

**BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES**

Financial Information required by the  
Superintendency General of Financial Entities

Consolidated Financial Statements

As of September 30, 2020

**BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS OF SEPTEMBER 30, 2020**  
(In colones)

	Note	September 2020
<b><u>ASSETS</u></b>		
<b>Cash and due from banks</b>	<b>7</b>	<b>1,316,623,469,390</b>
Cash		97,150,160,339
BCCR		842,018,500,469
Local financial entities		1,047,704,297
Foreign financial entities		369,869,506,765
Notes payable on demand		5,078,656,309
Restricted cash and due from banks		1,458,941,211
<b>Investments in financial instruments</b>	<b>8</b>	<b>1,507,310,979,370</b>
Fair value through profit or loss		20,524,238,772
Fair value through other comprehensive income		809,950,432,152
Amortized cost		645,566,633,811
Derivative financial instruments	<b>9</b>	17,249,216,592
Accrued interest receivable		14,375,652,605
(Allowance for impairment of investments in financial instruments)		(355,194,562)
<b>Loan portfolio</b>	<b>10</b>	<b>4,240,680,641,818</b>
Current		3,965,281,934,856
Past due		204,563,328,851
In legal collection		146,572,499,086
Direct incremental costs related to loans		3,836,314,971
(Deferred income on loan portfolio)		(32,679,657,179)
Accrued interest receivable		102,600,614,875
(Allowance for loan losses)		(149,494,393,642)
<b>Accounts and commissions receivable</b>	<b>11</b>	<b>3,059,282,962</b>
Commissions receivable		1,488,566,080
Accounts receivable for transactions with related parties		65,199,005
Deferred tax and income tax receivable		1,584,988,723
Other receivables		4,295,568,871
Accrued interest receivable		9,363,276
(Allowance for impairment of accounts and commissions receivable)		(4,384,402,993)
<b>Available-for-sale assets</b>	<b>12</b>	<b>34,217,309,930</b>
Assets and securities acquired in lieu of payment		104,039,256,082
Other available-for-sale assets		55,884,629
(Allowance for impairment of foreclosed assets and per legal requirements)		(69,877,830,781)
<b>Investments in other companies</b>	<b>13</b>	<b>71,270,060,641</b>
<b>Property and equipment, net</b>	<b>14</b>	<b>213,820,661,086</b>
<b>Other assets</b>	<b>15</b>	<b>75,974,172,353</b>
Deferred charges		47,062,690,761
Intangible assets		5,178,529,452
Other assets		23,732,952,140
<b>TOTAL ASSETS</b>		<b>7,462,956,577,550</b>

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

Continued...

**BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS OF SEPTEMBER 30, 2020**  
(In colones)

<b><u>LIABILITIES AND EQUITY</u></b>	<b>Note</b>	<b><u>September 2020</u></b>
<b><u>LIABILITIES</u></b>		
<b>Obligations with the public</b>	<b>16</b>	<b>5,588,157,205,006</b>
Demand obligations		3,488,033,787,461
Term obligations		2,047,950,005,732
Other obligations		14,219,737,164
Finance charges payable		37,953,674,649
<b>Obligations with BCCR</b>	<b>17</b>	<b>125,644,412</b>
Term obligations		125,644,412
<b>Obligations with entities</b>	<b>18</b>	<b>971,932,015,631</b>
Demand obligations		83,197,452,626
Term obligations		876,458,986,288
Other obligations		(39,984,750)
Finance charges payable		12,315,561,467
<b>Accounts payable and provisions</b>		<b>114,293,202,318</b>
Provisions	<b>20</b>	27,667,759,894
Accounts payable for brokerage services		1,980,491,388
Deferred tax	<b>19-b</b>	12,941,532,018
Other sundry accounts payable	<b>21</b>	71,703,419,018
<b>Other liabilities</b>	<b>22</b>	<b>21,435,109,625</b>
Deferred income		44,978,655
Other liabilities		21,390,130,970
<b>Subordinated obligations</b>	<b>23</b>	<b>59,785,626,923</b>
Subordinated obligations		59,302,970,000
Finance charges payable		482,656,923
<b>TOTAL LIABILITIES</b>		<b>6,755,728,803,915</b>
<b><u>EQUITY</u></b>		
<b>Share capital</b>		<b>172,237,030,102</b>
Paid-in capital	<b>24-a</b>	172,237,030,102
<b>Equity adjustments - Other comprehensive income</b>		<b>88,610,306,603</b>
<b>Reserves</b>	<b>24-b</b>	<b>378,240,601,888</b>
<b>Prior-period retained earnings</b>		<b>18,360,300,456</b>
<b>Income for the period</b>		<b>10,736,169,463</b>
<b>Capital contributions in special funds</b>	<b>24-c</b>	<b>39,043,365,123</b>
<b>TOTAL EQUITY</b>		<b>707,227,773,635</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>7,462,956,577,550</b>
<b>DEBIT MEMORANDA ACCOUNTS</b>	<b>25</b>	<b>473,890,070,811</b>
<b>TRUST ASSETS</b>	<b>26</b>	<b>1,792,677,358,429</b>
<b>TRUST LIABILITIES</b>		<b>137,923,455,025</b>
<b>TRUST EQUITY</b>		<b>1,654,753,903,404</b>
<b>TRUST MEMORANDA ACCOUNTS</b>		<b>140,350,362,458</b>
<b>OTHER DEBIT MEMORANDA ACCOUNTS</b>	<b>27</b>	<b>25,065,505,503,767</b>
Own debit memoranda accounts		7,451,636,733,439
Third-party debit memoranda accounts		3,914,501,931,374
Own debit memoranda accounts for custodial activities		749,762,463,027
Third-party debit memoranda accounts for custodial activities		12,949,604,375,927

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General Manager a.i.

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**  
**CONSOLIDATED STATEMENT OF PROFIT OR LOSS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020**  
(In colones)

	Note	<u>For the nine months ended</u> <u>September 30, 2020</u>	<u>For the three months ended</u> <u>September 30, 2020</u>
<b>Finance income</b>			
Cash and due from banks	31	2,221,915,812	369,354,836
Investments in financial instruments	31	54,466,803,250	16,962,490,928
Loan portfolio	32	293,819,923,751	93,737,397,272
Gain on financial instruments at fair value through profit or loss		2,880,305,110	544,638,311
Gain on financial instruments at fair value through other comprehensive income		5,945,638,735	2,097,578,168
Gain on derivative financial instruments, net	9	15,131,966,059	(688,109,831)
Other finance income	33	13,359,593,020	5,799,419,898
<b>Total finance income</b>		<b>387,826,145,737</b>	<b>118,822,769,582</b>
<b>Finance costs</b>			
Obligations with the public	34	133,147,409,470	39,133,040,944
Obligations with BCCR		8,507,639	2,327,083
Obligations with financial and non-financial entities	35	36,246,070,815	11,722,645,439
Subordinated, convertible and preferred obligations		3,376,604,466	973,272,667
Loss on foreign exchange differences and DU, net	4-c	1,179,126,391	714,274,495
Loss on financial instruments at fair value through profit or loss		3,143,169,030	230,223,438
Loss on financial instruments at fair value through other comprehensive income		832,978,204	33,007,270
Other finance costs	36	19,441,009,955	315,533,682
<b>Total finance costs</b>		<b>197,374,875,970</b>	<b>53,124,325,018</b>
Allowance for impairment of assets	37	57,026,172,774	18,481,808,498
Recovery of assets and decrease in allowances and provisions	38	7,160,748,356	2,074,725,870
<b>FINANCE INCOME</b>		<b>140,585,845,349</b>	<b>49,291,361,936</b>
<b>Other operating income</b>			
Service commissions	39	100,930,139,161	33,182,241,218
Available-for-sale assets		3,206,736,164	860,772,436
Gain on investments in other companies	6	907,111,819	134,577,199
Foreign currency exchange and arbitrage		14,923,773,141	4,435,459,976
Other operating income	40	14,227,432,215	2,476,643,653
<b>Total other operating income</b>		<b>134,195,192,500</b>	<b>41,089,694,482</b>

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

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**BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF PROFIT OR LOSS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020**  
(In colones)

	Note	For the nine months ended September 30, 2020	For the three months ended September 30, 2020
<b>Other operating expenses</b>			
Service fees and commissions		24,908,964,708	7,985,155,475
Available-for-sale assets	41	14,565,293,019	3,146,949,250
Provisions	42	5,545,464,368	1,862,585,071
Bonuses on fees and commissions of voluntary pension funds		154,951,280	64,261,556
Foreign currency exchange and arbitrage		3,619,976	1,270,352
Other expenses - related parties		15,220,122	5,611,362
Other operating expenses	43	37,569,263,205	12,918,836,641
<b>Total other operating expenses</b>		<b>82,762,776,678</b>	<b>25,984,669,707</b>
<b>GROSS OPERATING INCOME</b>		<b>192,018,261,171</b>	<b>64,396,386,711</b>
<b>Administrative expenses</b>			
Personnel expenses	44	100,925,345,364	33,694,873,975
Other administrative expenses	45	48,451,423,090	16,647,176,473
<b>Total administrative expenses</b>		<b>149,376,768,454</b>	<b>50,342,050,448</b>
<b>NET OPERATING INCOME BEFORE TAXES</b>			
<b>AND STATUTORY ALLOCATIONS</b>		<b>42,641,492,717</b>	<b>14,054,336,263</b>
Current tax	19-a	12,904,390,947	4,410,954,648
Prior period income tax	19-a	10,695,457,037	3,547,309,479
Deferred tax	19-a	593,276,918	27,539,679
Deferred tax income	19-a	1,367,060,175	507,046,937
Statutory allocations	46	9,079,258,527	2,910,577,462
<b>INCOME FOR THE YEAR</b>		<b>10,736,169,463</b>	<b>3,665,001,932</b>
<b>OTHER COMPREHENSIVE INCOME, NET OF TAX</b>			
Surplus from revaluation of property		403,726,890	153,648,636
Adjustment for valuation of investments at fair value through other comprehensive income		3,310,230,050	2,699,383,314
Adjustment for valuation of restricted financial instruments		(25,665,249)	(3,346,647)
Other adjustments		3,304,722,779	3,081,952,739
<b>OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX</b>		<b>6,993,014,470</b>	<b>5,931,638,042</b>
<b>TOTAL OTHER COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>17,729,183,933</b>	<b>9,596,639,974</b>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE PERIOD ENDED SEPTEMBER 30, 2020  
(In colones)

Note	Share capital	Equity adjustments - Other comprehensive income	Reserves	Capital contributions in special funds	Prior-period retained earnings	TOTAL
<b>Balance at December 31, 2019</b>	<b>172,237,030,102</b>	<b>83,000,303,041</b>	<b>348,798,402,459</b>	<b>34,648,535,964</b>	<b>53,253,753,772</b>	<b>691,938,025,338</b>
Changes in accounting policies	-	-	-	-	(2,439,435,636)	(2,439,435,636)
<b>Balance at January 1, 2020</b>	<b>172,237,030,102</b>	<b>83,000,303,041</b>	<b>348,798,402,459</b>	<b>34,648,535,964</b>	<b>50,814,318,136</b>	<b>689,498,589,702</b>
<i>Transactions with owners booked directly in equity:</i>						
Legal reserves	-	-	28,523,497,853	-	(28,523,497,853)	-
Other statutory reserves	-	-	918,701,576	-	(918,701,576)	-
Capital contributions in special funds	-	-	-	4,394,829,159	(4,394,829,159)	-
Total transactions with owners booked directly in equity	-	-	<b>29,442,199,429</b>	<b>4,394,829,159</b>	<b>(33,837,028,588)</b>	-
<b>Comprehensive income for the period:</b>						
Income for the period	-	-	-	-	10,736,169,463	10,736,169,463
Surplus from revaluation of property	-	403,726,890	-	-	-	403,726,890
Adjustment for valuation of investments at fair value through other comprehensive income	8	3,310,230,050	-	-	-	3,310,230,050
Adjustment for valuation of restricted financial instruments	8	(25,665,249)	-	-	-	(25,665,249)
Other adjustments	-	3,304,722,779	-	-	-	3,304,722,779
Realization of surplus from revaluation of property	-	(1,383,010,908)	-	-	1,383,010,908	-
<b>Total comprehensive income for the period</b>	-	<b>5,610,003,562</b>	-	-	<b>12,119,180,371</b>	<b>17,729,183,933</b>
<b>Balance at September 30, 2020</b>	<b>172,237,030,102</b>	<b>88,610,306,603</b>	<b>378,240,601,888</b>	<b>39,043,365,123</b>	<b>29,096,469,919</b>	<b>707,227,773,635</b>

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**BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2020**  
(In colones)

	<u>Note</u>	<u>September 2020</u>
<b>Cash flows from operating activities</b>		
Income for the period		10,736,169,463
<b>Items not requiring cash</b>		
Depreciation and amortization		17,176,888,160
Loss on foreign exchange differences and DU, net		46,712,916,932
Gain on sale of non-financial assets		(2,787,245,466)
Loss on allowance for foreclosed assets, net		6,159,419,697
Finance income		(348,286,727,001)
Finance costs		125,361,011,392
Allowance for investments, net		340,396,010
Allowance for loan portfolio and stand-by credits, net		49,190,283,530
Allowance for other assets, net		334,527,895
Severance provision		(297,159,107)
Other provisions		(2,129,374,279)
Share of net profit of foreign associate		(13,542,858,533)
Statutory allocations		9,079,258,527
Income tax expense, net	<b>19 -a</b>	23,599,847,984
Deferred tax, net	<b>19 -a</b>	(773,783,257)
		<b>(79,126,428,053)</b>
<b>Cash flows from operating activities</b>		
Loan portfolio		28,824,745,149
Accounts and fees and commissions receivable		(954,037,610)
Available-for-sale assets		13,708,579,297
Other assets		10,897,913,508
Obligations with the public		202,997,599,171
Obligations with BCCR and other entities		(37,912,520,535)
Obligations for accounts payable, fees and commissions payable and provisions		(5,701,891,256)
Other liabilities		(84,666,464,560)
Income tax paid		(26,220,692,465)
Interest received on loan portfolio and investments		286,174,718,978
Interest paid on term obligations with the public and financial entities		(132,152,309,674)
Statutory allocations paid		(17,158,214,687)
<b>Net cash from operating activities</b>		<b>158,710,997,263</b>
<b>Cash flows from investing activities</b>		
Increase in financial instruments		(2,417,356,411,207)
Decrease in financial instruments		2,399,844,530,635
Acquisition of property and equipment		(10,150,284,164)
Acquisition of intangible assets		(1,272,565,558)
<b>Net cash used in investing activities</b>		<b>(28,934,730,294)</b>
<b>Cash flows from financing activities</b>		
Settlement of financial obligations		(11,755,150,077)
Other financial obligations		44,082,782,415
<b>Net cash from financing activities</b>		<b>32,327,632,338</b>
<b>Net increase in cash and cash equivalents</b>		<b>162,103,899,307</b>
<b>Cash and cash equivalents at beginning of period</b>		<b>1,395,702,680,764</b>
<b>Cash and cash equivalents at end of period</b>	<b>7</b>	<b>1,557,806,580,071</b>

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# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

As of September 30, 2020

(1) Reporting entity

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

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

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

Currently, due to innovations in information technology and telecommunications, and especially because of the competition in the national and international financial sectors, the Bank has become a universal bank that offers services in all sectors of the Costa Rican market. Those services include personal, business, corporate and institutional banking, stock market, pension fund management, investment funds, insurance brokerage, international banking services and electronic banking services. The Bank aims to improve the quality of life of the largest possible number of people by offering premium financial services that promote the sustainable creation of wealth.

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## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

As of September 30, 2020, the Bank has 160 offices, 455 ATM's, and along with its subsidiaries a total of 5,537 employees. Employees are distributed as follows: Banco Nacional de Costa Rica - 5,098 employees; BN Valores Puesto de Bolsa, S.A. - 67 employees; BN Vital Operadora de Planes de Pensiones Complementarias, S.A. - 179 employees; BN Sociedad Administradora de Fondos de Inversión, S.A. - 89 employees; and BN Sociedad Corredora de Seguros, S.A. - 104 employees. The Bank's website is [www.bncr.fi.cr](http://www.bncr.fi.cr).

The following subsidiaries are wholly owned by the Bank:

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

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

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

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# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

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

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

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

As of September 30, the main components that comprise the financial statements of the entities in which the Bank holds ownership interest are detailed below:

		September 2020				
		BN Vital Operadora				
		BN Sociedad	de Planes de		Banco	
		Administradora de	Pensiones	BN Sociedad	Internacional de	
		Fondos de Inversión,	Complementarias,	Corredora de	Costa Rica, S.A.	
		S.A.	S.A.	Seguros, S.A.	and Subsidiary	
Assets	¢	62,613,043,606	12,817,157,746	13,459,667,967	7,925,281,040	526,689,978,955
Liabilities		43,078,244,568	2,050,079,618	3,516,100,074	1,711,651,920	455,470,541,614
Equity		19,534,799,038	10,767,078,128	9,943,567,893	6,213,629,120	71,219,437,341
Income for the period		2,021,970,539	1,901,300,582	1,067,993,903	2,574,566,615	896,646,531
Memoranda accounts		1,238,713,155,052	579,173,702,783	1,817,726,049,839	-	-

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(2) Basis of preparation

(a) Basis of accounting

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

(b) Basis of measurement

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

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

(e) Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the quarter ended September 30, 2020 are related to the impairment of financial instruments.

(3) Significant accounting policies

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

(a) Basis of consolidation

*i. Subsidiaries*

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

*ii. Investment companies and separate vehicles*

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

iii. *Non-controlling interests*

Non-controlling interests are measured initially at their proportionate share of the acquiree's identifiable net assets at the date of acquisition. As of September 30, 2020, the Bank has 49% interest in Banco Internacional de Costa Rica, S.A. and Subsidiary (BICSA), a Panamanian entity.

iv. *Loss of control*

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

v. *Transactions eliminated on consolidation*

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. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency

i. *Foreign currency transactions*

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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 September 30, 2020, assets and liabilities in US dollars were valued at the exchange rate of ₡606.68 per US\$1.00, which is the selling rate established by BCCR (2019: ₡577.93 per US\$1.00, which the regulation established at the buy rate).

As of September 30, 2020, assets and liabilities denominated in euro were valued at the exchange rate of ₡709.57 per €1.00, which is obtained by multiplying the international Reuter exchange rate by the reference rate set by BCCR for the sale of US dollars on the last business day of the month (2019: ₡630.12 per €1.00, which the regulation established at the buy rate).

As of September 30, 2020, assets and liabilities denominated in Development Units (DU) were valued at the exchange rate of ₡916.86 to DU1.00 (2019: ₡917.80 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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

(c) Financial instruments

i. *Classification and measurement*

The Bank classifies financial assets into the following categories:

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

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

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

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

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

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

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

*ii. Business model assessment*

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on:
  - a) earning contractual interest income
  - b) maintaining a particular interest rate profile
  - c) maintaining a specific duration
  - d) being able to sell at any time due to liquidity needs or to optimize the risk-return profile of a portfolio based on interest rates, risk margins, current duration and defined goal.
- how the performance of the portfolio is evaluated and reported to the Bank's 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.

Financial assets held for trading or managed whose performance is assessed on a fair value basis are measured at fair value through profit or loss since they are not held to collect contractual cash flows or obtain contractual cash flows and sell those financial assets.

(Continued)



## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

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

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

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

*iv. Classification and measurement*

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

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

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

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

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

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

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

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

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

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

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

No impairment losses are recognized on investments in equity instruments.

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

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

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

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

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

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

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

vi. *Measurement of expected credit losses (ECL)*

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 Bank in accordance with the contract and the cash flows which the Bank expects to receive);

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

#### *vii. Default*

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

- The borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realizing the security (if any is held).
- The borrower is over 90 days past due on any material credit obligation to the Bank. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised a limit smaller than the current amount outstanding.

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

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

#### *viii. Generating the structure of the probability of default*

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

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

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

#### *ix. Determining significant increases in credit risk*

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

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

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

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

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

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

#### *x. Measurement of expected credit losses*

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

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

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

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

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

As described above, and subject to using a maximum of 12-month PD for financial assets for which credit risk has not increased significantly, the Bank measures ECL considering the risk of default over the maximum contractual period (including any extension option for the borrower) over which it is exposed to credit risk, even when, for credit risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date on which the Bank has the right to require repayment of an advance or terminate the loan commitment or guarantee.

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### Forward-looking information

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

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

#### (d) Derivative financial instruments

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

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

#### (e) Embedded derivatives

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

(f) Cash and cash equivalents

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

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

(g) Securities purchased under reverse repurchase agreements

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

(h) Property, furniture, equipment and leasehold improvements

i. Recognition and measurement

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

ii. Subsequent costs

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

iii. Depreciation

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

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

<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. Goodwill

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

ii. Software

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

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

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

iii. Impairment of non-financial assets

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

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Impairment losses are recognized in profit or loss. They are allocated first to reduce the carrying amounts of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU (or group of CGUs) on a pro rata basis.

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

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

i. Lease payments - lessee

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

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

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

ii. Lease assets - lessor

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

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### iii. Leased assets - lessor

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

#### iv. Changes in lease accounting policies

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

- The arrangement involves the use of an identified asset, either implicitly or explicitly. The asset must be physically distinct or represent substantially all of the capacity of a physically distinguishable asset.
- The Bank has the right to obtain substantially all of the economic benefits from use of the asset during the period of use; and
- The Bank has the right to direct the use of the asset.
- The Bank has the right to direct the use of an asset when it can decide how and for what purpose the asset is used. In special cases where the decisions about how and for what purpose the asset is used are predetermined, the Bank has the right to direct the use of the asset if:
  - It has the right to operate the asset, or
  - It designed the asset in a way that predetermines how and for what purpose the asset will be used.

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

v. Lessee

The Bank recognizes a right-of-use asset and a lease liability at the lease commencement date.

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

The right-of-use asset is subsequently depreciated using the straight-line method over the useful life of the underlying asset or from the commencement date to the end of the lease term. The useful life of the underlying asset is determined on the same basis as those of the Bank's property, furniture and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

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

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

- fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

vi. Short-term leases or low-value leases

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

(k) Loan portfolio

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

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.

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

Additionally, the probability of recovery of the loan portfolio is assessed in conformity with the provisions of SUGEF Directive 1-05 “Regulations for Borrower Classification”, which was approved by CONASSIF on November 24, 2005, was published in Official Gazette No. 238 dated December 9, 2005 and is effective as of October 9, 2006. That assessment considers parameters including borrower payment history, creditworthiness, quality of guarantees and delinquency.

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

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

As of September 30, 2020, increases in the allowance for loan losses are included in the accounting records in accordance with Article 10 of IRNBS.

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

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

(n) Other receivables

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

(Continued)



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(o) Foreclosed assets

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

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

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

(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.

SUGEF Directive 34-02 requires that the allowance for impairment of foreclosed assets acquired or produced after May 2010 be established gradually by booking one-twenty-fourth of the value of such assets each month during two years until the allowance is equivalent to 100% of the assets' carrying amount. 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 balance sheet if, as a result of a past event, the Bank has a present legal or constructive obligation and it is probable that an outflow of economic benefits will be required to settle the obligation. The provision made approximates settlement value; however, final amounts may vary. The estimated value of provisions is adjusted at the consolidated balance sheet date, directly affecting the consolidated statement of comprehensive income.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(r) Employee benefits

i. Defined benefit plans

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

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

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

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

ii. Defined contribution plans

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

iii. Other short-term employee benefits

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

iv. Back-to-school bonus

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

v. Incentives and Performance Assessment System (SEDI)

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

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

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

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

#### vi. Employee Protection and Retirement Fund

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

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

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

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

#### vii. Severance benefits

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

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

As of September 30, 2020, severance is included in the provisions account (see Note 20), which meets the legal provisioning requirements in effect as of those dates.

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

viii. Short-term employee benefits

Statutory Christmas bonus

Costa Rican legislation requires the payment of one-twelfth of an employee's monthly salary for each month of service. That payment is made to the employee in December, even in the event of dismissal. The Bank books a monthly accrual to cover future disbursements related thereto.

Vacation

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

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

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

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

Back-to-school bonus

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

(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

### (s) Deferred income

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

### (t) Legal reserve

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

### Other statutory reserves

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

Statutory reserve	Agreement of the Superintendency of Banks of Panama
Statutory reserve for foreclosed assets	Agreement No. 003-2009
Excess of statutory reserve for loans	Resolution No. SBP-GJD-003-2013
Statutory dynamic provision	Agreement No. 004-2014

### (u) Revaluation surplus - Real estate

Revaluation surplus included in the consolidated statement of changes in equity may be transferred directly to prior period retained earnings when the surplus is realized. Total surplus is realized on the retirement, disposal or use of the asset. The transfer of revaluation surplus to prior period retained earnings is not made through the consolidated statement of comprehensive income.

(Continued)



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(v) Income tax

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

i. *Current tax*

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

ii. *Deferred tax*

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

iii. *Tax benefits - FOCREDE*

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

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

(w) Segment reporting

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(x) 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 consolidated statement of comprehensive income.

*ii. Fee and commission income*

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

*iii. Income from foreign currency exchange and arbitrage*

Income from foreign currency exchange and arbitrage corresponds to foreign exchange gains arising from the purchase and sale of foreign currency. Cumulative foreign exchange gains arising from purchases and sales of foreign currency conducted during the month are recognized in the consolidated statement of comprehensive income on a monthly basis.

*iv. Operating lease expenses*

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(y) Statutory allocations

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

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

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

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

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

(z) Development Financing Fund (FOFIDE)

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

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

(aa) Development Credit Fund (FOCREDE)

The Development Credit Fund (FOCREDE) is comprised of the funds prescribed in Article 59 of IRNBS (Law No. 1644). FOCREDE will be managed by State-owned banks. Accordingly, in compliance with 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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(4) Risk management

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

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

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

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

The Bank manages the above risks as follows:

a) Credit risk

i. Banco Nacional de Costa Rica

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

The Bank has established the following credit risk management procedures:

- The Bank has defined procedures for the monitoring, application of controls and loan processing. The functions, tasks and procedures performed by the Credit Risk Division have been documented with the support of the Quality Management Division. Consequently, the Bank has been able to optimize and standardize the process.
- The Bank has performed and reviewed the administrative loan follow-up procedures for branches and regional offices.
- The work plan for loan follow-up includes an evaluation of main borrowers (higher balances in the loan portfolio), which involves continuous monitoring and visits to regional offices.

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

	Direct	Stand-by
	September 2020	September 2020
<i><u>Loan portfolio</u></i>		
Principal	¢ 4,316,417,762,793	322,813,011,267
Accounts and accrued interest receivable	102,600,614,875	-
Gross carrying amount	4,419,018,377,668	322,813,011,267
Incremental direct costs related to loans	3,836,314,971	-
(Deferred income from loan portfolio)	(32,679,657,179)	-
Allowance for loan losses (accounting records)	(129,146,543,259)	(621,395,399)
Net carrying amount	¢ 4,261,028,492,201	322,191,615,868
	Direct	Stand-by
	September 2020	September 2020
<i><u>Loan portfolio</u></i>		
Total balances:		
0	¢ 40,739,660,625	-
A1	3,254,523,117,420	297,146,846,874
A2	61,092,159,637	902,543,512
B1	540,446,503,142	20,785,930,846
B2	16,488,264,688	186,005,751
C1	124,518,445,106	1,583,314,753
C2	7,828,680,681	94,415,817
D	172,926,044,098	1,072,082,357
E	200,455,502,271	1,041,871,357
	4,419,018,377,668	322,813,011,267
Structural allowance (subledger – database)	(108,748,301,735)	(248,872,801)
Net carrying amount	¢ 4,310,270,075,933	322,564,138,466
Individually assessed loans with allowance:		
0	¢ 40,699,660,871	-
A1	3,253,887,880,426	23,737,966,258
A2	61,092,159,637	53,513,960
B1	540,446,503,142	13,074,338,312
B2	16,488,264,688	-
C1	124,518,445,106	62,863,982
C2	7,828,680,681	-
D	172,926,044,098	58,977,476
E	200,455,502,271	12,275,323
	4,418,343,140,920	36,999,935,311
Structural allowance (subledger – database)	(108,748,301,735)	(248,872,801)
Net carrying amount	¢ 4,309,594,839,185	36,751,062,510

(Continued)



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Current loan portfolio, without allowance:

0	¢	40,000,000	-
A1		635,236,748	273,408,880,318
A2		-	849,029,552
B1		-	7,711,592,534
B2		-	186,005,751
C1		-	1,520,450,771
C2		-	94,416,115
D		-	1,013,104,881
E		-	1,029,596,034
Carrying amount		<u>675,236,748</u>	<u>285,813,075,956</u>
Gross carrying amount	¢	<u>4,419,018,377,668</u>	<u>322,813,011,267</u>
Allowance for loan losses (database)		(108,748,301,735)	(248,872,801)
(Excess) shortage of allowance over structural allowance		(20,398,241,524)	(372,522,598)
Incremental direct costs related to loans		3,836,314,971	-
(Deferred income from loan portfolio)		(32,679,657,179)	-
Net carrying amount	¢	<u>4,261,028,492,201</u>	<u>322,191,615,868</u>
Restructured loans	¢	<u>44,861,072,400</u>	<u>-</u>

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

		September 2020	
		Loans to customers	
		Gross	Net
0	¢	40,739,660,625	39,192,165,583
A1		3,254,523,117,420	3,216,754,852,609
A2		61,092,159,637	60,785,586,810
B1		540,446,503,142	534,669,775,870
B2		16,488,264,688	16,205,860,454
C1		124,518,445,106	120,873,779,488
C2		7,828,680,681	7,272,297,932
D		172,926,044,098	158,023,241,372
E		200,455,502,271	136,094,274,291
	¢	<u>4,419,018,377,668</u>	<u>4,289,871,834,409</u>

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

As shown above, as of September 30, 2020, the gross portfolio amounts to ₡4,419 billion. Of that amount, 88.56% is classified in risk ratings “A+B” and 11.44% in risk ratings “C+D+E”.

#### Individually assessed loans with allowance:

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

#### Past due loans without allowance:

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

#### Restructured loans:

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.

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.

(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

- 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 (June 2020: ¢65 million) and Group 2, borrowers whose total outstanding balance is less than ¢100 million.

The loan portfolio by borrower classification is as follows:

Borrower classification		Direct	Stand-by
		September 2020	September 2020
Group 1	¢	2,272,419,921,165	41,654,847,795
Group 2		2,146,598,456,503	281,158,163,472
	¢	<u>4,419,018,377,668</u>	<u>322,813,011,267</u>

(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

### 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:

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

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

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

#### *Analysis of creditworthiness*

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

- a. *Financial position and expected cash flows:* Analysis of the stability and continuity of main sources of income. The effectiveness of the analysis depends on the quality and timeliness of information.
- b. *Experience in the line of business and quality of management:* Analysis of the capacity of management to lead the business with appropriate controls and adequate support from the owners.
- c. *Business environment:* Analysis of the main sector variables that affect the borrower's creditworthiness.
- d. *Vulnerability to changes in interest rates and foreign exchange rates:* Analysis of the borrower's ability to confront unexpected adverse changes in interest rates and foreign exchange rates.

(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:

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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			Level 1 o Level 2 o	
	100%	0.50%	Level 3 o Level 4	Level 1 o Level 2

Pursuant to Article No. 11 bis of SUGEF Directive 1-05, at each month-end, the Bank must book the general allowance for a minimum of 0.50% of the total outstanding balance for loan operations rated A1 and A2, without reducing the effect of guarantees. The provisions of Article 13 of the aforementioned Directive are to be applied to stand-by credits.

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%

(Continued)



# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

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:

	September 2020		
	Allowance booked	Structural allowance	Excess of allowance
Allowance for direct loans	¢ 128,525,147,860	(108,748,301,735)	19,776,846,125
Allowance for stand-by credits	621,395,399	(248,872,801)	372,522,598
	129,146,543,259	(108,997,174,536)	20,149,368,723
Counter-cyclical allowance per SUGEF Directive 19-16	20,347,850,383	(20,347,850,383)	-
	¢ 149,494,393,644	(129,345,024,919)	20,149,368,725

### *Counter-cyclical allowance*

As of September 30, 2020, the counter-cyclical allowance is valued pursuant to the provisions set forth in SUGEF Directive 19-16 *Regulations to Determine and Book Counter-cyclical Allowances*.

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%

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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.

Credit equivalent

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

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

Allowance for other assets

Allowances should be established for the following assets:

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

<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 September 30, 2020, the carrying amount of the allowance for impairment of foreclosed assets and per legal requirements amounts to ¢69,877,830,781.

(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	
	September 2020		September 2020	
Trade	¢	367,254,881,033		2,932,116
Services		894,780,734,806		47,439,348,573
Financial services		92,595,130,478		-
Mining		732,941,792		-
Manufacturing and quarrying		155,615,717,417		-
Construction		99,210,706,479		-
Agriculture and forestry		109,397,960,839		1,381,585
Livestock, hunting and fishing		76,698,200,926		-
Electricity, water, sanitation and other related sectors		487,368,244,731		-
Transportation and telecommunications		48,256,125,131		-
Housing		1,341,209,194,359		2,499,781
Personal or consumer		542,850,494,805		275,243,899,210
Tourism		203,048,044,872		122,950,000
	¢	<u>4,419,018,377,668</u>		<u>322,813,011,265</u>

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

	Direct		Stand-by	
	September 2020		September 2020	
Central America	¢	<u>4,419,018,377,668</u>		<u>322,813,011,265</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The loan portfolio by type of guarantee is as follows:

Type of Guarantee	Direct		Stand-by	
	September 2020		September 2020	
Back to Back	¢	15,425,429,687		40,824,008
Mortgage bond		95,246,803		-
Assignment of loans		334,129,919,966		1,810,485
Mortgage		1,759,627,688,276		7,973,450
Surety		844,419,870,795		1,381,585
Trust		394,410,237,908		-
Securities		2,026,597,741		-
Chattel mortgage		243,362,139,336		-
Other		825,521,247,156		322,761,021,737
	¢	<u>4,419,018,377,668</u>		<u>322,813,011,265</u>

Guarantees:

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

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

The Bank conducts strict credit analyses before granting loans and requires guarantees from its borrowers before disbursing loans. As of September 30, 2020, 56.74% of the loan portfolio is secured by collateral guarantees.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

Loan portfolio concentration	Direct		Stand-by	
	September 2020		September 2020	
¢1 to ¢3,000,000	¢	142,580,477,615		87,882,925,479
¢3,000,001 to ¢15,000,000		592,271,467,006		184,083,888,054
¢15,000,001 to ¢30,000,000		457,889,134,585		7,780,266,858
¢30,000,001 to ¢50,000,000		479,885,547,161		2,829,317,445
¢50,000,001 to ¢75,000,000		423,321,835,590		2,869,780,734
¢75,000,001 to ¢100,000,000		205,966,661,422		1,286,378,070
¢100,000,001 to ¢200,000,000		240,782,509,082		3,078,638,695
More than ¢200,000,000		1,876,320,745,207		33,001,815,930
	¢	<u>4,419,018,377,668</u>		<u>322,813,011,265</u>

As of September 30, 2020, the portion of the loan portfolio (direct and stand-by loans) corresponding to economic interest groups amounts to ¢725,252,858,594, which is 16.41% of the loan portfolio.

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

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

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

(Continued)

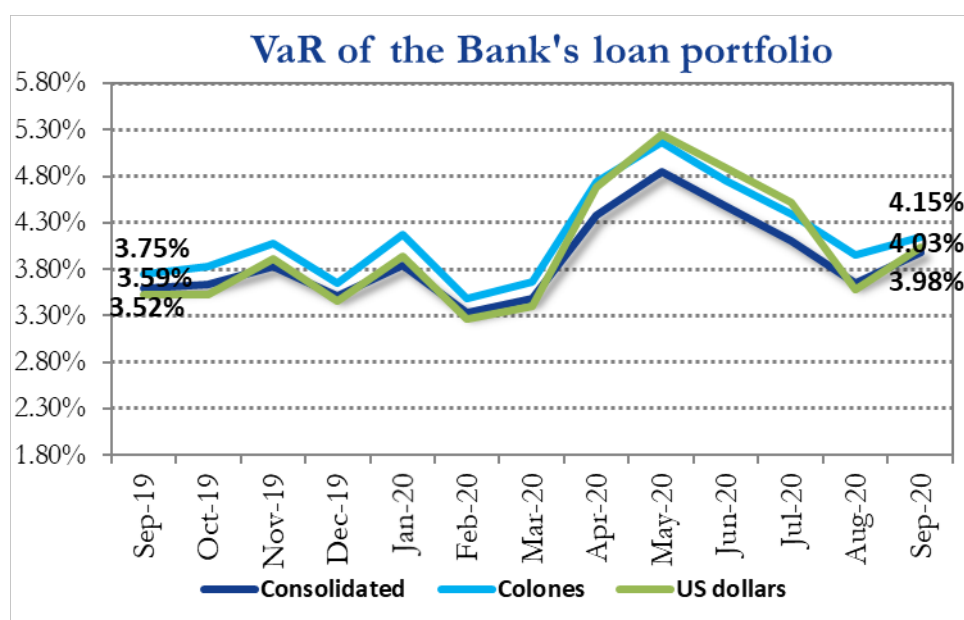
## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

The quarterly decrease in the VaR of the entire loan portfolio (from 4.48% to 3.98%) is mainly due to the decrease in arrears more than 60 days between June 2020 and September 2020. Specifically, arrears decreased from 4.20% to 4.03%, which represents a decrease of 0.16 p.p.

By currency, the VaR of the portfolio in colones decreased from 4.75% to 4.15% due to the decrease in arrears more than 60 days in that currency (the indicator decreased from 4.20% to 4.02% between June 2020 and September 2020). A similar behavior was reported in the VaR of the portfolio in US dollars, which decreased from 4.90% to 4.03% also in relation to arrears more than 60 days (decrease from 4.08% to 3.95% between June 2020 and September 2020). For the portfolio in DU, the VAR increased considerably, from 21.33% to 24.75% during the third quarter of 2020.



(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

As of September 30, 2020, all economic activities except for Housing showed decreases in the VaR of the loan portfolio. These decreases are the result of the measures taken by the Bank in response to the COVID-19 emergency, seeking to minimize the increase in arrears in the different economic activities arising from the country's difficult economic situation, which has become more accentuated in the third quarter of the current period.

As of September 30, 2020, the VaR of the Bank's loan portfolio by economic activity is as follows:

Activity	September 2020
Agriculture	10.61%
Livestock	8.40%
Mining	20.21%
Industry	5.72%
Energy	4.55%
Housing	3.19%
Construction	6.61%
Trade	6.70%
Transportation	4.82%
Financial services	0.90%
Consumer	8.82%
Services	3.42%
Tourism	7.73%
<b>BNCR</b>	<b>3.98%</b>

As of September 30, the loan portfolio with related parties is as follows:

Groups of interest of the SUGEF 30-18 Chart of Accounts		
September 2020		
Financial segment	Accounting code	Number of operations
Individuals	3110	135
Business sector	3310	4

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

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

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

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

(Continued)



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

- Pursuant to the requirements set out in the investment policy, the Brokerage Firm takes into consideration the ratings granted by rating agencies to local or international issues, in compliance with the provisions of current regulations.
- The Brokerage Firm assesses the marketability of the instruments based on internally calculated indicators. In the case of investments in the local market, the Brokerage Firm considers those registered with the National Registry of Securities and Brokers, while for investments in international markets, the Brokerage Firm considers instruments that may be sold at any point in time.
- Consequently, in order for the Brokerage Firm to acquire securities issued abroad, those securities must have been assigned a risk rating by a risk rating agency authorized by SUGEVAL or by a renowned international risk rating agency such as Standard & Poor's, Moody's or Fitch. This requirement does not apply to securities issued abroad by the Government of Costa Rica, BCCR and other Costa Rican public institutions.

The Brokerage Firm may acquire the following instruments:

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

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

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

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

For the September 2020 close, the accounting records showed investments in colones, investments in instruments issued by local issuers in US dollars (\$CR) and investments in instruments issued by foreign issuers in US dollars (\$USA). The Brokerage Firm holds no investments in DU. By currency, most of the Brokerage Firm's financial instruments (65.20%) is concentrated in the portfolio denominated in colones.

With respect to the consolidated portfolio, investments in instruments issued by the Government of Costa Rica (61.75%) and BCCR (3.45%) comprise the portfolio in colones, representing 65.20% of the consolidated portfolio. Investments in instruments issued by the Government of Costa Rica (34.80%) comprise the portfolio in US dollars, representing 34.80% of the consolidated portfolio.

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.

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

(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

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

As of September 30, 2020, the net assets managed by the Pension Fund Manager amount to ¢1,803,040 million. This data does not include the Pension Fund Manager's own assets.

The pension fund with the highest relative share as of September 30, 2020 is ROP, which represents 85.28%.

The Pension Fund Manager's portfolio of own funds is represented by available-for-sale investments in the amount of ¢10,061 million as of September 30, 2020.

As of September 30, 2020, the credit risk methodology is calculated using the financial copulas model, with a result of 0.54% (¢53.89 million).

Consolidated VaR - One year	
Financial copulas model	September 2020
FCL	1.11%
FPC A	0.75%
FPC B	0.64%
FPD A	4.62%
FPD B	4.85%
ROP	0.62%
BN Vital (OPC)	0.54%

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.

The Pension Fund Manager has a classification of its instruments aligned with the business models defined and approved by the board of directors.

The calculation of ECL applies only to instruments measured at amortized cost and instruments measured at fair value through other comprehensive income (FVOCI). Expected credit losses are not calculated for instruments booked directly in equity.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of September 30, the Pension Fund Manager has an allowance for ECL on its managed portfolio in the amount of ¢4.09 million.

Allowance for ECL	
Fund	As of September 30, 2020
FCL	¢26.01 million
FPC A	¢26.32 million
FPC B	¢6.92 million
FPD A	\$18.91 thousand
FPD B	\$8.68 thousand
ROP	¢1,019.14 million
BN Vital (OPC)	¢4.09 million

v. BN Corredora de Seguros, S.A.

For the Insurance Brokerage Firm, credit risk is the risk that the borrower or issuer of a financial asset will fail to discharge an obligation, fully and on time, in accordance with the terms and conditions agreed upon at the time the financial asset was acquired. Credit risk arises mainly on cash and due from banks and investments in financial instruments and is represented by the carrying amount of the assets in the consolidated balance sheet.

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

As of September 30, 2020, exposure to credit risk is represented by the carrying amounts of cash and due from banks and available-for-sale investments. Cash and due from banks correspond to checking account deposits at BNCR and participation in open investment funds managed by BN SAFI.

As of September 30, 2020, investments in financial instruments correspond to the non-diversified investment fund in colones “*Fondo de Inversión BN FonDepósito Colones, No Diversificado*,” which is secured by term certificates of deposit from BNCR. In addition, an investment was made in Monetary Stabilization Bonds issued by BCCR, which mature in the short term.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

b) Liquidity Risk

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

i. Banco Nacional de Costa Rica

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

LCR results are compared with the risk appetite limit approved by the General Board of Directors, which was set at 130% for the LCR in colones and in US dollars.

Below is the LCR indicator as of September 2020, period during which the indicators are considerably above the risk appetite level in both currencies. This means that commitments and net cash outflows for 30 days can be met in an adverse scenario.

Year on year, the LCR indicator in colones remains relatively stable during the last period, with a decrease of 10 p.p., reaching 189% at the September 2020 close, which results from less profit-taking in local currency, especially during the second semester, since credit has remained slow during the last period. The LCR is above risk appetite with respect to 130%, in the amount of ¢365,000 million.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The LCR indicator in US dollars is at 352% at the close of the last quarter, considerably above risk appetite, in the amount of US\$965 million, due to the little dynamism of credit in foreign currency and the rise of profit-taking in foreign currency during 2020, as follows:

<u>Indicator</u>	<u>September 2020</u>	<u>Level</u>
LCR colones	189%	Appetite
LCR US dollars	352%	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 September 30, 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	¢	-	79,214,741,580	-	-	-	-	-	79,214,741,580
Minimum legal deposit in BCCR		-	327,509,316,264	11,693,998,622	18,019,755,807	17,539,213,175	48,213,425,111	71,460,951,243	514,411,015,210
Investments		-	4,095,560,326	146,615,134,101	6,983,295,686	15,215,502,955	100,957,059,054	43,928,859,526	914,257,570,532
Loan portfolio		411,820,468,314	-	69,569,057,458	42,932,879,219	32,829,824,637	87,122,856,388	127,989,407,720	3,181,642,049,557
Recovery of assets	¢	411,820,468,314	410,819,618,170	227,878,190,181	67,935,930,712	65,584,540,767	236,293,340,553	243,379,218,489	4,689,525,376,879
Obligations with the public	¢	-	2,375,896,180,468	147,174,011,107	138,287,171,202	131,849,503,494	364,640,349,373	544,530,710,781	3,839,423,147,529
Obligations with BCCR		-	-	-	-	-	-	-	125,644,412
Obligations with financial entities		-	70,855,515,045	102,006,556,568	12,822,028,578	14,192,735,697	8,513,970,962	19,273,816,004	265,656,220,181
Charges payable		-	10,573,568,122	6,886,700,856	2,903,270,218	2,009,475,576	4,301,007,923	1,801,936,162	29,737,469,868
Maturity of liabilities		-	2,457,325,263,635	256,067,268,531	154,012,469,998	148,051,714,767	377,455,328,258	565,606,462,947	4,134,942,481,990
Difference	¢	411,820,468,314	(2,046,505,645,465)	(28,189,078,350)	(86,076,539,286)	(82,467,174,000)	(141,161,987,705)	(322,227,244,458)	2,849,390,095,839
									554,582,894,889

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of September 30, 2020, the terms of the Bank and its Subsidiaries' assets and liabilities denominated in foreign currency, expressed in local currency, are matched as follows:

		Days							Total
		Past due	Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	
Cash and due from banks	¢	-	395,079,340,998	-	-	-	-	-	395,390,227,342
Minimum legal deposit in BCCR		-	205,098,699,771	8,909,611,187	12,386,496,649	11,295,665,957	23,687,960,910	49,047,869,728	327,607,485,259
Investments		-	-	3,779,441,731	79,709,678,835	19,772,268,701	82,587,302,939	147,603,089,648	593,408,603,400
Loan portfolio		317,930,657,079	-	19,672,387,692	10,417,790,814	12,070,900,404	31,721,108,005	48,062,980,761	1,208,532,985,902
Recovery of assets	¢	317,930,657,079	600,178,040,769	32,361,440,610	102,513,966,298	43,138,835,062	137,996,371,854	244,713,940,137	2,524,939,301,903
Obligations with the public	¢	-	1,112,137,606,993	93,291,440,070	64,553,258,659	78,655,516,128	142,019,764,266	128,243,386,466	91,889,576,910
Obligations with financial entities		-	13,544,288,543	105,227,434,313	18,813,146,800	3,651,606,920	2,390,319,200	192,510,102,905	357,863,320,053
Charges payable		-	2,959,472,288	6,013,426,664	5,678,510,852	2,370,614,034	1,538,834,228	1,074,359,644	896,548,537
Maturity of liabilities	¢	-	1,128,641,367,824	204,532,301,047	89,044,916,311	84,677,737,082	145,948,917,694	321,827,849,015	450,649,445,500
Difference	¢	317,930,657,079	(528,463,327,055)	(172,170,860,437)	13,469,049,987	(41,538,902,020)	(7,952,545,840)	(77,113,908,878)	595,456,604,594

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

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

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

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

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

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

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Liquidity ratio Fund	September 2020
FCL	3.22
FPC A	3.49
FPC B	5.70
FPD A	2.78
FPD B	4.15
ROP	29.38

Liquidity risk management

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

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

The liquidity level of the Pension Fund Manager corresponds to the nature of its operations. The entity holds a portfolio of short-term assets as well as highly liquid investments to ensure it has sufficient liquidity. As part of liquidity controls, cash flows are monitored on a daily basis, taking into consideration checking account balances and projected cash needs for up to 4 days after the calculation. Accordingly, the entity could sell financial assets or invest surpluses that will not be used in the short term, if necessary.

Exposure to liquidity risk:

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

(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

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

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

### c) Market risks

#### i. Banco Nacional de Costa Rica.

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

<u>Indicator</u>	<u>Limit</u>	<u>Level</u>
VaR (consolidated)	2.50%	Appetite
Foreign currency risk	3.00%	Appetite
Interest rate risk in colones	5.00%	Normal
Interest rate risk in foreign	5.00%	Normal

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

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

(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

The variation in the portfolios by currency for September 2020 is as follows:

<u>Face value of investments by currency</u>	
<u>Currency</u>	<u>September 2020</u>
Colones	817,521,455,000
US dollars – local issuers	88,223,948
US dollars – international issuers	805,781,000

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

<u>Duration</u>	<u>September 2020</u>
Colones	0.87
US dollars - local issuers	0.40
US dollars - international issuers	1.07

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

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

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

### Market risk management

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

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

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## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

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

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

#### Market risk exposure – trading portfolio:

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

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

	<u>September 2020</u>
VaR (99% confidence level)	1.19%

#### Fair values

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

As of September 30, 2020, the carrying amount of the following financial instruments approximates fair value: cash, investments in financial instruments, interest receivable, obligations under repurchase agreements, interest payable, fees and commissions and other accounts payable. Investments are carried at the fair value determined using the method described above.

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

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

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

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

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### Price risk exposure:

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

The Brokerage Firm uses the historical method to calculate VaR, as established in the risk regulations issued by SUGEVAL, based on a confidence level of 95% and a 22-day holding period. As a complement to determine price risk exposure, the Brokerage Firm uses the consolidated VaR model, provided by the Bank's Risk Division, which assumes a 99% confidence level and a 30-day holding period, based on the Monte Carlo approach.

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

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

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

(Continued)



# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

### *i. BN Corredora de Seguros, S.A.*

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

- *Market risk of investments*

### *i. Banco Nacional de Costa Rica*

The Bank's consolidated VaR regarding the market value of investments increased 0.12% during the period, mainly due to the increased volatility of product prices during the COVID-19 pandemic, as follows:

<u>Type of risk</u>	<u>September 2020</u>	<u>Level</u>
VaR (consolidated)	0.51%	Appetite

The individual VaR by currency is also included (with respect to market value), as follows:

<u>VaR by currency</u>	
<u>Currency</u>	<u>September 2020</u>
Colones	0.73%
US dollars - local issuers	0.63%
US dollars - international issuers	0.24%

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Rating of investments by business model

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

Market value of the portfolio by business model	
Model	September 2020
Amortized cost	732,071,765,348
Comprehensive income (OCI)	656,393,213,357
Other assets	16,385,422,144

Expected loss of the portfolio by business model	
Model	September 2020
Amortized cost	297,264,454
Comprehensive income (OCI)	423,551,012

- Interest rate risk

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

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

<u>Type of risk</u>	<u>September 2020</u>
Interest rate risk in colones	0.51%
Interest rate risk in foreign currency	0.25%

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of September 30, 2020, the interest rate terms for the Bank's assets and liabilities (differences between the recovery of assets and the maturity of liabilities) are matched as follows:

	Current	1 to 30 days	31 to 90 days	91 to 180 days	181 to 360 days	361 to 720 days	More than 720 days	Total
<i>Local currency (LC)</i>								
Investments	¢ 2,728,934,713	144,958,009,704	22,663,669,699	102,190,303,860	43,451,029,686	212,271,128,584	380,982,605,115	909,245,681,361
Loan portfolio	-	2,677,509,669,723	107,784,725,740	102,841,888,893	14,836,659,357	15,592,813,459	87,537,945,591	3,006,103,702,763
Recovery of rate-sensitive assets in LC (A)	¢ 2,728,934,713	2,822,467,679,427	130,448,395,439	205,032,192,753	58,287,689,043	227,863,942,043	468,520,550,706	3,915,349,384,124
Obligations with the public	¢ -	257,741,997,874	301,312,803,171	377,455,328,258	565,079,188,464	87,798,690,936	58,842,792,159	1,648,230,800,862
Obligations with BCCR	-	-	-	-	-	-	125,644,412	125,644,412
Obligations with financial entities in LC	-	134,296,131	-	-	-	-	30,701,720,820	30,836,016,951
Maturity of rate-sensitive liabilities in LC (B)	¢ -	257,876,294,005	301,312,803,171	377,455,328,258	565,079,188,464	87,798,690,936	89,670,157,391	1,679,192,462,225
Difference in LC, recovery of assets less maturity of liabilities (A - B)	¢ 2,728,934,713	2,564,591,385,422	(170,864,407,732)	(172,423,135,505)	(506,791,499,421)	140,065,251,107	378,850,393,315	2,236,156,921,899
<i>Foreign currency (FC)</i>								
Investments	¢ -	4,179,151,708	99,128,613,536	82,587,302,932	125,893,080,006	136,355,373,393	126,997,231,002	575,140,752,577
Loan portfolio	-	1,013,532,349,973	37,732,861,226	21,998,454,102	2,412,705,731	20,346,444,961	56,999,525,291	1,153,022,341,284
Recovery of rate-sensitive assets in FC (C)	¢ -	1,017,711,501,681	136,861,474,762	104,585,757,034	128,305,785,737	156,701,818,354	183,996,756,293	1,728,163,093,861
Obligations with the public	¢ -	199,145,130,651	152,261,355,292	144,716,289,543	320,114,629,420	57,900,641,920	277,516,773,589	1,151,654,820,415
Obligations with BCCR	-	7,001,880,000	-	-	-	-	-	7,001,880,000
Obligations with entities	-	213,760,221	19,890,203,666	1,232,628,151	-	30,334,000,000	87,167,297,056	138,837,889,094
Maturity of rate-sensitive liabilities in FC (D)	¢ -	206,360,770,872	172,151,558,958	145,948,917,694	320,114,629,420	88,234,641,920	364,684,070,645	1,297,494,589,509
Difference in FC, recovery of assets less maturity of liabilities (C - D)	¢ -	811,350,730,809	(35,290,084,196)	(41,363,160,660)	(191,808,843,683)	68,467,176,434	(180,687,314,352)	430,668,504,352
Recovery of rate-sensitive assets 1/ (A + C)	¢ 2,728,934,713	3,840,179,181,108	267,309,870,201	309,617,949,787	186,593,474,780	384,565,760,397	652,517,306,999	5,643,512,477,985
Maturity of rate-sensitive liabilities 2/ (B + D)	¢ -	464,237,064,877	473,464,362,129	523,404,245,952	885,193,817,884	176,033,332,856	454,354,228,036	2,976,687,051,734
LC + FC difference, recovery of assets less maturity of liabilities (item 1 - item 2)	¢ 2,728,934,713	3,375,942,116,231	(206,154,491,928)	(213,786,296,165)	(698,600,343,104)	208,532,427,541	198,163,078,963	2,666,825,426,251

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

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

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

The consolidated VaR of the Pension Fund Manager's own funds has a maximum of 2.08% and a minimum of 0.56% for an average of 1.12%, equivalent to ¢112.90 million. As of September 30, 2020, the indicator closes at 1.74%, which shows the portfolio volatility with respect to market interest rates.

iv. BN Corredora de Seguros, S.A.

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

• Currency risk

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

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

(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

### i. Banco Nacional de Costa Rica

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

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

<u>Type of risk</u>	<u>September</u>	<u>Level</u>
Currency risk	1.61%	Appetite

Assets and liabilities denominated in foreign currency are as follows:

		<u>US dollars</u>
		<u>September 2020</u>
<u>Assets:</u>		
Cash and due from banks	US\$	1,144,861,122
Investments in financial instruments		978,124,552
Loan portfolio		1,918,674,972
Accounts and accrued interest receivable		392,777
Investments in other companies		117,392,097
Other assets		1,369,569
	US\$	<u>4,160,815,089</u>
<u>Liabilities:</u>		
Obligations with the public	US\$	2,788,936,473
Other financial obligations		1,162,551,343
Subordinated obligations		98,545,571
Other accounts payable and provisions		12,877,181
Other liabilities		4,139,294
	US\$	<u>4,067,049,862</u>
Excess of assets over liabilities in US dollars	US\$	<u>93,765,227</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		Euros
		<u>September 2020</u>
<u>Assets:</u>		
Cash and due from banks	€	40,071,264
		<u>40,071,264</u>
<u>Liabilities:</u>		
Obligations with the public	€	38,723,961
Other financial obligations		713,663
Other accounts payable and provisions		16,407
Other liabilities		204
		<u>39,454,235</u>
Excess of assets over liabilities in euro	€	<u>617,029</u>
		DU
		<u>September 2020</u>
<u>Assets:</u>		
Loan portfolio	UD	2,709,081
		<u>2,709,081</u>
<u>Liabilities:</u>		
Accounts payable and provisions	UD	208,573
Other liabilities		429
	UD	<u>209,002</u>
Excess of assets over liabilities in DU	UD	<u>2,500,079</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.

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

	September 2020
Foreign exchange gains	¢ 332,662,475,342
Foreign exchange losses	<u>(333,841,601,733)</u>
Net losses	<u>¢ (1,179,126,391)</u>

(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

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

	September 2020
Gain on valuation of other assets, net (Note 40)	¢ 1,076,859,863
Loss on valuation of other liabilities, net (Note 43)	(1,274,699,342)
Net loss	¢ (197,839,479)

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

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

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

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

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

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

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

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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.

As of September 30, 2020, 6.35% of the Pension Fund Manager's portfolio of own funds is represented by investments in US dollars. By adding cash and due from banks denominated in foreign currency, the percentage increases to 6.74% (¢720.13 million), which reveals a currency risk that is relatively low considering the size of the managed portfolio.

v. BN Corredora de Seguros, S.A.

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

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

a) Operational risk

i. Banco Nacional de Costa Rica

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



## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

That policy is implemented through a management framework that includes:

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

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements



Senior management has defined operational risk limits that specifically measure the performance of risk management and total operating losses. These measurements are performed and reported to the upper levels on a monthly basis. Risk management also entails a qualitative assessment through the calculation of indicators and specific risk models, which reflect behaviors and trends on a periodic basis that are used as inputs for decision-making.

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

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

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

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

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

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

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## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

- Communication: Senior management informs employees of risk management trends and strategies as well the results of assessments through meetings with employees or announcements.

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

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

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

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

#### Fair value of financial instruments

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

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

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

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

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

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

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

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

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

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

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

As of September 30, 2020, the Bank's General Risk Division presented the results of the VaR by legal risk for the Pension Fund Manager, indicating that the amount to be provisioned is the EL of ¢43,701,686.47 that covers the lawsuits against the Pension Fund Manager with a probability of an unfavorable outcome, out of seven pending lawsuits, most of which are in first instance.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

v. BN Corredora de Seguros, S.A.

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

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

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

Capital management:

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 September 30, 2020, 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 BCCR, 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.

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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.

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

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

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

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

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

(Continued)



## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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: separate balance sheet, consolidated statement of comprehensive income for the period, CAMELS indicators, budget execution, and capital adequacy.

As of September 30, 2020, 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 24).

#### COVID 19 implications in the Conglomerate

The Corona virus (COVID-19), declared a pandemic by the World Health Organization, has implications internationally. On one hand, it has caused a number of diseases. On the other hand, markets and productive sectors have been heavily affected for fear of the accelerated spread and of the preventive measures taken by some governments including, social distancing, cancelation of massive assistance events, interest rate reductions, and border closures. This has strongly impacted the countries' economies and dynamic production. With data as of September 2020, the International Monetary Fund (IMF) expects the global economy to shrink by 4.5% in 2020, the biggest contraction since 1930.

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

#### a) Financial level

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

#### c) Interest rate risk

- Ongoing revision of interest rate indicators.
- Promote use of the interbank rate (TRI) as reference of loans which best reflects market conditions.

#### d) Liquidity risk

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

#### e) Price risk

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

#### f) Currency risk

- Currency risk is analyzed through a periodic monitoring of systemic indicators. 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 future risks foreseen.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(5) Collateralized or restricted assets

As of September 30, collateralized or restricted assets are as follows:

Restricted asset	Cause of restriction	September 2020
<u>Cash and due from banks:</u>		
Checking account – colones	Minimum legal deposit	¢ 480,791,093,730
Checking account – US dollars (Note 7)	Minimum legal deposit	289,106,108,045
Checking account – euro (Note 7)	Minimum legal deposit	4,145,811,323
Other cash and due from banks (Note 7)	Custody of liabilities of Banco Crédito Agrícola de Cartago	1,133,876,616
Other cash and due from banks (Note 7)	Margin calls for derivative financial instruments	14,177,663
Other cash and due from banks (Note 7)	Contribution to FOGABONA	310,886,932
		¢ <u>775,501,954,309</u>
<u>Investments in financial instruments:</u>		
Investments in financial instruments	Guarantee for tri-party repurchase agreements	¢ 15,451,825,249
Investments in financial instruments	Liquidity market operations	38,584,096,309
Securities issued by BCCR and the Government	Investments securing repurchase agreements	3,067,055,230
External debt bonds	Nomura Bank guarantee	58,112,710,762
External debt bonds	JP-SWAPS guarantee	1,229,174,243
External debt bonds	JPMIM-ASSET-COMPROME	45,490,725
CDP	Nomura Bank guarantee	24,267,200,000
		¢ <u>140,757,552,518</u>
<u>Other assets:</u>		
Other assets (Note 15)	Security deposits	¢ <u>809,858,327</u>

As of September 30, 2020, the Brokerage Firm has restricted assets in the amount of ¢54,066,244,649, corresponding to guarantees for tri-party repurchase agreements, operations in the liquidity market and contributions to the liquidation and compensation risk management fund.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(6) Balances and transactions with related parties

a) Transactions with related parties (corporations)

As of September 30, balances and transactions with related parties are as follows:

	<u>September 2020</u>
<u>Assets:</u>	
Checking accounts in foreign financial entities (1) (Note 7)	¢ 15,456,562,521
Investments in financial instruments and accrued interest receivable	11,370,840,723
Investments in other companies (2)	<u>71,168,814,049</u>
	¢ <u>97,996,217,293</u>
<u>Liabilities:</u>	
Demand obligations with entities (3)	1,253,183,952
Term obligations with entities (4)	600,000,000
Charges payable for obligations with related parties	<u>1,080,372</u>
	¢ <u>1,854,264,324</u>
<u>Income:</u>	
Gain on investments in other foreign companies	907,111,819
<u>Expenses:</u>	
Operating expenses	36,696,201

(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

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

- (1) Foreign checking accounts with BICSA.
- (2) Investments in the share capital of entities over which the Bank exercises control or significant influence.
- (3) Movements in the subsidiaries' checking accounts with the Bank.
- (4) Movements in transit of instruments of certificates of term deposit held by the subsidiaries of the Bank.

### b) Compensation to personnel

For the nine months ended September 30, compensation to key personnel is as follows:

		September 2020
Short-term benefits	¢	1,250,340,156
Long-term benefits		162,544,220
Per diem - Board of directors		150,995,962
	¢	<u>1,563,880,338</u>

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

### (7) Cash and cash equivalents

As of September 30, for purposes of reconciliation of the consolidated statement of cash flows, cash and cash equivalents are as follows:

		September 2020
Cash and due from banks	¢	1,316,623,469,390
Investments with maturities of two months or less		<u>241,183,110,681</u>
	¢	<u>1,557,806,580,071</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Cash and due from banks is as follows:

	<u>September 2020</u>
Cash on hand and in vaults	¢ 55,727,836,735
Cash in transit	41,422,323,604
Checking account in BCCR (1)	61,372,469,752
Minimum legal deposits in BCCR (2)	780,646,030,717
Checking accounts and demand deposits in State-owned commercial banks and banks created under special laws	109,359,331
Checking accounts and other demand accounts in private financial entities	488,344,966
Overnight deposits in local financial entities	450,000,000
Checking accounts in foreign financial entities	351,607,191,713
Deposits and other demand accounts in foreign financial entities	53,144,419
Checking accounts and demand deposits in related parties (Note 6)	15,456,562,521
Overnight deposits in foreign financial entities	2,752,608,112
Transfers through the Interbank Electronic Payment System (SINPE)	2,203,666,500
Local notes receivable	2,515,933,524
Foreign notes receivable	359,056,285
Margin calls - derivative financial instruments (Note 5)	14,177,663
Fondo de Garantía de la Bolsa Nacional de Valores (FOGABONA)	310,886,931
Other restricted cash and due from banks (3)	1,133,876,617
	¢ <u><u>1,316,623,469,390</u></u>

(1) Checking accounts and demand deposits in BCCR include the balances of the minimum legal deposits required for each year (see Note 5).

(2) Pursuant to Note GD-5879/09 issued by BCCR on June 3, 2019, as of June 16, 2019 the percentage for the minimum legal deposit decreased to 12% in colones and 15% in US dollars. The corresponding amount must be deposited in cash in BCCR pursuant to current banking legislation. Such deposit is calculated as a percentage of third-party deposits, which varies based on the term and form of deposit-taking used by the Bank. Furthermore, in number 6 of Article 5 of Minutes of Meeting No. 5923-2020, held on March 20, 2020, the board of directors of BCCR specified that during each and every day of the minimum legal deposit period of control, the balance at the end of the day of the deposits in BCCR must be at least 90% of the minimum legal deposit required for the last two-week period of the previous month.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(3) "Other restricted cash and due from banks" includes the banking mandate for custody of liabilities, checking accounts, savings accounts and term certificates of deposit of Banco Crédito Agrícola de Cartago (see Note 5).

(8) Investments in financial instruments

As of September 30, investments in financial instruments are as follows:

	<u>September 2020</u>
Investments at fair value through profit or loss	¢ 20,524,238,772
Investments at fair value through other comprehensive income	809,950,432,152
Investments at amortized cost	645,566,633,811
	¢ <u>1,476,041,304,735</u>
Futures contracts to hedge interest rate risk	17,249,216,592
Allowance for impairment of investments	(355,194,562)
Accrued interest receivable on investments	14,375,652,605
	¢ <u>1,507,310,979,370</u>

(a) Investments at fair value through profit or loss

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

	<u>September 2020</u>
<u>Local issuers</u>	
Private banks	¢ 43,256,284
Private issuers	20,480,982,488
	¢ <u>20,524,238,772</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(b) Investments at fair value through other comprehensive income

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

	<u>September 2020</u>
<u>Local issuers</u>	
Government of Costa Rica	¢ 430,217,277,690
BCCR	15,044,376,516
State-owned banks	7,890,225,178
Private issuers	<u>3,453,381,793</u>
	¢ <u>456,605,261,177</u>
<u>Foreign issuers</u>	
Governments	¢ 131,126,084,630
Private issuers	97,630,714,866
Private banks	124,588,371,479
	<u>353,345,170,975</u>
	¢ <u>809,950,432,152</u>

(c) Investments at amortized cost

Investments at amortized cost are as follows:

	<u>September 2020</u>
<u>Local issuers</u>	
Government of Costa Rica	¢ 305,714,013,551
BCCR	192,293,701,644
	¢ <u>498,007,715,195</u>
<u>Foreign issuers</u>	
Governments	¢ 126,184,592,823
Private issuers	1,590,536,869
Private banks	19,783,788,924
	<u>147,558,918,616</u>
	<u>645,566,633,811</u>
	¢ <u>1,476,041,304,735</u>

As of September 30, 2020, the valuation of available-for-sale investments and restricted financial instruments gives rise to an unrealized gain, net of deferred tax, in the amount of ¢3,284,564,801. Accordingly, the cumulative balance of equity adjustments arising from valuation of these investments is an unrealized gain of ¢11,759,859,491.

(Continued)



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(9) 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 a reference rate.

Derivative financial instruments are as follows:

		September 30, 2020		Purpose
Issuing bank		Notional	Valuation	
CitiBank	US\$	173,588,000	US\$ 13,966,894	Swaps to hedge 10-year issues (maturing in 2023)
JP Morgan		100,000,000	8,046,002	
Bank of America		46,533,000	3,958,699	
	US\$	320,121,000	US\$ 25,971,595	
Amount in colones	¢	<u>194,211,008,280</u>	¢ <u>15,756,447,497</u>	
Bank of America	US\$	60,200,000	US\$ 477,108	Swaps to hedge 5-year issues (maturing in 2021)
JP Morgan		250,000,000	1,981,345	
	US\$	310,200,000	US\$ 2,458,453	
Amount in colones	¢	<u>188,192,136,000</u>	¢ <u>1,491,494,120</u>	
Chicago Board of Trade	US\$	12,600,000	US\$ (14,656)	Standardized futures contracts (maturing in 2020)
Amount in colones	¢	<u>7,644,168,000</u>	¢ <u>(8,891,690)</u>	

As of September 30, 2020, total notional amounts of US\$642,921,000, equivalent to ¢390,047,312,280, are booked under “Other debit memoranda accounts” (see Note 27).

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

(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

As of September 30, 2020, the Bank booked an increase in the fair value of these swaps in the amount of US\$28,432,150, equivalent to ¢17,249,216,592 (see Note 8) and a decrease in the fair value of these hedges in the amount of US\$16,758 equivalent to ¢10,166,665 (see Note 21).

As of September 30, 2020, the Bank booked an increase in the fair value of futures contracts in the amount of US\$2,102, equivalent to ¢1,274,975, and a decrease in the fair value of those contracts in the amount of US\$16,758, equivalent to ¢10,166,665, resulting in a net position of US\$14,656, equivalent to ¢8,891,690.

For valuation purposes of the aforementioned interest rate swaps, the Bank decided to apply the fair value hedge method, while the dollar offset method is used to test hedge effectiveness. The latter method was defined by SUGEF and prescribes that effectiveness is to be assessed retrospectively. A hedge is considered highly effective if the ratio of the changes in the derivative and primary instruments ranges between 80% and 125%.

As of September 30, the effectiveness of the valuation of derivative financial instruments is as follows:

	September 2020
10-year issue (maturing in 2023)	94.58%
5-year issue (maturing in 2021)	101.40%

As of September 30, 2020, a valuation was performed to calculate the change in the fair value of the primary and derivative instruments based on the following inputs:

- a 5- or 10-year LIBOR rate at the issue of the bond
- discount rates from Bloomberg
- zero rates corresponding to the swap curve as of September 30, 2020
- only a portion of the bond cash flows is hedged (corresponding to the 5- and 10-year LIBOR rates in effect at the issue of the bond) rather than the total interest amount
- accrued and earned interest were segregated from the instruments to obtain variations in clean prices
- forward rate to calculate variable interest.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of September 30, 2020, standardized futures contracts are negotiated as part of the management of the financial derivatives portfolio. The Bank booked a notional amount of US\$12.6 million (equivalent to ¢7,644,168,000) for the sale and purchase of these futures contracts.

✓ 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.

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

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

	September 2020
Gain on derivative financial instruments	¢ 18,739,792,772
Loss on derivative financial instruments	(3,607,826,713)
Net gain	¢ <u>15,131,966,059</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(10) Loan portfolio

(a) Loan portfolio by sector

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

	<u>September 2020</u>
Trade	¢ 356,544,318,046
Services	876,201,071,463
Financial services	92,066,007,927
Mining	702,249,263
Manufacturing and quarrying	152,288,266,976
Construction	97,601,935,746
Agriculture and forestry	106,050,904,926
Livestock, hunting and fishing	74,420,132,073
Electricity, water, sanitation and other related sectors	483,889,847,082
Transportation and telecommunications	46,026,664,273
Housing	1,310,199,174,336
Personal or consumer loans	524,419,882,415
Tourism	196,007,308,267
	<u>4,316,417,762,793</u>
Direct incremental costs related to loans	3,836,314,971
(Deferred income from loan portfolio)	(32,679,657,179)
Accrued interest receivable	102,600,614,875
Allowance for loan losses	(149,494,393,642)
	<u>¢ 4,240,680,641,818</u>

Annual interest rates on loans receivable are as follows:

	<u>September 2020</u>	
<u>Currency</u>	<u>Rates</u>	<u>Average (1)</u>
Colones	2.00% to 45.00%	13.79%
US dollars	0.29% to 31.50%	7.61%
DU	3.85% to 10.00%	5.67%

(1) Simple average of the minimum and maximum values of the portfolio as of September 30, 2020.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(b) Loan portfolio by arrears

As of September 30, 2020, the loan portfolio by arrears is as follows:

	<u>September 2020</u>
Current	¢ 3,966,099,395,374
1 to 30 days	121,003,730,810
31 to 60 days	55,162,037,846
61 to 90 days	30,165,594,493
91 to 120 days	7,065,790,745
121 to 180 days	6,501,580,709
More than 180 days	<u>130,419,632,816</u>
	4,316,417,762,793
Direct incremental costs related to loans	3,836,314,971
(Deferred income from loan portfolio)	(32,679,657,179)
Accrued interest receivable	102,600,614,875
Allowance for loan losses	<u>(149,494,393,642)</u>
	<u>¢ 4,240,680,641,818</u>

(c) Allowance for loan losses

For the nine months ended September 30, movement in the allowance for loan losses is as follows:

	<u>September 2020</u>
Opening balance	¢ 118,507,110,835
Allowance expense for the year (Note 37)	55,378,014,676
Write-offs	(27,024,423,868)
Decrease in allowance	147,982,736
Foreign exchange differences	<u>2,485,709,263</u>
Closing balance	<u>¢ 149,494,393,642</u>

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(11) Accounts and fees and commissions receivable

As of September 30, accounts and fees and commissions receivable are as follows:

	<u>September 2020</u>
Fees and commissions	¢ 1,488,566,080
Accounts due from employees	65,199,005
Deferred tax (Note 19-b)	1,354,292,259
Income tax receivable (1)	219,983,768
Value-added tax	10,712,696
Sundry accounts receivable for credit cards	185,793,079
Other expenses to be recovered	22,026,349
Credit fraud	748,936,955
Misappropriation and theft	1,696,635,400
Information theft	216,950,932
Data entry, maintenance or uploading errors	213,633,279
Other accounts receivable	1,211,592,877
Accrued interest receivable on other sundry accounts receivable	9,363,276
Allowance for impairment of accounts receivable	(4,384,402,993)
	¢ <u>3,059,282,962</u>

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

	<u>September 2020</u>
Banco Nacional de Costa Rica	¢ 98,714,970
BN Vital Operadora de Planes de Pensiones Complementarias, S.A.	63,128
BN Sociedad Corredora de Seguros, S.A.	121,205,670
	¢ <u>219,983,768</u>

For the nine months ended September 30, movement in the allowance for impairment of other accounts receivable is as follows:

	<u>September 2020</u>
Opening balance	¢ 4,439,440,280
Allowance expense (Note 37)	857,321,127
Decrease in allowance (Note 38)	(521,645,188)
Items settled against allowance	(404,782,704)
Foreign exchange differences	14,069,478
Closing balance	¢ <u>4,384,402,993</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(12) Foreclosed assets

As of September 30, foreclosed assets are presented net of the allowance for impairment as follows:

		<u>September 2020</u>
Assets acquired in lieu of payment	¢	104,039,256,082
Idle property and equipment		55,884,629
Allowance for impairment		<u>(69,877,830,781)</u>
	¢	<u><u>34,217,309,930</u></u>

For the nine months ended September 30, movement in the allowance for impairment of foreclosed assets is as follows:

		<u>September 2020</u>
Opening balance	¢	59,100,375,778
Allowance expense (Note 41)		8,396,912,289
Sale or disposal of foreclosed assets		4,618,035,305
Decrease in allowance		<u>(2,237,492,591)</u>
Closing balance	¢	<u><u>69,877,830,781</u></u>

(13) Investments in other companies

As of September 30, investments in other companies are as follows:

		<u>September 2020</u>
Other financial and non-financial entities (1)	¢	50,623,300
Banco Internacional de Costa Rica, S.A. and subsidiary (BICSA) (2)		<u>71,219,437,349</u>
	¢	<u><u>71,270,060,649</u></u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(1) As of September 30, the Bank's investments in other entities are as follows:

	<u>September 2020</u>
Investment to operate as custodian of electronic securities:	
Bolsa Nacional de Valores	¢ 15,000,000
Central de Valores de la Bolsa Nacional de Valores, S.A.	15,000,000
Interclear Central de Valores	15,000,000
Depósito Libre Comercial Golfito (Golfito Duty Free Shopping Center) per Article 24 of Law 7131	5,200,000
Other financial entities (cooperatives)	<u>423,300</u>
	¢ <u><u>50,623,300</u></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

(14) Property and equipment, net

a) Historical cost and depreciation

As of September 30, the historical cost and depreciation of property and equipment is as follows:

		September 2020					
		Land	Buildings	Furniture and equipment	Computer hardware	Vehicles	Total
<u>Cost:</u>							
Historical cost at beginning of period	¢	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 period		49,385,684,604	65,580,690,062	(9,833,908)	(33,717,530)	-	114,922,823,228
Additions		-	320,773,180	4,845,341,751	2,241,402,585	-	7,407,517,516
Revaluation		(11,176,383)	-	(147,690,744)	(302,625,348)	-	(461,492,475)
Disposals		-	-	(3,055,572,836)	(3,973,354,626)	(1,370,000)	(7,030,297,462)
Adjustments		-	(43,371,785)	(105,964,747)	(7,168,583)	-	(156,505,115)
Reclassifications		-	-	(40,827,590)	46,470,753	(5,643,163)	-
Balance at end of period		53,655,657,898	136,160,975,471	65,892,502,070	50,619,717,718	350,209,043	306,679,062,200
<u>Accumulated depreciation:</u>							
Balance at beginning of period		-	46,650,108,387	39,746,312,102	40,158,922,648	238,523,705	126,793,866,842
Depreciation expense on historical cost		-	1,201,825,526	4,767,948,256	4,120,061,921	19,929,308	10,109,765,011
Depreciation expense on revalued cost		-	741,251,716	-	-	-	741,251,716
Disposals		-	-	(2,988,711,957)	(4,100,395,976)	(1,370,000)	(7,090,477,933)
Adjustments		-	(472,481,962)	(71,950,289)	(7,168,586)	-	(551,600,837)
Reclassifications		-	-	(3,875,355)	3,923,283	(47,928)	-
Balance at end of period	¢	-	48,120,703,667	41,449,722,757	40,175,343,290	257,035,085	130,002,804,799
Net balance at end of period	¢	53,655,657,898	88,040,271,804	24,442,779,313	10,444,374,428	93,173,958	176,676,257,401

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

b) Right of use

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

	September 2020		
	ROU - Buildings	ROU - Vehicles	Total
<u>Cost:</u>			
Additions	42,687,718,037	277,254,296	42,964,972,333
Balance at end of period	42,687,718,037	277,254,296	42,964,972,333
<u>Accumulated depreciation:</u>			
Balance at beginning of period	82,823,437	-	82,823,437
Effect of the implementation of IFRS	3,046,732,987	97,203,330	3,143,936,317
Depreciation expense on historical cost	2,522,041,232	71,767,662	2,593,808,894
Balance at end of period	5,651,597,656	168,970,992	5,820,568,648
Net balances, at end of period	37,036,120,381	108,283,304	37,144,403,685

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## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

(15) Other assets

As of September 30, other assets are as follows:

	<u>September 2020</u>
<i><u>Deferred charges:</u></i>	
Leasehold improvements (1)	¢ 161,898,938
Cost of issue of financial instruments, net (2)	484,664,508
Cost of subordinated debt project	237,945,917
Other deferred charges	46,178,181,398
	<u>47,062,690,761</u>
<i><u>Intangible assets:</u></i>	
Software (3)	5,174,657,361
Other intangible assets (3)	3,872,091
	<u>5,178,529,452</u>
<i><u>Other assets:</u></i>	
Prepaid taxes	10,231,558,415
Prepaid insurance policy	210,051,998
Other prepaid expenses	3,726,693,630
Stationery, office supplies and other materials	1,129,894,194
Leased assets	121,858,271
Library and artwork	429,918,818
Construction work-in-progress	1,133,098,893
Payments to welfare and trade associations	600,000
Other sundry assets	452,261,554
Operations pending settlement	5,246,356,908
Other operations pending application	240,801,132
Security deposits (Note 5)	525,411,159
Legal and administrative deposits (Note 5)	284,447,168
	<u>23,732,952,140</u>
	¢ <u>75,974,172,353</u>

- (1) As of September 30, 2020, the expense for amortization of leasehold improvements amounts to ¢193,033,878.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(2) As of September 30, costs related to the issue of financial instruments are as follows:

	September 2020			Total
	5-year issue (maturing in 2018)	10-year issue (maturing in 2023)	5-year issue (maturing in 2021)	
Commission - structuring banks	¢ 303,340,000	303,340,000	515,678,000	1,122,358,000
Commission - Moody's Investors Service	151,670,000	151,670,000	-	303,340,000
Commission - Société de la Bourse de Luxembourg, S.A.	7,414,238	7,414,236	-	14,828,474
RR Donnelley	6,641,326	6,641,302	3,975,741	17,258,369
BNY Mellon	2,398,206	2,398,206	3,498,724	8,295,136
Moody's - issuer rating	20,081,108	20,081,108	151,670,000	191,832,216
Fitch Ratings	151,670,000	151,670,000	151,670,000	455,010,000
Milbank	89,279,029	89,279,029	119,528,464	298,086,522
Shearman & Sterling	89,394,905	89,394,905	132,980,677	311,770,487
External audit	115,269,200	115,269,200	140,749,760	371,288,160
Perkins Cole (Broker)	-	-	7,957,852	7,957,852
Printing of documents	-	-	9,594,546	9,594,546
	<u>937,158,012</u>	<u>937,157,986</u>	<u>1,237,303,764</u>	<u>3,111,619,762</u>
Amortization	<u>(937,158,012)</u>	<u>(582,282,630)</u>	<u>(1,107,514,609)</u>	<u>(2,626,955,254)</u>
	<u>¢ -</u>	<u>354,875,355</u>	<u>129,789,152</u>	<u>484,664,508</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) As of September 30, intangible assets, net, are as follows:

		September 2020		
		Software	Other intangible assets	Total
<u>Cost:</u>				
Opening balance	¢	32,758,659,684	44,965,618	32,803,625,302
Additions		1,260,949,284	11,616,274	1,272,565,558
Disposals		(994,466,628)	-	(994,466,628)
Reclassifications		(1,659,291)	(10,614,242)	(12,273,533)
Adjustments		(125,998,552)	-	(125,998,552)
Closing balance		<u>32,897,484,497</u>	<u>45,967,650</u>	<u>32,943,452,147</u>
<u>Accumulated amortization:</u>				
Opening balance		25,835,625,309	42,095,559	25,877,720,868
Expense for the period		2,927,058,351	10,614,242	2,937,672,593
Disposals		(977,521,216)	-	(977,521,216)
Reclassifications		1,889,740	(10,614,242)	(8,724,502)
Adjustments		(64,225,048)	-	(64,225,048)
Closing balance		<u>27,722,827,136</u>	<u>42,095,559</u>	<u>27,764,922,695</u>
Net closing balance	¢	<u>5,174,657,361</u>	<u>3,872,091</u>	<u>5,178,529,452</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(16) Obligations with the public

As of September 30, obligations with the public by cumulative amount are as follows:

	<u>September 2020</u>
<i><u>Demand deposits:</u></i>	
Checking accounts	¢ 1,825,069,121,766
Certified checks	92,050,927
Savings deposits	1,619,729,533,663
Matured term deposits	27,185,834,873
Other demand deposits	134,295,416
Drafts and transfers payable	547,577,109
Cashier's checks	3,086,790,851
Advance collections from customers for credit cards	10,961,287,744
Banking mandates	1,133,876,618
Trust fund obligations	93,418,494
	<u>3,488,033,787,461</u>
<i><u>Term deposits:</u></i>	
Deposits from the public	1,918,587,143,191
Other term deposits	129,362,862,541
	<u>2,047,950,005,732</u>
Obligations with third parties for tri-party repurchase agreements	14,219,737,164
Finance charges payable	37,953,674,649
	<u>¢ 5,588,157,205,006</u>

As of September 30, 2020, deposits in checking accounts in colones bear interest at a maximum rate of 1.80% per annum on full balances and at a minimum rate of 0.00% per annum on balances greater than or equal to ¢500,001. Deposits in checking accounts in US dollars bear interest at a maximum rate of 0.45% per annum on full balances and at a minimum rate of 0.40% per annum on balances greater than or equal to US\$1,000.

(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 September 30, term certificates bear annual interest at the following rates:

<u>Currency</u>	<u>September 2020</u>
Colones	1.25% to 6.75%
US dollars	0.20% to 3.90%

The Bank has term certificates of deposit that are restricted to secure certain loan operations.

As of September 30, 2020, the balance of those term certificates of deposit is ¢80,863,712,167. As of that date, the Bank has no inactive deposits with State-owned entities or other banks.

(17) Obligations with BCCR

As of September 30, obligations with BCCR are as follows:

	<u>September 2020</u>
Financing for loans using external funds (1)	¢ <u>125,644,412</u>
	¢ <u>125,644,412</u>

(1) 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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(18) Obligations with financial entities

As of September 30, obligations with financial entities are as follows:

	<u>September 2020</u>
<i><u>Demand:</u></i>	
Checking accounts with local financial entities	¢ 79,725,915,957
Savings deposits with local financial entities	35,089,424
Outstanding checks	2,180,609,703
Matured term deposits	2,653,590
Current accounts and obligations with related parties	<u>1,253,183,952</u>
	<u>83,197,452,626</u>
<i><u>Term:</u></i>	
Term deposits with local financial entities	78,202,763,270
Term obligations with foreign financial entities (1)	394,888,900,216
Liquidity market obligations	25,073,480,000
Loans from local financial entities (2)	30,701,720,820
Loans from foreign financial entities (2)(3)	136,839,222,056
Obligations for right of use – leased assets received	39,771,159,796
Obligations with related financial entities	600,000,000
Obligations with resources from the Development Credit Fund (FOCREDE)	<u>170,381,740,130</u>
	<u>876,458,986,288</u>
(Deferred tax and fees and commissions on own portfolio)	<u>(39,984,750)</u>
	<u>(39,984,750)</u>
Charges payable on other demand and term obligations with financial entities - foreign currency	44,326,122
Charges payable on other demand and term obligations with financial entities - local currency	411,474,229
Charges payable on loans with foreign financial entities (2)(3)	1,946,610,254
Charges payable on loans with local financial entities (2)	64,514,353
Charges payable on term deposits with foreign financial entities (1)	<u>9,848,636,509</u>
	<u>12,315,561,467</u>
	<u>¢ 971,932,015,631</u>

(Continued)



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(1) 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>

As of September 30, balances according to the term of the obligations are as follows:

	September 2020		
	10-year issue (Maturing in 2023)	5-year issue (Maturing in 2021)	Total
Issue	¢ 192,408,730,123	187,589,921,164	379,998,651,287
Adjustment to fair value of hedged item measured at cost of international issues	14,052,579,049	(785,999,180)	13,266,579,869
Amortization of discount in traded amount of issues	1,108,371,442	515,297,618	1,623,669,060
	207,569,680,614	187,319,219,602	394,888,900,216
Finance charges payable	5,057,578,380	4,791,058,129	9,848,636,509
	¢ 212,627,258,994	192,110,277,731	404,737,536,725

(2) As of September 30, the maturity of loans and term obligations payable with financial entities is as follows

	September 2020		
	Local	Foreign	Total
Less than 1 year	¢ -	19,382,068,444	19,382,068,444
1 to 2 years	-	30,505,855,493	30,505,855,493
3 to 5 years	-	42,388,302,871	42,388,302,871
More than 5 years	30,891,879,585	46,509,605,500	77,401,485,085
	¢ 30,891,879,585	138,785,832,308	169,677,711,893

(3) Loans due to foreign financial entities bear interest at rates ranging between 2.16% and 6.65% per annum.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(19) Income tax

Pursuant to the *Costa Rican Income Tax Law*, the Bank is required to file income tax returns each period. As of September 30, income tax is as follows:

a) Income tax for the current period

For the nine months ended September 30, the income tax expense is as follows:

	<u>September 2020</u>
<u>Income tax expense</u>	
Current tax expense for the period	¢ 12,904,390,947
Prior-period income tax expense	10,695,457,037
	<u>23,599,847,984</u>
<u>Deferred tax:</u>	
Deferred tax expense	593,276,918
Deferred tax income	<u>(1,367,060,175)</u>
Total deferred tax expense, net	<u>(773,783,257)</u>
Total income tax expense, net	¢ <u>22,826,064,727</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the nine months ended September 30, the difference between the income tax expense and the amount that would result from applying the corresponding tax rate to pre-tax income (30%) is reconciled as follows:

	<u>September 2020</u>
Profit before tax	¢ 42,641,492,717
<i>Plus (less) tax effect of:</i>	
Non-deductible expenses	10,071,555,963
Deductible expenses	(2,679,328,435)
Non-taxable income	<u>(7,019,083,778)</u>
Tax base	<u>43,014,636,467</u>
Tax rate	<u>30%</u>
Subtotal income tax expense	12,904,390,947
 Prior-year income tax expense	 <u>10,695,457,037</u>
Subtotal prior-period income tax expense	<u>10,695,457,037</u>
 Deferred tax expense	 593,276,918
Deferred tax income	<u>(1,367,060,175)</u>
Subtotal deferred tax expense	<u>(773,783,257)</u>
Income tax expense, net	¢ <u><u>22,826,064,727</u></u>

b) Deferred tax

As of September 30, deferred tax assets and liabilities are as follows:

	<u>As of September 30, 2020</u>		
	<u>Assets</u>	<u>Liabilities</u>	<u>Net</u>
Unrealized losses on			
valuation of investments	¢ 310,287,599	-	310,287,599
Provisions	272,964,939	-	272,964,939
Right of use	771,039,721	-	771,039,721
Unrealized gains on			
valuation of investments	-	(3,850,042,510)	(3,850,042,510)
Revaluation of assets	-	(9,091,489,508)	(9,091,489,508)
	¢ <u><u>1,354,292,259</u></u>	<u><u>(12,941,532,018)</u></u>	<u><u>(11,587,239,759)</u></u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of September 30, deferred tax assets and liabilities are as follows:

	December 31, 2019	Included in the income statement	Included in equity	September 30, 2020
Unrealized losses on valuation of investments	¢ 1,049,189,321	-	(738,901,722)	310,287,599
Provisions	198,437,376	74,527,563	-	272,964,939
Right of use	-	-	771,039,721	771,039,721
Unrealized gains on valuation of investments	(4,547,196,438)	84,435,136	612,718,792	(3,850,042,510)
Revaluation of assets	(9,506,392,781)	-	414,903,273	(9,091,489,508)
	¢ <u>(12,805,962,522)</u>	<u>158,962,699</u>	<u>1,059,760,064</u>	<u>(11,587,239,759)</u>

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

As of September 30, 2020, the Bank did not recognize a deferred tax liability in the amount of ¢5,969,925,169, given that it controls the moment when the subsidiaries pay dividends.

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

(20) Provisions

As of September 30, provisions are as follows:

	September 2020
Severance benefits	¢ 337,934,402
Litigation	6,832,006,720
Checking and savings accounts liquidated	750,213,715
Manager commissions	15,589,565,546
Variation in RIVM methodology	490,003,103
Notice of deficiency	3,247,644,207
Other	420,392,201
	¢ <u>27,667,759,894</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the nine months ended September 30, movement in provisions is as follows:

	Severance benefits	Litigation	Other	Total
Balance as of December 31, 2019	¢ 462,095,363	6,366,395,778	19,521,990,414	26,350,481,555
Increase in provision	76,500,033	629,223,041	4,839,741,294	5,545,464,368
Used	19,998,080	1,097,069,802	1,840,398,936	2,957,466,818
Decrease in provision	(220,659,074)	(1,260,681,901)	(5,704,311,872)	(7,185,652,847)
Balance as of September 30, 2020	¢ 337,934,402	6,832,006,720	20,497,818,772	27,667,759,894

As of September 30, the Bank and its subsidiaries are defendants in pending litigations and management considers that an outflow of economic benefits will be required to settle the corresponding obligations. The Bank and its subsidiaries have estimated future outflows and made the following provisions:

Type	September 2020 Claimed amount	September 2020 Provision
Ordinary - in colones	¢ 18,820,060,685	4,137,377,312
Ordinary - in US dollars	130,328,782,799	2,125,876,492
Criminal - in colones	1,020,877,223	-
Labor - in colones	879,064,573	568,752,916
	¢ 151,048,785,280	6,832,006,720

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(21) Other sundry accounts payable

As of September 30, other sundry accounts payable are as follows:

	September 2020
Professional fees	¢ 1,246,702
Creditors - goods and services	5,608,720,547
Income tax	12,904,390,947
Value-added tax	219,759,679
Employer contributions	6,726,181,892
Court-ordered withholdings	3,714,919,271
Tax withholdings	2,089,569,042
Employee withholdings	697,637,019
Other third-party withholdings	334,276,468
Compensation	8,003,427,899
Statutory allocations	9,079,258,541
Obligations on loans with related parties	171,342
Clearing house operations	226,035,252
Accrued vacation	5,195,584,726
Accrued statutory Christmas bonus	6,379,844,826
Contributions to the Superintendencies' budget	4,997,897
Foreclosed assets	627,854,890
Temporary deposits for the payment of premiums	2,816,446,047
Direct contracts with the Government Purchases department - various	1,014,394,217
Accounts due to customers (1)	12,232,557
Merlink guarantees	1,356,195,215
Fees due to international organizations	1,031,625,000
Amounts received for partial sales of foreclosed assets	526,620,517
Master Card and Visa payments	1,188,597,058
Various creditors	1,933,264,802
Interest rate futures - Hedges (Note 9)	10,166,665
	¢ <u>71,703,419,018</u>

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(22) Other liabilities

As of September 30, other liabilities are as follows:

	<u>September 2020</u>
<i>Deferred income:</i>	
Deferred fees and commissions for trust management	¢ 44,978,655
	<u>44,978,655</u>
<i>Operations pending application:</i>	
Operations pending settlement	3,551,686,572
Other operations pending application	17,838,444,398
	<u>21,390,130,970</u>
	¢ <u>21,435,109,625</u>

(23) Subordinated obligations

As of September 30, the Bank's subordinated obligations are as follows:

<u>Annual interest rate</u>	<u>Term</u>	<u>Maturity</u>		<u>September 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\$	70,000,000
6-month LIBOR + 5.25% in the first 5 years, and 6-month LIBOR + 5.75% thereafter	15 years	10/23/2029		<u>27,750,000</u>
			US\$	<u>97,750,000</u>
Total equivalent in colones			¢	59,302,970,000
Finance charges payable				<u>482,656,923</u>
			¢	<u>59,785,626,923</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(24) Equity

(a) Share capital

As of September 30, the Bank's share capital is as follows:

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

(b) Capital reserves

Capital reserves are as follows:

		<u>September 2020</u>
Legal reserve	¢	359,234,692,230
Statutory reserve for foreclosed assets		1,452,386,315
Excess of statutory reserve for loans		6,431,669,480
Statutory dynamic provision		<u>11,121,853,863</u>
	¢	<u>378,240,601,888</u>

(c) Equity of the Development Financing Fund

As of September 30, 2020, the allocation of the Bank's earnings to the Development Financing Fund (FOFIDE) amounts to ¢39,043,365,123.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(25) Commitments and contingencies

The Bank has off-balance sheet commitments and contingencies that arise in the normal course of business and involve elements of credit and liquidity risk. As of September 30, the notional amounts of foreign exchange derivatives are as follows:

	September 2020
Performance bonds	¢ 39,846,651,798
Bid bonds	4,381,721,267
Other guarantees	682,376,780
Letters of credit	2,528,598,430
Credits pending disbursement	129,763,782
	<u>47,569,112,057</u>
Pre-approved lines of credit	275,243,899,210
Other contingencies not related to credits	92,897,700
Other contingencies - Pending litigation and lawsuits (Note 46)	150,984,161,844
Subtotal	<u>426,320,958,754</u>
	¢ <u>473,890,070,811</u>

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

(26) Trust assets (unaudited)

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of September 30, 2020, trust capital is invested in the following assets (unaudited):

Nature of trust	Cash or property management	Securitization	Portfolio management	Guaranty	Testamentary	Custody of stock with testamentary clause	Custody of stock and cash management	Guaranties and cash management	Custody of stock	Management, custody and guaranty	Guaranty and custody of stock	Total
<u>Trust assets</u>												
Cash and due from banks	¢ 161,822,171	11,872,653	20,620,878	-	1,197	-	-	146,236,553	-	-	-	340,553,452
Investments in financial instruments	262,970,728,307	13,611,852,426	548,391,407	1,146,710,350,059	3,848,972,694	-	2,464,592	97,356,251	-	29,052,286	611,015	1,427,819,779,037
Loan portfolio	3,336,674,783	-	1,388,617,101	-	-	-	-	-	-	-	-	4,725,291,884
Accounts and accrued interest receivable	109,560,972,208	28,648,934,252	1,811,500,810	46,374,557	-	-	-	140,834,978	-	-	-	140,208,616,805
Foreclosed assets	159,364,202	-	11,243,701	-	-	-	-	-	-	-	-	170,607,903
Investment in other companies	-	-	-	200,000,000	3,380,668	176,000	-	-	36,000	-	4,740,000	208,332,668
Property and equipment	796,024,388	42,163,923,978	-	117,645,184,541	471,723,053	-	-	8,719,375,327	-	-	1,738,460,805	171,534,692,092
Other assets	28,736,575,008	17,019,467,828	-	235,000,000	3,936,466	-	-	-	-	-	1,674,505,286	47,669,484,588
¢	405,722,161,067	101,456,051,137	3,780,373,897	1,264,836,909,157	4,328,014,078	176,000	2,464,592	9,103,803,109	36,000	29,052,286	3,418,317,106	1,792,677,358,429

(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 guarantee for loan operations per the instructions of the trustor.

g) Testamentary

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

h) Custody of stock with testamentary clause

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(27) Other debit memoranda accounts

As of September 30, other debit memoranda accounts are as follows:

	<u>September 2020</u>
Pension Fund Manager's own investments in custody – Face value of principal (unaudited)	¢ 9,667,480,800
Pension Fund Manager's own investments in custody – Coupons (unaudited)	4,304,126,941
Pension Fund Manager's own investments in custody – Number of shares (unaudited)	23
Guarantees received in the Bank's custody	188,088,897
Other guarantees received in the Bank's custody	5,606,595,428,561
Lines of credit granted but unused	387,839,260,873
Loans pending disbursement	166,807,520,998
Investments settled	147,296,559
Loans settled	333,755,235,996
Other accounts receivable settled	14,904,032,822
Accrued interest receivable settled	30,501,980,861
Interest income on non-accrual loans of loan portfolio	28,947,758,705
Supporting documentation received in the Bank's custody	1,552
Securities issued pending placement	6,248,000,000
Lines of credit or overdrafts obtained but unused	6,066,800,002
Notified letters of credit	4,795,962,933
Notional value subject to interest rate futures (Note 9)	390,047,312,280
Reversals made to income accounts for the year	30,789,263,983
Reversals made to expense accounts for the year	52,976,645,521
Non-deductible expenses	76,710,515,077
Non-taxable income	87,270,366,858
Other memoranda accounts	213,073,653,197
	<u>7,451,636,733,439</u>
Third-party debit memoranda accounts (1)	3,914,501,931,374
Own debit memoranda accounts for custodial activities	749,762,463,027
Third-party debit memoranda accounts for custodial activities	12,949,604,375,927
	<u>17,613,868,770,328</u>
	¢ <u>25,065,505,503,767</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(1) As of September 30, third-party debit memoranda accounts are as follows:

	<u>September 2020</u>
Management of banking mandates	¢ 1,435,857,018,720
“TUDES” securities received in custody from affiliates under Article 75 of Law No. 7531	574,437,246
Pension funds (Note 30)	1,803,040,280,662
Investment funds (Note 29)	579,123,912,616
Portfolio management	95,906,282,130
	¢ <u>3,914,501,931,374</u>

As of September 30, other memoranda accounts by entity are as follows:

	<u>September 2020</u>
Banco Nacional de Costa Rica	¢ 21,429,892,596,093
BN Valores Puesto de Bolsa, S.A. (Note 28)	1,238,713,155,052
BN Sociedad Administradora de Fondos de Inversión, S.A. (Note 29)	579,173,702,782
BN Vital Operadora de Planes de Pensiones Complementarias, S.A. (Note 30)	1,817,726,049,840
	¢ <u>25,065,505,503,767</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

As of September 30, memoranda accounts for brokerage operations are summarized as follows:

	<u>September 2020</u>
<i><u>Own</u></i>	
Confirmed cash agreements pending settlement	¢ 750,898,156
Repurchase agreements pending settlement	39,386,200,512
Trading securities	18,890,009,752
Other own memoranda accounts	6,082,786,334
	<u>65,109,894,754</u>
<i><u>Third party</u></i>	
Trading securities received as guarantees	26,862,439,001
Trading securities pending receipt	623,636,766
Signed contracts pending settlement	3,259,734,970
Futures contracts pending settlement	84,809,947,298
Third-party trading securities	960,160,728,591
Cash and accounts receivable	1,980,491,542
Portfolio management	95,906,282,130
	<u>1,173,603,260,298</u>
Memoranda accounts (Note 27)	¢ <u><u>1,238,713,155,052</u></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) As of September 30, securities held in custody are as follows:

Location	Type of custody	September 2020
<i><u>Own custodial activities</u></i>		
Local	CEVAL - private	¢ 16,279,235,319
Local	CEVAL - public	2,595,774,431
Local	Vault	15,000,002
		<u>18,890,009,752</u>
<i><u>Custodial activities on behalf of third parties</u></i>		
Local	CEVAL - private	165,879,862,649
Foreign	CEVAL - private	43,792,794,732
Local	CEVAL - public	727,851,789,812
Foreign	International custody	22,213,423,733
Local	Vault	8,024,829
Local- Foreign	Securities that are doubtful, in arrears or in litigation	414,832,836
		<u>960,160,728,591</u>
		¢ <u>979,050,738,343</u>

(Continued)



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

September 2020								
	Term buyer				Term seller			
	Colones	US dollars	US dollars expressed in colones	Total	Colones	US dollars	US dollars expressed in colones	Total
Own	18,424,929,931	34,550,786	20,961,270,581	39,386,200,512	-	-	-	-
Third parties	11,025,234,574	84,897,838	51,505,820,181	62,531,054,755	6,509,057,904	25,993,662	15,769,834,639	22,278,892,543
	<u>29,450,164,505</u>	<u>119,448,624</u>	<u>72,467,090,762</u>	<u>101,917,255,267</u>	<u>6,509,057,904</u>	<u>25,993,662</u>	<u>15,769,834,639</u>	<u>22,278,892,543</u>

As of September 30, 2020, term buyer and seller positions in tri-party repurchase agreements in US dollars were valued at the exchange rate of ¢606.68 to US\$1.00.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

		September 2020			
		Term buyer		Term seller	
		Colones	US dollars	Colones	US dollars
<i><u>Own</u></i>					
1 to 30 days	¢	4,004,231,250	-	-	-
31 to 60 days		14,420,698,681	13,521,776	-	-
61 to 90 days		-	20,029,959	-	-
More than 91 days		-	999,051	-	-
		<u>18,424,929,931</u>	<u>34,550,786</u>	<u>-</u>	<u>-</u>
<i><u>Third-party</u></i>					
1 to 30 days		184,415,720	3,566,405	184,415,720	1,797,281
31 to 60 days		4,134,400,540	20,644,514	441,150,492	2,332,294
61 to 90 days		5,486,610,777	60,282,486	4,663,684,156	21,459,654
More than 91 days		1,219,807,537	404,433	1,219,807,536	404,433
		<u>11,025,234,574</u>	<u>84,897,838</u>	<u>6,509,057,904</u>	<u>25,993,662</u>
	¢	<u>29,450,164,505</u>	<u>119,448,624</u>	<u>6,509,057,904</u>	<u>25,993,662</u>

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(29) Investment fund management agreements

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

	September 2020		
Fund	Net value	Shares	Value per share
<i>Funds in colones:</i>			
Súper Fondo colones	¢ 149,510,710,073	34,072,917,008	4.40
Fon Depósito colones	59,629,316,519	37,586,575,952	1.59
Creci Fondo colones	4,560,453,469	736,595,091	6.19
Redi Fondo colones	27,224,048,884	6,165,467,316	4.42
Diner Fondo colones	71,249,615,649	24,216,596,982	2.95
	¢ <u>312,174,144,594</u>	<u>102,778,152,349</u>	
<i>Funds in US dollars:</i>			
Súper Fondo US dollars	US\$ 16,453,196	10,695,700	1.54
Creci Fondo US dollars	7,661,221	3,725,071	2.06
Redi Fondo US dollars	25,881,611	15,200,960	1.71
Diner Fondo US dollars	110,075,054	81,984,367	1.35
Fon Depósito US dollars	52,576,927	46,050,472	1.14
Súper Fondo Plus US dollars	198,113,971	176,697,916	1.12
BN Infraestructura Pública -1	29,255,440	21,750	1,345.08
	US\$ <u>440,017,420</u>	<u>334,376,236</u>	
	¢ <u>266,949,768,022</u>	<u>202,859,374,856</u>	
Assets of managed funds	¢ <u>579,123,912,616</u>	<u>305,637,527,205</u>	
<i>Guarantees:</i>			
Performance bonds	47,814,862	-	
Outstanding checks	1,975,304	-	
	<u>49,790,166</u>	-	
Memoranda accounts (Note 27)	¢ 579,173,702,782	-	

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

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

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

- *BN CreciFondo dólares No Diversificado* (non-diversified - US dollars): This is an open-end (floating number of outstanding shares) growth fund with a variable income portfolio. Returns on the investment portfolio are not distributed until the customer requests partial or full redemption of shares.
- *BN RediFondo Trimestral - US dólares No Diversificado (quarterly, non-diversified - US dollars)*: This is an open-end (floating number of outstanding shares) income fund with a fixed income portfolio. Returns on the investment portfolio are not distributed until the customer requests partial or full redemption of shares.
- *BN DinerFondo dólares No Diversificado* (non-diversified - US dollars): This is an open-end (floating number of outstanding shares) money market fund with a fixed income portfolio. Returns on the investment portfolio are not distributed until the customer requests partial or full redemption of shares.
- *BN FonDepósito dólares No Diversificado* (non-diversified - US dollars): This is an open-end (floating number of outstanding shares) money market fund with a fixed income portfolio. Returns on the investment portfolio are not distributed until the customer requests partial or full redemption of shares.
- *BN Fondo de Inversión de Titularización Hipotecaria dólares FHIPO- US dólares (mortgage securitization - US dollars)*: This is mainly a closed-end mortgage investment fund, i.e. investor shares are listed and traded on a stock exchange.
- *BN SuperFondo Dólares Plus No Diversificado (US dólares)* (non-diversified - US dollars): This fund is aimed at conservative investors looking for short-term investments. It allows obtaining reimbursement of the shares one business day and up to a maximum of three business days from the date of receipt of the withdrawal request. Since it is a short-term fund, it allows the investor to manage resources to address its present or future liquidity needs. The goal of the fund is to offer an investment mechanism that seeks to obtain higher returns than other investment alternatives under similar liquidity, term and risk parameters, taking advantage of the short-term part of the yield curve in the composition of its portfolio.

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

- *Fondo de Inversión de Desarrollo Inmobiliario BN-1*: (real estate development): This fund invests in the construction of buildings to be occupied by entities of the Banco Nacional Conglomerate (BNCR Conglomerate). Once the works are completed, the buildings will be sold to an entity of the BNCR Conglomerate or a real estate fund managed by BN Fondos and investors thus realize their potential gains. If the buildings are sold to a real estate fund, such fund will lease the buildings to an entity of the BNCR Conglomerate. As of September 30, 2020, this fund does not have operations.
- *Fondo de Inversión de Desarrollo Inmobiliario de Infraestructura Pública – 1*: (real estate development - US dollars): This fund will invest in the construction of buildings to be occupied by the Maximum Deconcentration Organizations and other entities of BCCR. Once the works are completed, the buildings will be leased with a purchase option to BCCR or sold to BCCR or to a real estate fund managed by BN Fondos and investors thus realize their potential gains. If the buildings are sold to a real estate fund, such fund will lease the buildings to BCCR. As of September 30, 2020, this fund does not have operations.
- *BN Internacional Valor (US dollars)*: This is an international, mixed portfolio investment fund, ideal for conservative customers who primarily seek to maintain their capital, even if it entails obtaining returns much lower than those of the market. It is addressed to the investor that would like to invest in a portfolio comprised of debt securities issued by the public or private sector and investment funds. As of September 30, 2020, this fund does not have operations.
- *BN Internacional Suma (US dollars)*: This is an international, mixed portfolio investment fund, addressed to investors with a balanced-risk profile, that is, willing to assume losses in the short- and mid-term to obtain returns higher than those of the market in the mid- and long-term. It is addressed to the investor that would like to invest in a portfolio comprised of debt securities issued by the public or private sector and in variable-return instruments and investment funds. As of September 30, 2020, this fund does not have operations.
- *BN Internacional Crece (US dollars)*: This is a long term, international, mixed portfolio investment fund addressed to investors with an aggressive-risk profile, i.e. willing to assume significant losses while aiming to obtain returns higher than those of the market. It is addressed to the investor that would like to invest in a portfolio comprised of debt securities issued by the public or private sector and in variable-return instruments and investment funds. As of September 30, 2020, this fund does not have operations.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(30) Pension fund management agreements

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

		<u>September 2020</u>
Mandatory Pension Fund (ROP)	¢	1,537,604,930,520
Mandatory Retirement Savings Account (FCL)		119,019,202,758
Voluntary Pension Fund in Colones A (FPC A)		95,150,183,278
Voluntary Pension Fund in Colones B (FPC B)		24,788,193,378
Voluntary Pension Fund in US dollars A (FPD A) (i)		16,384,379,796
Voluntary Pension Fund in US dollars B (FPD B) (ii)		<u>10,093,390,932</u>
Assets of managed funds (Note 27)		<u>1,803,040,280,662</u>
Securities and assets in own custody		13,971,607,764
Bid and performance bonds – colones		35,656,222
Bid and performance bonds – US dollars (iii)		104,067,946
Securities in DU		<u>574,437,246</u>
Memoranda accounts (Note 27)	¢	<u><u>1,817,726,049,840</u></u>
i.	As of September 30, 2020, this fund amounts to US\$27,006,626 and is valued at the exchange rate of ¢606.68 per US\$1.00.	
ii.	As of September 30, 2020, this fund amounts to US\$16,637,092 and is valued at the exchange rate of ¢606.68 per US\$1.00.	
iii.	As of September 30, 2020, this fund amounts to US\$171,537 and is valued at the exchange rate of ¢606.68 per US\$1.00.	

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(31) Finance income from financial instruments

For the nine months ended September 30, finance income from financial instruments is as follows:

	<u>September 2020</u>	<u>Quarter from July 1 to September 30, 2020</u>
<i><u>Cash and due from banks:</u></i>		
Deposits in BCCR	¢ 3,394,188	268,494
Checking accounts and demand deposits in local entities	30,084,504	10,935,421
Checking accounts and demand deposits in foreign entities	<u>2,188,437,120</u>	<u>358,150,921</u>
	<u>2,221,915,812</u>	<u>369,354,836</u>
<i><u>Financial instruments:</u></i>		
Investments in trading securities	1,308,442,238	377,958,839
Investments in available-for-sale securities	30,875,376,422	9,990,355,623
Investments in securities and held-to-maturity deposits	21,853,777,801	6,399,120,098
Investment in securities and restricted deposits	<u>429,206,789</u>	<u>195,056,368</u>
	<u>54,466,803,250</u>	<u>16,962,490,928</u>
	¢ <u><u>56,688,719,062</u></u>	<u><u>17,331,845,764</u></u>

(Continued)



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(32) Finance income from loan portfolio

For the nine months ended September 30, finance income from the loan portfolio is as follows:

	September 2020	Quarter from July 1 to September 30, 2020
<i><u>Current loans:</u></i>		
Individuals	¢ 124,947,456,271	39,342,575,910
Development Banking System	4,403,972,247	1,335,671,603
Business	55,631,483,180	17,417,895,271
Corporate	54,174,016,347	17,747,117,021
Public sector	8,301,739,517	2,629,024,793
Financial sector	5,405,678,191	1,659,959,789
	<u>252,864,345,753</u>	<u>80,132,244,387</u>
<i><u>Past due loans and loans in legal collection:</u></i>		
Individuals	20,147,181,904	7,252,998,562
Development Banking System	544,800,949	181,076,235
Business	9,671,990,728	2,712,911,552
Corporate	2,575,980,214	498,822,426
Public sector	165,038,756	43,966,655
Financial sector	2,926,833	2,036,217
In legal collection	6,968,603,822	2,611,874,283
Amortization of net commission of incremental direct costs related to credits	879,054,792	301,466,955
	<u>40,955,577,998</u>	<u>13,605,152,885</u>
	<u>¢ 293,819,923,751</u>	<u>93,737,397,272</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(33) Other finance income

For the nine months ended September 30, other finance income is as follows:

	September 2020	Quarter from July 1 to September 30, 2020
Fees and commissions on letters of credit	¢ 10,523,130	3,564,782
Fees and commissions on guarantees granted	827,295,217	113,575,902
Gain on sale of financial instruments	99,244,152	99,244,152
Gain on fair value hedge for item measured at cost	9,817,673,826	4,940,868,986
Other sundry finance income	2,604,856,695	642,166,076
	¢ <u>13,359,593,020</u>	<u>5,799,419,898</u>

(34) Finance costs for obligations with the public

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

	September 2020	Quarter from July 1 to September 30, 2020
Demand deposits	¢ 42,164,190,310	13,599,052,555
Term deposits	90,705,026,757	25,460,016,783
Third-party repurchase agreements and securities lending	278,192,403	73,971,606
	¢ <u>133,147,409,470</u>	<u>39,133,040,944</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(35) Finance costs for obligations with financial entities

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

	September 2020	Quarter from July 1 to September 30, 2020
Demand obligations	¢ 1,598,593,819	489,309,050
Term obligations	34,647,476,996	11,233,336,389
	¢ <u>36,246,070,815</u>	<u>11,722,645,439</u>

(36) Other finance costs

For the nine months ended September 30, other finance costs are as follows:

	September 2020	Quarter from July 1 to September 30, 2020
Fees and commissions on letters of credit obtained	¢ 114,849,549	38,881,477
Loss on hedged item measured at cost from fair value hedge on interest rate risk	18,768,771,412	-
Other sundry finance costs	557,388,994	276,652,205
	¢ <u>19,441,009,955</u>	<u>315,533,682</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(37) Expenses for allowance for impairment of assets

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

	September 2020	Quarter from July 1 to September 30, 2020
Allowance for loan losses (Note 10)	¢ 52,343,728,357	17,674,367,417
Allowance for impairment of other accounts receivable (Note 11)	857,321,127	224,232,355
Allowance for stand-by credit losses (Note 22)	401,000,000	-
General and counter-cyclical allowance for loan portfolio (Note 10)	2,579,260,753	530,331,799
General and counter-cyclical allowance for stand-by credit losses (Note 22)	54,025,566	-
Allowance for impairment of investments at fair value through other comprehensive income	330,938,943	1,960,201
Allowance for impairment of financial instruments at amortized cost	383,017,826	33,985,608
Allowance for impairment of operations with derivative financial instruments (Note 8)	76,600,465	16,959,212
Allowance for impairment of past due or restricted financial instruments	62,752	(28,094)
Other expenses for sundry assets	216,985	-
	¢ <u>57,026,172,774</u>	<u>18,481,808,498</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

		<u>September 2020</u>	<u>Quarter from July 1 to September 30, 2020</u>
Recovery of loan write-offs	¢	6,187,731,147	1,940,283,171
Recovery of accounts receivable write-offs		1,148,045	541,588
Decrease in allowance for impairment of other accounts receivable (Note 11)		521,645,188	66,205,247
Decrease in allowance for impairment of investments in financial instruments (Note 8)		450,223,976	67,695,864
	¢	<u>7,160,748,356</u>	<u>2,074,725,870</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(39) Operating income from service fees and commissions

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

	September 2020	Quarter from July 1 to September 30, 2020
Drafts and transfers	¢ 6,448,883,791	2,266,766,972
Certified checks	1,939,396	732,318
Trusts	1,172,677,939	387,690,315
Custodial services	1,327,257,804	418,914,596
Banking mandates	129,827	43,396
Collections	11,052,574	3,107,225
Credit cards	39,976,701,094	12,662,860,305
Management services	2,707,606,798	879,631,291
Management of investment funds	4,952,099,439	1,746,031,439
Management of pension funds	6,631,013,703	2,329,577,852
Insurance underwriting	5,660,071,826	1,834,854,545
Brokerage operations (third parties in local market)	2,284,278,560	815,817,005
Brokerage operations (third parties in other markets)	213,995,717	48,297,281
Transactions with related parties	27,163,151	5,988,117
Commissions charged to other affiliates due to covenants	8,382,435,164	2,800,712,132
Servibanca local interchange	15,778,367,874	5,290,749,592
Other service fees and commissions	5,354,464,504	1,690,466,837
	¢ <u>100,930,139,161</u>	<u>33,182,241,218</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(40) Other operating income

For the nine months ended September 30, other operating income is as follows:

	September 2020	Quarter from July 1 to September 30, 2020
Recovery of expenses	¢ 2,809,318,689	292,387,500
Net valuation of other assets (Note 4)	1,076,859,863	686,949,048
Other income from accounts receivable	2,955,342	309,973
Savings accounts liquidation	103,958,194	-
Administrative charges - VISA	711,516,470	-
Liquidation of term certificate of deposit not claimed	248,334,244	-
Withholdings from vendors	119,742,826	-
Excess cash from human teller	74,891,604	-
Sundry operating income	1,894,202,136	1,330,154,249
Decrease in provisions	7,185,652,847	166,842,883
	¢ <u>14,227,432,215</u>	<u>2,476,643,653</u>

(41) Expenses for foreclosed assets

For the nine months ended September 30, expenses for foreclosed assets are as follows:

	September 2020	Quarter from July 1 to September 30, 2020
Property and other assets acquired in lieu of payment	¢ 69,450,945	8,559,688
Loss on sale of assets awarded in judicial auctions	2,717,794,521	749,850,196
Management of assets received in lieu of payment	13,432,554	3,992,786
Management of assets awarded in judicial auctions	3,337,837,666	1,160,430,710
Loss on impairment of foreclosed assets (Note 12)	37,948,721	8,897,845
Loss on allowance for impairment of foreclosed assets and per legal requirements (Note 12)	8,358,963,568	1,192,202,859
Other expenses for foreclosed assets	29,865,044	23,015,166
	¢ <u>14,565,293,019</u>	<u>3,146,949,250</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(42) Provision expenses

For the nine months ended September 30, provision expenses are as follows:

		September 2020	Quarter from July 1 to September 30, 2020
Severance benefits	¢	76,500,033	17,120,203
Pending litigation		629,223,040	373,372,879
“BN Premios” points program		1,932,421,215	688,348,641
Case of the manager commissions with CCSS		836,629,027	294,672,138
Case of the RIVM contribution		600,920,714	-
Notice of deficiency		1,466,703,475	488,901,158
Other provisions		3,066,864	170,052
	¢	<u>5,545,464,368</u>	<u>1,862,585,071</u>

(43) Other operating expenses

For the nine months ended September 30, other operating expenses are as follows:

		September 2020	Quarter from July 1 to September 30, 2020
Penalties for noncompliance with regulatory legal provisions	¢	5,400	5,400
Net valuation of other liabilities		1,274,699,342	788,605,402
Value-added tax expense		625,794,659	234,410,272
Income tax on foreign remittances		5,050,743	1,709,134
Income tax (8% and 15%) on interest on investments in financial instruments		174,527,792	54,939,385
Property tax		1,036,082,813	596,950,999
Patents		68,696,252	16,904,340
Other local taxes		2,153,686,368	882,733,477
Transfer to FINADE		270,932,670	102,667,994
Amortization of deferred direct costs related to loans		2,424,523,858	810,051,757
Local and international currency exchange		1,225,325,383	263,628,919
Costs of microfinance insurance policies		10,534,816,413	3,017,867,280
Authorization abroad		6,331,376,876	2,139,219,157
Base I and II fund disbursements		7,648,907,266	2,832,148,950
Life insurance policy debit balance		3,794,837,370	1,176,994,175
	¢	<u>37,569,263,205</u>	<u>12,918,836,641</u>

(Continued)



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(44) Personnel expenses

For the nine months ended September 30, personnel expenses are as follows:

	September 2020	Quarter from July 1 to September 30, 2020
Salaries and bonuses, permanent staff	¢ 53,119,530,316	17,725,198,409
Salaries and bonuses, contractors	1,001,048,496	290,431,584
Compensation for directors and statutory examiners	176,988,222	62,070,369
Overtime	414,585,659	91,387,669
Travel expenses	169,700,643	40,973,625
Statutory Christmas bonus	5,427,817,444	1,818,526,639
Vacation	4,303,628,885	1,443,955,210
Incentives	2,148,939,744	678,405,132
Other compensation	2,690,861,435	886,598,701
Severance benefits	3,173,966,822	1,070,474,057
Employer social security taxes	20,448,099,860	6,836,161,744
Refreshments	200,004,236	57,827,059
Uniforms	22,801,867	1,471,293
Training	259,953,535	125,192,184
Employee insurance	173,114,188	140,809,478
Back-to-school bonus	4,636,272,433	1,569,148,805
Mandatory retirement savings account	1,959,919,832	654,387,295
Other personnel expenses	598,111,747	201,854,722
	¢ <u>100,925,345,364</u>	<u>33,694,873,975</u>

(45) Other administrative expenses

For the nine months ended September 30, other administrative expenses are as follows:

	September 2020	Quarter from July 1 to September 30, 2020
Outsourcing	¢ 15,166,593,916	5,145,675,186
Transportation and communications	2,798,111,336	918,225,360
Infrastructure	19,138,326,799	6,246,879,335
Overhead	11,348,391,039	4,336,396,592
	¢ <u>48,451,423,090</u>	<u>16,647,176,473</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(46) Statutory allocations

For the nine months ended September 30, statutory allocations are as follows:

	September 2020	Quarter from July 1 to September 30, 2020
CONAPE 5%	¢ 1,875,283,859	614,082,761
Comisión Nacional de Emergencias 3%	1,279,244,752	421,630,058
INFOCOOP 10%	2,549,621,598	830,560,990
Public capital pension operators	1,067,993,903	312,618,409
RIVM 15%	2,307,114,415	731,685,244
	¢ <u>9,079,258,527</u>	<u>2,910,577,462</u>

(47) Fair value of financial instruments

As of September 30, the carrying amounts and fair values of all financial assets and liabilities that are not carried at fair value are compared in the following table:

	September 2020	
	Carrying amount	Fair value
<i><u>Financial assets:</u></i>		
Cash and due from banks	¢ 1,316,623,469,390	1,316,623,469,390
Loan portfolio	4,390,175,035,460	4,292,708,348,473
	¢ <u>5,706,798,504,850</u>	<u>5,609,331,817,863</u>
<i><u>Financial liabilities:</u></i>		
Demand deposits from the public and financial entities	¢ 3,593,361,963,921	3,593,361,963,921
Other demand obligations with the public	15,822,950,815	15,822,950,815
Term deposits from the public and financial entities	2,924,534,636,432	2,919,688,306,158
Obligations for tri-party repurchase agreements	14,219,737,164	14,219,737,164
	¢ <u>6,547,939,288,332</u>	<u>6,543,092,958,058</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

*Fair value estimates*

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

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

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

- (b) Loan portfolio

The fair value of loans is calculated by discounting future cash flows expected for principal and interest. Loan payments are assumed to be made on the contractually agreed payment dates. Future expected cash flows for loans are discounted at the interest rates offered for similar loans to new borrowers as of September 30, 2020.

- (c) Term deposits

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

- (d) Obligations with entities

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

		September 2020			
		Level 1	Level 2	Level 3	Total
Fair value through other comprehensive income	¢	4,138,816,610	12,089,885,090	4,295,537,072	20,524,238,772
Amortized cost		719,678,954,882	7,890,225,178	-	727,569,180,060
Fair value through profit or loss		727,946,513,416	-	-	727,946,513,416
Derivative financial instruments		-	-	17,247,941,618	17,247,941,618
Term obligations with foreign financial entities		-	-	394,888,900,217	394,888,900,217

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:

		September 2020		
		Available for sale	Derivative financial instruments	Term obligations with foreign financial entities
Opening balance	¢	4,488,288,925	10,742,740,489	489,650,619,452
Valuation		1,537,301,203	5,815,701,312	6,854,467,601
Amortization		-	-	(208,403,383)
Exchange differences		(1,730,053,056)	689,499,817	(101,407,783,454)
Closing balance	¢	4,295,537,072	17,247,941,618	394,888,900,216

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(48) Segments

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

As of September 30, 2020								
	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations	Consolidated
<b>ASSETS</b>								
Cash and due from banks	1,312,429,932,723	3,820,114,947	287,798,520	625,019,878	98,296,289	1,317,261,162,357	637,692,966	1,316,623,469,391
Investments in financial instruments	1,421,801,998,889	58,005,784,909	10,961,872,459	10,222,743,303	6,331,321,172	1,507,323,720,732	12,741,363	1,507,310,979,369
Loan portfolio, net	4,240,680,641,817	-	-	-	-	4,240,680,641,817	-	4,240,680,641,817
Accounts and fees and commissions receivable, net	1,543,749,503	135,223,412	103,831,086	839,076,528	493,968,960	3,115,849,489	56,566,528	3,059,282,961
Fees and commissions	399,982,300	18,896,291	24,089,044	753,385,718	346,777,432	1,543,130,785	54,564,707	1,488,566,078
Transactions with related parties	65,159,701	1,996,000	-	45,126	-	67,200,827	2,001,821	65,199,006
Deferred tax and income tax	1,183,369,027	107,122,939	69,864,985	78,868,134	145,763,638	1,584,988,723	-	1,584,988,723
Other	4,210,890,185	7,208,182	9,877,057	66,165,557	1,427,890	4,295,568,871	-	4,295,568,871
Accrued interest	9,363,276	-	-	-	-	9,363,276	-	9,363,276
Allowance for impairment	(4,325,014,986)	-	-	(59,388,007)	-	(4,384,402,993)	-	(4,384,402,993)
Foreclosed assets, net	34,217,309,929	-	-	-	-	34,217,309,929	-	34,217,309,929
Investments in other companies	117,699,134,841	30,000,000	-	-	-	117,729,134,841	46,459,074,199	71,270,060,642
Property and equipment, net	212,039,180,455	130,552,770	668,809,017	877,980,156	104,138,690	213,820,661,088	-	213,820,661,088
Other assets	72,895,554,090	491,367,568	794,846,664	894,848,102	897,555,929	75,974,172,353	-	75,974,172,353
<b>TOTAL ASSETS</b>	<b>7,413,307,502,247</b>	<b>62,613,043,606</b>	<b>12,817,157,746</b>	<b>13,459,667,967</b>	<b>7,925,281,040</b>	<b>7,510,122,652,607</b>	<b>47,166,075,056</b>	<b>7,462,956,577,550</b>
<b>LIABILITIES AND EQUITY</b>								
<b>LIABILITIES</b>								
Obligations with the public	5,573,900,258,474	14,256,946,531	-	-	-	5,588,157,205,005	-	5,588,157,205,005
Obligations with BCCR	125,644,412	-	-	-	-	125,644,412	-	125,644,412
Obligations with entities	946,486,449,907	25,090,775,756	440,566,295	564,657,998	-	972,582,449,956	650,434,326	971,932,015,630
Demand	83,835,145,591	-	-	-	-	83,835,145,591	637,692,963	83,197,452,628
Term	850,391,681,992	25,073,480,000	440,566,295	564,657,998	-	876,470,386,285	11,400,000	876,458,986,285
(Deferred expenses for own portfolio)	(39,984,750)	-	-	-	-	(39,984,750)	-	(39,984,750)
Finance charges payable	12,299,607,074	17,295,756	-	-	-	12,316,902,830	1,341,363	12,315,561,467
Accounts payable and provisions	104,346,639,266	3,730,522,281	1,609,513,323	2,951,442,076	1,711,651,920	114,349,768,866	56,566,546	114,293,202,320
Other liabilities	21,435,109,628	-	-	-	-	21,435,109,628	3	21,435,109,625
Subordinated obligations	59,785,626,923	-	-	-	-	59,785,626,923	-	59,785,626,923
<b>TOTAL LIABILITIES</b>	<b>6,706,079,728,610</b>	<b>43,078,244,568</b>	<b>2,050,079,618</b>	<b>3,516,100,074</b>	<b>1,711,651,920</b>	<b>6,756,435,804,790</b>	<b>707,000,875</b>	<b>6,755,728,803,915</b>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of September 30, 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	6,006,715,779	369,700,000	188,213,445,881	15,976,415,779	172,237,030,102
Non-capitalized capital contributions	¢ -	-	-	188,209,229	-	188,209,229	188,209,229	-
Equity adjustments	88,610,306,603	582,224,088	203,046,165	(250,343,282)	-	89,145,233,574	534,926,970	88,610,306,604
Capital reserves	378,240,601,888	1,320,000,000	600,000,000	300,000,000	73,940,000	380,534,541,888	2,293,940,000	378,240,601,888
Prior period retained earnings	18,360,300,456	9,010,604,411	5,062,731,381	2,630,992,265	3,195,422,505	38,260,051,018	19,899,750,561	18,360,300,457
Income for the year	10,736,169,465	2,021,970,539	1,901,300,582	1,067,993,904	2,574,566,615	18,302,001,105	7,565,831,644	10,736,169,461
FOFIDE	39,043,365,123	-	-	-	-	39,043,365,123	-	39,043,365,123
TOTAL EQUITY	¢ 707,227,773,637	19,534,799,038	10,767,078,128	9,943,567,895	6,213,629,120	753,686,847,818	46,459,074,183	707,227,773,635
TOTAL LIABILITIES AND EQUITY	¢ 7,413,307,502,247	62,613,043,606	12,817,157,746	13,459,667,969	7,925,281,040	7,510,122,652,608	47,166,075,058	7,462,956,577,550
Debit memoranda accounts	¢ 473,775,052,731	72,315,128	100,000	39,762,952	2,840,000	473,890,070,811	-	473,890,070,811
Trust assets	¢ 1,792,121,518,112	555,840,317	-	-	-	1,792,677,358,429	-	1,792,677,358,429
Trust liabilities	¢ 137,895,684,656	27,770,369	-	-	-	137,923,455,025	-	137,923,455,025
Trust equity	¢ 1,654,225,833,456	528,069,948	-	-	-	1,654,753,903,404	-	1,654,753,903,404
Other debit memoranda accounts	¢ 21,429,892,596,093	1,238,713,155,052	579,173,702,782	1,817,726,049,840	-	25,065,505,503,767	-	25,065,505,503,767

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the nine months ended September 30, 2020

	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations	Consolidated
Finance income	381,903,626,675	3,470,047,044	656,309,658	1,639,697,708	184,396,195	387,854,077,280	27,931,543	387,826,145,737
Finance costs	196,408,628,140	818,561,369	104,733,575	47,272,781	23,611,650	197,402,807,515	27,931,545	197,374,875,970
Allowance expense	56,952,790,391	61,032,865	7,931,139	4,088,259	330,120	57,026,172,774	-	57,026,172,774
Income from recovery of assets	7,142,742,699	15,383,643	2,333,497	-	288,517	7,160,748,356	-	7,160,748,356
FINANCE INCOME	135,684,950,843	2,605,836,453	545,978,441	1,588,336,668	160,742,944	140,585,845,349	-	140,585,845,349
Other operating income	122,350,258,038	3,678,686,318	4,954,482,958	6,655,937,948	5,551,686,066	143,191,051,328	8,995,858,828	134,195,192,500
Other operating expenses	81,930,712,684	584,261,035	428,991,106	1,066,084,225	88,152,083	84,098,201,133	1,335,424,455	82,762,776,678
GROSS OPERATING INCOME	176,104,496,197	5,700,261,736	5,071,470,293	7,178,190,391	5,624,276,927	199,678,695,544	7,660,434,373	192,018,261,171
Personnel expenses	92,056,452,710	2,346,221,158	1,708,679,337	3,198,026,236	1,615,965,923	100,925,345,364	-	100,925,345,364
Other administrative expenses	46,542,366,305	500,881,402	539,978,716	795,805,813	166,993,604	48,546,025,840	94,602,750	48,451,423,090
Total administrative expenses	138,598,819,015	2,847,102,560	2,248,658,053	3,993,832,049	1,782,959,527	149,471,371,204	94,602,750	149,376,768,454
NET OPERATING INCOME BEFORE STATUTORY ALLOCATIONS AND TAXES	37,505,677,181	2,853,159,176	2,822,812,240	3,184,358,342	3,841,317,400	50,207,324,339	7,565,831,622	42,641,492,717
Income tax	20,386,646,290	763,004,474	869,335,129	1,004,935,261	1,169,203,748	24,193,124,902	-	24,193,124,902
Decrease in income tax	1,247,353,808	17,410,584	32,507,837	52,095,476	17,692,474	1,367,060,179	-	1,367,060,179
Statutory allocations	7,630,215,236	85,594,745	84,684,369	1,163,524,654	115,239,523	9,079,258,527	-	9,079,258,527
INCOME FOR THE PERIOD	10,736,169,463	2,021,970,541	1,901,300,579	1,067,993,903	2,574,566,603	18,302,001,089	7,565,831,626	10,736,169,463

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(49) Contingencies

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

	Number of cases	Phase	Total estimated amount
Banco Nacional de Costa Rica	350	First instance	¢ 125,482,941,920
	18	Second instance	19,942,334,035
	12	Appeal	5,443,867,809
	380		150,869,143,764
BN Vital	7	First instance	39,762,952
BN Valores	1	First instance	72,315,128
BN SAFI	1	First instance	100,000
BN Corredora	1	First instance	2,840,000
	390	(Note 25)	¢ 150,984,161,844

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

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

2020	Phase	2020
331	First instance	¢ 79,708,400,960
1	Second instance	375,839,600
332		¢ 80,084,240,560

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 September 30, 2020, the Bank has a provision in the amount of ¢806,716,026.80 booked for that lawsuit.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The following lawsuits are also worth noting:

- File No. 14-003379-1027-CA
  - ✓ Statement of facts: The plaintiffs seek the payment of damages by the Bank to all the plaintiffs as well as compensation for pain and suffering caused due to the inability to acquire decent housing, as a result of apparent anomalies regarding the management of credits for Grupo Zion, S.A. to build the Bariloche Real condominium. Additionally, it has had media coverage.
  - ✓ Current status: The resolution of April 10, 2018 at 17:15 ordered the separation of the case into separate files for each of the group members. This resolution was unsuccessfully appealed by the plaintiff's representatives. Currently, a number of separate lawsuits were presented to the Bank, which is in the process of filing the corresponding responses and some preliminary hearings have been summoned, while other summons for public trial are pending or issue of a resolution, having been declared a question of law.
  
- File No.: 08-000388-0419-AG
  - ✓ Court: Agrarian Court of Corredores
  - ✓ Statement of facts: The proceedings seek to declare the liability of CORBANA, as Trustee of a banana plantation Management Trust, in which the Bank was the Trust Beneficiary.
  - ✓ Current status: Vote No. 055-F-18 of January 31, 2018, at 11:55, denied the negative statute of limitations exception, in its commercial and decennial common modality. The judge of first instance must issue a ruling on the appeal concerning new facts and claims of the case, as applicable. Since the parties were not in conformity with the resolution, all parties filed appeals for review before the First Chamber. As of the date of this report, this case remains the same.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- File No. 08-000232-0419-AG
  - ✓ Court: Agrarian Court of Corredores
  - ✓ Statement of facts: This process was filed by 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.
  - ✓ 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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(50) Significant events

Subsequent events due to the COVID-19 emergency

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.
- 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.

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## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

On March 20, 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.
- 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.

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

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

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

c) Liquidity measures

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

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

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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 September 30, recurring to the sale of securities measured at amortized cost is not considered necessary and is not expected in the short term.

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

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

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

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

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

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

a) IAS 1: Presentation of Financial Statements

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

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

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

b) IAS 7: Statement of Cash Flows

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

c) IAS 12: Income Taxes

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

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d) IAS 16: Property, Plant and Equipment

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

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

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

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

f) IAS 27: Consolidated and Separate Financial Statements

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

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



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g) IAS 28: Investments in Associates

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

h) Revised IAS 32: Financial Instruments - Presentation

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

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

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

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

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

k) IAS 38: Intangible Assets

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

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l) IAS 39: Financial Instruments: Recognition and Measurement

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

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

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

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

a) Pooled portfolios

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

b) Own investments of regulated entities

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

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

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

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

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

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

m) IAS 40: Investment Property

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

n) Revised IFRS 3: Business Combinations

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

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Notes to the Consolidated Financial Statements

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

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

p) IFRS 9: Financial Instruments

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

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

q) IFRS 13: Fair Value Measurement

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

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r) IFRS 17: Insurance Contracts

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

s) IFRIC 23: Uncertainty over Income Tax Treatments

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

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

- a. Book against profit or loss for the period in the case that, in accordance with the assessment made by senior management, a conclusion is reached that the entity has an obligation of immediate enforceability with the Tax Administration.
- b. Book a provision for those treatments not considered in the items above; the amount must reflect the uncertainty of each tax treatment in dispute, according to the method that best predicts its resolution as established in IFRIC 23.

(52) Disclosures of economic impact of departure from IFRS

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

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