked. Guarantees and sureties granted have fixed maturity dates and, in most cases, no funds are disbursed on maturity. Therefore, they do not represent a significant exposure to liquidity risk. Most letters of credit are used and those used are generally available on demand, issued, and confirmed by correspondent banks and payable immediately.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

The 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.

(28) Trust assets

The Bank provides trust services whereby it manages assets per the instructions of the customer. 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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of March 31, 2021, trust capital is invested in the following assets:

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

Nature of trust	Cash or property management	Securitization	Portfolio management	Guaranty	Testamentary	Custody of stock with testamentary clause	Custody of stock and cash management	Guaranties and cash management	Custody of stock	Management, custody and guaranty	Guaranty and custody of stock	Total
<i>Trust assets</i>												
Cash and due from banks	¢ 221,858,392	302,674,032	17,644,032	20	51,700	-	8,864	212,109,998	-	-	-	754,347,038
Investments in financial instruments	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
Loan portfolio	3,292,427,685	-	1,401,049,106	-	-	-	-	-	-	-	-	4,693,476,791
Accounts and accrued interest receivable	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
Foreclosed assets	147,946,086	-	11,792,442	-	-	-	-	-	-	-	-	159,738,528
Investments in other companies	-	-	-	200,000,000	3,378,737	176,000	-	-	36,000	-	944,532,000	1,148,122,737
Property and equipment	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
Other assets	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)



## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

a) Housing mortgage

These trusts are exclusively dedicated to managing housing loan portfolios.

b) Cash or property management

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

c) Securitization

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

d) Portfolio management

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

e) Special accounts

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

f) Guaranty

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

g) Testamentary

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(29) Other debit memoranda accounts

Other debit memoranda accounts are as follows:

	March 2021	March 2020
Pension Fund Manager's own investments in custody – Face value of principal (unaudited) ¢	9,250,553,000	8,450,801,200
Pension Fund Manager's own investments in custody – Coupons (unaudited)	4,396,787,466	5,144,164,081
Pension Fund Manager's own investments in custody – Number of shares (unaudited)	23	23
Guarantees received in the Bank's custody	207,132,618	292,623,589
Guarantees on financial instruments	22,626,707	-
Other guarantees received in the Bank's custody	6,334,022,089,116	5,264,009,447,655
Lines of credit granted but unused	383,089,286,019	336,594,788,286
Loans pending disbursement	174,315,522,339	171,540,983,918
Investments settled	55,750,203	76,169,125
Loans settled	345,323,658,338	318,474,164,355
Other accounts receivable settled	15,083,395,807	14,122,286,097
Accrued interest receivable settled	31,806,060,808	28,441,825,947
Interest income on non-accrual loans of loan portfolio	32,401,432,900	25,733,126,963
Supporting documentation received in the Bank's custody	2,572	1,255
Securities issued pending placement	6,248,000,000	-
Lines of credit or overdrafts obtained but unused	6,158,099,999	-
Notified letters of credit	3,865,858,305	4,125,639,879
Notional value subject to interest rate futures (Note 9)	403,491,644,010	467,987,047,500
Reversals made to income accounts for the period	30,789,263,983	30,789,263,983
Reversals made to expense accounts for the period	52,976,645,521	52,976,645,521
Non-deductible expenses	12,389,918,809	76,710,515,077
Non-taxable income	13,624,603,217	87,270,366,858
Other memoranda accounts	210,768,352,150	208,069,483,809
	<u>8,070,286,683,910</u>	<u>7,100,809,345,121</u>
Third-party debit memoranda accounts (1)	4,244,159,792,220	3,529,153,101,519
Own debit memoranda accounts for custodial activities	760,339,379,626	754,533,553,090
Third-party debit memoranda accounts for custodial activities	14,365,140,010,297	12,641,110,609,439
	<u>19,369,639,182,143</u>	<u>16,924,797,264,048</u>
	<u>27,439,925,866,053</u>	<u>24,025,606,609,169</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

	March 2021	March 2020
Management of banking mandates	¢ 1,554,980,349,938	1,299,001,063,174
“TUDES” securities received in custody from affiliates under Article 75 of Law No. 7531	584,619,607	572,482,280
Pension funds (Note 27)	1,944,582,609,558	1,734,921,864,113
Investment funds (Note 26)	652,483,434,151	494,657,691,952
Portfolio management	91,528,778,966	-
	¢ <u>4,244,159,792,220</u>	<u>3,529,153,101,519</u>

Other memoranda accounts by entity are as follows:

	March 2021	March 2020
Banco Nacional de Costa Rica	¢ 23,682,558,972,389	20,706,497,611,189
BN Valores Puesto de Bolsa, S.A. (Note 30)	1,145,894,038,696	1,075,177,530,612
BN Sociedad Administradora de Fondos de Inversión, S.A. (Note 31)	652,526,148,001	494,712,466,841
BN Vital Operadora de Planes de Pensiones Complementarias, S.A. (Note 32)	<u>1,958,946,706,968</u>	<u>1,749,219,000,528</u>
	¢ <u>27,439,925,866,054</u>	<u>24,025,606,609,170</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

Memoranda accounts for brokerage operations are summarized as follows:

	<u>March 2021</u>	<u>March 2020</u>
<i><u>Own</u></i>		
Repurchase agreements pending settlement (Note 25-b)	18,101,356,268	47,243,550,452
Trading securities (Note 25-a)	2,495,162,095	20,234,751,149
Other own memoranda accounts	6,184,691,302	18,259,758
	<u>26,781,209,665</u>	<u>67,496,561,359</u>
<i><u>Third party</u></i>		
Trading securities received as guarantees	22,803,097,748	35,536,890,109
Trading securities pending receipt	84,485,743	3,492,772,873
Signed contracts pending settlement	65,983,042,418	3,898,463,057
Futures contracts pending settlement (Note 25-b)	937,332,436,973	86,778,382,215
Third-party trading securities (Note 25-a)	1,380,987,183	875,048,424,778
Cash and accounts receivable	91,528,778,966	2,926,036,221
	<u>1,119,112,829,031</u>	<u>1,007,680,969,253</u>
Memoranda accounts (Note 29)	¢ <u>1,145,894,038,696</u>	<u>1,075,177,530,612</u>

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

a) Securities held in custody are as follows:

Location	Type of custody	March 2021	March 2020
<i><u>Own custodial activities</u></i>			
Local	CEVAL - private	-	15,368,851,976
Local	CEVAL - public	2,480,162,092	4,850,899,171
Local	Vault	15,000,003	15,000,002
		<u>2,495,162,095</u>	<u>20,234,751,149</u>
<i><u>Custodial activities on behalf of third parties</u></i>			
Local	CEVAL - private	120,753,925,524	147,109,115,586
Foreign	CEVAL - private	45,640,681,734	37,484,941,858
Local	CEVAL - public	739,477,428,965	665,039,439,762
Foreign	International custody	31,227,442,773	24,999,550,569
Local	Vault	8,024,829	8,024,829
Local- Foreign	Securities that are doubtful, in arrears or in litigation	224,933,148	407,352,174
		<u>937,332,436,973</u>	<u>875,048,424,778</u>
		<u>¢ 939,827,599,068</u>	<u>895,283,175,927</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

March 2021								
	Term buyer				Term seller			
	Colones	US dollars	US dollars expressed in colones	Total	Colones	US dollars	US dollars expressed in colones	Total
Own	14,017,132,778	6,632,279	4,084,223,490	18,101,356,268	-	-	-	-
Third								
parties	6,807,780,176	66,321,368	40,841,361,713	47,649,141,889	3,821,902,642	23,565,707	14,511,997,887	18,333,900,529
	<u>20,824,912,954</u>	<u>72,953,647</u>	<u>44,925,585,203</u>	<u>65,750,498,157</u>	<u>3,821,902,642</u>	<u>23,565,707</u>	<u>14,511,997,887</u>	<u>18,333,900,529</u>
March 2021								
	Term buyer				Term seller			
	Colones	US dollars	US dollars expressed in colones	Total	Colones	US dollars	US dollars expressed in colones	Total
Own	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								
parties	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
	<u>39,259,968,054</u>	<u>108,165,343</u>	<u>63,533,077,226</u>	<u>102,793,045,280</u>	<u>6,562,312,934</u>	<u>41,994,951</u>	<u>24,666,574,453</u>	<u>31,228,887,387</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

March 2021					
Term buyer			Term seller		
Colones		US dollars	Colones		US dollars
<u>Own</u>					
1 to 30 days	¢	5,405,693,056	5,605,527	-	-
31 to 60 days		8,611,439,722	1,026,752	-	-
		14,017,132,778	6,632,279	-	-
<u>Third-party</u>					
1 to 30 days		350,375,890	4,734,277	-	2,126,370
31 to 60 days		2,828,279,819	17,604,540	781,291,045	3,668,356
61 to 90 days		2,521,384,059	36,302,730	1,932,871,191	13,742,421
More than 91 days		1,107,740,407	7,679,821	1,107,740,407	4,028,561
		6,807,780,175	66,321,368	3,821,902,643	23,565,708
	¢	20,824,912,953	72,953,647	3,821,902,643	23,565,708
March 2020					
Term buyer			Term seller		
Colones		US dollars	Colones		US dollars
<u>Own</u>					
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
<u>Third-party</u>					
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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

(31) Investment fund management agreements

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

	March 2021		
Fund	Net value	Shares	Value per share
<i>Funds in colones:</i>			
Súper Fondo - colones	¢ 176,697,178,441	39,878,822,397	4.43
Fon Depósito - colones	59,118,211,537	36,933,407,510	1.60
Crecí Fondo -colones	6,926,265,287	1,077,701,314	6.43
Redí Fondo - colones	39,658,900,253	8,711,798,413	4.55
Diner Fondo - colones	67,572,756,674	22,788,373,095	2.97
	¢ 349,973,312,192	109,390,102,729	
<i>Funds in US dollars:</i>			
Súper Fondo - US dollars	US\$ 16,639,177	10,722,374	1.55
Crecí Fondo - US dollars	10,557,018	4,900,046	2.15
Redí Fondo - US dollars	31,608,632	17,900,468	1.77
Diner Fondo - US dollars	148,366,739	109,372,408	1.36
Fon Depósito - US dollars	58,468,431	50,946,429	1.15
Súper Fondo Plus - US dollars	193,320,819	171,165,722	1.13
Fondo Internacional - liquidity (International Fund)	29,278,389	21,750	
BN Infraestructura Pública -1	3,000,173	3,000,000	1.00
	US\$ 491,239,378	368,029,197	
	¢ 302,510,121,959	226,636,059,805	
Assets of managed funds	¢ 599,338,640,487	313,746,384,387	
<i>Guarantees:</i>			
Performance bonds	40,738,546	-	
Outstanding checks	1,975,304	-	
	42,713,850	-	
Memoranda accounts (Note 29)	¢ 652,526,148,001	-	

(Continued)



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Fund	March 2020		
	Net value	Shares	Value per share
<i>Funds in colones:</i>			
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
Crecí Fondo - colones	4,351,764,453	723,547,628	6.01
Redí 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
	¢ <u>263,840,186,853</u>	<u>86,485,874,057</u>	
<i>Funds in US dollars:</i>			
Súper Fondo - US dollars	US\$ 15,197,611	9,927,003	1.53
Crecí Fondo - US dollars	10,063,144	5,059,363	1.99
Redí 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 (Mortgage Fund) - US dollars	24,533	25,450	27.66
BN Infraestructura Pública -1	29,164,536	21,750	1.340.90
	US\$ <u>392,967,813</u>	<u>294,850,560</u>	
	¢ <u>230,817,505,099</u>	<u>173,186,373,427</u>	
Assets of managed funds	¢ <u>494,657,691,952</u>	<u>259,672,247,484</u>	
<i>Guarantees:</i>			
Performance bonds	52,799,585	-	
Outstanding checks	<u>1,975,304</u>	-	
	<u>54,774,889</u>	-	
Memoranda accounts (Note 29)	¢ <u>494,712,466,841</u>	-	

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

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

- *BN FonDepósito dólares No Diversificado* (non-diversified - US dollars): This is an open-end (floating number of outstanding shares) money market fund with a fixed income portfolio. Returns on the investment portfolio are not distributed until the customer requests partial or full redemption of shares.
- *BN SuperFondo Dólares Plus No Diversificado (US dólares)* (non-diversified - US dollars): This fund is aimed at conservative investors looking for short-term investments and who are to manage capital or funds in transit, with a minimum recommended period of 5 days. The funds can be requested at any time and are deposited on the next day, complying with the cutoff time and generating no withdrawal commissions. Benefits are calculated and applied on a daily basis but are effective when a partial or total withdrawal of the investment takes place. The fund has monthly statements of account.
- *Fondo de Inversión de Desarrollo Inmobiliario BN-1:* (real estate development): This fund invests in the development and exploitation of buildings to be leased by Banco Nacional de Costa Rica for a defined term. As of March 31, 2021, this fund does not have operations.
- *Fondo de Inversión de Desarrollo Inmobiliario de Infraestructura Pública – 1:* (real estate development - US dollars): This fund will invest in the construction of buildings to be occupied by the Maximum Deconcentration Organizations and other entities of BCCR. Once the works are completed, the buildings will be leased with a purchase option to BCCR or sold to BCCR or to a real estate fund managed by BN Fondos and investors thus realize their potential gains. If the buildings are sold to a real estate fund, such fund will lease the buildings to BCCR.
- *BN Internacional Valor No Diversificado* (non-diversified - US dollars): This is an international, mixed portfolio investment fund, ideal for conservative customers who primarily seek to maintain their capital, even if it entails obtaining returns much lower than those of the market. It is addressed to the investor that would like to invest in a portfolio comprised of debt securities issued by the public or private sector and investment funds. As of March 31, 2021, this fund does not have operations.
- *BN Internacional Suma No Diversificado* (non-diversified - US dollars): This is an international, mixed portfolio investment fund, addressed to investors with a balanced-risk profile, that is, willing to assume losses in the short- and mid-term to obtain returns higher than those of the market in the mid- and long-term. It is addressed to the investor that would like to invest in a portfolio comprised of debt securities issued by the public or private sector and in variable-return instruments and investment funds. As of March 31, 2021, this fund does not have operations.

(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

- *BN Internacional Crece No Diversificado (non-diversified - US dollars):* This is a long term, international, mixed portfolio investment fund addressed to investors with an aggressive-risk profile, i.e. willing to assume significant losses while aiming to obtain returns higher than those of the market. It is addressed to the investor that would like to invest in a portfolio comprised of debt securities issued by the public or private sector and in variable-return instruments and investment funds. As of March 31, 2021, this fund does not have operations.
- *Fondo de Inversión BN Internacional Liquidez No Diversificado (non-diversified liquidity investment fund):* This is fund is an international investment fund aimed at conservative investors looking or short-term investments. It is a good alternative for meeting present or future liquidity needs. The long-term fund is aimed at investors looking for meeting future liquidity needs. As of March 31, 2021, this fund does not have operations.

### (32) Pension fund management agreements

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

	March 2021	March 2020
Mandatory Pension Fund (ROP)	¢ 1,648,336,377,547	1,461,931,109,144
Mandatory Pension Fund (ROP) - Erroneous	-	17,676,683,238
Mandatory Retirement Savings Account (FCL)	110,531,758,267	109,972,105,983
Mandatory Retirement Savings Account (FCL) - Erroneous	-	4,097,244,647
Voluntary Pension Fund in Colones A (FPC A)	118,269,341,303	94,078,989,162
Voluntary Pension Fund in Colones B (FPC B)	30,358,369,475	23,039,105,278
Notary Guarantee Fund	-	-
Voluntary Pension Fund in US dollars A (FPD A) (i)	19,669,423,207	15,771,007,125
Voluntary Pension Fund in US dollars B (FPD B) (ii)	11,401,160,895	8,355,619,536
ICT Employees Retirement Fund	6,016,178,864	
Assets of managed funds (Note 29)	<u>1,944,582,609,558</u>	<u>1,734,921,864,113</u>
Securities and assets in own custody	13,647,340,489	13,594,965,304
Bid and performance bonds – colones	29,844,178	32,099,630
Bid and performance bonds – US dollars (iii)	102,293,135	97,589,200
Securities in DU	584,619,608	572,482,281
Memoranda accounts (Note 29)	<u>¢ 1,958,946,706,968</u>	<u>1,749,219,000,528</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- i. As of March 31, 2021, this fund amounts to US\$31,940,734 and is valued at the exchange rate of ₡615.81 per US\$1.00.
- ii. As of March 31, 2021, this fund amounts to US\$18,514,089 and is valued at the exchange rate of ₡615.81 per US\$1.00.
- iii. As of March 31, 2021, this fund amounts to US\$166,112 and is valued at the exchange rate of ₡615.81 per US\$1.00.

(33) Income from financial instruments

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

		<u>March 2021</u>	<u>March 2020</u>
<u>Cash and due from banks:</u>			
Deposits in BCCR	₡	2,199,234	2,911,965
Checking accounts and demand deposits in local entities		8,219,715	10,968,913
Checking accounts and demand deposits in foreign entities		<u>192,741,458</u>	<u>1,296,644,154</u>
		203,160,407	1,310,525,032
<u>Financial instruments:</u>			
Investments at fair value through profit or loss		67,282,400	533,793,086
Investments at fair value through other comprehensive income		9,651,720,252	10,113,517,391
Investments at amortized cost		5,927,080,466	8,834,889,513
Investments in past due and restricted securities		<u>111,560,303</u>	<u>62,015,281</u>
		<u>15,757,643,421</u>	<u>19,544,215,271</u>
	₡	<u>15,960,803,828</u>	<u>20,854,740,303</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(34) Income from loan portfolio

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

	March 2021	March 2020
<i><u>Current loans:</u></i>		
Individuals	¢ 38,217,629,018	43,996,917,891
Development Banking System	1,292,917,394	1,665,448,947
Business	15,246,438,401	19,580,177,271
Corporate	17,901,648,466	19,787,313,928
Public sector	2,315,445,867	2,978,601,574
Financial sector	1,415,099,205	1,989,562,723
	<u>76,389,178,351</u>	<u>89,998,022,334</u>
<i><u>Past due loans and loans in legal collection:</u></i>		
Individuals	6,419,331,258	7,409,995,817
Development Banking System	167,745,416	206,141,757
Business	4,106,289,566	4,133,527,009
Corporate	481,232,704	1,013,051,830
Public sector	52,410,507	33,081,073
Financial sector	328,112	328,224
In legal collection	1,819,906,575	2,314,505,711
Amortization of net commission of incremental direct costs related to credits	261,964,663	261,659,752
	<u>13,309,208,801</u>	<u>15,372,291,173</u>
	<u>¢ 89,698,387,152</u>	<u>105,370,313,507</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(35) Other finance income

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

	March 2021	March 2020
Fees and commissions on letters of credit	¢ 3,675,470	3,740,641
Fees and commissions on guarantees granted	195,514,074	173,384,359
Gain on sale of financial instruments	110,450,127	-
Gain on fair value hedge for item measured at cost	2,082,919,328	1,374,016,285
Other sundry finance income	744,196,136	1,449,876,930
	¢ <u>3,136,755,135</u>	<u>3,001,018,215</u>

(36) Finance costs for obligations with the public

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

	March 2021	March 2020
Demand deposits	¢ 9,881,091,947	14,874,320,904
Term deposits	23,165,174,604	35,635,115,708
Third-party repurchase agreements and securities lending	-	101,219,652
	¢ <u>33,046,266,551</u>	<u>50,606,250,585</u>

(37) Finance costs for obligations with financial entities

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

	March 2021	March 2020
Demand obligations	¢ 381,742,793	621,424,516
Term obligations	10,187,710,714	12,775,387,191
	¢ <u>10,569,453,507</u>	<u>13,396,811,707</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(38) Other finance costs

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

	<u>March 2021</u>	<u>March 2020</u>
Fees and commissions on letters of credit obtained	¢ 54,592,445	37,834,865
Loss on hedged item measured at cost from fair value hedge on interest rate risk	215,004,603	13,998,698,602
Other sundry finance costs	<u>173,040,775</u>	<u>182,935,608</u>
	¢ <u>442,637,823</u>	<u>14,219,469,075</u>

(39) Expenses for allowance for impairment of assets

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

	<u>March 2021</u>	<u>March 2020</u>
Allowance for loan losses (Note 12)	¢ 16,850,882,004	13,752,570,405
Allowance for impairment of other accounts receivable (Note 13)	210,679,781	309,565,662
Allowance for stand-by credit losses (Note 12 and Note 24)	100,000,000	1,000,000
General and counter-cyclical allowance for loan portfolio (Note 12)	100,000,001	1,209,469,488
General and counter-cyclical allowance for stand-by credit losses (Note 12 and 24)	999,727,803	24,025,568
Allowance for impairment of investments at fair value through other comprehensive income	367,446,061	306,499,198
Allowance for impairment of financial instruments at amortized cost	2,069,719	349,032,217
Allowance for impairment of operations with derivative financial instruments (Note 10)	35,229	59,388,592
Allowance for impairment of past due and restricted financial instruments	-	110,442
Other expenses for sundry assets	-	170,357
	¢ <u>18,630,840,598</u>	<u>16,011,831,929</u>

(Continued)



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

	March 2021	March 2020
Recovery of loan write-offs	¢ 2,365,182,613	2,507,960,522
Recovery of accounts receivable write-offs	693,159	204,322
Decrease in allowance for impairment of other accounts receivable (Note 13)	223,931,665	304,605,669
Decrease in allowance for impairment of investments in financial instruments (Note 10)	1,726,679,494	335,182,609
	¢ 4,316,486,931	3,147,953,121

(41) Income from service fees and commissions

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

	March 2021	March 2020
Drafts and transfers	¢ 2,360,323,781	2,209,228,410
Certified checks	911,314	778,493
Trusts	458,360,573	396,519,086
Custodial services	488,734,755	446,186,616
Banking mandates	14,214	41,871
Collections	4,947,565	5,311,477
Credit cards	13,538,589,625	15,998,198,341
Management services	1,047,377,253	953,276,362
Management of investment funds	1,818,311,434	1,621,496,385
Management of pension funds	2,655,195,665	2,273,144,623
Insurance underwriting	1,892,536,270	1,900,217,022
Brokerage operations (third parties in local market)	1,141,346,723	943,180,935
Brokerage operations (third parties in other markets)	67,510,353	71,629,719
Transactions with related parties	19,832,621	32,445,522
Commissions charged to other affiliates due to covenants	3,102,923,552	2,880,290,391
Servibanca local interchange	5,236,496,257	5,883,126,515
Other service fees and commissions	2,147,191,495	2,125,827,127
	¢ 35,980,603,451	37,740,898,895

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(42) Other operating income

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

	March 2021	March 2020
Recovery of expenses (1)	¢ 1,183,449,438	1,747,368,282
Net valuation of other assets (Note 6)	9,980,921	117,392,688
Other income from accounts receivable	340,469	1,476,553
Savings accounts liquidation	-	55,450,751
Administrative charges - VISA	277,529,018	397,695,982
Liquidation of term certificate of deposit not claimed	230,388,841	85,351,849
Withholdings from vendors	-	79,318,123
Investments in companies	-	-
Excess cash from human teller	-	50,978,986
Sundry operating income	519,968,234	300,450,956
Decrease in provisions	13,131,414	418,145,209
	¢ <u>2,234,788,335</u>	<u>3,253,629,379</u>

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

(43) Expenses for foreclosed assets

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

	March 2021	March 2020
Property and other assets acquired in lieu of payment	¢ 212,205,279	48,313,855
Loss on sale of assets awarded in judicial auctions	716,515,216	330,719,469
Management of assets received in lieu of payment	6,924,865	5,457,410
Management of assets awarded in judicial auctions	898,788,755	1,427,986,098
Property and other assets acquired in lieu of payment (Note 14)	26,797,261	29,050,877
Loss on allowance for impairment of foreclosed assets and per legal requirement (Note 14)	354,972,124	5,774,904,189
Other expenses for foreclosed assets	2,135,076	4,949,957
	¢ <u>2,218,338,576</u>	<u>7,621,381,855</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(44) Provision expenses

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

	March 2021	March 2020
Severance benefits	¢ 20,007,131	51,956,554
Pending litigation	187,974,058	143,110,316
“BN Premios” points program	428,564,811	988,494,946
Case of the manager commissions with CCSS	342,059,526	270,978,445
Case of the RIVM contribution	-	600,920,714
Notice of deficiency	488,901,159	488,901,158
Other provisions	482,366	2,896,812
	¢ <u>1,467,989,051</u>	<u>2,547,258,945</u>

(45) Other operating expenses

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

	March 2021	March 2020
Penalties for noncompliance with regulatory legal provisions	¢ 143,281	-
Net valuation of other liabilities (Note 6)	2,676,297	337,908,510
Value-added tax expense	269,171,348	221,174,040
Income tax on foreign remittances	1,872,419	1,675,614
Income tax (8%) on interest on investments in financial instruments	-	1,273,236,929
Property tax	65,004,886	63,657,379
Patents	341,857,775	278,794,969
Other local taxes	27,914,850	33,979,382
Other foreign taxes	5,780	-
Transfer to FINADE	684,625,233	572,838,113
Local and international currency exchange	-	853,646,245
Costs of microfinance insurance policies	826,487,941	800,555,722
Amortization of deferred direct costs related to loans	98,019,622	-
Authorization abroad	451,406,534	741,541,477
Base I and II fund disbursements	3,918,068,553	4,139,214,668
Life insurance policy debit balance	2,023,256,512	2,055,514,421
Software maintenance and licenses	3,701,661,138	1,708,744,575
Sundry operating expenses	1,353,470,119	1,461,909,555
Other expenses for sundry assets	159,463	-
	¢ <u>13,765,801,751</u>	<u>14,544,391,599</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(46) Personnel expenses

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

	March 2021	March 2021
Salaries and bonuses, permanent staff	¢ 17,068,444,664	17,961,071,787
Salaries and bonuses, contractors	229,801,851	378,875,893
Compensation for directors and statutory examiners	64,938,727	57,313,271
Overtime	113,719,804	205,947,026
Travel expenses	36,955,846	90,418,073
Statutory Christmas bonus	1,851,730,842	1,826,439,257
Vacation	1,687,663,491	1,507,445,106
Incentives	1,004,169,178	837,431,177
Other compensation	1,330,727,405	914,556,875
Severance benefits	1,047,922,108	1,062,825,285
Employer social security taxes	7,411,080,063	6,924,638,866
Refreshments	7,941,341	93,271,072
Uniforms	64,000	20,426,461
Training	53,708,197	65,928,125
Employee insurance	42,991,946	21,163,106
Back-to-school bonus	1,588,615,103	1,568,697,950
Mandatory retirement savings account	369,174,142	665,529,391
Other personnel expenses	160,278,661	272,710,836
¢	<u>34,069,927,369</u>	<u>34,474,689,557</u>

(47) Other administrative expenses

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

	March 2021	March 2020
Outsourcing	¢ 5,971,008,803	4,062,732,165
Transportation and communications	800,118,899	833,487,955
Infrastructure	6,445,649,951	6,615,921,877
Overhead	3,602,129,734	3,263,342,615
¢	<u>16,818,907,387</u>	<u>14,775,484,612</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(48) Statutory allocations

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

	March 2021	March 2020
CONAPE - 5%	¢ 922,363,485	727,681,044
CNE - 3%	613,908,638	496,863,225
INFOCOOP - 10%	1,271,488,184	992,388,174
Public capital pension operators	452,400,012	571,954,345
RIVM - 15%	1,275,219,202	925,512,658
	¢ <u>4,535,379,521</u>	<u>3,714,399,446</u>

(49) Fair value of financial instruments

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	March 2020	
	Carrying amount	Fair value
<i><u>Financial assets:</u></i>		
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
<i><u>Financial liabilities:</u></i>		
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 with entities	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, accrued interest receivable, other receivables, demand deposits from the public, accrued interest payable, and other liabilities

The carrying amounts approximate fair value due to the short-term nature of these instruments.

- (b) *Loan portfolio*

The fair value of loans is calculated by discounting future cash flows expected for principal and interest. Loan payments are assumed to be made on the contractually agreed payment date. Future expected cash flows for loans are discounted at the interest rates offered for similar loans to new borrowers as of March 31, 2021.

- (c) *Term deposits*

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(d) *Obligations with entities*

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

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

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

	March 2021			
	Level 1	Level 2	Level 3	Total
Fair value through profit or loss	¢ 867,850,419,769	5,489,054,860	-	873,339,474,629
Fair value through other comprehensive income	3,417,272,173	20,302,567,086	4,404,088,377	28,123,927,636
Amortized cost	790,902,556,815	1,995,478,798	-	792,898,035,613
Derivative financial instruments	-	-	14,889,862,208	14,889,862,208
Term obligations with foreign financial entities	-	-	397,950,248,291	397,950,248,291

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	March 2020			Total
	Level 1	Level 2	Level 3	
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 2021			March 2020		
	Available for sale	Derivative financial instruments	Term obligations with foreign financial entities	Available for sale	Derivative financial instruments	Term obligations with foreign financial entities
Opening balance	¢ 4 4,370,730,920	-	-	4,488,288,925	10,742,740,489	489,650,619,452
Purchases	44,013,490	-	-	3,172,700,449	-	-
Valuation	67,012	14,887,353,885	10,412,403,396	1,868,487,253	12,545,157,523	13,656,651,980
Amortizations	-	-	1,820,548,380	-	-	808,045,088
Exchange differences	(10,723,045)	2,508,323	385,717,296,515	(1,818,747,310)	325,623,373	(19,971,457,302)
Closing balance	¢ 4,404,088,377	14,889,862,208	397,950,248,291	7,710,729,317	23,613,521,385	484,143,859,218

(Continued)



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(50) 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:

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

March 2021								
	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations	Consolidated
EQUITY								
Share capital	€ 172,237,030,102	6,600,000,000	5,000,000,000	6,360,584,931	369,700,000	190,567,315,033	18,330,284,931	172,237,030,102
Non-capitalized capital contributions	-	-	-	1,034,340,078	-	1,034,340,078	1,034,340,078	-
Equity adjustments	88,728,926,183	346,030,284	310,407,648	(47,457,317)	-	89,337,906,798	608,980,614	88,728,926,184
Capital reserves	365,326,869,312	1,320,000,000	600,000,000	300,000,000	73,940,000	367,620,809,312	2,293,940,000	365,326,869,312
Prior period retained earnings	39,292,322,364	8,189,360,724	4,030,181,397	2,339,782,548	6,730,918,671	60,582,565,704	21,290,243,340	39,292,322,364
Income for the period	6,599,369,432	855,969,233	766,995,405	452,400,012	866,567,663	9,541,301,745	2,941,932,316	6,599,369,429
FOFIDE	41,687,504,022	-	-	-	-	41,687,504,022	-	41,687,504,022
TOTAL EQUITY	€ 713,872,021,415	17,311,360,241	10,707,584,450	10,439,650,252	8,041,126,334	760,371,742,692	46,499,721,279	713,872,021,413
TOTAL LIABILITIES AND EQUITY	€ 7,681,962,278,483	38,599,656,572	11,826,418,455	12,318,542,533	8,865,873,762	7,753,572,769,805	48,329,564,426	7,705,243,205,379
Debit memoranda accounts	€ 486,218,095,130	79,928,041	100,000	31,918,461	2,840,000	486,332,881,632	-	486,332,881,632
Income from cash and due from banks and financial instruments	2,316,649,596,014	858,275,910	-	-	-	2,317,507,871,924	-	2,317,507,871,924
Trust liabilities	€ 132,170,848,646	382,727	-	-	-	132,171,231,373	-	132,171,231,373
Trust equity	€ 2,184,478,747,368	857,893,183	-	-	-	2,185,336,640,551	-	2,185,336,640,551
Other debit memoranda accounts	€ 23,682,558,972,389	1,145,894,038,696	652,526,148,001	1,958,946,706,967	-	27,439,925,866,053	-	27,439,925,866,053

March 2021								
	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations and reclassifications	Consolidated
Finance income	€ 111,068,626,371	908,924,227	247,740,959	373,049,931	48,264,459	112,646,605,947	2,913,983	112,643,691,964
Finance costs	45,489,681,129	101,672,093	23,878,804	2,760,537	4,960,870	45,622,953,433	2,913,983	45,620,039,450
Allowance expense	18,611,610,559	2,057,178	7,019,503	1,056,708	9,256,113	18,631,000,061	-	18,631,000,061
Income from recovery of assets	4,273,677,389	11,294,656	5,728,745	25,786,141	-	4,316,486,931	-	4,316,486,931
FINANCE INCOME	51,241,012,072	816,489,612	222,571,397	395,018,827	34,047,476	52,709,139,384	-	52,709,139,384
Other operating income	39,847,744,519	1,673,982,805	1,819,030,364	2,664,139,661	1,890,770,039	47,895,667,388	3,433,941,922	44,461,725,466
Other operating expenses	25,449,951,835	231,575,315	171,522,993	414,943,457	24,690,328	26,292,683,928	474,275,108	25,818,408,820
GROSS OPERATING INCOME	65,638,804,756	2,258,897,102	1,870,078,768	2,644,215,031	1,900,127,187	74,312,122,844	2,959,666,814	71,352,456,030
Personnel expenses	30,933,421,232	945,164,233	578,626,261	1,067,618,843	545,096,800	34,069,927,369	-	34,069,927,369
Other administrative expenses	16,258,113,823	126,880,252	149,622,705	240,607,919	61,417,183	16,836,641,882	17,734,495	16,818,907,387
Total administrative expenses	47,191,535,055	1,072,044,485	728,248,966	1,308,226,762	606,513,983	50,906,569,251	17,734,495	50,888,834,756
NET OPERATING INCOME BEFORE STATUTORY ALLOCATIONS AND TAXES	18,447,269,700	1,186,852,617	1,141,829,802	1,335,988,269	1,293,613,204	23,405,553,593	2,941,932,319	20,463,621,274
Income tax	8,291,711,318	357,236,108	356,110,417	410,562,797	397,321,884	9,812,942,524	-	9,812,942,524
Decrease in income tax	378,042,043	61,958,303	15,530,912	19,454,203	9,084,740	484,070,205	-	484,070,205
Statutory allocations	3,934,230,993	35,605,579	34,254,893	492,479,659	38,808,397	4,535,379,521	-	4,535,379,521
INCOME FOR THE PERIOD	€ 6,599,369,432	855,969,233	766,995,404	452,400,016	866,567,663	9,541,301,753	2,941,932,323	6,599,369,430

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

March 2020								
	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations and reclassifications	Consolidated
<b>ASSETS</b>								
Cash and due from banks	1,212,903,830,237	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 receivable	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
Accounts receivable for brokerage operations	-	34	-	-	-	34	-	34
Accounts receivable for 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 receivable	695,950,397	122,132,068	67,611,302	105,995,485	65,648,880	1,057,338,132	-	1,057,338,132
Other accounts receivable	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	(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
<b>TOTAL ASSETS</b>	<b>7,194,890,769,715</b>	<b>69,429,990,447</b>	<b>10,849,179,576</b>	<b>12,185,538,962</b>	<b>5,241,550,826</b>	<b>7,292,597,029,526</b>	<b>42,980,524,029</b>	<b>7,249,616,505,497</b>
<b>LIABILITIES AND EQUITY</b>								
<b>LIABILITIES</b>								
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
<b>TOTAL LIABILITIES</b>	<b>6,498,159,450,192</b>	<b>51,016,098,306</b>	<b>1,384,025,113</b>	<b>2,442,666,012</b>	<b>773,246,356</b>	<b>6,553,775,485,979</b>	<b>890,300,007</b>	<b>6,552,885,185,972</b>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

March 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 period	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

March 2020								
	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations and reclassifications	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)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(51) 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), BN Sociedad Administradora de Fondos de Inversión, S.A. (the Investment Fund Manager), and BN Sociedad Corredora de Seguros, S.A. (the Insurance Brokerage Firm) are defendants in ordinary, labor and criminal lawsuits, as follows:

	Number of cases		Phase	Total estimated amount	
	2021	2020		2021	2020
Banco Nacional de Costa Rica	387	354	First instance	¢ 128,582,465,620	260,283,301,146
	15	16	Second instance	20,398,825,394	18,611,486,536
	11	9	Appeal	5,550,339,364	5,720,491,698
			Administrative procedures (Note 48)		
	-	-		-	-
	<u>413</u>	<u>379</u>		<u>154,531,630,378</u>	<u>284,615,279,380</u>
BN Vital	<u>7</u>	<u>7</u>	First instance	<u>31,918,462</u>	<u>39,762,952</u>
BN Valores	<u>1</u>	<u>1</u>	First instance	<u>79,928,040</u>	<u>133,004,706</u>
BN SAFI	<u>1</u>	<u>1</u>		<u>100,000</u>	<u>100,000</u>
BN Corredora	<u>1</u>	<u>1</u>		<u>2,840,000</u>	<u>2,840,000</u>
	<u>423</u>	<u>389</u>	(Note 27)	¢ <u>154,646,416,880</u>	<u>284,790,987,038</u>

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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.

Number of cases		Phase	Total estimated amount	
March 2021	March 2020		March 2021	March 2020
36	283	First instance	¢ 79,917,157,596	55,114,085,197
1	1	Second instance	375,839,600	375,839,600
37	284		¢ 80,292,997,196	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, 2021, the Bank booked a provision in the amount of ¢820,669,567.33 for that lawsuit.

The following lawsuits are also worth noting:

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

(Continued)



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(52) Emergency caused by COVID-19

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

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

As a result, as of March 31, 2021, the loan portfolio that required at least one modification to the originally agreed conditions amounts to ¢1,757,251,280,890.68, representing 7.11% of the total loan portfolio (December and March 2020: ¢1,838,897,871,649, representing 42.19% and ¢1,089,705,451,526, representing 25.69% of the total loan portfolio.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

	March 2021	December 2020	March 2020
Agriculture and forestry	52,598,584,506	55,617,553,745	23,639,479,654
Trade	220,372,005,792	236,646,445,127	129,409,922,467
Construction	36,845,718,993	40,275,335,431	3,243,027,206
Consumer or personal loans	167,775,312,895	181,993,271,368	132,401,169,511
Electricity, water, sanitation and other related sectors	13,778,294,247	317,755,814	341,747,217
Mining	345,022,348	345,022,348	223,662,418
Livestock, hunting and fishing	28,718,201,774	31,765,420,846	19,430,153,959
Industry	74,695,656,345	77,047,719,294	29,265,384,158
Services	404,536,890,596	418,549,449,578	212,883,179,627
Financial service	2,607,622,619	2,632,942,189	998,323,967
Transportation, communication and storage	42,535,886,342	41,968,088,183	17,450,296,809
Tourist	166,431,409,016	172,964,482,499	111,731,650,536
Housing	545,993,237,406	578,774,385,227	408,687,453,993
Sub-total	1,757,233,842,885	1,838,897,871,649	1,089,705,451,526
Accounts and accrued interest receivable	9,810,883,147	60,587,005,579	6,147,510,400
Total loans restructured due to COVID-19	1,767,044,726,033	1,899,484,877,228	1,095,852,961,927
Allowance for doubtful accounts	(36,328,329,132)	(38,070,471,241)	(10,938,725,858)
Total loan portfolio, net	1,730,716,396,900	1,861,414,405,987	1,084,914,236,069

For the three months ended March 31, 2021, the loan portfolio, restructured at least once due to Covid-19, by guarantee, is as follows:

	March 2021	December 2020	March 2020
Current	1,586,255,679,317	1,772,706,247,740	1,059,041,866,435
1 to 30 days	38,862,334,915	21,882,743,098	20,928,441,449
31 to 60 days	66,596,165,186	18,211,697,502	8,333,744,690
61 to 90 days	48,515,809,521	7,216,586,852	602,694,177
91 to 120 days	2,628,881,078,19	6,561,102,392	753,810,500,85
121 to 150 days	2,368,904,124,16	8,320,591,011	-
In legal collection	12,006,068,742	3,998,903,054	44,894,271,35
	1,757,233,842,885	1,838,897,871,649	1,089,705,451,526
Accounts and accrued interest receivable	9,810,883,147,176	60,587,005,579	6,147,510,400
Total loans restructured due to COVID-19	1,767,044,726,033	1,899,484,877,228	1,095,852,961,927
Allowance for loan losses	(36,328,329,132)	(38,070,471,241)	(10,938,725,858)
Total loan portfolio, net	1,730,716,396,900	1,861,414,405,987	1,084,914,236,069

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of March 31, the loan portfolio, restructured at least once due to Covid-19, by arrears, is as follows:

	March 2021	December 2020	March 2020
Current	¢ 1,586,255,679,317	1,772,706,247,740	1,059,041,866,435
1 to 30 days	38,862,334,915	21,882,743,098	20,928,441,449
31 to 60 days	66,596,165,186	18,211,697,502	8,333,744,690
61 to 90 days	48,515,809,521	7,216,586,852	602,694,177
91 to 120 days	2,628,881,078,19	6,561,102,392	753,810,500,85
121 to 150 days	2,368,904,124,16	8,320,591,011	-
In legal collection	12,006,068,742	3,998,903,054	44,894,271,35
	1,757,233,842,885	1,838,897,871,649	1,089,705,451,526
Accounts and accrued interest receivable	9,810,883,1471,76	60,587,005,579	6,147,510,400
Total loans restructured due to COVID-19	1,767,044,726,033	1,899,484,877,228	1,095,852,961,927
Allowance for loan losses	(36,328,329,1329)	(38,070,471,241)	(10,938,725,8589
Total loan portfolio, net	¢ 1,730,716,396,900	1,861,414,405,987	1,084,914,236,069

As of March 31, 2021, only 17.43% of a total of ¢1,757,233,842,885 maintains temporary credit conditions, which represents 7.11% of the entire loan portfolio (December and March 2020: only 9.8% of a total of ¢1,838,897,871,649 maintains temporary credit conditions, which represents 4% of the entire loan portfolio and 100% maintains temporary credit conditions, which represents 25.69% of the entire loan portfolio, respectively).

a) Operating measures

- The Bank constantly encourages customers to use digital channels: BN MOVIL, SINPE MOVIL, webpage and Contact Center.
- Changes in schedules for all service offices:
  - i. Attention to the public was reduced by one hour, seeking to reduce the exposure for both employees and customers.
  - ii. The first hour and a half of the schedule was set aside for exclusive attention to the elderly, every day, and it is extended to two hours and a half during pension payment days, when offices will open one hour before the regular schedule.
  - iii. The elderly and disabled customers are given preferential attention during the entire workday.
  - iv. A decision was made to not provide the services offered within the service network during the weekends, except for ATMs.
- Hygiene measures were strengthened by installing portable handwash basins in high-transit offices (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 employees working from home, representing 44% of total employees. All positions that permit work from home have been implemented.

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

- The maximum number of customers was established according to the physical capacity of each office and protection screens are used to avoid contact.
- Some of the autobanks were not in operation. Currently 17 are operating.
- Of the bank's employees, 462 were identified as having health conditions that put them at a higher risk according to the Ministry of Health. That population was separated from processes involving attention to the public and most of them are working from home.
- The Bank's Emergency Institutional Commission meets continuously to implement the measures recommended by the Ministry of Health.

#### b) Measures to support customers with credits

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

- Individuals with housing, consumption or vehicle loans. Non-salaried, physical borrowers may dispense with loan installments for the next three months, with those installments being transferred to the final loan installment. As in the small- and medium-sized enterprise program, this adjustment is automatic. The customers that do not wish to take the benefit can continue to pay their installments normally by informing so through enabled channels.
- Credit card customers. Starting April 2020, non-salaried credit card borrowers will have the minimum payments of their installments for the following three months transferred to monthly installments payable after the fourth month.
- Small- and medium-sized enterprise: all borrowers (irrespective of the sector) with variable payments, may dispense with loan instalments for the next four months, with the installments being transferred to the final loan installment. The measure is automatic, so no further step will be required by the customer. The customers that do not wish to take the benefit can continue to pay their installments normally by informing so by telephone or through our website chat enabled for such purposes.

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

- 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 entered into effect on March 26, 2020. The Bank has identified approximately 107,000 loan 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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

d) Measures in the portfolio of investments at amortized cost

Due to the COVID-19 pandemic, the Bank has directly followed up on the corporate bonds portfolio, which has been affected by the crisis, making timely and proactive decisions according to the different perspectives and analysis of international specialists. Locally, quotes and negotiations of securities in the primary and secondary market are monitored daily, by participating in real time in the brokerage sessions of the National Stock Exchange. As of March 31, 2021, recurring to the sale of securities measured at amortized cost is not considered necessary and is not expected in the short term.

(53) Adjustment due to implementation of regulations

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

Adjustments to prior period retained earnings are as follows:

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

b) IAS 38: Intangible assets

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

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

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

(Continued)



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

d) IFRS 9: Financial Instruments

- a) For application of IFRS 9, particularly the measurement of ECL, the prudential regulations issued by CONASSIF will be maintained for the loan portfolio, accounts receivable and stand-by credits granted, until this Standard is modified.
- b) The application of the measurement of ECL on investment funds of the money market category, as provided under IFRS 9, required by Articles 3 and 18 of the RFI, will be effective on January 1, 2022.
- c) Regulated entities should have policies and procedures in place to determine the amount of the suspension of the booking of the accrual of commissions and interest on loan operations. However, the accrual suspension term should not exceed 180 days.

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

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

- i. The provisions of Article 10 of IAS 12 *Income Taxes* and IFRIC 23 *Uncertainty over Income Tax Treatments* will be effective beginning January 1, 2019. on initial application of IFRIC 23, entities must apply the transition established in item (b) of paragraph B2 of that Interpretation.

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- ii. The amount of the provision for the tax treatments in dispute notified before December 31, 2018, corresponding to tax periods 2017 and previous periods, will be booked at the greater of the best estimate of the amount payable to the Tax Authorities regarding the notice of deficiency (principal, interest, and fines), according to IAS 12, and 50% of the principal from the correction of the self-assessment of the tax obligation.

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

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

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

(55) Disclosure of economic impact of departure from IFRS

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

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